

## 2.21 Affordable housing - Section 32 evaluation for the Proposed Auckland Unitary Plan

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## 1 Overview and Purpose

This evaluation provides a summary analysis, in accordance with Section 32 of the RMA, of the retained affordable housing provisions of the Unitary Plan.

This report is an updated version of the report made available on the 22 August 2013, taking into account decisions made by the Council at the 28 August 2013 Auckland Plan Committee meeting that considered the draft Unitary Plan.

### 1.1 Subject Matter of this Section

The retained affordable housing provisions introduce inclusionary zoning (IZ). Inclusionary zoning requires that a percentage of new homes in housing subdivisions and developments are affordable, and be retained as affordable for future generations.

Retained, affordable housing is defined as housing that can be accessed by households on low to moderate incomes who have insufficient income to purchase a market rate house, but who are not eligible to access social housing. Affordable housing can include a wide range of products such as shared ownership, shared equity, as well as controls on rental/capital growth that ensure that the units remains affordable into the long term.

The retained affordable housing requirements of the Unitary Plan are found in three areas of the plan:

1. Part 1 Chapter B Regional Policy Statement-level objectives and policies under section 2.4 "Neighbourhoods That Retain Affordable Housing"
2. Part 2 Chapter C Auckland wide objectives and policies (section 7.8) and Part 3 Chapter H Auckland wide rules (section 6.6) which set out the requirements for retained affordable housing in RUB (greenfield) housing areas and for residential developments within the current urban area (brownfields areas).

The retained, affordable housing requirements sit alongside and work in with other policies of the plan that seek to ensure adequate supply of land (in particular the urban growth section of Chapter B).

### 1.2 Resource Management Issue to be Addressed

The most relevant Unitary Plan issue related to housing affordability is Part 1 Chapter B 1.1 Enabling Quality Urban Growth, which is as follows:

*Our growing population increases demand for housing, employment, business, infrastructure, and services. This means we must manage our growth in a way that:*

- *enhances quality of life for individuals and communities*
- *optimises the efficient use of our existing urban area*
- *optimises the efficient use of existing and new infrastructure*
- *maintains and enhances the quality of our environment, both natural and built*
- *maintains Māori communities, culture and values.*

Housing as a resource is fundamental to quality of life, while where and how housing is provided influences the efficiency of urban areas. A lack of affordable housing has the following resource management-related outcomes:

- some household's economic and social wellbeing are "disabled" rather than enabled - households who have restricted access to housing face fewer choices than other households, often leading to overcrowding and constant shifting between rental units,

- high housing costs lead to calls for higher wages and/or potentially a smaller pool of lower income workers in the labour force if these costs see people shift from Auckland to lower cost areas. This reduces the efficiency of the business sector and reduces economic wellbeing.
- concentrations of lower cost / lower income neighbourhoods in particular areas of the city can increase demand for inefficient public transport services (for example to serve hard to get to areas separated from employment areas) and increased demands for additional public services like community facilities to overcome issues of disadvantage.

### 1.3 Significance of this Subject

Affordable housing is a significant issue for the region, both in political and community terms, as well as in terms of economic growth and efficiency. It has come to the fore over the past 10 years as a major issue for central and local government to address.

Central government has identified affordable housing as a key issue and a range of reports and analysis has been undertaken on causes and possible solutions, with the most recent being the Productivity Commission's 2012 report<sup>1</sup>. Currently, government's programme of actions includes<sup>2</sup>:

1. the supply of land,
2. the role of regulation,
3. the provision of infrastructure,
4. the cost of building materials and
5. productivity in the construction sector.

For the Auckland Region, the growing unaffordability of housing is a regular feature in local media and an issue often raised in community consultation processes. In response, the council has developed a Housing Action Plan.

Long term, if left unresolved, the increasing cost of housing relative to incomes will result in significant effects on regional economic and social well being and impaired urban efficiency.

### 1.4 Auckland Plan

The Auckland Plan has a section on housing<sup>3</sup>. The growing unaffordability of housing is noted as an important issue for the region and a variety of actions are set out, including development of council-owned land, partnerships with government and the community housing sector, as well as consideration of regulatory actions that seek to:

- lower development costs
- increase the supply of development opportunities

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<sup>1</sup> New Zealand Productivity Commission (2012) *Housing Affordability Inquiry*. New Zealand Productivity Commission

<sup>2</sup> sourced from on 29 August 2012:  
[http://beehive.govt.nz/sites/all/files/Housing\\_affordability\\_responses\\_by\\_recommendation.pdf](http://beehive.govt.nz/sites/all/files/Housing_affordability_responses_by_recommendation.pdf).

<sup>3</sup> Chapter 11

- ensure a mix of housing types (including in terms of affordability).

The Auckland Plan established that up to 28% of households in the region spend more than 30% of their gross income on housing<sup>4</sup>. The 30% of income figure is generally taken as a benchmark as to when housing costs start to become unaffordable.

This overall figure contains a number of sub markets, including:

- social housing - normally rental units where the rents are substantially below market rates, providing accommodation for households that have very low incomes and/or are substantially disadvantaged . Typically this involves Housing New Zealand, but also involves a number of social housing providers. It can include temporary and emergency shelter.
- lower cost market rate housing - housing that is offered for sale on the open market without any form of subsidy or direct public assistance and which may be affordable to households with moderate incomes, provided they are prepared to spend a high proportion of their income on housing. This can involve housing that is below median house prices due to its age, location, size and/or design.
- households that rent who face high rental costs but have insufficient income to accumulate a deposit and/or service a mortgage.

An action from the Auckland Plan was for the council to develop a Housing Action Plan. This Plan was completed in December 2012.

### **1.5 Current Objectives, Policies, Rules and Methods**

The Operative Auckland Regional Policy Statement is the only current RMA plan in the region that mentions affordable housing, and then only in the resource management issues section<sup>5</sup>. There is no explicit RMA Issue associated with affordable housing, nor are there any objectives and policies. The growing lack of affordable housing is simply noted in the range of pressures being faced by the regional housing market.

The lack of direct reference to affordable housing reflects previous plans' focus on enabling housing supply within controls on amenity and protection of the natural environment.

### **1.6 Information and Analysis**

The IZ policies in the Unitary Plan build on the Auckland Plan and the associated Housing Action Plan.

One of the actions of the Housing Action Plan under priority area 6 was:

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

This action was accompanied by an alternative action - to investigate the potential for the council to "tax" part of the land value uplift associated with land use changes (such as rezoning from rural to urban). The proceeds from this tax could be used to fund affordable housing.

