

Regulatory Impact Statement

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

Agency Disclosure Statement

- 1 This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment (MBIE).
- 2 It provides an analysis of options to establish one special housing area (SHA) in Wellington and one in Tauranga to increase the supply of land available for residential development and help reduce pressure on land and house prices in these areas.

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

- 3 These SHAs will be established via the powers of the Housing Accords and Special Housing Areas Act 2013 (the Act), which came into force on 16 September 2013.
- 4 The Act limits the Government's SHA-making powers:
 - a. As a Housing Accord exists for both of these districts, the Government may only accept or decline SHAs as proposed by the relevant territorial authority
 - b. The Minister may not recommend alternative SHAs
 - c. The Government may not agree to create a portion of a proposed SHA.
- 5 The options in this paper are therefore limited to accepting or declining the SHAs that have been recommended by Wellington City Council and Tauranga City Council.

Limitation of the SHA analysis

- 6 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 both Councils. The respective Councils have 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 regulatory impact statement assumes that these data are accurate and fully capture the expected impact of establishing these SHAs.

Introduction

- 7 This RIS analyses the proposals to establish one SHA in Wellington and one in Tauranga by Orders in Council on the recommendation of the Wellington City Council and Tauranga City Council respectively. The Councils have made these recommendations to the Minister for Building and Housing under their housing accords.

Background

Housing Accords and Special Housing Areas Act 2013

- 8 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, and include Wellington and Tauranga. Once a region or district is identified in Schedule 1 of the Act, a housing accord can be agreed between the Minister for Building and Housing (the Minister) and the relevant council.
- 9 The council can then 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 fast-tracked consenting processes for 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 and the powers to grant resource consents for housing development on a more flexible basis would only be exercisable by that council.

Additional criteria under the Tauranga Housing Accord

- 13 The Tauranga Housing Accord sets the following aspirational targets:
 - a. The average dwelling size delivered within land released for development by the Housing Accord is at least 10 per cent less than the average dwelling size for new houses in the City. The average floor area of new dwellings in Tauranga between 2009 and 2014 was approximately 189m², and;
 - b. The average section size delivered within land released for development by the Housing Accord [through SHAs] is no greater than 500m².

Problem definition

- 14 The principal issue discussed in this RIS is whether Cabinet should agree to create one SHA recommended by the Wellington City Council and one SHA recommended by the Tauranga City Council.

Housing demand in Wellington and Tauranga

- 15 Both Tauranga and Wellington are recognised under Schedule 1 as having significant housing affordability issues driven by a lack of sufficient housing supply to meet demand. Recognising this, both Councils have housing accords with the Minister. The establishment of SHAs gives effect to their housing accords.

	Current approx. dwelling shortfall over 5 years to June 2015	Approx. residential building consents needed annually to June 2018 to address shortfall and projected population growth	Average annual consents issued over 5 years to June 2015	Approx. dwelling yield of SHAs declared to date	Approx. dwelling yield in this proposal
Wellington	2,700	2,400	530	2,600	20
Tauranga	152	740*	800	2,100	66

*Migration from Auckland is likely to contribute to population growth in Tauranga and we expect the current rate of building consents to be insufficient to meet this demand.

Wellington

- 16 Statistics New Zealand (Stats NZ) projects modest growth for the entire Wellington region over the next 20 years, of between 0.5 per cent each year (medium growth scenario) and 1.0 per cent each year (high growth scenario). The region's population is projected to grow by between 51,800 people (medium) and 105,400 people (high).
- 17 Assuming an average household size of 2.5, Wellington City itself will need 15,000-23,000 new dwellings over the next 20 years, at a rate of 750-1,100 per year, depending on population growth rates. More dwellings will be needed in the short-term to address the current housing shortfall, as indicated in Table 1 above. Over the last five years, approximately 530 residential dwellings have received a building consent each year. This suggests supply has fallen about 2,700 dwellings short of projected demand during the last five years.
- 18 Wellington City Council adopted the Urban Development Strategy in 2006. The strategy assumes that the city's population will increase by 50,000 people over the next 40 years and that there will be a need for 15,000 more dwellings over the next 20 years (750 per year). It also assumes declining household size, an ageing population, and

