

**BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES PROPOSED DISTRICT PLAN**

IN THE MATTER of the Resource Management
Act 1991

AND

IN THE MATTER Inclusionary Housing Variation

**STATEMENT OF EVIDENCE OF SHAMUBEEL EAQUB
ON BEHALF OF QUEENSTOWN LAKES DISTRICT COUNCIL**

INCLUSIONARY HOUSING VARIATION

13 February 2024

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1. PROFESSIONAL DETAILS

- 1.1 My full name is Shamubeel Equb.
- 1.2 I prepared economic evidence on the Inclusionary Housing Variation for Queenstown Lakes District Council (QLDC) dated 14 November 2023.
- 1.3 I have the qualifications and experience set out in my evidence of 14 November 2023. I repeat the confirmation given in that report that I have read and agree to comply with the Code of Conduct for Expert Witnesses.
- 1.4 I attended the economists’ conferencing session held on 30 January 2024.

2. INTRODUCTION

- 2.1 This statement of rebuttal evidence addresses specific matters raised in the evidence of the economic experts for submitters, being:¹
 - (a) Statement of Evidence of Mr Philip Osborne, 19 December 2023
 - (b) Statement of Evidence of Mr Fraser Colegrave, 21 December 2023
- 2.2 I address key specific points of difference in assumptions about the effects of planning and affordable housing, under the following headings:
 - (a) Costs of labour turnover
 - (b) Total costs versus total benefits
 - (c) International evidence
 - (d) More supply as a solution to more affordable housing
 - (e) Retained affordable housing
- 2.3 I I also answer a question raised by the panel for the economists’ conference session on 30 January, that I considered at the time I needed more time to consider fully.

3. COSTS OF LABOUR TURNOVER

- 3.1** Mr Osborne and Mr Colegrave believe that the cost of labour turnover is much lower than my estimates. However, they seem not to account for the fact that the cost to business of turnover is encountered at every turnover. For example, if a position turns over four times in one year, it will lead to four lots of costs through disruption, recruitment, training and productivity losses. I believe Mr Osborne and Mr Colegrave have misunderstood the very high costs an unstable labour force has on a business.
- 3.2** This was recently highlighted by the successful application to the Overseas Investment Office to acquire property in Queenstown by hospitality providers to supply worker accommodation. The decision cited "The development will enable the applicant to attract and retain staff by providing a long-term solution to the shortage of staff accommodation options in Queenstown." This link summarises the application: <https://www.linz.govt.nz/our-work/overseas-investment-regulation/decisions/2023-12/202300720>

4. TOTAL COSTS VERSUS TOTAL BENEFITS

- 4.1** Mr Osborne and Mr Colegrave claim that the costs of the proposed inclusionary housing policy outweigh the benefits in aggregate. My indicative Cost Benefit Analysis (CBA) explicitly noted that it considered only direct economic costs and benefits, but it did not look at the wider economic and social benefits of averted costs. However, I provided a high level estimate of these wider social and economic benefits, based on literature to be potentially as high as \$170m.
- 4.2** The Social Impact Assessment² prepared by Beca Ltd for QLDC, which was not available at the time of my indicative CBA, provides qualitative insights on the costs and benefits. These are notoriously difficult to value, but they are not without value as Mr Osborne and Mr Colegrave suggest. As an example, in Australia the value of social housing is considered to create economic and social returns that are three times the cost, according to Melbourne's latest housing strategy: <http://www.melbourne.vic.gov.au/community/homes-melbourne/affordable-housing/Pages/affordable-housing-strategy.aspx> .

² Social Impact Assessment on Proposed Inclusionary Housing Plan Variation, Beca Limited, 13 November 2023.

- 4.3** I do not agree with Mr Osborne and Mr Colegrave that the costs outweigh the benefits, both when considering the narrow economic costs and benefits, and also when considering the wider economic and social impacts.

5. INTERNATIONAL EVIDENCE

- 5.1** Mr Osborne and Mr Colegrave both point to the mixed performance of inclusionary housing schemes internationally. This is clearly noted in my evidence and I go further to highlight when and how inclusionary housing policies are made to be successful (i.e. when they are widely and consistently applied, long term in nature, and accompanied by wider policy settings to improve housing supply). I disagree with their reading of the international literature, which I consider to be superficial as they only highlight that there are inclusionary housing policies with mixed results, but do not explore the conditions that lead to good or bad outcomes.

- 5.2** The legislative context in New Zealand is unique and cannot be directly compared to overseas examples. However, the examples I have cited show that inclusionary housing is a tool that is used successfully overseas in housing markets that would otherwise undersupply affordable homes. In the context of the significant unaffordability in the Queenstown Lakes District, I remain of the view that inclusionary housing will ensure that a portion of the housing stock is affordable.

