Affordable Housing and the Auckland Unitary Plan

2nd background report

July 2013

Hill Young Cooper Ltd

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1 Introduction

The March 2013 draft Unitary Plan included an Addendum on possible tools to promote the provision of retained, affordable housing.

Retained, affordable housing is housing that is made available for households on low to moderate incomes at a price which means that they do not spend more than 30% of their gross income on rent or mortgage payments. Such housing is retained for use by future low to moderate income households by way of ownership structure or controls on resale and rental.

Two options were put forward in the Addendum:

> Option 1: Inclusionary Zoning (or IZ) – a requirement / incentive to provide a % of units in larger developments (10 or more) at a price that is affordable to low to moderate income households
>
> Option 2: Value capture of land value increases arising from rezonings. Proceeds used to fund the provision of affordable housing directly by the council, or indirectly via the not-for-profit sector.

These options built on the Auckland Plan and the associated Housing Strategy Acton Plan. One of the actions of the Housing Strategy Action Plan under priority area 6 was for inclusionary zoning options to be tested through the draft Unitary Plan informal consultation process:

> Action 17 –*Test an inclusionary zoning regulation, for informal feedback as an addendum to the Draft Unitary Plan in March 2013*.

Development of the Housing Strategy Action Plan involved analysis of different regulatory and financial tools to enable and/or require affordable housing. A number of workshops were held with developers, central government and organisations involved in housing to gauge their reactions to affordable housing issues. A number of meetings were also held with councillors who subsequently approved the HSAP.

As required by the HSAP, the Addendum to the draft Unitary Plan contained a section on retained affordable housing and a possible IZ provision. In preparation of those provisions, a background report was prepared that looked at different IZ approaches (Hill Young Cooper 2012).

This report provides a record of actions and further research that has occurred since 2013 which has helped form the basis of the IZ policies and provisions included in the Unitary Plan. It forms part of the section 32 analysis of options.

1.1 Actions since March 2013

Since March 2013, the following actions have occurred:

- Feedback on the Addendum has been received
- Analysis has been undertaken on land value uplift in greenfields areas
- Testing of IZ in greenfields and brownfields situations has been completed

- Central government has developed its polices on affordable housing
- Further refinements have been made to the draft IZ provisions.

This report summarises the above actions, and sets out further background in relation to the IZ policies and methods proposed to be added to the Unitary Plan.

2 Feedback on Addendum

Feedback on the March 2013 addendum has been positive and negative. An initial summary is attached as Appendix Two, as compiled by Auckland Council.

As of 26 July 201, 576 comments were received:

- Submissions supporting shared land value uplift 22
- Submissions opposing shared land value uplift 260
- Submissions supporting inclusionary zoning 91
- Submissions opposing inclusionary zoning 39.

For the IZ policy option, negative comments covered the following points:

- Will raise price of market rate housing
- May undermine the feasibility of development relative to its location and socio/economic market
- Not within the terms of the RMA
- Further delay / uncertainty in RMA processes – how will any requirement be assessed, who will be able to buy the units?
- UP not most effective means of providing affordable housing (e.g. central government / direct investment by council better).

Positive comments:

- Between 20-25% of developments of 10 or more units should meet a set of affordable housing criteria
- Should apply across the region, e.g. within the central city
- Must be an emphasis on quality affordable housing and ensuring quality-related safeguards are in place if inclusionary zoning is adopted
- Helps promote mixed communities.

Proposed amendments included:

- The Regional Policy Statement in the Unitary Plan should include its own set of objectives and policy on housing affordability. These amendments should encourage the development of smaller houses on small lots

- Remove density controls, not just for five or more dwellings
- Provide an incentive-based route for affordable housing.

A range of views were put forward as to whether an IZ policy should be pursued. The Property Council of NZ while not supporting such a policy did state that if such a policy was to be developed, then:

- The requirement should be limited in breadth and time, purely to help alleviate the housing crisis and only apply to particular areas/developments. There should be an end date to the policy/rule.
- Effective incentivisation and compensation for developers is imperative. Developers should not have to subsidise affordable housing.
- Further research and investigation will be required to ensure people would be willing to buy a home that is restricted in its resale.

Fletcher Building noted a range consenting risks.

3 Analysis of Addendum Proposals

To help further explore the feasibility and consequences of the two options put forward in the March 2013 Addendum, three analysis reports were commissioned by the council:

- The Council's Finance Strategy team reviewed land value uplifts in greenfields areas
- Professor L Murphy and Dr M Rehm of the University of Auckland were commissioned to review a mandatory affordable housing requirement and a bonus-based affordable housing provision.

The outcomes of these three reports are outlined below.

3.1 Land value uplift

This report looked at recent greenfields rezonings (that is, when land on the edge of Auckland was rezoned from rural to urban) and land values pre and post announcement of the rezoning.

The analysis identified that a land value uplift occurs, but the amount varies across the selected areas. Some areas recorded substantial uplifts, others were modest. Some recorded declines (for example associated with the GFC in 2008/9).

The report identified a range of methodological issues involved in accurately identifying uplift associated with rezonings as opposed to uplift associated with other actions / influences like wider property market trends.

Land value uplift recapture is currently not mandated by legislation, although conceivably a targeted rate system could be used to capture uplift over a period of time, rather than as a one-off charge.

It is also not clear who would meet the costs of the land value uplift tax - in some cases, it may be passed onto future home owners, in other cases the raw block landowner may pay it. Depending upon the rate of recapture, the tax may dissuade or at least slow down the rate at which some land is brought forward for urban development.

The tool was not recommended for further investigation / action at this stage.

3.2 Inclusionary zoning options

This analysis involved hypothetical development feasibility case studies of mandatory inclusionary zoning requirements in greenfields and brownfields and of a bonus-based approach in brownfields redevelopment situations.

The mandatory incorporation of affordable housing units within a development alters the costs and revenue value of any project and consequently affects the development's financial feasibility.

3.2.1 Greenfields

The greenfields analysis looked at two case studies - one in a higher value area (Upper Harbour), one in a lower value area (Papakura) - using best available data on land and development costs. The analysis provides a broad brush measure of the impact of inclusionary zoning on the financial viability of greenfield residential developments in Auckland based on current market conditions.

The analysis involves a static, residual land valuation approach. Under this approach, a development opportunity is assessed to determine if the difference between the anticipated revenue and development costs provides the developer and equity partner with a profit margin sufficient to justify the risks associated with a particular venture.

In the higher value area, development remained feasible with a 20% inclusionary zoning requirement, based on the affordable dwellings involved in the requirement having to be sold at around the $360,000 mark. This outcome was based on raw block land values for land within the current Metropolitan Urban Limit Line.

The development feasibility model showed that, based on the assumptions used, development was feasible with up to a 15% IZ requirement in the lower value area, provided the development involved a section/house package. If the development just involved subdivision of sections, not house building, then the study suggested that this was not a feasible activity (even with no IZ requirement).

Figure 1 sets out the results of the analysis. Across the top of the graphs is the IZ policy requirement, stepping up from zero to 50%. On the left hand side, three different development margins (developer's minimum expected profit/loss margin on development costs) are set out for each of the lower and high value case studies.

Figure 1: Results of greenfields analysis Murphy and Rhem, 2013a

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="8">Viable</td><td colspan="3">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="5">Viable</td><td colspan="6">Not Viable</td></tr>
</table>

Development Margin = 20%

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="11">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="6">Viable</td><td colspan="5">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
</table>

Development Margin = 25%

<table>
<tr><th></th><th>Business</th><th colspan="11">Inclusionary Zoning Policy Requirement (% Affordable)</th></tr>
<tr><th>Submarket</th><th>Model</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%</th><th>45%</th><th>50%</th></tr>
<tr><td>Papakura</td><td>Sections</td><td colspan="11">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td colspan="11">Not Viable</td></tr>
<tr><td>Upper Harbour</td><td>Sections</td><td colspan="4">Viable</td><td colspan="7">Not Viable</td></tr>
<tr><td></td><td>Houses</td><td>V</td><td colspan="10">Not Viable</td></tr>
</table>

Development Margin = 30%

While development remains feasible under a 15% IZ requirement in the lower value area, total revenue does fall, and with it developer's overall profit. Figure 2 is sourced from the analysis of greenfields developments and is from the lower value area (being the area most sensitive to the IZ policy requirement).

As the percentage of affordable units required increases, total revenue drops. For an IZ policy of up to 15% retained affordable housing, revenue is still ahead of total costs (note: costs include 20% profit/loss margin on construction costs). Total costs fall with some allowance for less expenses as the number of affordable units increases (e.g. reduced commission on sales, GST).

Figure 2: Revenue versus costs for medium value area

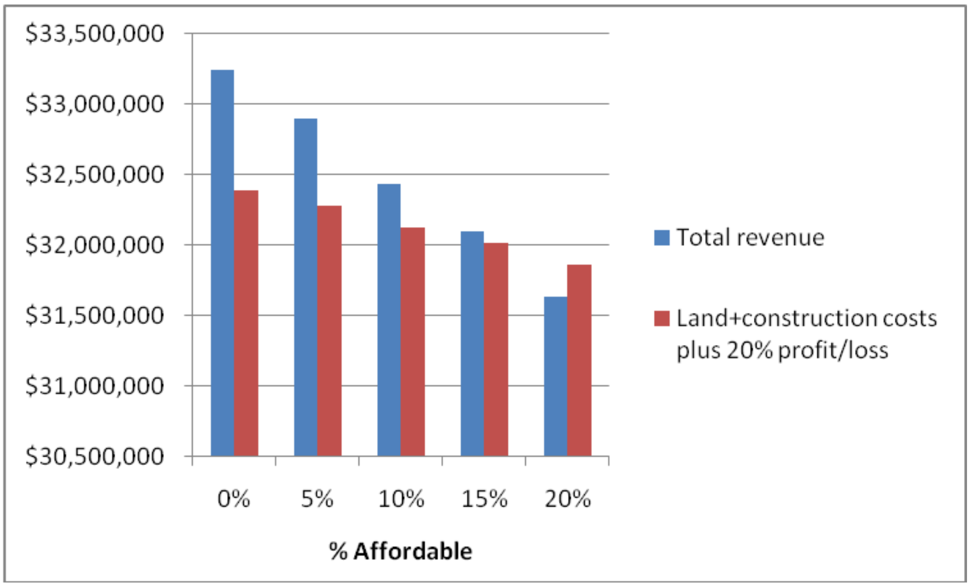

Table 1 provides details of the dollar amounts in Figure 2. Total revenue is given, as well as total costs. The breakeven point with regard to feasibility is when total estimated profit in column 5 falls below the profit/loss figure in column 3. In this case, this is 15%.