¹ This data may not accurately estimate future housing demand and supply. These estimates are indicative only and are based on data including building consents and population projections from Statistics New Zealand. Estimates will vary depending on factors which may include the year in which the calculations begin and assumptions behind completion rates of consented dwellings.

increasing demand for higher density housing. The increasing density required by this plan makes brownfield intensification and infill development critical factors for its success.

- 19 In the 12 months to February 2016, the average house value in Wellington City was up 7 per cent to \$584,306.²
- 20 As evidenced by their inclusion on Schedule 1 of the Act, much of greater Wellington is also considered unaffordable including the Kapiti Coast District, Porirua City, Hutt City and Upper Hutt District Councils. This places pressure on affordability throughout the region.

Tauranga

- 21 Stats NZ projects steady growth in Tauranga over the next 20 years, of between 1.4 per cent each year (medium growth scenario) and 2 per cent each year (high growth scenario). The city's population is projected to grow by between 37,500 (medium) and 54,000 people (high).
- 22 It is likely that Tauranga will need approximately 16,000-23,000 more houses to keep up with demand over the next 20 years. Tauranga is experiencing significant demand due to migration from Auckland. SHAs will assist in ensuring that the current rate of building consents issued by Tauranga City Council is sufficient to meet this future demand.
- 23 Tauranga is becoming increasingly unaffordable. In the 12 months to February 2016, the average house value in Tauranga was up 22.3 per cent to \$564,547.³
- 24 As evidenced by Western Bay of Plenty District's inclusion on Schedule 1 of the Act, the broader Tauranga region has affordability issues.

Objectives

- 25 The over-arching objective of these SHAs is to increase the supply of land for housing in the constrained Wellington and Tauranga housing markets and reduce upward pressure on house prices.
- 26 A further objective of establishing these SHAs is to give effect to the Wellington and Tauranga Housing Accords, as well as the Act.

Options and impact analysis

- 27 Cabinet may choose to accept or decline the options put forward by the Wellington and Tauranga City Councils.

Wellington SHA

- 28 The SHA that Wellington City Council has recommended is a 0.34 hectare brownfield site at 10 Surrey Street in Tawa with a projected long term yield of approximately 20 dwellings.
- 29 We have analysed the proposed SHA against the factors the Minister must have regard to under the Act, as outlined in paragraph 11 on page 1.
- 30 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.

² Quotable Value <https://www.qv.co.nz/resources/monthly-residential-value-index>

³ Quotable Value <https://www.qv.co.nz/resources/monthly-residential-value-index>

- 31 For the proposed SHA site in Wellington:
- a. Information from Wellington City Council, Wellington Water, and the New Zealand Transport Agency indicates that there are minor infrastructure issues at the site that will be subject to further investigation. There are no known difficulties associated with developing the site's wastewater and stormwater management systems, and the site will benefit from existing transport infrastructure, including public transport with close proximity to the Tawa suburban centre and railway station.
 - b. Significant interest from developers (as indicated by Wellington City Council) is sufficient evidence of demand to create qualifying developments; and
 - c. Strong interest and demand in adjacent areas (indicated by Wellington City Council) is sufficient evidence of demand for residential housing.
- 32 The SHA meets the establishment criteria under the Act, so it would be difficult to justify declining it on policy or legislative grounds. Declining a SHA would undermine the government's working relationship with the Wellington City Council, and would work against the purpose of the Act.
- 33 Supporting the proposed Wellington SHA contributes to the objective of the Act to increase housing supply.

