

QLDC Council
17 August 2017

Report for Agenda Item: 2

Department: Planning & Development

Mayoral Housing Affordability Taskforce Update

Purpose

1. The purpose of this report is to provide an update to the Council on the work of the Mayoral Housing Affordability Taskforce.

Executive Summary

2. The Mayoral Housing Affordability Taskforce was set up in April 2017 by the Mayor, Jim Boult to investigate new ways of addressing housing availability and affordability in the district with membership being drawn from a wide range of parties with an interest or involvement in the supply of housing within Queenstown Lakes area.
3. This report provides an update to Council on the outcomes of the first three and a half months of work by the taskforce and describes the current proposals on the following:
 - Develop a new Queenstown Lakes Affordable Ownership Programme (AOP)
 - Establishing a pool of affordable longer-term rentals
 - Source additional more accessible funding models
 - Provide more land and increasing density
 - Addressing funding support

Recommendation

That Council:

1. **Note** the contents of this report;
2. **Note** this update from the Mayoral Housing Affordability Taskforce.

Prepared by:



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08/08/2017

Reviewed and Authorised by:



Mike Theelen
Chief Executive
08/08/2017

Background

3. The Mayoral Housing Affordability Taskforce was set up in April 2017 by the Mayor, Jim Boult to investigate new ways of addressing housing availability and affordability in the district.
4. Membership of the Taskforce is drawn from a wide range of parties with an interest or involvement in the supply of housing within Queenstown Lakes area. The members and their affiliations are:

Name	Affiliation/Company
Bill Moran	Formerly Chief Operating Officer for New Zealand Treasury
Ian Adamson	Warren & Mahoney Architects - Principal
Ian Bayliss	QLDC – Planning Policy Manager
Ian Greaves	Southern Ventures – Development Manager
Jim Boult	QLDC - Mayor
John MacDonald (Chair)	QLDC Councillor & Taskforce Chair
John May	Southern Ventures – Director
Julie Scott	QLCHT - Executive Officer
Kirsty Sinclair	Harcourts Real Estate Agent
Mike Theelen	QLDC - CE
Paul Croft	Infinity Investment Group - Chief Executive Officer
Paul Munro	Christchurch City Holdings Limited – Chief Executive
Ross McRobie	QLDC - Councillor
Sally Mingaye-Hall	Shotover Country Primary School – Board of Trustees and SIT Facilitator
Scott Figenshaw	Community Housing Aotearoa - CEO
Shaun Drylie	SBS Bank - Group Chief Executive
Stephen Brent	Cavell Leitch Lawyers – Principal Partner & former QLCHT Acting Chairperson
Steve Evans	Fletcher Building – Chief Executive Land & Residential Development
Tony Avery	QLDC – GM Planning & Development
Trent Yeo	Ziptrek EcoTours - Director

Housing Affordability in Queenstown Lakes

5. The issue of housing affordability is well known in the Queenstown Lakes area and there have been a variety of attempts over the years to try and address the issue. There are a variety of statistics, official reports and media reports that tell the story of the current situation, which some have said has reached crisis point.

The reality is that housing costs in the district have risen at the highest rates across the country and on almost any measure the district is one of the most unaffordable places to live. So far the market has not been able to deliver sustainable affordable housing for the district in a manner that maintains the affordability of properties in the long term.