Table 1

IZ Policy	1. Total revenue	2. Land+ construction + other costs	3. Profit/loss based on 20% of construction costs	4 Total costs (2+3)	5. estimated Total profit (3+(1-4))	Difference
0%	$33,240,000	$ 28,209,561	$ 4,178,562	$ 32,388,123	$5,030,439	
5%	$32,896,188	$ 28,096,789	$ 4,178,562	$ 32,275,351	$4,799,399	$ (231,040)
10%	$32,437,772	$ 27,946,427	$ 4,178,562	$ 32,124,989	$4,491,345	$ (539,094)
15%	$32,093,960	$ 27,833,655	$ 4,178,562	$ 32,012,217	$4,260,305	$ (770,134)
20%	$31,635,543	$ 27,683,293	$ 4,178,562	$ 31,861,855	$3,952,250	$(1,078,189)

The analysis of viability is dependent upon a range of variables including:

- Revenue from market rate housing - the model assumes a set price per market rate house. Over a development's lifetime, this price may go up or down. If it goes down, then overall viability reduces.
- Raw block value - this depends upon overall land supply. Tighter land supply putting upwards pressure on land values may make development less viable in marginal areas unless house prices also move upwards; a drop in land values due to more supply provides more scope to accommodate additional costs provided market rate house prices do not decline too much in response.
- Time involved - an IZ requirement may lengthen the time it takes to sell sections/homes. The model does not take into account time to obtain zoning / resource consent.
- Developers profit/loss margin - developers may perceive additional risk and therefore expect a higher return when they have to comply with an IZ requirement.

The analysis of greenfield development scenarios shows that if the time involved in the process increases and developers expect additional profit due to additional uncertainty, then in these cases development is much more marginal in lower value areas. Flow on effects may involve some reduction in raw land value and some cross subsidisation between units. The extent of passing forward or back of additional costs will depend upon circumstances.

As an example of these issues, Table 2 shows the effect of lengthening time lines and developers seeking a higher return to off-set greater risk. The first row sets out the basic development model of a housing development taking 18 months to complete and the developer expecting a 20% profit/loss margin on costs. With a 10% affordable unit requirement, the development is feasible (albeit with lower total revenue). The second row alters the time taken to complete the project to 30 months, with the developer expecting a 23% profit/loss margin. These factors may be the result of units taking longer to sell due to the IZ requirement. In this case development feasibility is assessed as being "negative".

Table 2

Raw block value ($ per m2)	Time (months)	% Affordable	Developers Profit/risk	Feasibility
$125	24	10%	20%	Positive
$125	30	10%	23%	Negative

A negative result does not necessarily mean that no development will occur, as other adjustments can be made to the development.

For example, assuming that the time involved remains at 30 months and developers require an increased profit/loss margin of 23%, but the percentage affordable drops to 5%, then one possible scenario as to how reduced revenue may be managed is set out in Table 3. In this case raw block value drops by 10% while market rate housing increases 2% to an average of $510,000.

Table 3

Raw block value (m2)	Time (months)	% Affordable	Market rate of standalone units	Profit/risk	Feasibility
$115	30	5%	$ 510,000	23%	Positive

There are numerous combinations of this scenario. If the increased costs are absorbed solely in land values, then a drop in value per sqm to $110 would see a neutral effect on market rate house prices. If the price of units increase, but land values do not drop, then the price of market rate housing would need to increase to around $525,000.

If the "time" penalty is removed due to efficient consent processes being in place, but a higher profit/risk margin remains, then the extent to which raw block values need to drop reduces, and the extent of any need to raise the value of market rate houses also recedes, as per below:

Table 4

Raw block value (m2)	Time (months)	% Affordable	Value of market rate stand alone units	Profit/risk	Feasibility
$120	24	5%	$ 500,000	23%	Positive

It should be noted that the above analysis used raw land values for land already within the Metropolitan Limit Line. If the Unitary Plan contains IZ requirements ahead of land being rezoned from rural to urban, then the "cost" of the affordable housing requirement could be spread over a number of land holders in the development chain, for example:

Rural land holder → Land holder who takes land from rural to urban zoning → land holder who land banks → Land holder who subdivides and develops

At some point, if raw land values drop too far due to additional development costs, then there is less of an incentive for rural landowners to sell to a developer, and the land may be used for an alternative use (i.e. it is withdrawn from the urban land market). Land values would need to drop substantially for this to occur. The analysis of greenfields feasibility notes that raw land values for land available for urban use range from $100 to $200 per square metre, and so the $125 per sqm used in the analysis of medium value areas has some "head room".

A further option to address reduced revenue is to increase the number of market rate houses in the development to help off-set the additional costs of the affordable units.

The basic model used in the analysis assumed a 3ha block and 68 units, with a mix of stand-alone and terrace housing on 350m^2 and 275m^2 lots respectively. If the area per unit is reduced to 300m^2 and 200m^2 respectively, then the number of units able to be accommodated increases to 88 (mainly from more terrace type units). It is assumed that the average sale price of the terrace houses drops somewhat due to the smaller section sizes.

In this case, the value of market rate houses does not need to be increased or raw land values to drop to off-set the cost of a 5% affordable housing requirement and attendant lengthier development process and greater risk. The average price of the market rate units drop (and should do so to reflect the smaller land areas involved). The lower return per unit is offset by the increased number of dwellings. Overall, the development is feasible.

Table 5

Raw block value (m2)	Time (months)	% Affordable	Number of units	Average price Market rate units*	Profit/risk	Feasibility
$125	30	5%	68	$488,000	23%	Negative
$125	30	5%	88	$480,000	23%	Positive

** For this scenario, average price refers to the average of standalone and terrace house units.*

This scenario relies upon the raw block value not responding to the increased density of development. That is, the extra density would need to be negotiated post purchase of the land. If raw block landowners were aware that greater density was possible, then raw land value would increase.

In this case, to accommodate the affordable units, future home owners do not face higher house prices, but they do end up with a different living environment involving smaller lots with housing closer together.

The analysis of greenfields development shows that a IZ policy will not necessarily be negative to development feasibility and will not result in all of the development market slowing down or market rate housing being made more expensive.

The main adverse effect is on marginal developments in areas of lower housing value. The Unitary Plan is likely to target a range of greenfields areas where land values and house prices are lower to help increase supply overall, such as in Waitakere and Manukau. Here, development feasibility is sensitive to a range of factors including the quantum of any affordable housing requirement, and extra time and uncertainty.

The authors of the analysis of greenfields IZ note that:

> *Inclusionary zoning may also have an indirect impact on block land prices. In the market's response to such a policy it is reasonable to assume that landowners may be willing to accept lower purchase offers due to the IZ requirements imposed on block land, all other factors held constant. In addition many interviewees suggested that the end result of inclusionary zoning would be an increase in the sales prices of the market-priced homes in order to compensate for the losses associated with the development's affordable homes. This assumes, however, that market prices for new houses are largely set by developers. In fact, new house prices are strongly influenced by the secondary market consisting of existing homes for sale within a given submarket. Sales transactions of new houses tend to represent a small proportion (typically less than 25 per cent) of overall home sales across Auckland.*

Any affordable housing requirement needs to be set up in a way that does not discourage development from occurring. Potential costs can be reduced by:

- Requiring only a modest level of affordable housing be provided;
- Being explicit as to what the requirement is so that developers can factor this into their analysis of feasibility and hence what they are willing to pay for greenfields land;
- Reducing uncertainty and delay through having clear cut provisions and good processes in place
- Allowing for flexibility over densities through the structure plan/ consent process (effectively allowing for a discretionary "bonus").

3.2.2 Brownfields

The March 2013 Addendum proposed a bonus-type approach be taken in brownfields areas because of the greater complexity of housing developments in redevelopment areas. This includes land assembly, community opposition and uncertainty as to the amount of development likely to result from discretionary, design-based consent processes. It was also in recognition that current district plans already enabled a degree of redevelopment, and so the extent of any upzoning and consequent uplift in land value would be variable across the city.

The decision as to whether to take up the bonus lies with the developer. The question is whether the additional return off-sets sufficiently the extra risks. Obtaining the bonus may involve greater time to complete a project and uncertainty as to whether the affordable units will be seen to harm the marketability of the development.

The Addendum proposed a 1 for 4 deal, that is for every 1 square metre of affordable housing floorspace provided, 4 square metres of additional market rate floorspace could be added, up to a limit that varied between the different zones. The bonus was to be available in metropolitan and town centres, as well as mixed use and terrace housing and apartment building zones.

The feasibility of intensive housing developments in medium value areas is much more finely balanced than development in higher value areas, due to lower returns but similar development costs. The Auckland Plan's approach to regional urban development is to encourage redevelopment in areas across the city, not just in wealthier inner city or coastal suburbs. Over time a larger and larger proportion of development is to be accommodated in brownfields areas. It is therefore useful if any bonus creates sufficient incentive in medium value areas for it to be attractive.

At the same time, there is community resistance to "too much" redevelopment, particularly in terms of building heights and densities. Additional development allowed by way of a bonus can be seen to be creating an adverse effect on amenity (although in reality there is no hard and fast reference point as to whether amenity will in fact decline with more development, it is more a matter of relative assessment). It is therefore necessary to find the optimal mix of incentive versus impact on the wider community from additional development

Table 6 is from the report by Murphy and Rehm (2013). It sets out the analysis of the effect of the bonus-based provisions. Its approach is to look at whether the additional costs of the affordable housing are off-set by the extra net revenue from the additional market rate houses enabled by the bonus.

Table 6: Analysis of bonus-based approach

Margin	Zone	Storeys	IZ Bonus	Market Conditions: Bouyant	Steady	Depressed
20%	Metropolitan	20	2 Storeys	Viable	Viable	Viable
	Mixed Use	5	1 Storey	Viable	Viable	Viable
	Terraces & Apts	4	3% Bldg cover	Viable	Viable	Viable
		5		Viable	Viable	Viable
		6		Viable	Viable	Viable
25%	Metropolitan	20	2 Storeys	Viable	Viable	Not Viable
	Mixed Use	5	1 Storey	Viable	Viable	Viable
	Terraces & Apts	4	3% Bldg cover	Viable	Viable	Viable
		5		Viable	Viable	Viable
		6		Viable	Viable	Not Viable
30%	Metropolitan	20	2 Storeys	Viable	Viable	Not Viable
	Mixed Use	5	1 Storey	Viable	Viable	Viable
	Terraces & Apts	4	3% Bldg cover	Viable	Viable	Viable
		5		Viable	Viable	Viable
		6		Viable	Viable	Not Viable

Development Quality = High

Margin	Zone	Storeys	IZ Bonus	Market Conditions: Bouyant	Steady	Depressed
20%	Metropolitan	20	2 Storeys	Not Viable	Not Viable	Not Viable
	Mixed Use	5	1 Storey	Viable	Viable	Viable
	Terraces & Apts	4	3% Bldg cover	Viable	Viable	Not Viable
		5		Viable	Viable	Viable
		6		Viable	Viable	Not Viable
25%	Metropolitan	20	2 Storeys	Not Viable	Not Viable	Not Viable
	Mixed Use	5	1 Storey	Viable	Viable	Not Viable
	Terraces & Apts	4	3% Bldg cover	Viable	Not Viable	Not Viable
		5		Viable	Viable	Not Viable
		6		Viable	Not Viable	Not Viable
30%	Metropolitan	20	2 Storeys	Not Viable	Not Viable	Not Viable
	Mixed Use	5	1 Storey	Viable	Viable	Not Viable
	Terraces & Apts	4	3% Bldg cover	Not Viable	Not Viable	Not Viable
		5		Viable	Viable	Not Viable
		6		Not Viable	Not Viable	Not Viable

Development Quality = Medium

In medium priced areas, the bonus is sufficient for development to remain viable for 4 of the 5 development typlogies. It should be noted that high rise development in metro centres (setting aside the affordable housing bonus) does not stack up due to the high costs of construction versus expected return from the apartment units. The bonus makes no difference to this equation.