6. MORE SUPPLY AS A SOLUTION TO MORE AFFORDABLE HOUSING

- 6.1** Mr Osborne and Mr Colegrave lean towards supply of more homes as the solution. Implicit in this are two assumptions: as new homes are built, older homes will filter down to become affordable housing; and that affordable housing once created will remain so.

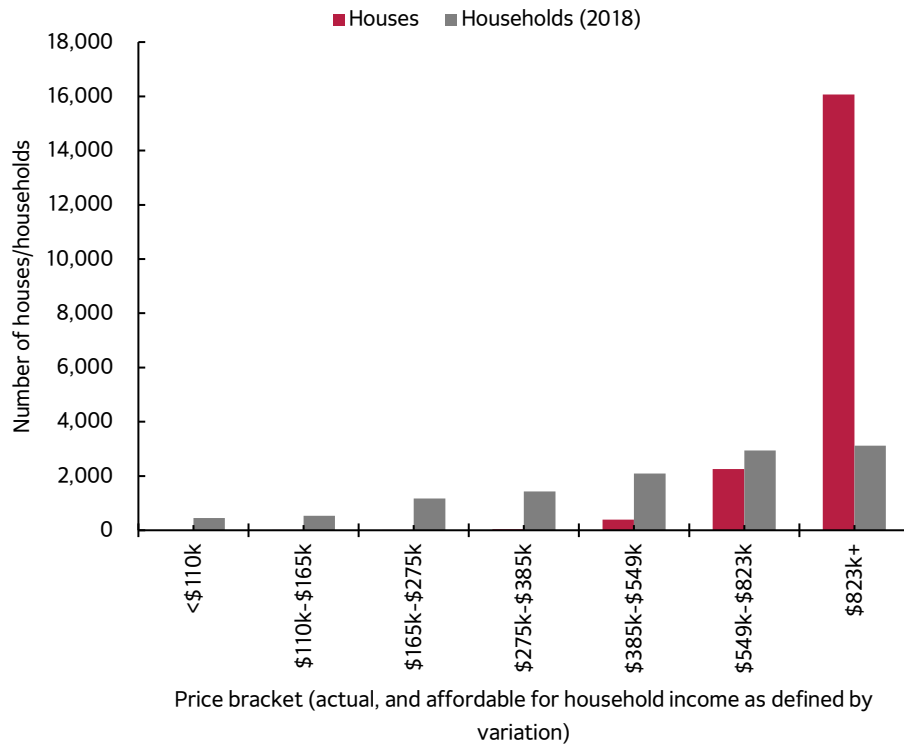
- 6.2** These assumptions do not hold when demand far exceeds supply, as is the case for Queenstown Lakes and will be for the foreseeable future. As per the Joint Witness Statement, there is broad agreement that demand is very high for housing in

Queenstown Lakes, to live, to have a holiday home and to have short term visitor accommodation.

6.3 While Mr. Osborne and Mr. Colegrave appear to consider the source of demand to be important, my analysis of the last two decades of the housing situation and the natural experiment of closed borders during the COVID-19 pandemic suggests that the demand is so high, that removing or reducing one source will have little impact. That is not to say discouragement of some types of demand has no impact – it would shift the composition of tenure in the District – but it would still favour those with more economic means.

6.4 The chart below shows the distribution of household incomes in 2018 (at the time of the last published census data) and what price house would be considered affordable under the variation rules (35% of income spent on mortgage repayments assuming 20% deposit, 6.89% interest rates current at the time of writing, and 30-year mortgage term) and the distribution of house prices in Queenstown in 2023. Note the timing difference due to data availability. The chart indicatively shows the ideal structure of house prices in the district, versus the reality where most houses are in the highest price bracket. It shows that 86% of the housing stock in Queenstown is in the top bracket, but only 27% of households have incomes in the top income bracket.

Number of houses by affordability bracket



Source: Statistics NZ, QLDC, S Equb

6.5 As noted in my evidence, even though building activity in the Queenstown Lakes District occurs at a high rate for the District’s population size, compared to other districts around New Zealand, it is not clear to me that the excess demand can be met sufficiently in the foreseeable future with increased supply which will lead to affordable housing, through filtering³. A detailed study in Australia found that filtering is not a reliable source of affordable housing and this experience is mirrored in the Queenstown experience, where even older houses are very expensive.

<https://www.ahuri.edu.au/sites/default/files/documents/2022-09/AHURI-Final-Report-387-Filtering-as-a-source-of-low-income-housing-in-Australia-conceptualisation-and-testing.pdf>

³ Filtering is a market-based process whereby the supply of new, higher quality dwellings, for higher- and middle-income households may also lead to additional supply of dwellings for lower income households. Theoretically, dwellings may filter over time through successively lower market segments or sub-markets. As higher income households vacate their former homes for higher quality housing, vacated homes may become part of housing supply in adjacent (quality or locational) sub-markets.