6. Considering that, the workings of the Taskforce have been based on a number of assumptions as follows:
 - a. The affordable housing ideal for Queenstown Lakes workers and families has not been achieved under current market responses;
 - b. Home ownership rates are dropping right across the country;
 - c. Queenstown Lakes District is now the most unaffordable place in the country and is likely to stay that way:
 - o Fastest growing area in NZ in 2016, and unlikely to abate in the next 10 years
 - o Ratio for house value to annual earnings is 20.6 compared to 16.6 or Auckland and 10.9 for NZ
 - o Ratio of rent to income of 0.51:1 compared to 0.40:1 for Auckland.
 - o People on average incomes cannot afford to own a house
 - o People on average incomes cannot afford to rent long-term
 - o The district needs to attract and retain key skills (education, health, police, management, administration)
 - o The district needs to ensure locals can stay in the community
 - o Average Incomes, which increase by CPI or thereabouts each year, cannot keep pace with the accelerating cost of owning and renting.
 - d. The gap is likely to widen over the next 10 years, as the price of land is driven up by the demand for high quality dwellings by retiring baby-boomers and high-income millennials, as well as foreign investors looking for safe havens;
 - e. Short of a significant market crash brought about by external factors, house prices are not likely to retreat to any significant extent;
 - f. Visitor accommodation needs will continue to limit the housing stock available to first home buyers and long-term renters, and will only get worse with increasing visitor numbers;
 - g. Therefore, can expect that we are going to see increasing uncertainty for long term stable accommodation to be provided:
 - o Many will never achieve (be able to afford) home ownership here, meaning that they will continue to have to rely on the rental market
 - o Rents will continue to go up in order to make a return, particularly for investors newly buying into the market
 - o Airbnb and similar peer-to-peer providers will make it more likely that long term rentals will become less available, given the increased returns available on the short-term VA market.
7. The outcome of the above is anticipated to result in a very uncertain rental market where long-term residents cannot be certain of future rentals or availability, at a time when the cost of purchasing a house continues to become even more unaffordable for many of the district's residents.

Housing Affordability Taskforce

8. The Taskforce has met a number of times to discuss the current situation and to consider what could be done about it. Many cities across New Zealand and the world have grappled with the problem and a variety of solutions have been used to try and address the imbalance that results in many communities facing unaffordable properties and rental costs. Many of those attempted solutions have failed to address the long term affordability issues overall but have made a difference to aspects of their local situations. There have been a number of attempts in the past in Queenstown Lakes through a variety of approaches but, for whatever reason, affordability has continued to get worse over time.
9. The Taskforce has been exploring a range of options because it recognises that there is not going to be one single solution that will address all aspects, recognising that the market is quite diverse and people are looking for a variety of mechanisms that can meet their particular circumstances. It also recognises that, at the moment, there are really only two broad options available to people wanting to reside in the Queenstown Lakes area on a long-term basis:
 - Short term rentals where there is uncertainty about length of tenure and increasing rent costs over time as determined by the market
 - Buying a property which for many of the district's residents is now well beyond their means
12. While there is still further work to be done, there are a number of options being considered and developed by the Taskforce:
 - Develop a new Queenstown Lakes Affordable Ownership Programme (AOP)
 - Establishing a pool of affordable longer-term rentals
 - Source additional more accessible funding models
 - Provide more land and increasing density
 - Addressing funding support

Affordable Ownership Programme (AOP)

13. One new option that has been developed by the Taskforce is that of an affordable ownership programme, which would be innovative and new for New Zealand. The proposed delivery mechanism for this new approach would be through a new product for the QLCHT who have been considering it more fully.
14. The QLCHT has had a shared equity ownership programme for many years with an emphasis on the needs of families and long-term residents. As house prices have increased though, there are fewer and fewer people able to meet the criteria in terms of savings, and the maximum amount the Trust is able to contribute is not sufficient to achieve buy at current market prices.
15. The new programme being considered, and still under development, would result in an entirely new offering which would be targeted at key workers, families and long-term residents. There are two main components of the new programme that differ from other offerings, and which represent an innovative and new way of providing and retaining long term affordability:

1. The ownership of the land and of the housing unit is separated out:
 - a. QLCHT would retain ownership of the land in trust in perpetuity and lease the land at a concessional rental rate to the household
 - b. The housing unit would be purchased by the household, at an affordable price based on its improvement value or build-cost
2. The future value of the housing unit is controlled:
 - a. Households would only be able to sell the property back to someone in the AOP pre-approved registered pool of buyers.
 - b. The price of the housing unit would be limited to an annual increase in line with CPI or something similar.