For medium value areas (second box above), it can be seen that if developers expect a higher profit/loss margin on the additional costs, then there is no incentive for them to take up the bonus.

Table 7 looks at the number of market and affordable units created across the five case studies.

Table 7: Number of affordable units produced

	Metropolitan Zone High-rise Apts	Mixed Use Zone Mid-rise Apts	Terraced Housing & Apartment Zone		
			4 storey Apts	5 storey Apts	6 storey Apts
Number of market rate units without bonus	169	42	32	40	48
Number of affordable units	3	2	1	1	1
Number of additional market rate units	13	7	2	2	3
Viability	High value only	High and medium value	High and medium value	High and medium value	High and medium value

In the medium value area, the 1 for 4 bonus yields 5 units of at least 85smq in size. In return, 14 market rate units get added. This is a fairly modest "return". In higher value areas, a total of eight units are added.

A different ratio of affordable to market rate floorspace would see more affordable units and fewer market rate units added, but at some point the costs of the additional affordable units will exceed the expected returns. To test this tipping point, the following table sets out different ratios of affordable to market rate floorspace, in medium value areas. A 25% developer margin is assumed to recognise the incentive needed to undertake the extra work in obtaining the bonus.

The table shows that a ratio of 1 square metre of affordable floorspace to 3.5 square metres of market rate floorspace still sees feasible development in 3 out of the 5 cases, but once the ratio drops to 1 to 3, then the only 1 case study is desirable in medium value areas.

Table 8: Viability in medium value areas under different bonus rates

Ratio of affordable to market rate housing	Metropolitan Zone High-rise Apts	Mixed Use Zone Mid-rise Apts	Terraced Housing & Apartment Zone		
			Low-rise Apts	Mid-rise Apts	High-rise Apts
1 for 4m^2	No	Yes	Marginal	Yes	Marginal
1 for 3.5m^2	No	Yes	Marginal	Yes	No
1 for 3m^2	No	Yes	No	Marginal	No

For developments in high value areas, where development remains feasible under all three ratios, the number of affordable units provided increases (across the five case studies) when the ratio between affordable and market rate floorspace changes. For the medium value development area the number of units drops, due to fewer development types being viable.

Table 9: Affordable units produced

Ratio	Higher value	Medium value
1 for 4	8	5
1 for 3.5	9	4
1 for 3	10	3

This analysis suggests that a ratio of 1 square metre of affordable floorspace to 3.5 square metres of affordable floorspace is probably about right.

The analysis of brownfields developments notes that the voluntary nature of the scheme means that market rate houses will not rise to compensate for the affordable units. This is because the market price will be set by developments that do not take up the bonus.

3.2.3 Mandatory requirement - brownfields

A bonus-based approach in brownfields allows developers to decide when they wish to include affordable housing, and if structured as an attractive package, the incentive may help to stimulate urban redevelopment (as additional revenue may be possible). However the perceived downside of a bonus type approach is that more development is accommodated on a site, and this extra development may be seen as having a negative effect on the amenity of an area. In response to these concerns, the analysis of brownfields development by Murphy and Rehm was extended to include a mandatory requirement.

The five hypothetical sites used in the bonus based analysis were used in the analysis of a mandatory requirement. The output of that analysis is shown in Figure 3.

In high value areas, development remains feasible, even with substantial IZ requirements, although total returns to a developer will drop as the IZ requirement steps up.

In medium value areas, some forms of redevelopment are not feasible at all, even with no IZ requirements. For those development types that are feasible (i.e. low rise redevelopment), an IZ policy of 20% sees development remain feasible.

Figure 3: Analysis of mandatory requirement in brownfields

<table>
<tr><th>Margin</th><th>Zone</th><th>Storeys</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%+</th></tr>
<tr><td rowspan="5">20%</td><td>Metropolitan</td><td>18</td><td colspan="6">Viable</td><td></td><td></td><td></td></tr>
<tr><td>Mixed Use</td><td>4</td><td colspan="9">Viable</td></tr>
<tr><td>Terraces & Apts</td><td>4</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>5</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>6</td><td colspan="9">Viable</td></tr>
<tr><td rowspan="5">25%</td><td>Metropolitan</td><td>18</td><td colspan="4">Viable</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Mixed Use</td><td>4</td><td colspan="8">Viable</td><td></td></tr>
<tr><td>Terraces & Apts</td><td>4</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>5</td><td colspan="9">Viable</td></tr>
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<tr><td rowspan="5">30%</td><td>Metropolitan</td><td>18</td><td>Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Mixed Use</td><td>4</td><td colspan="3">Viable</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Terraces & Apts</td><td>4</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>5</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>6</td><td colspan="6">Viable</td><td></td><td></td><td></td></tr>
</table>

Development Quality = High

<table>
<tr><th>Margin</th><th>Zone</th><th>Storeys</th><th>None</th><th>5%</th><th>10%</th><th>15%</th><th>20%</th><th>25%</th><th>30%</th><th>35%</th><th>40%+</th></tr>
<tr><td rowspan="5">20%</td><td>Metropolitan</td><td>18</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Mixed Use</td><td>4</td><td colspan="5">Viable</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Terraces & Apts</td><td>4</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>5</td><td colspan="9">Viable</td></tr>
<tr><td></td><td>6</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="5">25%</td><td>Metropolitan</td><td>18</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Mixed Use</td><td>4</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Terraces & Apts</td><td>4</td><td colspan="6">Viable</td><td></td><td></td><td></td></tr>
<tr><td></td><td>5</td><td colspan="8">Viable</td><td></td></tr>
<tr><td></td><td>6</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="5">30%</td><td>Metropolitan</td><td>18</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
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<tr><td></td><td>6</td><td colspan="2">Not Viable</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

Development Quality = Medium

As with the greenfields analysis, the feasibility of development is sensitive to increased time and uncertainty. As can be seen from Figure 3, a 25% profit margin on costs sees feasibility reduce to only those developments in the terrace housing and apartment building zone, in medium quality areas.

Analysis of the Mixed Housing zone was not undertaken due to time constraints.

In the case of brownfields development it is likely that additional costs of a mandatory scheme are likely to be off-set by increasing the cost of market rate units, rather than seeing land prices drop. The increased costs and reduced feasibility for some types of development is likely to see some development not proceed, although the extent of this effect has not be gauged. As development of medium value areas is marginal even without an IZ requirement, but development of higher value remains viable with IZ, then the overall effect on urban redevelopment rates may not be large.

In short, under a mandatory requirement in brownfields, higher value development will have to include some affordable units, while some development in medium value areas will be more marginal. This is a reverse of the situation for a bonus-based system, where it was unlikely that the higher value areas would take up the bonus, but it would have been used more extensively in the medium value areas.

3.2.4 Conclusion

The analysis of greenfields and brownfields development feasibility under increasing IZ requirements shows that requirements of up to 15% will not see development in lower and medium value areas halted. This finding is based on the policy being well implemented.

In greenfields areas, it is likely that costs will be split amongst a number of parties, including raw block land owners, future home owners and developers. If well signalled in advance of conversion from rural to urban, it is likely that most costs will be absorbed in the land use change process. In brownfields, it is more likely that costs will be met by other homeowners.

In both cases, these costs are off-set by the provision of retained affordable housing that helps to address a range of social and economic issues associated with high house prices.

Higher costs, such as in the case of brownfields, may see some reduction in supply overall. This may be claimed to be harmful to lower income households due to less filtering of housing. That is as additional new housing supply filters down through the housing chain, resulting in more "second hand" houses. However, the context of Auckland is of constrained supply in the urban area to start with - limited new development restricts the extent of filtering benefits. Without an IZ policy, choices for low to moderate income households will not improve. With an IZ policy there will be some more choices available.

4 Central Government

Central government has announced a range of actions to improve housing affordability, building on the Productivity Commission's 2012 report into housing affordability.

4.1 Analysis of development opportunities

In February 2013, the Ministry of Business, Innovation and Employment completed an analysis of land supply in the Auckland Region, in conjunction with Auckland Council.

This analysis reviewed how much greenfields and brownfields land was ready and available for housing developments. Results were:

- greenfield planning areas containing land that is either ready for subdivision, or that has already been subdivided ~14,500 dwellings
- a further 9,800 dwellings could be accommodated in "almost ready" subdivision areas
- of this figure, up to 1,900 vacant residential sections can actually have a new house built on it without any delay
- In July 2012, the district valuation roll recorded 11,675 vacant residential sections in the Auckland region that are suitable for a single dwelling (this includes the 1,900 in greenfields areas). In 2002, there were 24,100 vacant residential sections, more than double the present number
- Without major rezoning, only 45,000–60,000 new dwellings may be able to be built within established urban areas.

The report particularly notes the roll of redevelopment within the existing urban areas in offering more affordable housing options.

In terms of development trends, the report noted:

- The number of new dwellings built for less than $250,000 has fallen by 90% since 2003, while those costing more have grown by 11% per year.
- In 2005, 67% of the new dwellings consented in established urban areas were forms of higher density housing; in 2012, only 27% were.
- In 2012, 80% of new apartments, town houses, flats and studios cost less than $250,000 to build, compared to 19% of new stand-alone houses.
- Higher density types deliver half of medium-cost new dwellings. Their declining numbers partly explain the decline in medium-cost dwellings.

While the focus of the report is on greenfields land, the analysis of urban redevelopment opportunities in the report highlights the significant issue that available development capacity is unlikely to exceed demand, and if anything will be considerably below demand. In this case the ability for urban redevelopment to deliver more affordable units will be reduced, and land and house prices in the existing urban area will continue to rise.

4.2 Draft Auckland Housing Accord and Special Housing Areas Legislation

Building on the Productivity Commissions report and the analysis of land supply, the government has determined that there is a need to speed up the delivery of new housing opportunities, Special housing areas legislation is to provide faster, more certain consent routes for selected housing developments (both brownfields and greenfields).

The legislation is accompanied by an accord between the council and central government. Under clause 19 of the draft accord, the Council can agree to an area being declared a special housing area on the basis that the development will give effect to the purposes of the accord and associated special housing legislation, infrastructure services are available and the development will comply with the provisions of the Unitary Plan.

Clause 20 of the Draft Auckland Housing Accord refers to all qualifying developments under the accord being required to give consideration to affordable housing and/or first home purchasers. Conditions of consent may include requirements that a portion of units be affordable.

The Accord has yet to be ratified, while enabling legislation being passed is less prescriptive than the Accord in regard to whether the RMA process can require affordable housing.

4.3 Community Housing Sector

The government's intention to support the community housing sector (announced in the 2013 budget) is positive for IZ. An active community housing sector able to buy affordable units from developers early in the subdivision / development process helps reduce uncertainty for developers while at the same time extending the community's investment in the sector by the sector gaining access to a discounted product.

In the 2013 budget, the government announced it will extend income related rent subsidies to community housing providers, extend reviewable tenancies, and integrate housing assessment with the government's wider social support services.

In a recent speech on affordable housing in Nelson, the Minster stated that *"We believe community housing can deliver better social benefits than just expanding the state housing estate. Our ambition is to grow the community social housing sector to provide 20 per cent of social housing in the long term".*

4.4 Review of Development Contributions

The Department of Internal Affairs has issued a discussion document on possible changes to development contribution provisions of the Local Government Act (DIA, 2013). This review signals an intent to overhaul the development contributions regime. One of the purposes is to restrain the extent of development contribution requirements as it is perceived that increasing development contributions are adding to housing costs.