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<sup>4</sup> See para 637 of the Auckland Plan.

<sup>5</sup> Chapter 2: Regional Overview and Strategic Direction: page 3

The March 2013 Addendum to the draft Unitary Plan set out a possible IZ policy. This was based on a mandatory approach for future greenfields developments and a bonus-based approach for areas of urban redevelopment.

Since March 2013, the following actions have occurred:

- Feedback on the Addendum has been received
- Analysis has been undertaken on the extent of land value uplift in greenfields areas
- Testing of IZ in greenfields and brownfields situations has been completed
- Further amendments have been made to the draft IZ provisions.

Further details are set out below in 5.1.

### **1.7 Consultation Undertaken**

Development of the Housing Action Plan involved a number of workshops and meetings with housing industry representatives where IZ was discussed. A number of workshops were also held with councillors who subsequently approved the action plan.

The draft proposals set out in the Addendum received considerable feedback:

- feedback supporting inclusionary zoning 93
- feedback opposing inclusionary zoning 41

See Section 4.2 for further details.

### **1.8 Decision-Making**

The proposal to draft an IZ policy was endorsed by the Unitary Plan political working party in February 2013.

Subsequently the Addendum content was approved as part of the overall approval to release the March 2013 draft Unitary Plan for informal feedback.

In August 2013, a political working party endorsed the mandatory IZ requirement for greenfields areas but suggested an alternative approach be taken to brownfields, based on concerns that the bonus-based approach advanced in the Addendum enabled too much additional development (and associated impacts on amenity particularly because of height) in areas of intensive development.

At the August 2013 Auckland Plan Committee meeting that considered the draft Unitary Plan, councillors voted to proceed with a 10% mandatory IZ requirement across all types of larger housing developments.

### **1.9 Proposed Provisions**

The proposed provisions are new provisions. There are no equivalent provisions in any of the former legacy District Plans.

The proposed objectives, policies and rules require that all new greenfields and brownfields housing developments of 15 or more lots or units include within them at least 10% of new lots/homes at a price that is affordable to households on 80 to 120% of median regional household incomes. In effect, based on 2013 median incomes, this means that 10% of new houses need to be sold in the price range of \$325,000 to \$400,000. Where lots only are

sold, then the price of these lots cannot preclude an affordable dwelling being subsequently constructed.

The 10% requirement does not apply to developments solely providing social housing, for example by Housing New Zealand or the community housing sector.

An affordable housing needs assessment must be prepared which sets how and where this requirement will be delivered.

The provisions set out a range of matters to be complied with including:

- design, location of units
- eligibility criteria
- retention mechanisms.

Scope is provided to increase the affordable house price where dwellings are highly energy efficient and located close to public transport.

Provision of the retained affordable homes within the development site is preferred, although in some circumstances off-site provision may be more appropriate and could involve an agreement with a recognised community housing provider that they will deliver the housing elsewhere.

#### **1.10 Reference to other Evaluations**

This section 32 report should be read in conjunction with the following evaluations:

- 2.1 Urban form and land supply
- 2.2 Rural urban boundary location
- 2.3 Residential zones
- 2.16 Maori land
- 2.20 Conversion of dwellings
- 2.22 Future Urban zone
- 2.23 Greenfield urban precincts
- 2.46 City Centre precincts

## **2 Objectives, Policies and Rules**

### **2.1 Objective**

The following objective is proposed in Part 1 Chapter B - section 2.4:

- 1. Neighbourhoods contain quality homes that help meet the housing needs of current and future, low to moderate income households.*

In addition to this objective, a further objective is proposed in Part 2 Chapter C Auckland wide objectives and policies (section 7.8), as follows:

- 1. The proportion of dwellings that are affordable to households in the intermediate housing market is increased across Auckland.*

This objective starts to focus the scope of intervention to a particular part of the housing sector that is facing high housing costs, as discussed below.

*Appropriateness of the Objective(s)*

Part 2 (section 5) of the RMA requires an overall broad judgement to be 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.

In making this judgement, there is scope for objectives, policies and rules that counterbalance the "downside" of other rules, provided that such counterbalancing rules result in an overall net improvement to sustainable management.

In the case of housing, a range of Unitary Plan provisions relating to the protection of the natural environment, amenity, infrastructure and regional growth combine to limit the extent to which the region's housing market can respond to changes in demand. While these constraints overall benefit the existing community's wellbeing (as a range of negative externalities are addressed), the inherent "friction" created by them generates costs that are borne by particular sectors of the community, in this case households on low to moderate incomes who face restricted housing choices. In particular future low to moderate income households face restricted choices.

There is a clear need to enable more housing that is affordable to both current and future low to moderate income households. 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 then this is likely to have a negative impact on mental and physical health. There is also growing evidence that there is a relationship between poor housing outcomes 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. High housing costs can retard economic growth.

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

The objective under the Auckland wide provisions narrows the focus of intervention to the intermediate housing market. The intermediate housing market refers to households who have a total income above the threshold that entitles them to access to social housing, but who cannot purchase market rate housing without spending a large proportion of their income.

As of 2013, the intermediate housing market is estimated to be 17% of all households in the Auckland Region<sup>6</sup>. In simple terms these households usually have incomes that are between 80 and 120% of regional median household incomes<sup>7</sup>. Incomes at this level usually involve at least one member of the household in paid employment.

The priority given to the intermediate housing market recognises and complements the role central government plays in the provision of social housing and the broader objective of the Unitary Plan to increase the supply of housing and neighbourhoods that provide a wider range of market rate homes.

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<sup>6</sup> Based on analysis supplied by Council's RIMU team. See Appendix Three to the report "D Mead, Affordable Housing and the Auckland Unitary Plan, 2nd background report, Hill Young Cooper, July 2013", attached as Attachment Five to this report.

<sup>7</sup> See page 28-29 of Attachment Five for a discussion of incomes relative to house prices.

In considering whether this second, more directive objective is appropriate under the RMA, 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 for low to moderate income households. In other words, the appropriateness of the objective depends upon the costs and benefits of the associated actions.

### **2.1.1 Policies**

Policies in the Unitary Plan to achieve the above objectives complement policies to enable an increased supply of greenfields land and greater redevelopment opportunities in brownfields areas.

These policies are in turn a sub set of a wider set of non-regulatory policies and actions set out in the Housing Action Plan. These non-regulatory methods include involvement of council in property development, advocacy, lowering development costs and supporting the community housing sector.