16. The Taskforce believe that this programme would help achieve affordable housing units that remain affordable for the long term. There are a variety of overseas examples where this sort of approach has been adopted, with Whistler being one similar area where they have been able to build a stock of 2000 affordable housing units strictly for resident workers and retirees to occupy.

17. Under this programme, households would still need to meet the QLCHT standard eligibility criteria, and would need to arrange their own mortgage with a market bank (or another funding mechanism). Initial discussions with banks through the Taskforce is that banks would likely provide mortgages for the above because the Trust would effectively be standing behind the programme as a result of having a waiting list of people able and willing to buy any defaulting property and, over time, the open market value of the property is likely to exceed the controlled price.

18. The advantages of AOP are seen as:

- Provides a house cost at substantially less than the current open market price;
- Builds up and retains an affordable housing stock for sale or long-term rent over time as stock is not sold and lost into the open market;
- Ownership confers and instils permanency that rentals do not achieve, giving an ownership interest and incentive to remain, encouraging long term certainty and commitment to the district.

19. The disadvantages of AOP are seen as:

- It is a new way of looking at property ownership and there may be resistance to, and a lack of understanding of, what is proposed.
- Does not provide the same ability to enter into open market if prices continue to escalate away from the AOP market price

20. More work is being done by the QLCHT to further develop this programme and to work through the details of how it would work.

Establishing a pool of affordable longer-term rentals

21. At the moment, there are very few long-term rental options available throughout the Queenstown Lakes District, and there is consequently a high degree of uncertainty about rental availability and prices. The QLCHT is looking to provide longer term rentals that provide certainty and security to renters through their operations. Around half of the 40 units in their recent Shotover Country development for example are tagged for long term rentals.
22. The constraints on this are the supply of sufficient land and capital with which the QLCHT can then develop such properties. Further work is needed on how this situation can be improved.
23. There are currently very few (or no) other providers of long-term rentals in the Queenstown Lakes District, other than market providers.

Source additional more accessible funding models

24. The Taskforce was approached by a third party with a proposal for a “Shared Home Equity Product” (SHEP). No decision has been made on the proposal which is being considered by the Taskforce. Noting that there is still further analysis to be done by the Taskforce and given that the proposal is still commercially sensitive it is not possible to provide further detail at this time. However this is potentially an additional funding product that could assist people into the open market offering long term accessible finance and incentivising them to stay in the district.

Provide more land and increasing density

25. The lack of available land for developments that deliver houses into the market over the short to medium term is seen nationally as a significant reason behind the current affordability problems across the country. Queenstown Lakes is no different on that issue except that it is further exacerbated by the growth that is being experienced, with the district being one of the fastest growing areas in the country. The Council’s current growth predictions mean that the district is going to continue to be under pressure to provide land for future housing. Current predictions based on updated growth projections and updated assessment of available zoned capacity within the district indicates:

2048 Dwelling needs	Wakatipu	Wanaka	Total
Current Dwellings	12,128	7,590	19,718
Additional homes needed by 2048	9,500	5,000	14,500
% increase	78%	66%	74%
Zoned Feasible Capacity	20,500	10,000	30,500
Zoned Realisable Capacity	15,100	5,200	20,300