Currently it is not possible for councils to levy development contributions for housing-related outcomes and the review indicates that this is unlikely to change in the future.

5 Analysis

The work to date has highlighted a number of issues that need to be resolved and further explored as part of any Unitary Plan IZ approach. These are:

1. The role of accelerated land supply in delivering affordable housing
2. Plans and their response to higher house prices
3. Alternatives in terms of the target of any IZ scheme and the % required.

5.1 Role of land supply

Making housing more affordable requires a range of actions, including:

- Making more land / development opportunities available
- Reducing land banking incentives and other speculative pressures on the housing market
- Lowering building / construction costs without lowering safety, environmental standards
- Timely and efficient provision of infrastructure to urban development areas.

Auckland Council has a direct role via its RMA functions in controlling the supply of land. Increasing the supply of development opportunities is a key focus of central government.

5.1.1 Current developments / subdivisions

Three current housing developments in the Auckland Region demonstrate the extent to which the market can supply housing that is more affordable: Hobsonville, Springpark Otahuhu and Takanini. All three examples show that a new 3 bedroom home is likely to sell in the order of $450,000.

Hobsonville

Hobsonville is an example of a deliberate attempt by a publically-driven housing development to provide housing that is affordable to households on moderate incomes.

Hobsonville Point is part of the wider transformation of the northwest of Auckland and is being developed over the next ten years as a new residential community of approximately 3,000 homes (8,000 people). The Point is being delivered by Hobsonville Land Company (HLC), a wholly-owned subsidiary of Housing NZ Corporation.

As of 2012 the HLC Business Plan includes a target of providing 10% of houses at Hobsonville Point at or below a price point of $400,000 and an additional 10% of houses at or below $485,000. This equates to 500 - 600 houses across the development.

Branded by HLC the ‘Axis Series’ these homes are intended to offer a market based free hold title unsubsidised (with no purchase assistance such a rent-to-buy), affordable housing option. As the marketing states: “The Axis Series homes and sections are smaller than others at Hobsonville Point to keep the cost down, but they are just as well designed and built”.

Purchasers must meet the following criteria:

- Must be New Zealand permanent residents or citizens.
- Cannot put the home in the name of a Family Trust, company or nominee.
- Must have a household income no higher than $120,000 gross per annum.
- Will agree to live in the house for a minimum of two years.

The intention is that half of the Axis Series homes will be sold to new homeowners who have not previously owned any real estate.

Within the Axis Series, HLC and their development partners are delivering two forms of market based affordable product:

a) Site specific designed small homes on small lots within standard subdivisions. To date 1 to 3 bed homes of up to 130m^2 have been provided, but in future subdivisions it is anticipated that there will be a predominance of two bedroom (typically 80-90m^2) and one bedroom (40-50m^2) homes.

b) 5 Standard House typologies (1, 2 and 3 bed house options) have been developed based on income and consumer profiles (single person to couples with two children).

To date type (a) predominate with only three of the current Axis Series homes delivered in the Buckley Precinct developed by the HLC build partners being built to the standard typology.

The three standard typology homes being constructed (a 1,2 and 3 bed home) are based on three of the five standard typologies developed by HLC. The three bed home will be affordable for people with an income of $115,000 with a 10% deposit while an income of $80,000 would be required for the one bedroom home. The homes are currently under construction and when completed will be open as show homes for a period of six months.

The delivery of the Axis Series homes is ensured through a contractual obligation on the HLC build partners. 20% of the homes constructed by the five selected build partners currently developing the majority of the first stage of Hobsonville Point – Buckley A Precinct – must meet the Axis Series price points.

Springpark in Otahuhu

This is a large housing development on a former industrial site. The website for the development refers to affordable housing in the following bands:

- 2 bedroom, 99m^2 priced from $399,000
- 3 bedroom, 113m^2 priced from $454,000
- 3 bedroom, 133m^2 priced from $500,000.

55 Takanini School Road

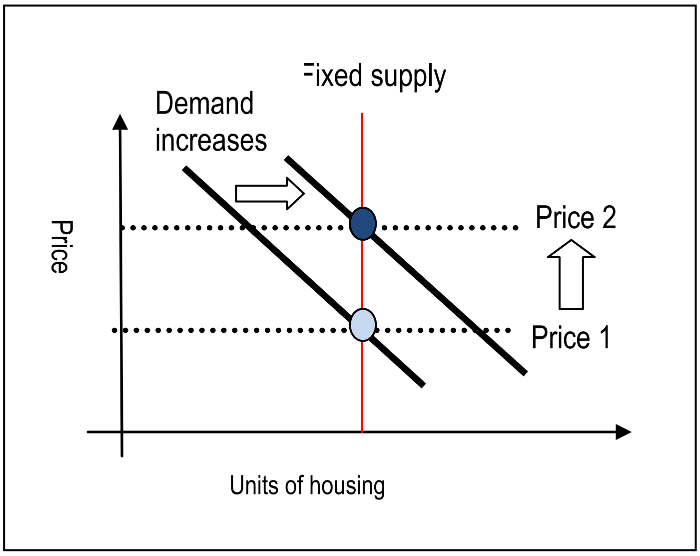
This is a greenfields development on the edge of the urban area. Sections (approximately 200m^2 in area) are priced from $150,000 plus GST. 4 bed homes are to sell from $450,000, with some smaller units possible.

5.1.2 Potential for accelerated land supply to lower prices

The above review suggests that the market is unlikely to deliver housing below $400,000, with 3 bedroom homes likely to be in the range of $450,000 plus. This is under current policy settings relating to land supply.

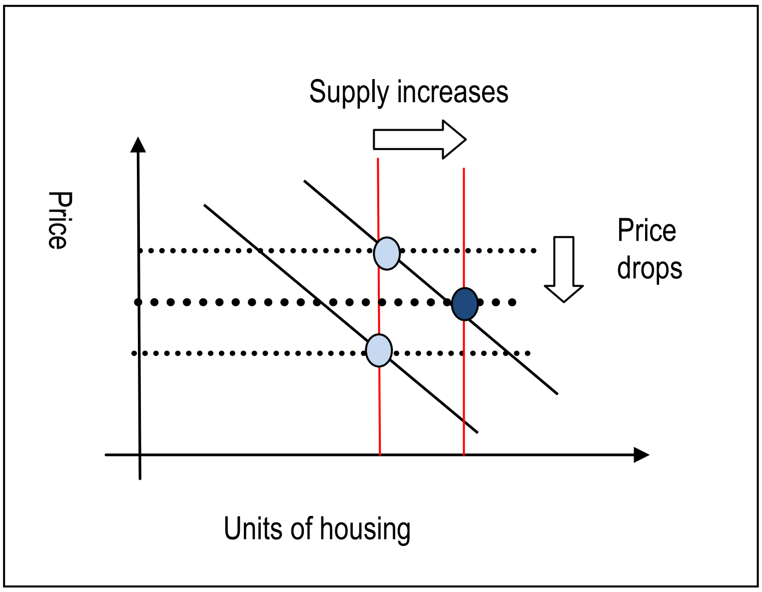
In a situation of constrained supply, then it is normal to expect prices to rise, as set out in Figure 4.

Figure 4: Increased demand and fixed supply



The question is the extent to which supply needs to increase to bring house prices back down to their previous level. See Figure 2.

Figure 5: Increased supply



There is no information on how much land supply needs to be increased so that land prices may reduce sufficiently to make housing affordable to those on median incomes. Current developments in more affordable areas on the fringe of Auckland see 3 bedroom homes for sale in the $450,000 band. With an average 3 bedroom home costing around $320,000 to construct, including fees, GST and developer's 20% profit/loss margin, then sections need to be less than $100,000 to see house prices below $400,000.

Returning to the greenfields land analysis set out above, and using the data in that analysis, raw land values would need to drop substantially for the market to provide housing that could be accessed by households on median incomes without a subsidy.

Using the information in the hypothetical case study, by a combination of dropping raw land values to below $80 per square metre and having terrace housing on 150m^2 lots, terrace type units may be able to built for around the $360,000 mark. In other words land values would have to decline from $125 to $80, or a 35% drop before market rate housing would be available to median income households.

Adding supply is not a quick fix. Having more land available for urban use will help to reduce land price increases and may see a drop in raw land values. But it is unlikely that the drop would be sufficient to enable houses to be built for below $400,000 without some form of active intervention.

In the brownfields situation, adding to supply is more complex than in greenfields areas, due to opposition to more development from existing communities.

5.2 The need for RMA Plans to directly address affordable housing

In terms of the factors influencing house prices that can be controlled by the council - land supply and development costs - there will remain limits on the speed at which the housing market can expand, even with a more liberal zoning regime in place.

In existing urban areas, despite moves to free up density, there will remain amenity-based controls that limit redevelopment options. While these amenity-based controls are defendable on the basis of managing adverse effects on the character and amenity of the surrounding area, they come with a cost of less housing than would otherwise be the case, and as a result, constrained supply. As noted by the governments review of land supply in Auckland, the drop off in apartment building is a particular concern in relation to the provision of more affordable units.

In greenfields areas, the supply of bulk infrastructure needs to be staged so as to manage public budgets and planning and design resources need to be concentrated to ensure structure plan outcomes that do not present long term environmental liabilities. This factors will also slow the rate of land release.

In this context of there always being a degree of control on land supply pushing up prices, making housing affordable to low to moderate income households needs to involve a "subsidy" – in the form of money, land or time (delayed payment of costs).

This subsidy can be sourced from tax payers, ratepayers and/or the community via the planning / RMA system.

The planning system has a role to play as it:

- Recognises that the planning system creates winners and losers through land use controls that restrict land supply to ensure infrastructure is used efficiently and amenity is protected; and
- Can be an effective means of providing a "land-based" subsidy, that is integrated with the spatial planning for the region.

Appendix One sets out a quote from a research report that considered Inclusionary Zoning in England and Australia. This encapsulates the argument that plans should address the costs that they impose. Zoning creates benefits to society which are reflected in higher land prices. Often though, zoning is used to further particular interests. In both cases, the higher land and house prices benefit some, but harm others economic and social well being. In other words the RMA/ planning system needs to address the costs that it creates for some sectors of the community when it creates benefits that result in overall, an improvement to society's economic and social well being.

At the same time, there is the ability to address these costs (reduced access to affordable housing) in a way that complements other actions (such as enhanced social and economic wellbeing from mixed communities). In particular, RMA-based approaches can help ensure a mix of affordable housing across the city, rather than see such housing concentrated in one sector or area. This has benefits in terms of transport, economic development and social well being.

However, the planning process can result in additional transaction costs compared to other subsidies, if IZ requirements are unclear or up front. Problems also arise if the planning / RMA requires IZ in a piecemeal way.

With the regional approach and significant up zonings associated with the AUP, there is the opportunity to introduce IZ in a way that will have fewer costs then if introduced later.

5.2.1 Costs and Benefits

The following table lists out the likely costs and benefits of the three main options open to council in terms of policy directions to make housing more affordable, in terms of the overall housing market. The options are:

- Relying upon increased land supply
- Mandatory IZ approach

- Bonus-based IZ approach.