Policies in the Unitary Plan that are relevant to the above objectives are as follows:

Part 1 Chapter B section 2.4 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.*

Part 2 Chapter C Auckland wide objectives and policies section 7.8:

- 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.*

### **Efficiency and Effectiveness of Policies**

There are three main RMA-based options open to council in terms of policy directions to make housing more affordable. The options are:

- Relying upon increased land supply
- Voluntary bonus-based IZ approach
- Mandatory IZ approach.

The March 2013 Addendum proposed a hybrid approach, with a mandatory approach in greenfields and a bonus-based approach in brownfields.

The following section briefly reviews the main issues associated with the three main options.

#### *Land supply*

While increasing land supply to reduce house prices has been the focus of much debate, there is little analysis as to the extent to which land supply needs to be increased to bring down house prices sufficient to meet the needs of low to moderate income households.

Analysis by central government (such as the 2013 report on land supply in the Auckland Region<sup>8</sup>) noted that urban redevelopment offered the best means by which lower cost housing could be provided. Feedback on the draft Unitary Plan has demonstrated considerable resistance from existing communities to accommodate more housing in existing neighbourhoods<sup>9</sup>. Proposals for more intensive housing put forward in the March 2013 draft of the Unitary Plan have been scaled back. Generally, because of this resistance, additional supply is less than expected demand. This will mean that land prices will continue to rise in the existing urban area.

The 2013 Ministry of Business, Innovation and Employment's analysis of land supply in the Auckland Region noted that perhaps 60,000 dwellings could be accommodated without major up zonings. As of August 2013, there is no detailed estimate of development capacity of the existing urban area, under the proposed Unitary Plan's provisions to update this estimate. The 20 year demand for housing within the existing urban area is assumed to be at least 100,000 dwellings, being 50% of the growth anticipated between 2011 and 2031 by Statistics New Zealand's under its medium growth projection<sup>10</sup>.

A further factor that may affect land prices in the urban area is that the location of demand for more intensive housing types may not match the location of the additional supply under the Unitary Plan zonings. This may mean that prices "spike" in areas of high demand but limited supply.

In greenfields situations, there is less opposition from existing communities to urban expansion, but there is a range of infrastructure and environmental constraints to address. These issues will affect the rate at which new urban land can be opened up for development, and as a result the extent to which there will be downward pressure on land prices.

Current developments in more affordable areas on the fringe of Auckland are seeing 3 bedroom homes for sale in the \$450,000 band<sup>11</sup>. 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. This is a considerable reduction on current lower priced sections.

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<sup>8</sup> Ministry of Business, Innovation and Employment (2013) Housing Affordability: Residential Land Available in Auckland. Ministry of Business, Innovation and Employment

<sup>9</sup> Summary of Residential Zones Feedback Report. Sourced on 28 August 2013 from:  
<http://shapeauckland.co.nz/wp-content/uploads/2013/08/Summary-of-Residential-Zones-Feedback-Report.pdf>

<sup>10</sup> Under Statistics medium growth projection, the number of households in the Auckland Region is anticipated to increase from 514,000 in 2011 to 723,000 by 2031. The 50/50 split between growth in the existing urban area and development in greenfields areas and rural areas is representative of growth patterns observed between 2001 and 2011 in the Auckland region and is different to the planned "70/40" split in the Auckland Plan.

<sup>11</sup> See Section 5.1.1, page 2 of Attachment Five to this report.

Due to the above factors that restrict the rate of expansion of supply, this policy option is seen primarily as a way to restrain future land price increases. Overtime, if house prices stabilise and incomes continue to rise, then affordability will improve for those on moderate to high incomes. Even then, major reduction in median prices is unlikely in the existing urban area.

### *IZ and Greenfields*

Professor Murphy and Dr Rehm from the University of Auckland's Business School (Property Department) were commissioned by the council in 2013 to analyse the effect of IZ on development feasibility in greenfields and brownfields areas<sup>12</sup>. This analysis used initial development feasibility tests as typically undertaken by a developer when considering a development project. That is, a desk top feasibility study to decide whether to proceed with a development or not. The final feasibility of a development (i.e. once units are sold) will vary from the initial feasibility.

The research undertaken by Murphy and Rehm shows that in the context of Auckland, a mandatory requirement to provide retained affordable homes is unlikely to make greenfields development unfeasible, given current undeveloped land prices, construction costs and likely house prices. Key outcomes were:

- In medium value areas (i.e. lower land value areas), development remains feasible with up to a 15% IZ requirement.
- In higher values areas, 20% or more IZ requirement is possible.

Figure 1 is from the analysis of greenfields development<sup>13</sup>. Three different developer profit/risk margins are set out (20, 25, 30%) on the left hand side, for each of the high and medium value areas. Across the top is the IZ requirement stepping up from 0%. Two different business models were analysed for each case - subdivision to create lots, or development involving lots plus dwellings.

Figure 1: Greenfields development feasibility

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<sup>12</sup> See Attachments Three and Four

<sup>13</sup> See page 28, Attachment 3.

Submarket	Business Model	Inclusionary Zoning Policy Requirement (% Affordable)										
		None	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Papakura	Sections	Not Viable										
	Houses	Viable				Not Viable						
Upper Harbour	Sections	Viable								Not Viable		
	Houses	Viable					Not Viable					

Development Margin = 20%

Submarket	Business Model	Inclusionary Zoning Policy Requirement (% Affordable)										
		None	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Papakura	Sections	Not Viable										
	Houses	Not Viable										
Upper Harbour	Sections	Viable						Not Viable				
	Houses	Viable				Not Viable						

Development Margin = 25%

Submarket	Business Model	Inclusionary Zoning Policy Requirement (% Affordable)										
		None	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
Papakura	Sections	Not Viable										
	Houses	Not Viable										
Upper Harbour	Sections	Viable						Not Viable				
	Houses	V	Not Viable									

Development Margin = 30%

The different development margins (20 to 30% of construction costs) recognise that developers may perceive the IZ requirement as adding extra risks and uncertainties into the development process.

The analysis highlighted that a "section-only" business model was unlikely to be feasible in the lower value area, even before consideration of IZ. That is, the only development feasible was lots plus dwellings.

While development in the lower value area may remain feasible under the 20% margin / 15% IZ assumption, the IZ requirement does lower the overall revenue for a developer, from the development. The question is whether this reduced revenue is:

- translated into lower raw land values (developers tell owners of development blocks that they have extra costs and therefore have to pay less for raw land),
- developer's accept reduced profits or;
- the reduced revenue is made up by more or higher priced market rate housing (costs are passed forward to future home owners).

If these actions do not occur, then the developer may not proceed with the development. If all costs are past forward, then this may have an effect on housing supply overall.

