

Regulatory Impact Statement

Establishing one new special housing area in Queenstown under the Housing Accords and Special Housing Areas Act 2013.

Agency Disclosure Statement

- 1 This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE).
- 2 It provides an analysis of options to one new special housing area (SHA) in Queenstown, to:
 - a. increase the supply of land available for residential development; and
 - b. help reduce pressure on land and house prices in the region.

Limitation of options under the Housing Accords and Special Housing Areas Act 2013

- 3 The SHAs will be established under the powers of the Housing Accords and Special Housing Areas Act 2013 (the Act), which came into force on 16 September 2013. The Act also limits Government's decision-making:
 - a. as a Housing Accord exists for this region, the Government may only accept or decline SHAs as proposed by the territorial local authority;
 - b. the Minister for Building and Housing (the Minister) may not recommend alternative SHAs; and
 - c. the Government may not agree to a portion of a proposed SHA from a territorial local authority.
- 4 The options in this paper are therefore limited to approving or declining the SHA that has been recommended by the Queenstown-Lakes District Council.

Limitations of the SHA analysis

- 5 MBIE has assessed the SHA as meeting the establishment criteria under the Act. Analysis of the expected impacts of establishing the proposed SHAs, and the extent to which they meet the criteria, is based on data provided by Council. Council has met with the developers, infrastructure providers and other stakeholders, and analysed the expected impact of declaring this areas as a SHA. Our analysis of the options in this RIS assumes that this data is accurate and fully captures the expected impact of establishing this SHA.

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Introduction

- 6 This RIS analyses the proposal to establish one new SHA in Queenstown by Order in Council, on the recommendation of the Queenstown-Lakes District Council. Council has made this recommendation to the Minister under their agreed housing accord with the Government and under the powers of the Act.

Background

Housing Accords and Special Housing Areas Act 2013

- 7 The Act is intended to boost the short-term supply of land for residential developments in areas with significant housing affordability issues. Increasing supply aims to reduce price pressures and improve housing affordability. High cost areas are identified in Schedule 1 of the Act, which identifies regions and districts that have significant housing supply and affordability issues, including Queenstown. Once a region is identified in Schedule 1, a housing accord can be agreed between the Minister and the territorial authority.
- 8 Queenstown-Lakes District Council has a housing accord with the Minister for Building and Housing.
- 9 Councils with housing accords can propose SHAs to the Minister in defined geographic areas that have the potential to deliver increased land and housing supply relatively quickly.
- 10 SHAs allow more permissive and accelerated consenting processes to qualifying developments in these areas that help fast-track development. They are established by the Governor-General via Order in Council on the Minister's recommendation. Before making a recommendation to establish SHAs, the Minister must have regard to existing geographic boundaries, the relevant district plan, and any relevant proposed district plan to ensure that the boundaries of the proposed SHA are clearly defined in the Order in Council and easily identifiable in practice.
- 11 The Minister must also be satisfied that the areas meet three criteria:
- a. that adequate infrastructure to service qualifying developments in the proposed SHAs either exists or is likely to exist;
 - b. that there is evidence of demand to create qualifying developments in specific areas of the scheduled region or district; and
 - c. that there will be demand for residential housing in the proposed SHAs.
- 12 Where a housing accord exists, the Government can only identify SHAs on the Council's recommendation. The powers to grant resource consents for housing development on a more flexible basis would only be exercisable by that Council.