Table 10

	Increasing supply of land / development opportunities	Mandatory requirement	Bonus-based approach
Costs	May see some upward pressure on public finances to ensure bulk services have capacity to cope with additional / faster development (e.g. motorway extensions, expansion of wastewater systems) Will not address issue of social mix, with lower cost housing likely to be more concentrated in particular areas of the city. May see some areas of dis-investment if supply considerably exceeds demand (e.g. such as during the 1950s and 60s when inner city areas lost population in favour of new fringe suburbs. If supply increases are more modest, then effect on house prices will be beneficial, but may not be enough to substantially reduce median house prices relative to median incomes.	In greenfield situations, landowners may not see their land increase in value as much as under a "no-requirement" option if developers argue that land costs have to fall to meet the costs of the IZ policy. This may mean that some land is not developed for housing, possibly reducing supply if no other adjustments are made to land supply Some costs may also get passed onto future landowners (i.e. future home owners in housing developments) the extent of which will vary. This could be in the form of additional housing costs, or more dense development.	Other residents and activities in the area surrounding the site that receives the bonus may see an impact on amenity from higher/bulkier buildings or more dense development. The extent of any additional impact will vary and can be mitigated to an extent by design Involves transaction costs in that developers must apply for the bonus and council has to assess the application.

	Increasing supply of land / development opportunities	Mandatory requirement	Bonus-based approach
Benefits	Increased land supply should reduce incentives to land bank (less certainty over long term increases in value), meaning more land is available Increased supply and greater competition between developments should also put downward pressure on development costs - more scope for productivity improvements Increased supply of land and development opportunities should see downward pressure on land prices and result in increased supply of dwellings overall	If the subsidy to support affordable housing is sourced from the economic rent associated with land scarcity arising from planning controls on land supply, then this funding source is more efficient in terms of allocation of resources than souring funding from taxpayers. Funding from ratepayers would also recognise that many homeowners benefit from planning controls that limit housing supply, while rates are a progressive tax. However rates funded development of subsidised housing involved a number of transaction costs	More intensive use of sites enabled by the bonus should result in more efficient urban land use patterns, reducing per capita infrastructure costs and impacts on the natural environment. This will benefit all households
Risks	More difficult to provide additional development opportunities in brownfields situations than greenfields. Could see a lopsided approach. Areas opened up for development may not match demands.	Main risks associated with poor implementation of the IZ requirement creating uncertainty for developers. This includes few buyers for the affordable units if the community housing sector is not large and private buyers do not understand the nature of the product (i.e. associated retention mechanisms)	Dependent upon developers taking up bonus. In high value areas, affordable housing will be seen as a risk to marketability Bonus type approach may be most used in lower cost areas where developers seek to utilise bonus to add units in areas with environmental or infrastructure constraints

Overall, the analysis would suggest that expanded land supply along with and IZ policy should help deliver on the key goals of:

- Increasing affordability of housing
- Ensuring that this occurs in a way that supports mixed communities.

The two need to go hand in hand. If land supply was not being increased, then IZ policies could lead to some land being withdrawn from the urban land market, and see market rate houses increase in price.

With the expansion of land supply, the IZ policy ensures that some of this supply is dedicated to meeting the housing needs of low to moderate income households. Without the IZ policy, increased land supply is likely to see house prices drop, but not to a level that will meet the needs of households on median incomes.

5.3 Target and size of IZ scheme

Having confirmed that an IZ policy is feasible and desirable, the next question is what should be the main target of any such policy. This leads into the question of the extent of any IZ requirement, that is what percentage of new housing should be "affordable".

5.3.1 Target

As identified in numerous reports, up to 28% of households in the Auckland Region face housing costs (rent or mortgage) that exceed 30% of their income. These households come from across the income range:

- Some will be households on low to very low incomes who are dependent upon subsidised rental accommodation and whose main source of income is from benefits
- Some will be households who have brought a house and elected to spend a large proportion of their income on repaying debt
- Others will be households that rent in the open market, who pay more than 30% of their income but who have insufficient income to purchase a house, based on standard bank lending criteria.

These households form a continuum, as follows:

Social Housing	Private Rental < 30% income	Private Rental > 30% income	Market rate housing > 30% income	Market rate housing < 30% income

At the lower end of the spectrum, households on low to very low incomes are supported through social welfare payments, as well as from access to subsidised rental accommodation provided by the State.

At the other end, increased supply of dwellings (along with other actions like reducing building costs) should help to moderate house price increases, and over time, as incomes rise, see affordability increase for those on moderate to high incomes.

While valuable, these actions will not necessarily help those households in the "middle". These households are often termed the intermediate housing market.

The intermediate housing market is defined as those households:

- Currently in the private rental market;
- That have at least one member of the household in paid employment; and

- That cannot afford to buy a house at the lower quartile house price under standard bank lending criteria.

Typically households in the intermediate housing market earn sufficient income that they cannot access social housing but insufficient income to be able to enter the normal housing market (market rate housing).

A 2009 assessment of the intermediate housing market in Auckland[1] estimated that the number of households in this group increased from 30,600 in 1996 to 68,000 in 2006. In 2009, 77,000 households were in this group or about 18% of regional households.

Statistics as to the make-up of this group are not available at the regional level. At a national level, in 2006, the highest proportion of intermediate housing market households were identified to be[2]:

- one-person households (26%)
- couple-with-children households (22%)
- couple-only households (16%) and
- one parent households (15%).

The report on the intermediate housing market from which the above statistics were presented noted that:

> *While measures that might deliver a more efficient housing market such as alleviating land-supply bottle necks, more efficient and economically equitable infrastructure provision, planning and building regulation efficiencies would undoubtedly assist affordability for those households in and seeking to leave the intermediate housing market it may be that a more focused suite of longer term policy solutions is required.*
>
> *This could include on the supply side responses such as increasing the direct supply of affordable housing, both owner occupier and rental, through planning mechanisms, through capturing developer planning gain.*

In terms of income bands for households in the intermediate category, for a household to purchase a median priced entry level house of $450,000 then they need an income of roughly $90,000, if they were to spend no more than 30% of their income, with a 10% deposit. $90,000 is approximately 120% of median household income of $73,000.

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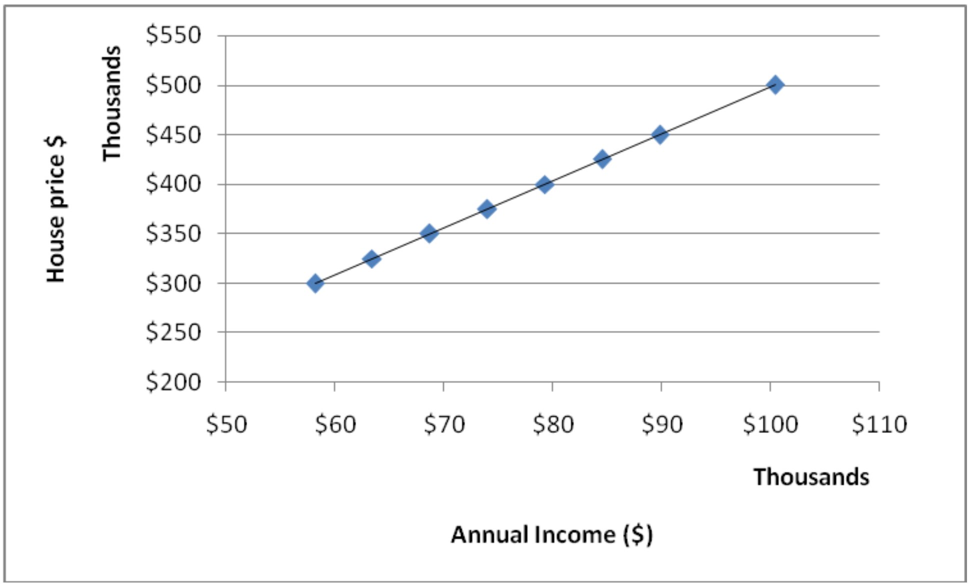
[1] Darroch Limited (2010) Auckland Region Housing Market Assessment, Volume 1: Main Report. Centre for Housing Research Aotearoa New Zealand. New Zealand Government

[2] DTZ New Zealand (2008) The Intermediate Housing Market in New Zealand. Centre for Housing Research, Aotearoa New Zealand. The New Zealand Government

Figure 6: Income and House Prices



At the lower end of the scale, below around 80% of regional median income (or $58,000 per year), then home ownership is a very unlikely prospect. Dwellings would have to be in the order of $300,000 to be affordable. Affordable rental (i.e. no more than around $350 per week) is feasible.

However for a single person household who may be able to spend more than 30% of their income on housing costs, then the 80% of median household income represents a reasonable boundary point. 40% of 58,000 per year results in the ability to service a $350,000 property.

Looking forward, the number of households in the intermediate market is likely to change due to demographics, as well as due to changes in incomes and in response to changes in houses prices and mortgage costs (interest rates).

Statistics NZ medium projection series for the Auckland Region shows that the number of single person households will increase substantially, along with couple only households. Family type households will increase, but not as much as other categories.

Table 11: Changes in household types 2011 - 2031

	One person	Couple	Family	Multi-person	Total
Growth in households 2011-31	70,800	82,800	52,900	7,200	213,700
Share of growth 2011-31	33%	39%	25%	3%	100%

One person households are more likely to be part of the intermediate housing market than couple only households, for example. On the other hand the number of family type households will decrease as an overall proportion.

In terms of population age bands, the number of people in the first home buyers / renters category will drop as a proportion of the total population, along with the number of people in middle aged brackets.

Table 12: Changes to population structure

Age band	2011	2031	Change
0-14	21%	18%	-2%
15-39	38%	35%	-2%
40-64	31%	29%	-2%
65+	11%	17%	6%
Total	100%	100%	

These trends may see a reduction in the relative size of the intermediate housing market.

In terms of policy changes, increased support from central government for the social housing sector should help to ease pressure at the lower end of the intermediate housing scale, while improved land supply should help the upper end. Countering these trends, interest rates are at historical lows, and as a result are likely to climb in the near term, while there are moves from the Reserve Bank to increase minimum deposits for most buyers to 20%.

Overall, there are a range of factors that may see the size of the intermediate housing market both increase and decrease. In the short to medium term (next 5 years) it looks unlikely that the intermediate housing market will decrease substantially.

The council's research and monitoring unit have updated the 2009 assessment of the regional housing market. This update is set out in Appendix Three. In 2011, the intermediate housing market is estimated to cover 17% of households in the region, rising to 22% in 2026 if house prices continue to increase by 4 to 5% per annum.

Table 13

Number of households	2011	2016	2021	2026
Intermediate housing sector	81,140	86,490	117,720	133,670
% of all households in the region	17%	17%	21%	22%

5.3.2 How much affordable housing should be required?

A key decision relates to the percentage requirement in greenfields and brownfields situations.

Currently around 17% to 18% of households are in the intermediate housing market. This figure could form the basis of the IZ policy requirement. That is, new developments should provide 20% of dwellings at a price range that can be afforded by households on 80 to 120% of median incomes. This would be similar to the Hobsonville target (although the Hobsonville model does not result in retained, affordable housing). At the other end of the scale, a much more modest figure would be 5%.