The IZ policy has an effect on total profitability as some houses have to be sold at below market rates. Profitability is based on total revenue minus total costs, including land costs. The analysis of IZ feasibility assumes that developer's in all cases seek a 20% profit/loss margin on development costs, at the feasibility stage. This profit/loss risk margin is counted as a cost in the feasibility model.

The difference between total revenue and total costs reduces as the IZ policy increases, to the point when revenue equals costs (including the 20% profit/loss margin on development costs). At this point it is assumed that the development is no longer feasible.

Figure 2 shows data from the hypothetical analysis of IZ policy in a medium value greenfields area. As the % 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 allowance on construction costs). At a 20% IZ requirement, costs exceed revenue.

Total costs fall with some allowance for less expenses as the number of affordable units increases (e.g. less commission on sales, GST).

Figure 2: Revenue and costs under different IZ requirements

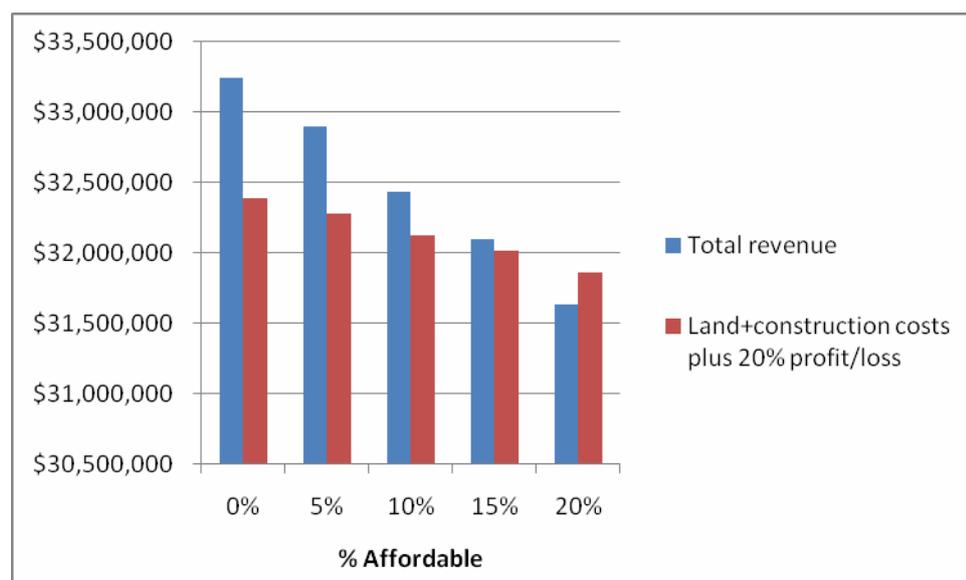


Table 1 provides details of the dollar amounts in Figure 1. Total revenue is given, as well as total costs. The breakeven point is when total estimated profit in column 5 falls below the profit/loss figure in column 3.

Table 1: Revenue and costs under different IZ requirements

% IZ requirement	1. Total revenue	2. Land+ construction + other costs	3. 20% profit/loss on construction costs	4 Total costs (2+3)	5. Total estimated 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)

A modest IZ requirement of between 5 and 10% will, based on the assumptions in the analysis, still ensure a return above the point where costs equals revenue. A 10% IZ requirement sees revenue approximately \$230,000 above the breakeven point, but \$540,000 less than if no affordable housing was required.

In addition to these outcomes, developers may perceive the IZ requirement as adding extra risk and time into the development process and therefore seek a higher profit/loss margin, as well as facing possibly higher finance costs, if development takes longer to consent /complete.

An adjustment to raw block land value would compensate for this reduction in overall profitability. Given a defined, mandatory IZ requirement, the cost of which can be anticipated by developers and subdividers, reduced revenue is likely to be passed backwards to the owners of raw undeveloped land.

In relation to future greenfields land, the mandatory requirement will be signalled ahead of rezoning from rural to urban and as a result there is the ability for the costs to be shared between a number of landowners in the development process and the associated uplift in value with the shift from a rural to an urban zoning. An "across the board" mandatory requirement will affect all landowners/developers equally, creating a level playing field.

However an across the board, mandatory requirement will also apply to land which already has an urban zoning, but is awaiting subdivision/development. The imposition of a mandatory requirement on land already in the development process will mean that costs are more likely to be passed forward. In this case there is an acknowledged transitional impact. This impact is lessened to an extent by the delayed implementation of the IZ provisions (that is, the provision will only have effect when the Unitary Plan is made operative, which is likely to be a 3 to 5 year process).

Depending upon the circumstance, not all costs may get passed backwards. Some costs may be absorbed by developers, while some may get passed forward to future homeowners, for example by way of additional market rate housing in a development that off-sets additional costs, or higher market rate housing if the market is buoyant. The mix between these different actions will vary over time and from place to place and are therefore not easy to model.

In these cases, there may be some effect on overall housing supply if some greenfields development does not proceed due to higher costs. That is, development that is already marginal in a feasibility sense and where extra costs cannot be passed backwards. Less development means fewer houses overall, and so there is a potential counter balancing negative effect on general housing affordability if supply does not expand as it might otherwise. The extent of this effect has not been tested due to the complexity of the issues involved.

Requiring a modest IZ requirement lessens the extent to which this margin effect will be felt, as well as the delayed implementation.

Table 2 provides a summary of the main costs and benefits in terms of overall land supply.

Table 2: Costs and benefits of different policy options

	<b>Increasing supply of land / development opportunities</b>	<b>Mandatory requirement</b>	<b>Bonus-based approach</b>
Costs	May see some upward pressure on public finances to ensure bulk services have capacity to cope with additional / faster development (e.g.	In future greenfield situations, landowners may not see their land increase in value as much as under a "no-requirement" option if	Other residents and activities in the area surrounding the site that receives the bonus may see an impact on amenity from more dense

	<b>Increasing supply of land / development opportunities</b>	<b>Mandatory requirement</b>	<b>Bonus-based approach</b>
	<p>motorway extensions, expansion of wastewater systems)</p> <p>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).</p> <p>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.</p> <p>May see environmental and amenity values degraded if too much development in greenfields areas</p>	<p>developers argue that land costs have to fall to meet the costs of the IZ policy.</p> <p>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.</p> <p>Developers may face additional costs and risks in the development process. This may mean that some land is not developed for housing, possibly reducing supply if no other adjustments are made to land supply.</p>	<p>development. The extent of any additional impact will vary and can be mitigated to an extent by design.</p> <p>Bonus-based systems involve transaction costs in that developers must apply for the bonus and council has to assess the application.</p>
Benefits	<p>Increased land supply should reduce incentives to land bank (less certainty over long term increases in value), meaning more land is available for development</p> <p>Increased supply and greater competition between developments should also put downward pressure on development costs - more scope for productivity improvements</p> <p>Increased supply of land and development</p>	<p>Ensures a mix of households in new subdivisions and developments, helping to reduce problems associated with high house prices in part arising from zoning constraints.</p> <p>If the subsidy to support affordable housing is sourced from the higher land values associated with land rezoning, then this funding source may be more efficient in terms of allocation of resources than sourcing funding from taxpayers.</p>	<p>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</p>