26. Over the next 30 years, there will therefore need to be almost as many housing units built as there are currently available. As part of that, the Taskforce considers that there will need to be a sizable increase in the provision of affordable units as the district's population increases.
27. Initial findings of the Council's Dwelling Capacity Model indicate that there is sufficiently zoned residential land within the urban growth boundaries of the Queenstown Lakes District to provide for projected growth in the short, medium and long term. However while there appears to be sufficient zoned land, given current market friction driven by a range of factors including land banking by current land owners and the time it takes to get land to the market, unless substantially more land is provided, the cost of sections as they are slowly released onto the market will likely continue to increase. The market is currently constrained as indicated by the unavailability of land for housing at the present time.
28. So while the Proposed District Plan in theory provides sufficient zoned land for growth as well as providing for increased densities in existing zones, as a means of trying to increase the supply of housing units, further consideration to the identification of and enabling further greenfield land does need to be considered. Further consideration also needs to be given to the option of the Council requiring a contribution from developers to go towards its long term affordable housing proposals at the time of major development such as plan changes or major subdivisions. This technique is used in many jurisdictions around the world as a means of providing land or developments to go to a Trust for long-term affordable housing options that also recognises the often significant increase in value associated with such developments.
29. In addition to the current District Plan review, the Council has also undertaken a number of initiatives designed to bring more houses to the market, reduce supply pressure, and drive down costs for residential developments:
- A successful application to the government's Housing Infrastructure Fund (HIF), which creates a loan facility to fund infrastructure associated with enabling residential development, for three areas.
 - Working with the government's Special Housing Area (SHA) programme under the Housing Affordability and Special Housing Area Act (HASHAA) to bring more residential developments to the market:
 - Seven SHA areas have been previously approved by the Council and six are now under development
 - Council are currently seeking feedback on a proposal to add Ladies Mile to the Council's Lead Policy which would then enable SHA applications to be received
 - Council officers have had discussions with 4-6 other parties about further SHA proposals both in the Wanaka and Wakatipu Basin areas

Addressing funding support

30. As part of its workings, the Taskforce was made aware that the housing accommodation supplement provided by the government to eligible Queenstown Lakes residents was geographically determined and that the boundaries of the current areas have not been updated for some time and do not reflect more recent residential development areas.
31. The effect of this is that residents in the areas of Lake Hayes Estate, Shotover Country, Quail Rise, Jacks Point and other areas such as Dalefield, Glenorchy and Kingston are not able to access the maximum supplement that those living in other residential areas within the Queenstown Lakes District can access. On a rental comparison basis, there is ample evidence that the rental costs in those areas are similar, if not greater than other areas of the District such as Fernhill, Sunshine Bay, Queenstown Central, Frankton and Arrowtown, where those eligible to receive the supplement can access the maximum amount.
32. Clearly an increase in the available supplement would assist those families on lower wages who are having to deal with the effects of high rental costs. Approaches have been made to government to have the residential areas identified as being eligible for the maximum supplement available from the government for those that qualify.

Conclusion

33. It has been recognised for many years that there is a housing affordability problem in Queenstown Lakes District, something which has become particularly evident in the last few years as the pricing of housing has shown the greatest increase across New Zealand. The Taskforce recognises that there is no simple solution to this problem and that a variety of approaches need to be considered.
34. The Taskforce has identified a number of possible approaches that it is investigating further, all of which are aimed at improving aspects of the current situation. Further work is required to test and develop those approaches and to report back on a plan that will ensure the momentum is maintained and to get the approved approaches to a point where the respective agencies can make a decision on implementing them.

Options

35. This report is for noting only, so there are no options to be considered.

Significance and Engagement

36. This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because it is only reporting on progress of a Taskforce and no decisions are required at this time.

Risk

37. This matter relates to the strategic risk SR1 'Current and future development needs of the community (including environmental protection)', as documented in the Council's risk register. The risk is classed as high.
38. This matter relates to this risk because the supply of housing is central to the current and future development needs of the community.

Financial Implications

39. There are no operational or capital expenditure requirements or other budget or cost implications resulting from this report.

Council Policies, Strategies and Bylaws

40. The following Council policies, strategies and bylaws were considered:

- a. The Operative District Plan
- b. The Proposed District Plan
- c. Growth Management Strategy 2007
- d. Long Term Plan
- e. Lead Policy for SHAs

41. The workings of the taskforce and any outcomes it delivers will be considered within the framework provided by the above documents.

42. This matter is not included in the 10-Year Plan/Annual Plan

Local Government Act 2002 Purpose Provisions

47. The recommended option:

- Will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses by helping to address the current housing affordability within the District;
- Can be implemented through current funding under the 10-Year Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

Consultation: Community Views and Preferences

48. There has been no consultation to date on any proposals other than with the taskforce members who are drawn from wide range of parties with an interest or involvement in the supply of housing within Queenstown Lakes area.