7. RETAINED AFFORDABLE HOUSING

- 7.1** Being affordable when a house is built does not mean it will remain so without a retention mechanism. This is because of the wider mismatch in the Queenstown Lakes housing market – which drives up the prices of all homes, but often more for cheaper homes.
- 7.2** As an example, I sought data for one affordable property in the first Special Housing Area approved in the District, Bridesdale. I found that an affordable property was valued at \$780,000 in 2019, which had increased to \$1m in 2023, an increase of 28%. The average household income increased by 13% over the same period⁴. That is, the home became less affordable over time.
- 7.3** This illustrates how affordable housing at point of building is no certainty that it will remain affordable.
- 7.4** I have a fundamental disagreement with Mr. Osborne and Mr. Colegrave that enabling more homes is a superior policy option to gradually accumulating a retained stock of affordable housing, rather it is a complementary action. I do not believe filtering is a reliable source of affordable housing, especially in the context of Queenstown Lakes where even older houses are unaffordable, nor is making housing more affordable at point of construction a reliable source of growing the affordable housing stock of the Queenstown Lakes District.

8. WHAT ARE THE POTENTIAL COSTS OF INCREASED SUPPLY OF AFFORDABLE HOUSING THROUGH THE VARIATION?

- 8.1** I wanted to give more thought to the above question posed by the Panel for the economists' Joint Witness Conference. I consider three main costs arising from the variation and means of moderating their effects:
- (a) Costs of administering the policy, which can be moderated by ensuring the policy is simple in design and is applied broadly.

⁴ https://ecoprofile.infometrics.co.nz/Queenstown-Lakes%20District/StandardOfLiving/Household_Income

- (b) Direct costs of the provision, that is the 5% contribution which would otherwise not be levied. Who ultimately bears this cost depends on if the policy is widely and consistently applied (which makes the cost known in advance) and either be reflected in the price of land or passed on to the sale price.
- (c) Marginally increase the price of housing (as noted in my indicative cost benefit analysis), which is a benefit to existing home and landowners and a cost to future owners and renters. This can be moderated by other policies to increase housing supply. While Mr Osborne and Mr Colegrave do not think it is appropriate to consider other policy processes in consideration of this variation, the public policy process is in reality a tapestry of various policies that work together. I believe that in practice, public policy can and does use a range of tools, using various policy levers, to achieve desired results.

8.2 There are trade-offs to be balanced with any policy, including this variation. In my view, understanding the costs help us consider mitigations to ensure the overall effect is one where we meet the complex range of needs in our community.

8.3 Furthermore, these costs should be seen in the context of planning windfall gains that are a transfer from community to private individuals. The extent of windfall gains is variable, but a case study in Appendix 1 helps to illustrate that there are very substantial private gains created by planning gains. In our case study the land value post development was 3.9 times the value of bordering undeveloped land after accounting for infrastructure outlays.

9. CONCLUSION

9.1 Inclusionary housing is not a silver bullet. By itself, it will not solve the entire housing crisis. Instead, I consider it a useful and workable, complementary policy to overall housing supply to ensure when homes are built, a small portion is affordable, and is retained as affordable, so the stock of affordable homes gradually grows over time.

9.2 It is a choice between gradually and constructively building a stock of affordable homes, or relying on the outdated assumption that supply will eventually meet demand at some indeterminate time in the future, and those needing affordable housing should just wait.

A handwritten signature in black ink, appearing to read 'Shamubeel Eaquab', with a long horizontal stroke extending to the right.

Shamubeel Eaquab

13/02/2024

Appendix 1: Arthur's Point windfall case study

This quick study compares the land value change over time on two land blocks of a similar size at 117 Arthurs Point Road (Land Area 4.122700 Ha) and 153 Arthurs Point Road (Land Area 4.1759 Ha).

Figure 1: Arthurs Point land study location



Under the Operative District Plan both land blocks were zoned Lower Density Suburban Residential. Both land blocks were approved as SHA locations under HASHAA.

The SHA at 153 Arthurs Point was approved in 2016 and enabled 88 units (mixture of standalone, semi-detached, terraced houses and apartments, and it is now developed and subdivided. The total ratable land value of the all the subdivided land within the original land block is \$24,332,000.

The second SHA at 117 Arthurs Point was approved in 2020, enabled 92 residential units. The area is being developed but has not yet been subdivided and is still rated as a single unit. The present ratable land value of the undeveloped land at 117 Arthurs Point Road is \$3,600,000.

The land value in 2018 in the two properties was the same, making them a good comparison. The cost of infrastructure is not known with full accuracy, but in a feasibility exercise for a development in Hawea had infrastructure costs of up to \$80,000 per lot, \$25,000 direct contributions to council and a one off \$1m trunk sewer upgrade. Using these would indicate total infrastructure outlay of \$10.2m and a windfall gain of \$14.1m. That is, the land value of the improved land after infrastructure outlays was 3.9x the undeveloped land.