Tauranga SHA

- 34 The SHA that Tauranga City Council has recommended is a 1.02 hectare brownfield site with a projected long term yield of approximately 66 dwellings.
- 35 We have analysed the proposed SHA against the factors the Minister must have regard to under the Act, as outlined in paragraph 11 on page 1.
- 36 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.
- 37 For the proposed SHA site in Tauranga:
- a. Tauranga City Council has not identified any barriers to development in the proposed SHA. Site investigations will be carried out to determine the precise capacity of infrastructure to the site, and to determine any upgrades that the developer will be required to make to service the requisite Council standard.
 - b. Significant interest from developers (as indicated by Tauranga City Council) is sufficient evidence of demand to create qualifying developments; and
 - c. Strong interest and demand in adjacent areas (indicated by Tauranga City Council) is sufficient evidence of demand for residential housing.
- 38 The Tauranga SHA meets the establishment criteria under the Act, so it would be difficult to justify declining it on policy or legislative grounds. Declining a SHA would undermine the government's working relationship with the Tauranga City Council. Declining the SHA would work against the purpose of the Act.
- 39 Supporting the proposed Tauranga SHA contributes to the objective of the Act to increase housing supply.

Benefits and costs

- 40 The principal benefit in establishing SHAs is that they will lead to an increase in the supply of housing in Wellington and Tauranga. This will be partly due to increasing the pace and reducing the cost of already-planned developments and partly due to incentivising new supply that may not have occurred without the SHA opportunities. Both of these SHAs will make a small contribution to easing pressure on the housing markets in Wellington and Tauranga.
- 41 The primary mechanisms for encouraging new, accelerated and more affordable supply include:
- a. allowing developers to access more enabling development provisions in the proposed SHA, 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;
 - c. altering council decision-making criteria to weigh it towards housing affordability;
- 42 These mechanisms within SHAs will reduce construction costs and may contribute towards lower house prices. 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 may increase competition in the residential development sector by opening up more development opportunities.
- 43 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 should increase the attractiveness of previously marginal development opportunities, resulting in new or increased supply that may not have occurred without the SHA opportunity. It should be noted that higher density development is not necessarily of inferior design, and the councils retain their interest in encouraging an attractive urban form.
- 44 By themselves, the proposed SHA in Wellington and the proposed SHA in Tauranga 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 do contribute to the broader cumulative benefits generated by all SHAs in Wellington and Tauranga over time.
- 45 We note that the Act does not affect the need for new buildings to meet code compliance under the Building Act, and there will therefore be no compromise in minimum build quality associated with the establishment of the SHAs.

Costs

- 46 The underlying premise of the Act is that the need for additional or accelerated housing supply in Wellington and Tauranga, and the public benefits that arise from that, outweigh the cost of removing or reducing ordinary 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.
- 47 In both districts, some upgrades may be required in terms of water and wastewater infrastructure and the bulk of the costs will be borne by the developer and included in house prices.

- 48 The risks associated with establishing these SHAs are limited as all of the conditions necessary for establishing an effective SHA are present, such as sufficient infrastructure, public support, and interest from developers.
- 49 Overall, we consider that the benefits of establishing these SHAs outweigh the costs and risks.

Consultation

- 50 Wellington and Tauranga City Councils have consulted with infrastructure providers, iwi, and their communities as they see appropriate. MBIE is reliant on these Council consultation processes and their assessment of stakeholder views.
- 51 Wellington City Council has consulted extensively over the past decade on its Urban Development Strategy and local growth frameworks, and is consulting on a revised Urban Growth Plan that contains some of those areas previously identified. Before recommending the proposed Surrey Street SHA, Wellington City Council engaged with infrastructure providers and local boards. Iwi were not consulted as the proposed SHA site is not identified as being of particular significance to iwi.
- 52 Tauranga City Council consulted with surrounding property owners and occupiers which informed its recommendation of the SHA. Council also consulted with Ngāi Tukairangi, Ngāti Tapu, Ngāti Kuku, and the Tangata Whenua Collective.
- 53 MBIE has sought a peer review of the land descriptions and maps of the SHAs in anticipation of their incorporation into an Order in Council.

