

Regulatory Impact Statement

Establishing four new special housing areas 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 establish four new special housing areas (SHAs) in Queenstown to increase the supply of land available for residential development and 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 These 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 Queenstown, the Government may only accept or decline SHAs as proposed by Queenstown-Lakes District Council (Council);
 - 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 Council.
- 4 The options in this paper are therefore limited to approving or declining the SHAs that have been recommended by Council.

Limitations of the SHA analysis

- 5 MBIE has assessed the SHAs 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 these areas as SHAs. Our analysis of the options in this RIS assumes that this data is accurate and fully captures the expected impact of establishing these SHAs.

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Introduction

- 6 This RIS analyses the proposals to establish four new SHAs in Queenstown by Order in Council on the recommendation of Council. Council has made these recommendations to the Minister under its agreed housing accords 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 council.
- 8 Council has a housing accord with the Minister for Building and Housing.
- 9 Council 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 a council's recommendation and 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 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 would 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 the four new SHAs recommended by Council.

Assumptions within data

- 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 shortfalls in Table 1 on the following page). As a result, families are required to purchase homes that exceed their spatial requirements and financial capacity. Implementing SHAs with affordability criteria and size limitations in areas where households are becoming smaller, such as

Queenstown, helps to ensure that families are able to afford housing that suits their needs.

Current approx. home shortfall	Approximate building consents needed annually to 2018	Approximate building consents (July 14 - July 15)	Potential home yield of SHAs declared to date	Approx. home yield in this proposal
1,250	500	386	170	495-590

Queenstown housing affordability and demand

- 18 By 2030, Queenstown's population of 32,000 is estimated to double in size. This makes Queenstown New Zealand's fastest growing district, with an annual growth rate of 2.7 per cent. To keep up with this demand, Queenstown will need 500 new homes per annum. However, over the five years prior to the Accord being signed in 2013, a median of 386 building consents per annum had been issued for new residential homes across the District. SHAs will assist in ensuring that the current rate of building consents issued by Council is sufficient to meet this future demand.
- 19 The median price for a home in Queenstown was \$842,559 in April 2016, a 17.8 per cent increase from April 2015 (\$715,482). Figures suggest that home ownership is unaffordable for Queenstown residents, as median income is low while prices for a home are the second highest in New Zealand.²

Objectives

- 20 The over-arching objective of these SHAs is to increase the supply of land for housing in the constrained Queenstown housing markets and reduce upward pressure on the cost of homes.
- 21 A further objective of establishing these SHAs is to give effect to the Queenstown Housing Accord, and the Act.

Options and impact analysis

- 22 Cabinet may choose to approve or decline the options put forward by Council. Both options are predicated on the assumption that Council has supplied full and accurate data and analysis with respect to the expected impact of declaring these SHAs, and the extent to which the identified areas meet the criteria set out in the Housing Accords and Special Housing Areas (HASHA) Act.

¹Monthly Residential Value Index. (2016). Quotable Value.

² <http://www.interest.co.nz/property/house-price-income-multiples>

- 23 The 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 the SHA opportunity.
- 24 The Act does not oblige the Minister to recommend an Order in Council establishing the SHAs proposed by the accord territorial authority.³ In areas where a housing accord is in place, the Minister is prevented from recommending alternative SHAs.
- 25 The SHAs that Council has recommended have a projected long term yield of approximately 495 to 590 homes on 40.2 hectares of land.
- 26 The table below summarises the additional area and yield that will result from the proposed SHAs.

SHA name	Type	Approx. size (ha)	Approx. yield	Minimum # of homes per development
1 Arthurs Point	Greenfield	4.17	70	4
2 Gorge Road	Brownfield	12.8	100-150	3
3 Arrowtown Retirement Village	Greenfield	12.12	230-275	4
4 Shotover Country	Greenfield	11.11	95	4
TOTAL		40.2	495-590	

- 27 The Council has analysed the proposed SHAs against the factors the Minister must have regard to under the Act, as outlined in paragraph 11 above, and deems that the SHAs satisfy 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 sites in Queenstown:
- a. Council reports that updates will be necessary to local stormwater and water supply on each SHA to support the population increase in the area. A Deed of Agreement has been established between the developer and Council in three SHAs, confirming the responsibilities for the provision and funding of these infrastructure upgrades. Council is confident that these matters will be adequately dealt with before resource consents are lodged for all four SHAs.