	<b>Increasing supply of land / development opportunities</b>	<b>Mandatory requirement</b>	<b>Bonus-based approach</b>
	opportunities should see downward pressure on land prices and result in increased supply of dwellings overall		
Risks	Areas opened up for development may not match demands in terms of affordable housing.	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)	In greenfields areas developers may seek to utilise bonus to add units in areas with environmental or infrastructure constraints

### *IZ and Brownfields*

For brownfields areas, the March 2013 Addendum proposed a bonus-based approach. Such an approach is common in IZ policies used in the US. The Addendum proposed that the bonuses were only to be available in areas of urban redevelopment, where taller or more dense development was proposed (such as town and metro centres, mixed use and terrace housing and apartment zones). The bonuses were not to be available in the single house and mixed housing zones as these zones generally accommodate less intensive forms of development.

Analysis of the bonuses offered in the March 2013 Addendum showed that they were generally an attractive proposition. Five development scenarios were tested, with the extra net cost of building the affordable units compared to the extra net revenue from sale of the additional market rate units arising from the bonus.

The analysis looked at redevelopments in higher value and medium value areas. Higher value areas involved places with high land and house prices, for example redevelopment sites in up-market coastal and inner suburbs. Medium value areas involved suburbs in the 'middle ring' of Auckland, such as the outer Isthmus, western side of North Shore and parts of Waitakere. Lower value areas were not investigated as redevelopment of the type enabled by the selected zones is unlikely to be feasible in these areas to start with (i.e. setting aside any IZ requirement).

In higher value areas, the additional market rate floorspace available from the bonus more than off-set the costs of providing the affordable units, even taking into account a higher risk margin by a developer. In medium value areas, some of the development scenarios were unattractive, especially if a higher profit/loss margin was expected.

The analysis noted that in higher value areas, while there is a potential gain for developers, they may perceive that the marketing risks of incorporating affordable houses into a development will more than off-set the benefits. In medium value areas, this risk is less of an issue (as there is less of a difference between the price of market rate and affordable

housing). In medium value areas, the controlling factor becomes the overall viability of residential redevelopment. As a result, the bonus is more likely to be used in medium value areas, and may assist in making some redevelopment more viable than would otherwise be the case, due to higher overall revenue.

The main costs of the bonus-based approach is additional development (extra height and building bulk). The bonuses set out in the March 2013 Addendum allowed for the following additional development:

- Metropolitan Centres - 2 additional storeys
- Town Centres - 1 storey
- Mixed Use Zone - 1 storey
- Terrace Housing and Apartment Zone - 5% additional building coverage (no additional height).

In response to concerns about the "off-site" effects of a bonus based scheme (that is, the effects on amenity of neighbourhoods due to taller and/or bulkier buildings), Murphy and Rehm were asked to model the effect on development feasibility of a mandatory requirement in brownfields areas. Given time constraints, the five sample sites used in the bonus-based analysis were used and a mandatory requirement applied after including assumptions about generalised land values.

This analysis shows that development remains feasible under a 20% mandatory requirement in higher value urban areas, but in medium value areas, there is more of an effect on viability. Table 3 is sourced from the analysis of brownfields<sup>14</sup>.

Note: the analysis of a mandatory brownfields requirement did not consider housing developments in lower value areas, or developments in the single house and mixed housing zones. The effect of a mandatory requirement on these areas will need to be examined.

Table 3 Financial Viability of Hypothetical Developments under Steady Market Conditions

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<sup>14</sup> Page 43, Attachment Four.

Margin	Zone	Storeys	None	5%	10%	15%	20%	25%	30%	35%	40%+	
20%	Metropolitan	18	Viable									
	Mixed Use	4	Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Viable									
25%	Metropolitan	18	Viable									
	Mixed Use	4	Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Viable									
30%	Metropolitan	18	Viable									
	Mixed Use	4	Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Viable									

Development Quality = High

Margin	Zone	Storeys	None	5%	10%	15%	20%	25%	30%	35%	40%+	
20%	Metropolitan	18	Not Viable									
	Mixed Use	4	Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Not Viable									
25%	Metropolitan	18	Not Viable									
	Mixed Use	4	Not Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Not Viable									
30%	Metropolitan	18	Not Viable									
	Mixed Use	4	Not Viable									
	Terraces & Apts	4	Viable									
		5	Viable									
		6	Not Viable									

Development Quality = Medium

It should be noted that in medium value areas under a zero IZ requirement, low to mid rise redevelopment is viable, but higher rise development is not viable. This is due to high construction costs relative to modest sales revenues.

In medium value areas, under a 10% IZ requirement and a 20% development margin scenario, low to mid rise development remains viable, but if the required development margin increases and/or the IZ requirement increases, then fewer development types remain viable.

As with greenfields, where additional costs are imposed, but these costs can be shared between owners of development blocks, developers and future home owners, then development will continue. However, in the brownfields case, more costs are likely to be

passed forward, particularly in the short term. There is therefore a marginal or boundary effect where the mandatory requirement may make some forms of urban redevelopment unviable (as higher prices imply less demand). The extent of this boundary effect is not known, but it will affect the overall rate of urban redevelopment, which in theory will have its own negative effect on housing supply and house prices.

In particular is what are known as "filtering effects"; that is expanded supply of new housing overall will filter downwards as households trade upwards, and more second hand houses are created. If the IZ policy has the effect of significantly constraining filtering effects due to less development overall, then any benefits of some affordable housing units from the IZ policy may get swamped by reduced overall supply.

Having said that, this effect is within the context of zoning constraints already having significant adverse effects on development opportunities within the existing urban area, particularly for lower priced housing. These zoning constraints reduce the extent to which the market can deliver affordable housing. Moves to remove these zoning constraints have met with significant community opposition. As a result, given high demand but limited supply, over time land prices in the existing urban area will continue to rise. Without an affordable housing requirement, fewer and fewer affordable units will be provided, and any increased supply (new or second hand) will likely be taken up by moderate to higher income households who have the ability to place higher bids.