The analysis of greenfields and brownfields development situations showed that development was sensitive to the costs of ever larger IZ requirements, particularly if additional risk was perceived to be involved.

The greenfields development scenarios suggest that a mandatory requirement of up to 15% affordable units is feasible in lower value areas of the Region. In the brownfields situation, in medium value areas, a 15% requirement sees development remain viable.

No detailed modelling has been undertaken of the number of affordable units that may be delivered under different policy options. Consideration of potential uptake involves a number of assumptions relating to:

- likely population growth rates and dwelling demand over the next 10 years
- the existing capacity under current zonings - any IZ policy would only apply in 3 to 5 years time
- the extent and nature of the rezonings under the Unitary Plan, particularly the nature of brownfields redevelopments, and the extent of site-by-site infill versus comprehensive redevelopment

Looking first at growth rates, Statistics NZ medium projections for the Auckland Region suggest a growth of 100,000 households over the 10 year period 2011 to 2021. This is lower than the high growth projection used by the council for planning purposes. The council uses the high projection figure to ensure that there is some 'head room' in terms of infrastructure and land use planning. However actual demand will more likely be in the medium range.

Of that 100,000, the Auckland Plan seeks that around 40% be accommodated through brownfields redevelopment and 60% in greenfields and rural areas in its first 10 years. Subsequent decades see a reversal of this with a shift towards brownfields.

Table 13 sets out the estimated number of households based on this assumption.

Table 14

2011-2021		Medium growth	
		10 Year	Annual
Total demand		103,700	10,370
Greenfields	50%	51,850	5,185
Infill	40%	41,480	4,148
Rural	10%	10,370	1,037

Currently, based on the information set out in the Ministry of Business, Innovation and Employment's 2013 analysis of development capacity in the region, there is approximately the following capacity available under current zonings in greenfields and brownfields areas. See table 15.

Table 15

Existing stock	Greenfields	Infill/redevelopment
Ready to go	14,500	9,700
Already planned	9,775	50,000
Total	24,275	59,700

These capacity figures can then be compared to the expected 10 year demand. In the case of greenfields developments, additional capacity is needed over the decade, in the order of 27,575 dwellings. For brownfields / infill development, current zonings provide more capacity, however the feasibility of achieving this capacity is uncertain. See Table 16.

Table 16

	Greenfields	Infill/redevelopment
10 year demand	51,850	41,480
Existing planned capacity	24,275	59,700
Additional needed	27,575	-18,220

Assuming that the existing planned capacity is already consented, or will be developed in the next 3 to 5 years and will therefore not be subject to the IZ requirement, Table 17 takes the 27,575 figure from Table 16 and applies four different IZ requirement levels, from 5 to 20%.

Table 17

IZ Rate	Total 10 year supply based on 27,575 dwellings	Per Annum
5%	1380	138
10%	2760	276
15%	4140	414
20%	5520	552

It can be seen that a 5% requirement provides a very modest stream each year of homes that would be affordable, but as they are retained, affordable homes, then the stock will be steadily build up. Given the existing capacity available and the fact that any Unitary Plan requirement would only become operative once the Plan is finalised, these homes would only start to come on stream after 3 to 5 years.

Estimation of the number of units that might be sourced from urban redevelopment is harder to gauge. Some redevelopment enabled by the new Unitary Plan provisions will trigger the IZ policy by the middle of the planning period. Of the 40,000 dwellings expected in brownfields areas, if half are in development areas where larger scale intensive development is likely (e.g. some centres and surrounding higher density housing zones), and 60% of developments trigger the mandatory requirement, then this equals a potential pool of 12,000 dwellings. Thus 4,000 units may yield between 600 (5% requirement) and 2,400 (20%) affordable units over the 10 year period.

The number of retained affordable units that will be generated is likely to be small relative to demand. On the one hand the small number of units generated under a modest approach should not represent a major handicap to the development sector. On the other hand is the question of effort versus reward. Being retained affordable units, they will be available for future generations. If used to support the community housing sector, then the asset base being built up will enable that sector to leverage funding and to expand its stock over time.

As noted in the introductory section, the Auckland Plan estimated that up to 28% of households in the region face unreasonably high housing costs. These households come from a variety of sub markets, and there are a range of policies and actions in place to address these sub markets. The focus of Unitary Plan IZ policy is on the intermediate housing market. As of 2013, this is estimated to involve 81,000 households, as estimated by the council.

Comparison of alternatives

The following table considers these options alongside the option of enabling affordable housing, but not requiring it or incentivising it.

	Alternative 1: Active Enablement	Alternative 2: 5% mandatory in new greenfields and brownfields	Alternative 3: 10% mandatory in new greenfields, brownfields	Alternative 4: 20% mandatory - new greenfields and brownfields
Description	The provision of housing that is more affordable (market rate) is explicitly recognised in the UP as a "positive" effect of development that may off-set negative effects, such as from increased height or greater density	Mandatory requirement applies to all land within the RUB, greenfields and brownfields. For every 20 new dwellings, one has to be sold at an affordable rate.	More significant mandatory requirement in greenfields and brownfields. For every 20 new dwellings, two have to be sold at an affordable rate.	There is a mandatory requirement that 20% of new housing be affordable. For every 20 new dwellings, four have to be sold at an affordable rate.
Appropriateness	Appropriate and feasible under the RMA. as well as in terms of the general policy direction of the UP.	Works in with overall approach to increase land supply in greenfields areas while not unduly disabling urban redevelopment	Extent of requirement in brownfields areas likely to be questioned if it adversely affects viability.	Extent of intervention likely to be questioned as being outside the scope of the RMA and excessive in relation to the general enabling approach of the UP

	Alternative 1: Active Enablement	Alternative 2: 5% mandatory in new greenfields and brownfields	Alternative 3: 10% mandatory in new greenfields, brownfields	Alternative 4: 20% mandatory - new greenfields and brownfields
			Unlikely to significantly adversely affect greenfields development.	
Effectiveness	Will help to increase supply of houses overall, but may not significantly increase housing for median to lower income households	Analysis of greenfields development feasibility indicates that modest IZ requirements should not significantly disrupt current development feasibilities, provided that implementation of the IZ policy does not involve substantial risks/uncertainties. In brownfields, a mandatory requirement is likely to slow redevelopment process in some areas. This may reduce the total number of dwellings provided through redevelopment	Analysis shows that development feasibility is very sensitive to increased risk and uncertainty. A larger number of affordable units to be included in a development increases risks from perceived impacts on marketability of market rate units, as well as sale of affordable units. This is likely to affect urban redevelopment feasibility more than greenfields	May not be as effective, especially in brownfields areas, where mandatory requirement may be a disincentive. Higher mandatory requirement is likely to see some avoidance behaviour. In medium value greenfields areas, some land may be withdrawn from the land market

	Alternative 1: Active Enablement	Alternative 2: 5% mandatory in new greenfields and brownfields	Alternative 3: 10% mandatory in new greenfields, brownfields	Alternative 4: 20% mandatory - new greenfields and brownfields
Efficiency	Most likely be used in mid priced areas to increase density, number of units. It will therefore tend to reinforce concentration of different income bands across the city	Given that zoning creates barriers to people accessing modest priced housing, ensuring that there is some mixed tenure / mixed income housing options across the city should lead to a more efficient allocation of urban resources, provided that the costs of the policy are contained, and less than the benefits	Costs on brownfields may be seen to outweigh benefits in some cases (e.g. medium value areas) In greenfields areas, increased risks and uncertainties may slow the development process, resulting in fewer housing coming on stream at any one time, and as a result fewer affordable units being provided	The costs of a mandatory IZ scheme are likely to start to outweigh the benefits, particularly in terms of the consequential effects of the policy on the general housing market (that is the overall amount of housing activity may be adversely affected).
Costs	Unlikely to significantly improve choices/options for those in the intermediate housing market	Developers face a new requirement that has not been used in NZ to date (but is common elsewhere). This will create uncertainty in its initial stages.	Developers face more uncertainty and risk, both in terms of effect on IZ policy on development feasibility, as well as in terms of who is likely to purchase units.	House prices in greenfields area may rise in response. Developers will be faced with greater uncertainty

	Alternative 1: Active Enablement	Alternative 2: 5% mandatory in new greenfields and brownfields	Alternative 3: 10% mandatory in new greenfields, brownfields	Alternative 4: 20% mandatory - new greenfields and brownfields
		Value of undeveloped greenfields land may drop to reflect increased costs, or at least not appreciate as fast. Some marginal urban redevelopment may not proceed.	Likely to have more of an impact on developments in lower value housing areas	Larger role / cost for council in terms of enforcement and monitoring
Benefits	Will help to reduce upward pressure on land/ house prices	Will see some mixing of households in new communities and in redevelopment areas. While the number of units provided will only be modest, it will nevertheless help with outcomes associated with balanced urban growth	A larger number of a mixed tenure / mixed income neighbourhoods will be created, particularly in greenfields areas	More households in the intermediate housing sector will have choice of a retained, affordable home

	Alternative 1: Active Enablement	Alternative 2: 5% mandatory in new greenfields and brownfields	Alternative 3: 10% mandatory in new greenfields, brownfields	Alternative 4: 20% mandatory - new greenfields and brownfields
Risks	Enabling provisions may be used to help housing developments in areas of marginal land to "get over the line" (e.g. areas with environmental constraints)	The capacity of council to manage administration of any IZ policy; the willingness and capacity of households to purchase affordable homes with associated restrictions; and/or the financial capacity of the Community Housing Sector to purchase retained, affordable homes	As with the 5% option, the capacity of the Community Housing Sector to absorb a larger number of units, and the extent to which private households may entertain mixed tenure arrangements	Risk that many brownfield redevelopments will become uneconomic. Greenfields developments in lower value areas may become marginal unless raw land prices drop to reflect additional costs. Community housing sector is not of sufficient size/capacity to absorb the level of product expected.

In summary, a rate between 5 and 10% is likely to balance risks and returns. A 20% rate for retained affordable housing is too large, while below 5%, the return is not worth the effort. 7% represents a reasonable mid point if 15% is taken to the upper limit for feasibility of development in lower value greenfields and brownfields developments. A 7% requirement is likely to generate around 300 to 350 retained affordable units per year.

5.4 Objectives and Policies

Any IZ policy in the Unitary Plan (in conjunction with policies relating to increased land supply) should be aimed at making sure that the housing issues faced by the intermediate housing market do not increase, and if anything future households in this market have more choices than current.

In doing so, an IZ policy should also explicitly focus on ensuring that all neighbourhoods contain a mix of housing.

The March draft UP did not contain any direct reference to affordable housing. The only reference to affordable housing in current RMA plans is in the Auckland Regional Policy Statement (ARPS). The operative ARPS refers to housing affordability in the issues section, but not directly in any objective or policy. The reference in the ARPS is as follows:

> *There has also been a shift in housing trends. These include falling home ownership rates, increasing housing costs, the reduction through sale of much of the state housing stock, and increased demand for both social and affordable housing. While the return to income related rents for state housing tenants has assisted some households, the growth in waiting lists for state-owned housing provides ample evidence that many Auckland households face constraints on their ability to purchase adequate housing.*

5.4.1 Objective

The following objective could be included in the notified version of the Unitary Plan

1. <u>All neighbourhoods contain quality, affordable homes that help meet the needs of current and future low to moderate income households</u>

This objective would sit within the Regional Policy Statement layer of the Plan.