Queenstown-Lakes District Council's additional criteria

- 13 When ratifying the Queenstown-Lakes Housing Accord, Council adopted the *Housing Accords and Special Housing Areas Act 2013 Implementation Guidelines*. This guidance intends to provide certainty and consistency of approach so that developers are clear about what the opportunities and general requirements are. Significant criteria include:
- a. that the SHA be “located within or adjacent to existing urban areas”;
 - b. that “infrastructure exists and has additional capacity to accommodate the likely cumulative demand from a qualifying development/s in the special housing area, or infrastructure is planned or programmed in the Council’s Long Term Plan and Development Contributions Policy”;
 - c. that any required infrastructure updates be “provided and funded by the private sector at no additional cost to the Council”;
 - d. that the SHA “will deliver new residential housing that supports the aims and targets of the Queenstown-Lakes Housing Accord in a timely manner”;
 - e. that “there is evidence of demand in a range of housing types that could be developed within a special housing area”;
 - f. that “in order to deliver more dwellings at affordable price points, the Council will negotiate housing outcomes for each special housing area and/or qualifying development on an individual basis”, and
 - g. that the “qualifying development within a special housing area will have the primary purpose of supplying residential dwellings to the market”.

Problem definition

- 14 The principal issue discussed in this RIS is whether Cabinet should agree to create one new SHA as recommended by Queenstown-Lakes District Council.

Assumptions

- 15 It should be noted that MBIE’s predictions regarding future housing demand and supply are indicative only and are based on building consent data and population projections from Statistics New Zealand.
- 16 Estimates may vary depending on factors such as completion rates of consented homes, unforeseen significant additions to the housing stock, rises in migration, and shifts within the global economy.
- 17 When estimating the demand for housing, MBIE also takes into account national Census data. Trends over recent years indicate that households in dense population centres, such as Queenstown, are becoming smaller. MBIE assumes that this has caused an increase in the demand for smaller, more affordable homes, but supply of this type of housing is limited (as reflected through the high shortfall in Table 1 on the following page). As a result, families are likely to purchase homes that exceed their spatial requirements and financial capacity. Implementing SHAs in areas where households are becoming smaller, such as Queenstown, helps to ensure that families are able to afford housing that suits their needs.

Table 1: Estimated Demand in Queenstown

	Current approx. home shortfall	Approximate building consents needed annually to 2018	Building consents (July 14 - June 15)	Potential home yield of SHAs declared to date	Approx. home yield in this proposal date
Queenstown	920	600	673	665-760	327

Queenstown housing affordability and demand

- 18 In May 2016 the average residential home value was \$875,002 in Queenstown, a 22.0 per cent increase from May 2015 (\$717,130). Homes are becoming increasingly unaffordable for Queenstown residents, with a house price-to-income multiple of 10.47 in May 2016, the highest across New Zealand cities.¹
- 19 Statistics New Zealand expects the Queenstown population to grow by 1.8 per cent per annum over the next 30 years. It projects growth from 29,700 in 2013 to 37,300 (medium growth) or 39,500 (high growth) by 2023. This makes Queenstown New Zealand's fastest growing district after Selwyn. Queenstown's affordability issues are intensified by its popularity among multiple property owners as a holiday home destination. This group of buyers is not recognised in population growth projections, although they are a strong driver of demand in the area.
- 20 Queenstown issued an annual average of 433 residential building consents in the five years to October 2014, when the housing accord was signed. Queenstown is currently making good progress towards addressing the housing shortfall, issuing 894 residential building consents in the year to April 2016. However, it will need to continue at this rate to address the housing affordability issues in the area.

Objectives

- 21 The over-arching objective of this SHA is to increase the supply of land for housing in the constrained Queenstown housing market, and reduce upward pressure on the cost of homes.
- 22 A further objective of establishing this SHA is to give effect to the Queenstown housing accord and the Act.

Options and impact analysis

- 23 Cabinet may choose to approve or decline the SHA put forward by the Queenstown-Lakes District Council. Both options are predicated on the assumption that the Council has supplied full and accurate data and analysis with respect to the expected impact of declaring this SHA, and the extent to which the identified area meets the criteria set out in the Act.