Table 4 sets out a summary of the three main policy options in terms of their overall effectiveness for brownfields.

Table 4: Costs and benefits - brownfields

	<b>Increasing supply of redevelopment opportunities</b>	<b>Mandatory requirement</b>	<b>Bonus-based approach</b>
Costs	<p>May see some upward pressure on public finances to ensure bulk services have capacity to cope with additional development (e.g. public transport improvements, upgrade of wastewater systems, open spaces)</p> <p>Supply increases are modest, and the effect on house prices will be small, and are unlikely to be enough to substantially reduce median house prices relative to median incomes.</p>	<p>In brownfields areas, costs of mandatory scheme less able to be absorbed in land use change process (as up zoning has already occurred). Therefore will have more of an effect on development feasibility, and as a result the supply of redevelopment opportunities.</p> <p>This may mean that some land is not redeveloped for more intensive housing, possibly reducing supply if no other adjustments are made to land supply.</p>	<p>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.</p> <p>Bonus-based systems involve transaction costs in that developers must apply for the bonus and council has to assess the application.</p>
Benefits	Increased development	Ensures a mix of	More intensive use of

	<b>Increasing supply of redevelopment opportunities</b>	<b>Mandatory requirement</b>	<b>Bonus-based approach</b>
	<p>opportunities should reduce incentives to land bank (less certainty over long term increases in value), meaning more land is available for redevelopment</p> <p>Increased supply and greater competition between developments should also put downward pressure on development costs - more scope for productivity improvements</p>	<p>households in new developments, helping to reduce problems associated with high house prices in part arising from zoning constraints.</p> <p>If the subsidy to support affordable housing is sourced from the higher land values associated with increasing land scarcity arising from zoning controls on land supply, then this funding source may be more efficient in terms of allocation of resources than sourcing funding from taxpayers.</p>	<p>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</p>
Risks	<p>More difficult to provide additional development opportunities in brownfields situations than greenfields. Could see a lopsided approach.</p> <p>Areas opened up for redevelopment may not match demands in terms of affordable housing.</p>	<p>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)</p>	<p>Dependent upon developers taking up bonus.</p> <p>In high value areas, affordable housing will be seen as a risk to marketability</p> <p>Bonus type approach may be most used in medium cost brownfield areas.</p>

### Conclusion

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

- increasing affordability of housing for low to moderate income households while
- ensuring that this occurs in a way that supports mixed communities

in a way that will not significantly reduce the extent to which market-rate housing is produced, or the cost of this housing.

It is noted that the two policies of increasing development opportunities while introducing IZ need to go hand-in-hand. If land supply /development opportunities was not being increased, then IZ policies would more likely 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 in greenfields areas, 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 in greenfields areas may see land prices drop due to increased competition, but not to a level that will meet the needs of households on low to median incomes.

In the existing urban area, there is a more complex interaction of demand and supply. Zoning constraints mean that land supply is unlikely to keep up with demand. Zoning constraints therefore lift land values above what they would otherwise be (reflecting the externalities addressed by the zoning, as well as a degree of scarcity value).

In contrast to greenfields where there are a number of options to pass backward and forward the costs of any mandatory affordable housing requirement, in brownfields situations there are fewer options. A mandatory approach is therefore likely to have an effect on the viability of urban redevelopment in a number of areas of the city. While in high value areas, redevelopment is likely to remain viable, in medium value areas the additional costs (without any compensating off set in additional revenue from extra development) will reduce the number of viable redevelopment opportunities. This is counter to moves to support and enable urban redevelopment across the city.

In terms of a bonus-based approach, this has the ability to overcome the issue of viability in brownfields areas. The bonus improves the feasibility of redevelopment occurring and delivers a benefit of affordable housing. However the costs of the bonus in relation to adverse impacts on amenity were perceived by councillors to outweigh benefits arising from more redevelopment and more mixed communities from the development over time of a stock of retained affordable housing.

Given that the voluntary, bonus-based approach have been ruled out, the option adopted for brownfields areas is to apply the requirement to all new housing developments. It is accepted that there may be a negative impact on rates of redevelopment as a result.

While the costs of the IZ policy on a developer can be quantified, the benefits to the community of the policy cannot be easily measured. Without an IZ policy, housing is unlikely to become more affordable in the existing urban area due to zoning constraints requested by communities. With an IZ policy, some development may not proceed (or be delayed), but for that which does proceed, affordable units will be delivered.

The negative impact on rates of redevelopment is mitigated to an extent by applying the requirement to development of 15 units or more<sup>15</sup>. This minimum threshold helps to mitigate impacts on development feasibility, as small scale development involving infill type units are not caught by the requirement. The delayed implementation will also address some transitional impacts.

Over time, when re zonings are proposed, then costs are more likely to be absorbed in the land use change process, and the IZ policy will have less of an impact on development feasibility.

Overall, the benefits of the IZ policy in terms of providing a supply of affordable units and their incorporation into higher value areas (greenfields and brownfields) are considered to outweigh the costs.

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<sup>15</sup> Analysis of building permits between 2001 to 2012 indicates that around 25% of dwellings were consented as part of developments of over 15 units.

### **2.1.2 Rules**

The proposed provisions are summarised in 1.9 above.

The rules to be included in the Auckland-wide section of the Unitary Plan require that affordable housing be retained for future generations as affordable housing. This is important to the implementation of the policy and is considered a "given". Without retention, the first owner of the affordable unit receives a windfall, effectively undermining the public benefit and the associated costs of the intervention. A retention mechanism also ensures that there is an incentive for the owner to move into the normal housing market at some point (for example to realise full capital gains). This helps to ensure turn over.

Retention mechanisms can take a variety of forms. Ownership of the retained affordable dwellings by a recognised community housing provider provides one route, and has many advantages, provided the community housing sector has the financial and organisational capacity to purchase the dwellings. In other cases, council may have to endorse the owners/occupiers of the affordable units to ensure that they meet eligibility criteria. This will involve some transaction and monitoring costs.

The key decision in terms of rules relates to the percentage requirement in greenfields and brownfields situations.

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.

International examples highlight a range of requirements, from 10 to 50%. In South Australia a 15% mandatory affordable housing requirement applies to all large scale residential developments.

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, or 17% of all households, as estimated by the council. The focus on this market recognises the range of actions in place to improve affordability overall. This includes government moves to support the social housing sector (i.e. improve conditions at the lower end of the market), while additional land supply will help with house prices at the higher end of the affordability spectrum - that is lower cost, market rate housing.