³ Section 16(5)

- b. Road access to three of the four SHA sites is limited, which will also be amended under the respective Deeds of Agreement prior to the construction of the SHAs.
 - c. The Ministry of Education (MoE) has reviewed the SHA proposals and has not made any adverse comments to the Council regarding schooling capacity.
 - d. The Council's Parks and Reserves Department deems three of the four SHA sites to have adequate access to outdoor recreational centres. The Department recommends that the developer of the Arthurs Point SHA consider a small park within the development, due to the lack of parks and reserves in the vicinity. This will be completed along with the construction of the SHAs.
 - e. Significant interest from developers is sufficient evidence of demand to create qualifying developments.
 - f. Strong interest and demand in adjacent areas is sufficient evidence of demand for residential housing.
- 30 The SHAs meet the establishment criteria under the Act, so it would be difficult to justify declining them on policy or legislative grounds. Declining the SHAs would also undermine the Government's working relationship with Council.
- 31 Supporting the Queenstown SHA proposals 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 in Queenstown. 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 it toward the outcome of housing affordability;
- 34 These mechanisms within SHAs will reduce construction costs and contribute towards lower prices of homes. It provides opportunities for developers to build at a scale and density that they might otherwise avoid due to regulatory cost and uncertainty. It also increases competition in the residential development sector by opening up more development opportunities.

- 35 The decision-making criteria under the Act, which favours improving housing affordability, give 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 opportunities. 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 themselves, the proposed SHAs in Queenstown currently under consideration do not represent a significant increase in housing supply. An isolated analysis of their specific impacts on housing objectives would be impractical, and has therefore not been attempted. Nevertheless, these areas contribute 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 the 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 may be required in terms of water and wastewater infrastructure across each SHA in Queenstown. However, the upgrades are minor, and the bulk of the costs will be borne by the developer. This will not negatively affect the affordability of the homes.

Risks

- 40 The risks associated with establishing these SHAs 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 these SHAs outweigh the costs and risks.

Consultation

- 42 MBIE has sought a peer review of the land descriptions and maps of the SHAs in anticipation of their incorporation into the Order in Council (Housing Accords and Special Housing Areas Queenstown – New June 2016 Area Order 2016).
- 43 Council has consulted with infrastructure providers as it sees appropriate. MBIE is reliant on Council's consultation process and its assessment of stakeholder views.

- 44 Councils are not obligated to offer consultation opportunities to local communities or the wider public prior to recommending a SHA. It is predicted that, should a SHA site satisfy the criteria outlined in paragraph 11, public support for the development will exist.
- 45 Council consulted with infrastructure providers prior to its site recommendation, and confirms that iwi approves of the SHA recommendations. It also sought public consultation on all four SHAs. Feedback from the local community informed Council's recommendation.

Conclusions and recommendations

- 46 The overall conclusion is that approving the SHAs that Council has recommended best meets the objective of giving effect to the Act and the Queenstown Housing Accord. Of the two options assessed, approving the SHAs is most likely to result in an increase in the supply of land. There is adequate infrastructure and evidence of demand and 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

- 47 If Cabinet makes the decision to confirm the recommendation of the Minister, the Order in Council will be gazetted. Responsibility for successful implementation of SHAs then rests with the respective councils to use their existing consenting functions.
- 48 If the SHAs are agreed, Council will start considering resource consent applications in the SHAs under the criteria set in the Order, and relevant accord where applicable, with the fast tracked process outlined above.

Monitoring and review

- 49 The Queenstown housing accord is governed by two joint committees:
- a. Joint Housing Steering Group: comprising of Queenstown's 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.
- 50 These committees are tasked with monitoring and reviewing SHAs to ensure that they are delivering increased supply in the constrained local housing market.
- 51 The Officials Working Group is responsible for the creation of regular monitoring reports which provide comprehensive data on building consents (including location, and ratio of apartments, flats, townhouses and detached homes) and housing accord targets. Data is also 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.
- 52 Council has established a Steering Group to meet bi-annually to monitor and review the implementation and effectiveness of this Accord. The group meets 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.

53 The Queenstown Housing Accord targets are outlined below.

Year 1 target	Year 2 target	Year 3 target
350	450	500
Cumulative total of homes to be produced under HASHA: 1,300		

Evaluation

54 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.