Part 2 (section 5) of the RMA requires an overall broad judgement to made as to how best to provide for people's economic and social well being while managing adverse effects on the environment and taking into account the needs of future generations.

There is a clear need to enable more housing that is affordable to both current and future low to moderate income households. People's and community's economic and social well is being disabled due to high house prices, brought about in part by current land use policies.

There is growing recognition that good quality, affordable housing is an essential component of strong communities. The health effects of poor housing are the most obvious. If people are forced into poor quality or overcrowded housing this is likely to have a negative impact on mental and physical health. However there is also growing evidence that there is a relationship between housing and a wide range of other social issues including learning deficiencies, crime, unemployment and family stability.

At a regional planning level, concentrating lower income housing in one or two parts of the city creates issues in terms of transport and access to employment, services and amenities.

It is therefore appropriate to have an objective that seeks to reduce these adverse effects.

The main question is how to achieve the objective and the balance between providing more land and development opportunities to supply more housing overall versus active intervention to increase the supply of affordable housing.

5.4.2 Policies

Policies to achieve the objective sit alongside and work in with policies in the Unitary Plan to enable an increased supply of greenfields land and more redevelopment opportunities in brownfields areas

Proposed policies that are relevant the above objective could be as follows:

RPS-level

1. *Encourage residential development to provide a range of dwelling types and sizes that help meet the housing needs of households on low to moderate incomes, including social housing and lower cost, market rate housing.*

2. *Require new large-scale residential development with the RUB and encourage all other development to provide a proportion of dwellings that are affordable for households that are part of the intermediate housing market.*

General Provisions

1. *Require a proportion of new dwellings to be retained affordable housing in new large-scale residential subdivision or development within the RUB.*

2. *Provide for retained affordable housing that is similar in external design to market rate housing within the development and that is located throughout the development in areas accessible to public transport and local services.*

These policies set out the main planks of the IZ policy and actions that will increase land supply.

6 Conclusion

Feedback on the March 2013 Addendum has been both positive and negative. Positive comments focus on the benefits of an IZ policy to social and economic wellbeing, while negative comments focus on the risks of an IZ policy to development and the housing market overall.

Government policy is to increase land supply to restrain house price increases. Such a policy is needed to ensure that the housing market better responds to increases in demand, but it is unlikely that supply will expand sufficient to substantial increase housing options for low to moderate income households.

Analysis of recapture of land value uplift from rezoning of land suggests that this will not generate significant funds, while it is strongly opposed by many landowners. Government has also signalled a desire to contain the nature and scope of development contributions and is also seeking to restrain the growth of local body rates. In this environment, the ability for communities to directly invest in affordable housing is limited due to growing constraints on funding. Nevertheless, Auckland Council is looking at how it can use some of its own resources, like land holdings, to promote affordable housing outcomes.

The RMA / planning process has a role to play in meeting housing and related social and economic wellbeing outcomes. This is in terms of increasing land supply, but also in recognition that zoning creates costs. Land supply increases will not be even across the city or region. Neither will changes to supply be quick. Zoning creates benefits for society overall from reduced environmental impacts and fewer externalities. As a result of these benefits, land and house prices rise. However these benefits result in costs for lower income households who face restricted housing choices.

Desk top modelling of the effect of the March 2013 UP Addendum's IZ proposals for greenfields areas suggest that a mandatory requirement, given current land prices, development costs and returns from sale of dwelling units, will not distort the market. Development remains feasible in both medium and high priced areas under a modest IZ policy. However the analysis does show that development feasibility is very sensitive to additional uncertainties, risks and time delays.

For brownfields areas, the bonuses set out in the Addendum are an attractive package for developers, but the take up of them is dependent upon the developer. By their nature, being limited to only part of the urban area and contained in their extent, the bonuses will not deliver a large number of units. The general feedback on the Unitary Plan has revelled wide spread concern about extra height and density within neighbourhoods.

The alternative of a mandatory requirement in brownfields areas sees development remain feasible for some areas and types of development. In higher value areas, under a significant IZ policy development remains feasible, while in medium value areas, some development becomes less feasible, especially if account is taken of additional risk and uncertainty.

In both cases, an important issue is the extent to which there will be willing buyers for the units created. Retained, affordable units are not common in New Zealand. The most effective buyer of units from the point of view of a developer and the council is likely to the not-for profit, Community Housing Sector. This sector is growing, but is not large.

Any IZ policy should be staged in its implementation. In other words any IZ requirement / incentive should start at a modest level so as to allow for the Community Housing Sector to grow, the development sector to become accustomed to the policy and the for the Council to build up the in-house capability to successfully administer the policy.

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Appendix One: Rationale for planning-based affordable housing provision.

Nicole Gurran & Christine Whitehead (2011): Planning and Affordable Housing in Australia and the UK: A Comparative Perspective, Housing Studies, 26:7-8, 1193-1214

"Planning is a form of intervention in the private market, with the goal of more efficient, equitable and socially beneficial patterns of development. Intervention occurs through the articulation of strategic spatial policy (often expressed through land use plans); mechanisms for land and infrastructure co-ordination and procurement (often obligations on developers to contribute to the costs of infrastructure provision); and codified processes for managing urban change (building regulations and permit requirements). Such intervention inherently constrains private decisions and generates higher prices where the constraint bites, especially if values are increased by higher quality urban outcomes, stimulating even greater demand (Monk & Whitehead, 1999). More generally, less land will be available for activities that generate negative externalities, resulting in higher market prices, while more land will be available for other uses including those which generate social benefit. However, these external benefits cannot be realised without additional intervention because, by assumption, they offer inadequate market return.

In the efficient market model there will be land price differentials arising from regulations imposed to control negative externalities (for example, to constrain sprawl), and from regulations designed to generate positive enhancement (for example, aesthetic controls or permission to achieve higher density). Such gains can, at least in principle, be harnessed through land taxation or through development charges to pay for affordable housing.

There are strong pressures to over-constrain the provision of housing land in order to preserve the interests of existing owners. There are also physical constraints associated with achieving new supply in high demand (generally already built up) locations. In these cases there is additional economic rent associated with all housing land and it is possible to tax that economic rent either directly or through planning requirements including the provision of affordable housing".

Appendix Two: Summary of Feedback Prepared by Auckland Council

Addendum to the draft Auckland Unitary Plan – Part II Additional Tools for Enabling Affordable Neighbourhoods

Submissions Summary - 26 July 2013

Key Statistics to date

	# Comments
Comments received for Part II as of 20.07.13	576
Comments supporting shared land value uplift	22
Comments opposing shared land value uplift	260
Comments supporting inclusionary zoning	91
Comments opposing inclusionary zoning	39

Identified key issues

1. Inclusionary zoning

Some strong support for inclusionary zoning, many submitters suggesting between 20-25% of developments of 10 or more units be maintained for affordable housing. There was an emphasis on the importance of quality affordable housing and ensuring quality-related safeguards are in place if inclusionary zoning is adopted. Criticism regarding inclusionary zoning included:

- Associated extra costs may be transferred to the home owners paying market rate
- Speculation whether IZ would work in practice under the RMA framework.
- Imposing a blanket IZ rule across Auckland has the potential to undermine a development's feasibility relative to its location and social economics in the wider area.
- The affordable housing quota should be available to qualified New Zealanders at a lower lending interest rate (not a lower value).
- Complicating the resource consent process
- Concerns over the capability of the third sector

Proposed amendments:

- NZ Housing Foundation - Appendix B of the Addendum (inclusionary zoning) should be incorporated into the Unitary Plan, subject to the following changes:
  - Appendix B section 103 should be amended to also apply to the City Centre Zone.
  - Appendix B section 104 should be amended to also enable bonuses for additional height.

- Appendix B Section 105 should be amended to require that affordable housing is “tenure blind”.
- NZ Property Council – If Inclusionary zoning is adopted the Property Council proposes that:
  - IZ is limited to specific areas where affordability can be realised through the entire development process.
  - There is a specific end date attached to the policy.
- Housing New Zealand – Suggests an incentive-based approach (rather than a mandatory) be investigated where new housing supply is encouraged through targeted incentives such as bonuses, waivers or fast track permitting.

2. Shared land value uplift

Strong opposition to shared land value uplift from around 250 submitters. Key criticisms of this option included:

- No mechanism for a decrease in value or a decrease subsidy
- Unfairly targeting rural communities
- A lack of comprehensive details and clarity
- Complaints of ‘double dipping’ as council will already benefit from an increase in rates and development contributions
- It will interfere and add extra cost to the housing/development market
- Counterproductive to affordable housing as developers are likely to factor the extra cost into overall selling prices.
- Complicating the resource consent process
- It will result in equity between those who have been traditionally allowed to profit from rezoning and those who are no longer able to, effectively preventing individuals from profiting from their own investment decisions.
- Rezoning of land can detrimentally affect local residents in terms of amenity by changing the nature of the environment they live in - any increase in land value is one way of compensating them for this.

Proposed amendments:

- Shared land value uplift should only apply to landowners that intend to utilise the zoning change
- Provide compensation for owners of properties that lose value as a result of zoning changes.

3. A greater recognition of housing affordability required

Many stakeholders submitted that the Unitary Plan has not gone far enough to address Auckland’s affordable housing crisis. Submitters encouraged council to recognise affordable housing in the Regional Policy Statement (RPS).

Proposed amendments:

- The RPS to include its own set of objectives and policy on housing affordability. This would encourage the development of smaller houses on small lots
- Remove density controls, not just for five or more dwellings.
- Beacon Pathways Ltd :

- Section 2.2.1 *Providing for growth in a quality urban form* to include an objective to increase the supply of affordable housing (both rental and home ownership. Affordability must reference not just the upfront costs, but affordability in terms of ongoing living costs such as transportation and housing designed to reduce running costs.
- Section 2.2.3 *Supply of urban land policies 1, 2 and 7* be amended to refer to ensuring a range of supply in terms of housing price points and in relation to relative affordability.
- Section 2.2.2 *A quality built environment, policy 5* should also refer to affordability as an aspect of choice. Choice must be more clearly defined and include maximum choice within neighbourhoods, not just at a regional scale.

4. Strong support for Affordable Housing

A majority of comments supported more Affordable Housing in general and submitters suggested a range of tools and mechanisms to enable this. Listed below are the most common recommendations:

- Intensification, especially in central areas and near tertiary institutions
- Mixed and diverse housing
- More social housing
- Council developing on ACPL land
- Focusing on apartment building in key areas or zones where the prices would be affordable
- Reducing barriers including unnecessary regulations and policies
- Preventing overseas investment in housing
- Shared equity schemes
- Transferable Development Rights

Please note that most of the alternative affordable housing tools recommended by submitters are being pursued or investigated through the Housing Action Plan.