### **2.1.3 Summary of Costs and Benefits of Proposed Policies and Rules**

#### **Costs**

- As the proportion of affordable housing increases then there is more of an impact on development feasibility. This is both in terms of additional costs, but also additional risk/uncertainty. If this translates into less development overall, then this means less downward pressure on house prices and fewer filtering effects. Both of these affect housing affordability.
- In future urban greenfields areas, modest IZ policy requirements are likely to see raw land values drop to compensate for higher development costs, or not appreciate as fast. It is also possible that there may be some cross-subsidisation between

- In brownfields areas, a modest mandatory requirement is likely to adversely affect feasibility for some sites, and as a result slow the rate of urban redevelopment across the city. However rates of urban redevelopment are constrained to start with due to zoning constraints, and so the effect is marginal.
- Council will face additional transaction, monitoring and possibly enforcement costs.
- The capacity of the community housing sector to deal with a large supply of retained affordable housing may be exceeded, particularly in the early stages of an IZ policy.

#### Benefits

- A stock of retained affordable housing is built up that can be accessed by low to moderate income households, both current and future.
- This housing helps to improve social and economic well being of these households, and the community in general.
- This housing is spread across the city and is not concentrated in particular areas. In particular affordable housing options are provided in higher value areas.
- The funding of this housing is accomplished in a way that does not involve additional general taxation or increase in rates. It is likely to be at least partly sourced from the rise in land value resulting from zoning and redevelopment.

#### Discussion

Overall, a 7% requirement for retained affordable housing in all new housing developments and subdivisions of over 15 lots/dwellings was recommended to the council as being a reasonable and appropriate requirement. This level reflects a number of factors:

- It is only part of the demand for affordable housing (being at least 17% of all households if the focus is the intermediate housing market), and recognises that this demand will be partly met by increased development opportunities, greater central government support for the community housing sector; while not all of the households in the sector will wish to take up the opportunity of retained affordable housing.
- It reflects a slow and steady start to the IZ policy to enable developers and the council to adapt to the new policy
- It reflects the analysis of greenfields and brownfields development feasibility, essentially sitting 50/50 in the 0 to 15% affordable housing feasibility band for medium value greenfields developments.

At the August 2013 meeting of the Auckland Plan Committee, councillors voted to require a 10% IZ requirement.

#### **2.1.4 Adequacy of Information and Risk of Not Acting**

It considered that there sufficient information on which to base the proposed policies and methods.

IZ has been used in a number of countries including Australia, United States and the UK. Application of the policy in these countries has demonstrated the policy does not necessarily result in inefficient urban land markets, although experience is mixed.

The analysis undertaken for the Auckland Unitary Plan demonstrates that a modest IZ policy is appropriate in greenfields areas. However any policy needs to be carefully implemented to reduce adverse consequences and to reduce uncertainty.

While the analysis of a mandatory requirement in brownfields areas has been more limited (in that it did not address all residential zones and has not been able to quantify effects on housing supply overall should some development become less feasible), it is considered that there is sufficient information for the council to proceed. Monitoring of development trends and outcomes will be important.

### **3 Alternatives**

The following table considers the costs and benefits of different IZ percentage requirements for all housing developments of 15 units/lots or more, alongside the option of enabling affordable housing, but not requiring it or incentivising it. Also included is the status quo, which effectively involves taking no action via the RMA.

Taking no action does not mean that affordable housing is not addressed. A range of central and local government actions help to support low income households accessing affordable housing, including Housing New Zealand, the accommodation supplement and taxpayer and ratepayer support for the community housing sector.

	Alternative 1: Status Quo	Alternative 2: Active Enablement	Alternative 3: 5% mandatory in new greenfields and brownfields	Alternative 4: 10% mandatory in new greenfields, brownfields	Alternative 5: 20% mandatory - new greenfields and brownfields
Description	<p>Take no specific action under the RMA, beyond normal decisions around zoning, land release.</p> <p>Take non-regulatory actions such as development of council owned land, ratepayer, taxpayer support for community housing sector</p>	<p>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</p>	<p>Mandatory requirement applies to all land within the RUB, greenfields and brownfields.</p> <p>For every 20 new dwellings, one has to be sold at an affordable rate</p>	<p>More significant mandatory requirement in greenfields and brownfields.</p> <p>For every 20 new dwellings, two have to be sold at an affordable rate</p>	<p>There is a mandatory requirement that 20% of new housing be affordable.</p> <p>For every 20 new dwellings, four have to be sold at an affordable rate</p>
Appropriateness	<p>Leaves affordable housing to be addressed by other means (e.g. actions outside RMA processes). This is an appropriate course of action under the RMA.</p>	<p>Appropriate and feasible under the RMA, as well as in terms of the general policy direction of the UP.</p>	<p>Works in with overall approach to increase land supply in greenfields areas while not unduly disabling urban redevelopment</p>	<p>Extent of requirement in brownfields areas likely to be questioned if it adversely affects viability.</p> <p>Unlikely to significantly adversely affect greenfields development.</p>	<p>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, unless off-setting bonuses are offered</p>
Effectiveness	<p>Depends upon the extent of resourcing for non-regulatory methods.</p> <p>The analysis of land value uplift as a funding tool demonstrated a range of issues that were similar to IZ, i.e. the extent to which extra taxes get passed forward or backwards.</p>	<p>Will help to increase supply of houses overall, but may not significantly increase housing for median to lower income households</p>	<p>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.</p> <p>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</p>	<p>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</p>	<p>May not be as effective, especially in brownfields areas, where mandatory requirement may be a disincentive to development. Higher mandatory requirement is likely to see some avoidance behaviour.</p> <p>In medium value greenfields areas, some land may be withdrawn from the land market</p>
Efficiency	<p>Other methods may have to work extra "hard" against higher house and land prices if no action is taken through zoning to provide more development opportunities.</p> <p>May not result in a spread of affordable housing across the city</p>	<p>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</p>	<p>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</p>	<p>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</p>	<p>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).</p>
Costs	<p>Costs of other methods have to be met by taxpayers / ratepayers.</p> <p>There is general resistance to this.</p>	<p>Unlikely to significantly improve choices/options for those in the intermediate housing market</p>	<p>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.</p> <p>Value of undeveloped greenfields land may drop to reflect increased costs, or at least not appreciate as fast.</p> <p>Some marginal urban redevelopment may not proceed.</p>	<p>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 in a development.</p> <p>Likely to have more of an impact on developments in lower value housing areas</p>	<p>House prices in greenfields area may rise in response.</p> <p>Developers will be faced with greater uncertainty</p> <p>Larger role / cost for council in terms of enforcement and monitoring</p> <p>Brownfields developments will be concentrated in higher value areas</p>
Benefits	<p>Landowners/ developers/ communities do not face costs of IZ policy options</p>	<p>Will help to reduce upward pressure on land/ house prices</p>	<p>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</p>	<p>A larger number of a mixed tenure / mixed income neighbourhoods will be created, particularly in greenfields areas</p>	<p>More households in the intermediate housing sector will have choice of a retained, affordable home</p>

	Alternative 1: Status Quo	Alternative 2: Active Enablement	Alternative 3: 5% mandatory in new greenfields and brownfields	Alternative 4: 10% mandatory in new greenfields, brownfields	Alternative 5: 20% mandatory - new greenfields and brownfields
Risks	General resistance to increase taxes, rates	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 and 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	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.