¹ <http://www.interest.co.nz/property/house-price-income-multiples>

- 24 SHA status will enable faster development and supply to occur, which will help to alleviate price pressures on homes. Increased consenting pace, reduced holding costs and altered decision-making criteria will also increase the attractiveness of previously marginal development opportunities, resulting in new supply that may not occur without SHA status.
- 25 The Act does not oblige the Minister to recommend an Order in Council establishing SHAs proposed by an accord territorial authority.²

Proposed SHA

- 26 The SHA Queenstown-Lakes District Council has recommended has a projected long-term dwelling yield of approximately 327 on 51.54 hectares of land.³ The table below summarises the additional area and yield that will result from the proposed SHA.

SHA name	Type	Approx. size (ha)	Approx. yield ^{Error!} <small>Bookmark not defined.</small>	Minimum # of homes per development
Queenstown Country Club	Greenfield	51.54	327	4

- 27 The Council has analysed the proposed SHA against the factors the Minister must have regard to under the Act, as outlined in paragraph 11 above, and deems that the SHA satisfies this criteria sufficiently.
- 28 This assessment shows a clear demand in all instances, based on actual and projected population growth, and the percentage increase in house prices in adjacent areas in recent years.
- 29 For the proposed SHA site in Queenstown:
- a. Council reports that updates will be necessary to local stormwater, water supply, waste water and road access in the SHA to support the population increase in the area. A Deed of Agreement has been established between the developer and Council confirming the responsibilities for the provision and funding of these infrastructure upgrades. Council is confident that these matters can be adequately dealt with at the time of resource consent application.
 - b. The Ministry of Education (MoE) has advised that they expect minimal impact on the schooling network from the proposed development.
 - c. The Council's Parks and Reserves Department has no concerns with the proposed SHA. However, is has proposed some suggestions regarding connectivity with the existing cycle trail network.

² Section 16(5)

³ Plus a 72 bed care facility in the proposed qualifying development

- d. Significant interest from the developer, who proposed the site to Council for establishment as an SHA, is sufficient evidence of demand to create qualifying developments.
 - e. Strong interest and demand in adjacent areas is sufficient evidence of demand for residential housing.
- 30 The SHA meets the establishment criteria under the Act, so it would be difficult to justify declining it on policy or legislative grounds. Declining the SHA would also undermine the Government's working relationship with Council.
- 31 Supporting the Queenstown SHA proposal contributes to the objective of increasing housing supply.

Benefits and costs

Benefits

- 32 The principal benefit in establishing SHAs is that they will lead to an increase in the supply of housing. SHAs increase the pace at which any pre-planned projects can be developed and reduce the costs of development, consequently easing pressure on the housing market in the region.
- 33 The primary mechanisms for encouraging new, accelerated and more affordable supply include:
- a. allowing developers to access more enabling development provisions in the proposed SHAs, to increase housing supply by making more efficient use of existing land and infrastructure through redevelopment at higher densities;
 - b. providing developers and landowners within the proposed SHAs with a shorter, less expensive and more certain planning and consenting process; and
 - c. altering council decision-making criteria to weight them toward the outcome of housing affordability;
- 34 These mechanisms within SHAs will reduce development costs and contribute towards lower prices of homes. They provide opportunities for developers to build at a scale and density that they might otherwise avoid due to regulatory cost and uncertainty. They also increase competition in the residential development sector by opening up more development opportunities.
- 35 The decision-making criteria under the Act, which favour improving housing affordability, gives councils a more permissive space to make exceptions to District Plan rules such as density, site coverage and shadowing constraints. This will increase the attractiveness of previously marginal development opportunities, resulting in new or increased supply that may not have occurred without the SHA. It should be noted that higher density development is not necessarily of inferior design, and councils retain their interest in encouraging attractive urban form.

- 36 By itself, the proposed SHA in Queenstown currently under consideration does not represent a significant increase in housing supply. Nevertheless, this area contributes to the broader cumulative benefits generated by all SHAs over time.
- 37 We note that the Act does not affect the need for new buildings to meet the building code requirements under the Building Act, and there will therefore be no compromise in minimum build quality associated with the establishment of SHAs.

