

Regulatory Impact Statement

Establishing three new special housing areas and amending two existing special housing areas in Nelson 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 three new special housing areas (SHAs) and two amendments to existing SHAs in Nelson, 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 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 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 SHAs that have been recommended by the Nelson City 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 the Council. The 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 three new SHAs and amend two existing SHAs in Nelson, by Order in Council on the recommendation of the Nelson City Council. Council has made these recommendations to the Minister under its 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 Nelson. Once a region is identified in Schedule 1, a housing accord can be agreed between the Minister and the territorial authority.
- 8 Nelson City Council signed a housing accord with the Minister for Building and Housing on 11 June 2016.
- 9 Councils 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.

Problem definition

- 13 The principal issue discussed in this RIS is whether Cabinet should agree to create three new SHAs and amend two existing SHAs as recommended by Nelson City Council.

Assumptions

- 14 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.
- 15 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.
- 16 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 Nelson, 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 below). 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 Nelson, 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 | Building consents (July 14 - June 15) | Potential home yield of SHAs declared to date | Approx. home yield in this proposal |
|--------|--------------------------------|---|---------------------------------------|---|-------------------------------------|
| Nelson | 450 | 510 | 170 | 423 | 61 |

Nelson housing affordability and demand

- 17 In June 2016 the average residential home value was \$460,495, an 11.4 per cent increase from June 2015 (\$413,239).
- 18 Nelson City has a growing demand for new housing due to both an increasing population, driven by positive net migration and natural increase, and an ageing population, which is driving a trend towards more one and two-person households.
- 19 Nelson's population experienced a year-on-year average growth rate of 1.42 per cent between 2011 and 2015. Statistics New Zealand projects that the population will grow from approximately 48,700 in 2013 to 52,800 (medium growth) or 55,200 (high growth) by 2023. Between 2013 and 2018 it also expects the average household size to drop from 2.4 to 2.3. The current rate of building consents issued by Nelson City Council indicates housing supply is likely to be insufficient to meet future demand (as shown in Table 1).

Objectives

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

Options and impact analysis

- 22 Cabinet may choose to approve or decline the SHAs put forward by the Nelson City 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 these SHAs, and the extent to which the identified areas meet the criteria set out in the Act.
- 23 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 SHAs proposed by accord territorial authorities.¹

Proposed Nelson SHAs

- 25 The new SHAs that Nelson City Council has recommended have a projected long term yield of approximately 61 homes on 19.56 hectares of land. Amendments to two SHAs have been recommended to allow the addition of another storey on the proposed qualifying development for each site. For the Barcelona Lofts SHA this is to allow a partial fifth storey which will be the bedrooms of the units contained in the fourth level. For the Ocean Lodge SHA this is because geotechnical assessments have identified that the carpark may not be built underground, and will instead need to form the ground level of the building.
- 26 The table on the following page summarises the additional area and yield that will result from the proposed SHAs.

¹ Section 16(5)

| Table 2: Proposed Nelson Special Housing Areas | | | | |
|---|----------------------|--------------------------|----------------------|---------------------------------------|
| SHA name | Type | Approx. size (ha) | Approx. yield | Min # of homes per development |
| 1. 371 Wakefield Quay | Brownfield | 0.07 | 12 | 3 |
| 2. 81 – 83 Haven Road | Brownfield | 0.18 | 30 | 15 |
| 3. Farleigh | Greenfield | 19.31 | 19 | 14 |
| SHA Amendments | Storeys | | | |
| Barcelona Lofts | Increase from 4 to 5 | - | - | - |
| Ocean Lodge | Increase from 4 to 5 | - | - | - |
| TOTAL: | - | 19.56 | 61 | - |

- 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 Nelson:
- a. Information from Nelson City Council indicates that all sites either already have suitable provision for infrastructure or suitable infrastructure is likely to exist to support the development. Some sites require further assessment of the three waters capacity and flood risk. Council has signed Deeds with the developers of the three new proposed SHAs regarding infrastructure provision. Any additional connection and capacity required will be provided by the Council and/or the developer.
 - b. The Farleigh SHA site is on greenfield land currently zoned as Rural in the Nelson Resource Management Plan. Infrastructure to service the qualifying development does not currently exist.
 - c. Nelson City Council notes that Farleigh Street was designed to be the end of the roading network serving the residential area, and only allows one-way access when vehicles are parked. Council has noted the developer of the Farleigh SHA will be required to make upgrades to Farleigh Street, as the use of the street to accommodate further residential development does not comply with the standards in the NCC Land Development Manual 2010 and would result in a lower level of service on the roading network than is set as desirable by the Council. Council

has further noted there is limited road reserve available to allow the developer to upgrade the road to comply with the NCC Land Development Manual. The deed the Council has with the developer will ensure the SHA will be serviced with sufficient infrastructure and will be considered during the resource consent stage.

- d. Nelson City Council notes that the Haven Road SHA site is on the Hazardous Activities and Industries List. However, any related issues will be addressed by the developer and Council at resource consenting stage.
 - 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 Nelson 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. 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 development 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. It should be noted that higher density development is not necessarily of inferior design, and the Councils retain their interest in encouraging attractive urban form.

- 36 By themselves, the proposed SHAs in Nelson 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 Nelson, 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 for infrastructure across each SHA in Nelson. However, the bulk of the costs will be borne by the developers and/or Council.

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 the three new SHAs and amending two existing 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 an Order in Council.
- 43 Council has consulted with infrastructure providers prior to recommending the SHAs. MBIE is reliant on these Council consultation processes and their 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. No public consultation has been undertaken in relation to the proposed SHAs. Nelson City Council has undertaken consultation with the public on the Nelson Plan. The Nelson City Council has also consulted with infrastructure organisations, the Nelson Plan Iwi Working Group and the Developers Advisory Group on the Housing Accord about the potential for future SHAs in Nelson.

Conclusions and recommendations

- 45 The overall conclusion is that approving the SHAs in Nelson recommended by the Nelson City Council best meets the objective of giving effect to the Act and the Nelson housing accord. Of the two options assessed, approving the SHAs 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 household growth in Nelson.

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 SHAs then rests with Council to use its existing consenting function.
- 47 If the SHAs are 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 Nelson Housing Accord is governed by two joint committees:
- a. Joint Housing Steering Group: comprising the Mayor and Deputy Mayor and the Minister for Building and Housing; and
 - b. Officials Working Group: comprising senior officials from MBIE and the 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 comprehensive data on building consents (including location and ratio of apartments, flats, townhouses and detached homes) and progress against accord targets (see Table 3 below). Data 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 In addition to the Housing Accord Steering Group and the Officials Working Group, Nelson City Council has established a Development Advisory Group (the Group) with the purpose of guiding the development and infrastructure work stream of the Nelson Resource Management Plan review. The Group discusses issues of common interest

on housing, land supply, infrastructure provision and Council consenting processes. It also provides advice on establishing SHAs.

52 The Group provides feedback on how Council and developers can collaborate to bring a continuous supply of housing and land to market to meet the goals set out under the Accord.

53 The Nelson Housing Accord targets are outlined below.

| Table 3: Nelson Housing Accord targets | | | |
|--|---|--|--|
| Target | Year 1 target (Jul 15–Jun 16) | Year 2 target (Jul 16–Jun 17) | Year 3 target (Jul 17–Jun 18) |
| Yield of serviced residential lots (titled) from residential zoned | 100 | 100 | 100 |
| Total dwellings | 240 | 240 | 240 |
| | Cumulative yield of serviced residential lots: 300 | | |
| | Cumulative new total dwellings: 720 | | |

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.