Conclusions and recommendations

- 54 The overall conclusion is that agreeing to the SHAs in Wellington and Tauranga recommended by the respective Councils best meets the objective of giving effect to the Act, and the Wellington and Tauranga Housing Accords. Of the two options assessed, this is the option most likely to result in an increase in the supply of land for which 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 Wellington and Tauranga.

Implementation plan

- 55 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 councils using their existing consenting functions.
- 56 If the SHAs are created, the councils 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

- 57 Each housing accord is governed by two joint committees:
- a. Joint Housing Steering Group: comprising the relevant Mayor and Deputy Mayor and the Minister; and
 - b. Officials Working Group: comprising senior officials from MBIE and the relevant council. Representatives from other relevant agencies often attend these meetings.

- 58 These committees are tasked with monitoring and reviewing SHAs to ensure that they are delivering increased supply in the constrained local housing market.
- 59 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 dwellings) and housing accord targets. Data is also provided on dwelling sales prices, growth in consented dwellings land prices and master planning activity, and the number of completed dwellings resulting from SHAs, including the speed of delivery.
- 60 Both the Wellington and Tauranga Housing Accords have set targets to achieve. These are outlined in Annex 1.

Wellington

- 61 Development progress within each SHA will be reported by Wellington City Council in the six-monthly monitoring reports, including the number of consent applications and progress against accord targets. In the future, a more detailed monitoring system similar to that conducted in Auckland for completed dwellings will likely be carried out in Wellington, which may give a better indication of the overall performance of SHAs.
- 62 It is not intended that SHA-enabled dwellings sales are considered within monitoring reports, rather the reports will take a whole-of-market view to determine whether the use of SHAs has been effective in easing pressure on the housing market.
- 63 These measures allow the Officials Working Group to closely monitor and review the effectiveness of the SHAs and report back to the Joint Housing Steering Group with any required changes

Tauranga

- 64 Similar to Wellington, development progress within each SHA will be reported in the annual monitoring reports, including the number of consent applications and progress against accord targets.
- 65 These measures allow the Officials Working Group to closely monitor, evaluate and review the effectiveness of the SHAs and report back to the Joint Housing Steering Group with any required changes.

Evaluation

- 66 SHAs and Housing Accords are only one of a range of measures implemented by the government to improve housing affordability. Due to the linkages between these measures, as well as external factors, Housing Accords and the cumulative effect of the SHAs established under those Accords are being evaluated as part of a total package of affordable housing measures.

Annex 1: Housing Accord targets

Wellington

Targets – total number of sections and dwellings consented				
Year one	Year two	Year three	Year four	Year five
1,000	1,500	1,500	1,500	1,500

Note: Sections measured at point of resource consent and dwellings measured at building consent.

Tauranga

	Target	Current baseline
Special housing areas	The section/dwelling capacity of land released for development by special housing area declaration under the Tauranga Housing Accord is at least 1,000 in total over Year 1 and 2 of the Accord, with at least 400 in Year 1	
	The average dwelling size delivered within land released for development by the Housing Accord is at least 10% less than the average dwelling size for new houses in the City [over the period 2009 to 2014]	The average floor area of new dwellings in Tauranga between 2009 and 2014 was approximately 189m ²
	The average section size delivered within land released for development by the Housing Accord is no greater than 500m ²	The average size ⁴ of residential sections completed in greenfield urban growth areas in Tauranga between 2009 and 2014 was 609m ²
All of Tauranga	That no less than the current supply of undeveloped zoned and serviced greenfield residential capacity is maintained through the rezoning and servicing of additional land for development.	At June 2013 there was undeveloped zone and serviced capacity for approximately 8,000 additional residential sections.

⁴ This measure excludes infill subdivisions, multi-unit development, retirement villages and changes of tenure.