Summary of key stakeholders

New Zealand Housing Foundation

Fletcher Building Limited (FLR)

Property Council New Zealand Corporation

Housing New Zealand

Community of Refuge Trust

Beacon Pathways Ltd

Tamaki Redevelopment Company (TRC)

New Zealand Planning Institute

6.1 New Zealand Housing Foundation

The New Zealand Housing Foundation supports the implementation of Shared Land Value Uplift and Inclusionary Zoning. The Foundation proposes the following amendments to the Unitary Plan:

- The Regional Policy Statement and the lower hierarchy objectives and policies of the Unitary Plan are amended to recognise and provide for retained affordable housing.
- The Housing Action Plan should be embedded in the Unitary Plan
- That shared land value uplift and inclusionary zoning be incorporated into the Unitary Plan. Further, Appendix B of the Addendum (inclusionary zoning) should be incorporated into the Unitary Plan, subject to the following changes:
    - Appendix B section 103 amended to also apply to the City Centre Zone.
    - Appendix B section 104 amended to also enable bonuses for additional height.
    - Appendix B Section 105 amended to require that affordable housing is "tenure blind".
- That the potential for the use of TDR's (Transferable Development Rights) for affordable housing is considered and incorporated into the proposed Unitary Plan.
- The "gap" between permitted development and any development bonus needs to be widened to provide greater economic incentives for developers to incorporate affordable housing into a development.

6.2 Fletcher Building Limited (FLR)

Fletcher Building strongly opposes Shared Land Value Uplift and Inclusionary Zoning. The company have concerns that the transfer of practices from large overseas economies is not relevant in a NZ context.

Fletcher Building's Key Criticisms of Inclusionary Zoning:

- IZ will create significant barriers for the development industry increasing transactional costs through the consenting process leading to consenting delays.

- Concerns over the provision of privileged business information to Council and the need to secure compliance of the affordable housing product by way of consent notice. These factors create significant risk and uncertainty in the branding and marketability of the FRL product.

- FRL questions the capability of the "third sector" to respond in volume and quality to the newly established affordable housing market.

- The proposed options in the addendum complicate the resource consent process. FRL notes that the potential for a large scale subdivision or development to be resource consent efficient is an important consideration in reducing transactional costs, risks and delay, factors which add to the housing cost.

6.3 Property Council New Zealand Corporation

Property Council NZ does not support the value uplift proposal. Their key criticisms include:

- It is a late, heavy handed intervention, after years of unwillingness to respond to Auckland's growing population.
- It will interfere with effective functioning of the market, and its implications for addressing housing affordability are uncertain.
- The proposal will result in inequity between those who have been traditionally allowed to profit from rezoning and those that are no longer able to – it prevents individuals from profiting from their investment decisions.
- Rezoning can detrimentally affect the local community in terms of environment and amenities – an increase in value is one way of compensating them for this
- It allows the council to double dip
- It is unlikely to provide a predictable, steady income for the Council, due to fluctuating market conditions and political intentions.

While the Property Council is opposed to IZ in principle, they do consider a case might be made for IZ if it is limited to specific geographical areas and a number of factors and conditions are properly worked through. For example:

- The requirement should be limited in breadth and time, purely to help alleviate the housing crisis and only apply to particular areas/developments. There should be an end date to the policy/rule.
- Effective incentivisation and compensation for developers is imperative. Developers should not have to subsidise affordable housing.
- Further research and investigation will be required to ensure people would be willing to buy a home that is restricted in its resale.

6.4 Housing New Zealand

Housing New Zealand believes that Shared land value uplift should be considered in the context of a wider review of infrastructure funding and development contributions. Given that this method requires legislative changes Housing NZ argue that such a consideration is taken in a wider national context.

Housing NZ agree that the IZ approach may have some merit. They do however suggest that the proposal be investigated as incentive based tools rather than a prescriptive (mandatory) one. Housing NZ believe new housing supply could be encouraged through targeted incentives such as bonuses, design flexibility, fee waivers, reductions or deferrals or fast tracking permitting. They argue this approach could be applied in both greenfield and brownfield areas. It should be noted that Housing NZ would not support a prescriptive policy.

6.5 Community of Refuge Trust

The Community Refuge Trust strongly supports inclusionary zoning. They advocate for incentives that include bonuses development provisions and reduced capital development contributions.

To ensure the affordable housing dividend is retained, Community of Refuge Trust suggests that the provisions are in support of long-term social and community providers.

The Trust also supports the introduction of shared land value uplift.

6.6 Beacon Pathways Ltd

Beacon Pathways supports the investigation of Inclusionary Zoning. Beacon also supports the concept of value capture through a betterment levy and/or targeted rate on properties over an agreed value to fund infrastructure or affordable housing. Further, they propose that Auckland Council look to successful models of US Asia Pacific Rim where cities have developed effective funding mechanisms through proposed value capture.

Beacon emphasises the need to recognising affordable housing in UP policies. The argue that without high level objectives relating to housing affordability, subsequent policies relating to housing choice and diversity will not have any direction relating to cost and affordability. Beacon Pathways Ltd recommends housing affordability be strengthened through:

- Section 2.2.1 *Providing for growth in a quality urban form* to include an objective to increase the supply of affordable housing (both rental and home ownership. Affordability must reference not just the upfront costs, but affordability in terms of ongoing living costs such as transportation and housing designed to reduce running costs.
- Section 2.2.3 *Supply of urban land policies 1, 2 and 7* be amended to refer to ensuring a range of supply in terms of housing price points and in relation to relative affordability.
- Section 2.2.2 *A quality built environment, policy 5* should also refer to affordability as an aspect of choice. Choice must be more clearly defined and include maximum choice within neighbourhoods, not just at a regional scale.

6.7 Tamaki Redevelopment Company (TRC)

Tamaki Redevelopment Company supports the adoption of tools to enable affordable neighbourhoods in Auckland. TRC have made it clear that they prefer the inclusionary zoning option.

TRC requests that there are sufficient incentives in undertaking a percentage of affordable housing. These incentives may include tools which increase certainty and reduce time through a streamlined consenting process' relief in contributions; bonus Floor area ration (FAR) and bonus lot provisions.

6.8 New Zealand Planning Institute

NZPI members support Council's consideration of inclusionary zoning as a possible tool to assist with enabling affordable housing, as has been used in London for example. However NZPI also emphasise that this tool requires further investigation and relies on government support and regulation.

Appendix Three: Assessment of Size of Intermediate Housing Market - Auckland Council, 2013

Key Model Assumptions & Summary Results (latest economic and capacity assumptions 2013)

Key Assumptions	Economic Activity		Gross Hhld Incomes		Rental Growth Rates		Additional Hhld Stress		Home Ownership Rate	
	Default	**Revised**	**Default**	**Revised**	**Default**	**Revised**	**Default**	**Revised**	**Default**	**Revised**
Jun 09 to Jun 11	3.0%	1.00%	3.0%	3.40%	2.5%	0.99%	0%		0%	
Jun 11 to Jun 16	4.0%	3.16%	3.0%	2.88%	2.5%	1.01%	0%		0%	
Jun 16 to Jun 21	3.5%	2.45%	3.0%	2.88%	2.5%	1.01%	0%		0%	
Jun 21 to Jun 26	3.5%	2.28%	3.0%	2.88%	2.5%	1.01%	0%		0%	

Banking Assumptions Year	Mortgage Interest Rate		Minimum Deposit		Term yrs		Max Hsg Costs as % Hhld Inc	
	Default	**Revised**	**Default**	**Revised**	**Default**	**Revised**	**Default**	**Revised**
2011	8.50%	7.63%	10.0%		25		30%	
2016	7.60%	6.68%	10.0%		25		30%	
2021	7.60%	7.63%	10.0%		25		30%	
2026	7.60%	7.63%	10.0%		25		30%	

Population Projections	Natural Population Increase		Migration Gain		Pop Growth (inc Migration)		Total Population	
	Default	**Revised**	**Default**	**Revised**	**Default**	**Revised**	**Default**	**Revised**
2006							1,361,050	1,361,050
2011	71,440	76,800	40,000	35,500	111,440	112,300	1,472,490	1,473,350
2016	73,150	75,900	40,000	30,000	113,150	105,900	1,585,640	1,579,250
2021	72,340	80,200	40,000	45,000	112,340	125,200	1,697,980	1,704,450
2026	70,780	82,000	40,000	45,000	110,780	127,000	1,808,760	1,831,450

Development Activity

Capacity Assumptions Switch

DTZ	1	**Enter Code**	**3**
ARC	2		
HG & MEL	3		

HMA	Total Capacity	Additional Capacity 2006 to 2011	2011 to 2021	2021 to 2026	Total Revised 2026
Data Set	**HG & MEL**				
Effective Date	**2008**				
Rural North	19,787	10,039			29,826
Rodney - Southern Coastal	6,088	2,125			8,213
North Shore	25,233	-4,739			20,494
Waitakere	24,594	7,901			32,495
Auckland CBD	14,981	18,654			33,635
Auckland North East	9,347	1,283			10,630
Auckland North West	14,391	-4,576			9,815
Auckland South East	7,619	2,963			10,582
Auckland South West	7,183	4,468			11,651
Manukau North	16,110	1,033			17,143
Manukau North West	11,631	9,840			21,471
Manurewa & Papakura	7,916	7,093			15,009
Pukekohe	2,663	-3,207			-544
Rural South	2,233	9,974			12,207
Total 14 HMAs	169,776	62,850	0	0	232,626

Implied Employment Growth

Time Period	Emp Growth (pa)	Growth in Employed (pa)
Jun 09-Jun 11	0.86%	5,540
Jun 11-Jun 16	2.71%	18,650
Jun 16-Jun 21	2.10%	16,380
Jun 21-Jun 26	1.95%	16,830

Key Summary Results

Table 1: Total Demand (Number of Households)

	Number of Households					Growth 06 to 26		
	2006	2011	2016	2021	2026	Number	% Chge	% pa
Owner Occupiers	280,700	293,500	309,380	332,390	358,150	77,450	26%	1.2%
Renters	151,200	175,310	200,370	225,810	249,890	98,690	63%	2.5%
Total Demand	431,890	468,820	509,770	558,180	608,030	176,140	39%	1.7%
					176,140			

Table 2: Development Capacity

	Total	2006 to 2011		2011 to 2016		2016 to 2021		2021 to 2026	
	Capacity 2006	Demand	Remaining Capacity	Demand	Remaining Capacity	Demand	Remaining Capacity	Demand	Remaining Capacity
Total 14 HMAs	169,776	36,930	195,696	40,950	154,746	48,410	106,336	49,850	56,486

Table 3: House Price Growth (% pa)

	Northern HMAs		Southern HMAs	
	Annual	Total	Annual	Total
Jun 09 to Jun 11	-1.3%	-2.5%	-1.0%	-2.0%
Jun 11 to Jun 16	3.7%	19.8%	2.3%	11.8%
Jun 16 to Jun 21	5.8%	32.5%	4.5%	24.6%
Jun 21 to Jun 26	4.7%	25.6%	4.3%	23.4%

Table 4: Intermediate Market

	1996	2001	2006	2009	2011	2016	2021	2026
No of Hhlds	36,720	39,700	84,600	76,990	81,140	86,490	117,720	133,670
As a % of Renters	61%	43%	76%	63%	46%	43%	52%	53%

Table 5: Total Need

	2009	2011	2016	2021	2026	09 to 11	11 to 16	16 to 21	21 to 26
Financially Stressed	65,550	68,100	77,200	86,760	95,880	2,550	9,100	9,560	9,120
Other Need	32,950	33,890	37,780	41,760	45,370	940	3,890	3,980	3,610
Total Need	98,500	102,000	115,010	128,500	141,250	3,500	13,010	13,490	12,750