## **4 Conclusion**

It is concluded that an explicit, mandatory IZ policy is an appropriate objective to be included within the Unitary Plan.

The proposed policies and rules are assessed to be efficient and effective in implementing the objective, particularly in relation to ensuring a greater supply of affordable homes and a degree of spread of this affordable housing across the city. However, this assessment does depend upon how any provision is implemented.

The proposed IZ policy is introduced at a modest level (10%) in all greenfields and brownfields housing developments involving 15 or more lots/dwellings. This blanket approach does create some transitional costs on existing zoned land and may have an effect on the viability of some future redevelopment in medium value areas. However, the IZ policy will only come into play once the UP is operative, lessening these costs.

This 'modest' approach also limits benefits, but provides more scope for the development industry to adjust. Building up the capacity of the community housing sector to participate in the process is also important.

## **5 Record of Development of Provisions**

### **5.1 Information and Analysis**

Information and analysis has involved:

- Review of literature, research on affordable housing and IZ schemes - Hill Young Cooper Ltd, December 2012
- Consultation and discussion on the HSAP, discussions with Queenstown Lakes District Council, Brisbane Housing Company, Government of South Australia
- Review of land value uplift by Council's Finance team
- Analysis of draft greenfields and brownfields IZ provisions by Professor L Murphy and Dr M Rehm of the University of Auckland
- Preparation of a second background report by Hill Young Cooper Ltd, July 2013.

Appendices to this report contain the following:

- Appendix 3.21.1: D Mead, Possible provisions in the Draft Unitary Plan to generally improve housing affordability and enable a supply of retained, affordable housing, (11 December 2012 draft), Hill Young Cooper, 2012.
- Appendix 3.21.2: A Duncan, A Randeni and G Webb, Assessment of a value capture rate, Auckland Plan Committee, 25 July 2013, File No.: CP2013/17087.
- Appendix 3.21.3: Professor L Murphy and Dr M Rehm, Inclusionary Zoning and Brownfield Residential Development: A Feasibility Study, Report prepared for Auckland Council, Auckland Uniservices, July 2013.
- Appendix 3.21.4: Professor L Murphy and Dr M Rehm, Inclusionary Zoning and Greenfield Residential Development: A Feasibility Study, Report prepared for Auckland Council, Auckland Uniservices, June 2013.

- Appendix 3.21.5: D Mead, Affordable Housing and the Auckland Unitary Plan, 2nd background report, Hill Young Cooper, July 2013.

## **5.2 Consultation Undertaken**

Inclusionary zoning and shared land value uplift were alternatives discussed in the development of the Housing Action Plan. Consultation for the action plan included:

### *External Housing Reference Group*

A multi – sector external housing reference group provided advice and acted as a sounding board as options were developed by officers. The group, included 23 experts and practitioners from the developer and / construction sectors, community housing sector, home ownership and property investment research and advocacy groups, Mana Whenua, iwi, and urban Maori and Pacific peoples.

The reference group focused on identifying immediate and medium term opportunities and reviewed specific content in drafts of the Housing Action Plan, including shared land value uplift and inclusionary zoning. This group met on a monthly basis throughout the process. As a result of the considerable interest from the housing sectors two additional “wider” forums were held on 31st October and 19th November 2012. An additional 25 external representatives were invited to these forums which focused upon the priorities and actions being proposed. Feedback from the forums was incorporated into the Housing Action Plan.

There was support to test shared land value uplift. There was support and ambivalence / concern regarding inclusionary zoning.

### *Central Government*

Regular meetings have been held with Central Government representatives including: Ministry of Building, Innovation and Enterprise (including Housing Policy, Building and Housing Group and Social Housing Unit), Ministry of Economic Development Treasury, New Zealand Transport Authority, Ministry for the Environment Ministry of Health Department of the Prime Minister and Cabinet and Land Information New Zealand. This group was also invited to attend the external housing reference group forums.

### *Local Boards*

An initial briefing was provided to the September Local Board Chairs Meeting in 2012. Local Board Cluster meetings were held with the four cluster areas, north, west, south and central, in early October 2012. At each meeting local board members had an opportunity to give feedback and input into the issues and options being considered in the development of the Housing Action Plan. The chairs and / or Housing Portfolio leads from the local boards were also invited to attend the councillor workshops that were held throughout the process.

### **Councillor /Local board Workshops**

A series of 10 housing workshops were held from March to November of 2012. These workshops provided councillors and local board representatives with the opportunity to hear external parties provide different views on the issues being addressed in the Housing Action Plan. In August 2012 there was a specific workshop on the Queenstown example of planning requirements for affordable housing.

The Auckland Plan Committee approved the Housing Action Plan on 17 December 2012.

Following the approval of Housing Action Plan, there was consultation on shared land value uplift and inclusionary zoning during 15 March 2013 to 31 May 2013.

As of 26 July 2013, 576 comments were received:

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

For the IZ policy option, negative comments covered:

- May 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
- One tool to help provide affordable housing
- Helps promote mixed communities.

### **5.3 Decision-Making**

Workshops with a political working party in January 2013 endorsed the testing of IZ through the draft Unitary Plan process.

The decision to progress with IZ policy development required officers to look at unintended consequences of inclusionary zoning and undertake analysis from a development economics perspective.

Analysis of shared land value uplift was presented to the Auckland Plan Committee on July 25th 2013. Councillors voted against this alternative.

Councillors decided on 9 August 2013 that a bonus-based approach was not appropriate in brownfields areas and that an alternative approach should be considered. A mandatory approach in greenfields areas was endorsed.

On 28 August 2013, councillors voted that a 10% requirement apply in all brownfields and greenfields housing developments of 15 or more lots/dwellings.