Costs

- 38 The underlying premise of the Act is that the need for additional or accelerated housing supply in Queenstown, and the public benefits that arise from that, outweigh the marginal cost of removing or reducing standard community consultation processes under the Resource Management Act. The main cost of establishing SHAs is that it reduces the ability for communities and existing residents to influence the scale and design of what gets built in their neighbourhoods. This trade-off was considered at a high level during the drafting and passage of the Act.
- 39 Upgrades will be required in terms of water and wastewater infrastructure across the SHA. However, the upgrades are minor and the bulk of the costs will be borne by the developers and/or Council.

Risks

- 40 The risks associated with establishing this SHA are limited as the conditions necessary for establishing an effective SHA are present, such as sufficient infrastructure and interest from developers.
- 41 Overall, MBIE considers that the benefits of establishing this SHA outweigh the costs and risks.

Consultation

- 42 MBIE has sought a peer review of the land description and map of the SHA in anticipation of its incorporation into an Order in Council.
- 43 Council has consulted with infrastructure providers as it sees appropriate. MBIE is reliant on the Council's consultation processes and its assessment of stakeholder views.
- 44 Council is not obligated to offer consultation opportunities to local communities or the wider public prior to recommending a SHA. However, Council sought public consultation on this SHA. Feedback from the local community informed the Council's recommendation. Council has also consulted with infrastructure providers and iwi prior to recommending the site for SHA status. Iwi have not raised any concerns with the establishment of the SHA, but have requested that any earthworks be carried out in a way that allows monitoring for artefacts and archaeological material.

Conclusions and recommendations

- 45 The overall conclusion is that approving the SHA in Queenstown, as recommended by the Queenstown-Lakes District Council, best meets the objective of giving effect to the Act and the Queenstown-Lakes housing accord. Of the two options assessed, approving the SHA is most likely to result in an increase in the supply of land for which there is adequate infrastructure and evidence of demand. This is therefore the option most likely to result in an increase in housing supply to help meet the projected population growth in Queenstown.

Implementation plan

- 46 If Cabinet makes the decision to confirm the recommendation of the Minister, the Order in Council will be gazetted. Responsibility for successful implementation of the SHA then rests with the Councils to use its existing consenting function.
- 47 If the SHA is agreed, Council will start considering resource consent applications in the SHAs under the criteria set in the Order and accord, with the fast tracked process outlined above.

Monitoring and review

- 48 The Queenstown housing accord is governed by two joint committees:
- a. Joint Housing Steering Group: comprising the relevant Mayor and Deputy Mayor and the Minister for Building and Housing; and
 - b. Officials Working Group: comprising senior officials from MBIE and Council. Representatives from NZTA often attend these meetings.
- 49 These committees are tasked with monitoring and reviewing SHAs to ensure that they are delivering increased supply in the constrained local housing market.
- 50 The Officials Working Group is responsible for the creation and publication of regular monitoring reports which provide data on building consents issued in Queenstown and progress against Accord targets (see Table 3 on the following page). Data is or will also be provided on house sales prices, growth in consented home land prices and master planning activity, and the number of completed homes resulting from SHAs, including the speed of delivery.
- 51 Queenstown-Lakes District Council has established a Steering Group to meet bi-annually to monitor and review the implementation and effectiveness of this accord. The Working Group meet as appropriate to review progress in implementing the accord, review progress towards accord targets, and discuss and agree other areas of joint action or information sharing.

52 The Queenstown housing accord targets are outlined below.

Table 3: Queenstown housing accord targets			
Target	Year 1 target (Oct 14–Sep 15)	Year 2 target (Oct 15-Sep 16)	Year 3 target (Oct 16-Sep 17)
Target number of sections and homes to be consented across the Wakatipu Basin	350	450	500
	Cumulative total of sections and homes to be consented: 1,300		

Evaluation

53 SHAs and housing accords are only one of a range of measures implemented by the Government to improve housing affordability. Due to the interlinkages between these measures, as well as external factors, housing accords are being evaluated as part of a total package of affordable housing measures.