

**BEFORE THE HEARINGS COMMISSIONERS  
APPOINTED BY THE QUEENSTOWN LAKES DISTRICT COUNCIL**

**UNDER** the Resource Management Act 1991

**IN THE MATTER** of a submission on a Variation to a Proposed District Plan under schedule 1 of the Act

**BY** **WILLOWRIDGE DEVELOPMENTS LIMITED**  
**UNIVERSAL DEVELOPMENTS LIMITED**  
**FULTON HOGAN LAND DEVELOPMENT LIMITED**  
**QUEENSTOWN CENTRAL LIMITED**  
**MILLBROOK COUNTRY CLUB LIMITED**  
**HOMESTEAD BAY TRUST LIMITED**  
**TROJAN HELMET LIMITED**  
**BOXER HILL TRUST**  
**LADIES MILE PROPERTY SYNDICATE**

Submitters

---

**STATEMENT OF EVIDENCE OF FRASER COLEGRAVE**

---

Dated: 21 December 2023

## Statement of Evidence of Fraser Colegrave

### INTRODUCTION

- [1] My name is Fraser James Colegrave.
- [2] I am the Founder and Managing Director of Insight Economics. Prior to that, I was a founding director of another economics consultancy – Covec Limited – for 12 years.
- [3] I hold a first-class honours degree in economics from the University of Auckland (1996).
- [4] I have 26 years commercial experience, the last 23 of which I have worked as an economics consultant. During that time, I have successfully led and completed more than 600 consulting projects.
- [5] Current and recent clients include: Auckland Airport, Argosy Property, Christchurch City Council, Crown Infrastructure Partners, Foodstuffs, Fulton Hogan, Infinity Group, Kiwirail, Kiwi Property, Neil Group, New Zealand Productivity Commission, Ngai Tahu, Tauranga City Council, and Todd Property.
- [6] My main fields of expertise are land-use, property development, and local infrastructure funding. I have worked extensively in these areas for many of the largest companies in New Zealand. In addition, I regularly advise local and central Government on a range of associated policy matters, and therefore understand the issues from multiple perspectives.
- [7] Over the last 15 years, I have helped clients secure plan changes and/or resource consents for projects providing more than 40,000 new residential dwellings, including major brownfield and greenfield projects.
- [8] Since 2014, I have performed numerous forensic examinations of the housing and business capacity assessments completed for or by Councils under the auspices of the National Policy Statement on Urban Development 2020 (**NPS-UD**), so I am highly conversant with the concepts and language used therein.

- [9] Recently, I have been closely involved with the intensification planning processes for various other Tier 1 areas, including Tauranga City, Western Bay of Plenty District, Christchurch City, Selwyn District, and Waimakariri District.
- [10] I am also widely recognised as one of New Zealand's leading economic experts on local infrastructure funding, including the design and use of development contributions (**DCs**) and financial contributions (**FCs**) policies. I have worked on more than 100 local infrastructure funding projects for numerous public and private sector clients across New Zealand, so intimately understand their real-world applications.
- [11] More generally, I have provided expert evidence on a range of economic matters at more than 100 hearings before Councils, independent Hearing Panels, the Environment Court, Boards of Inquiry, the Family Court, and the High Court of New Zealand.

### **Previous Involvement**

- [12] In 2008, I provided a detailed peer review of Queenstown Lakes District Council's (**QLDC's**) Plan Change 24, which I understand was the first iteration of the district's then-proposed Inclusionary Zoning (**IZ**) policy.
- [13] A few years later, I was commissioned by QLDC to complete numerous projects, mostly related to district housing and its affordability. These projects included detailed reviews of its housing capacity model, projections of future housing demand, policy analyses for land-banking, plus an assessment of the potential effects of short-term rental (**STR**) accommodation on long term rental (**LTR**) supply.
- [14] In 2015, I provided economic analysis in support of Plan Change 50 (**PC50**), via which the Lakeview site was rezoned for more intensive use and future development.
- [15] More recently, I have completed economic assessments for many district housing and resort developments, including helping gain Fast Track consent for the first stages of the billion-dollar Lakeview project.

[16] In late 2022, I was commissioned by various parties to peer review the “economic case” for the proposed IZ policy, as per a report by Sense Partners. I expand on that review in the final part of this evidence.

### **Code of conduct for expert witnesses**

[17] I confirm I have read the Code of Conduct for expert witnesses contained in the Environment Court of New Zealand Practice Note 2023 and that I have complied with it when preparing my evidence. Other than when I state I am relying on the advice of another person, this evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions that I express.

### **Scope of evidence**

[18] I have been instructed by various submitters to give expert economic advice in respect of their submissions on the proposed Inclusionary Housing Plan Change by the Queenstown Lakes District Council.

[19] This evidence comprises three parts.

- (a) The first part critiques the proposed IZ policy and evaluates the information and analysis supporting it;
- (b) The second identifies other available policy options to address the root causes of affordability for district workers; and
- (c) The third responds to the economic evidence of Mr Eqaub on behalf of the Council.

## **SUMMARY OF EVIDENCE**

### **Review of Proposed IZ Policy**

[20] This evidence reviews the proposed Inclusionary Zoning (**IZ**) policy from an economic perspective, then it identifies and briefly discusses three other options for achieving the same purpose before responding to the economic evidence of Mr Eqaub for Queenstown-Lakes District Council (**QLDC**).

- [21] While I agree that the district has a chronic housing affordability problem, I expect the proposed policy to make housing *less* affordable for virtually everyone, except the lucky few helped by the Queenstown Lakes Community Housing Trust (**Trust**).
- [22] This is because it wrongly blames developers for the issue, despite development being an integral part of the solution from an economic perspective, not the problem.
- [23] The policy also cannot be rationalised through any traditional tax lens. It is neither a corrective tax, like on smoking, nor a rent tax, like those imposed in return for (say) oil and gas permits. It also does not fit the typical definition or use of a financial contribution (**FC**) either.
- [24] Coupled with its inordinate complexity and high transactions costs, I expect the policy to have many unintended economic consequences, including increasing the risk, cost, and complexity of development, which will erode financial viability, reduce likely future supply, and place even greater pressure on district house prices and rental values.
- [25] In my view, the policy fails to address the root causes of affordability, which include the district's extremely high land prices coupled with its elevated construction costs. Those pressures are exacerbated by the impacts of short-term rental (**STR**) platforms like AirBnB, which reduce the pool of homes likely otherwise available for long term rental (**LTR**). In fact, I calculated that 23% of the district's dwellings are currently on AirBnB versus only 2.3% nationally. Others have also noted the detrimental effects of STRs on LTR availability, including respondents to a 2022 QLDC satisfaction survey.
- [26] I also consider the evidence base supporting the policy to rely too much on overseas experience, or past local experience, most of which is irrelevant because of key differences either in policy design and/or other economic, social, political, and environmental factors that influence policy outcomes. Most importantly, the proposed policy provides no incentives or benefits, like density bonuses, which help offset costs and reduce the scope for unintended economic consequences to arise. This differs from all past district IZ policies and most overseas IZ schemes.

[27] I also consider the proposed IZ policy to conflate the Trust's funding and operation, effectively presuming that it must be funded by new housing supply because it "is in the same business." That is incorrect, with many other potential funding sources available. Overall, I consider rates to be the best way for to help fund the Trust because they spread costs widely and fairly, while not penalising developers for supplying new homes to meet growth in demand. Rates are also easy to administer and can target specific groups in the community if deemed necessary.

### **Other High-Level Options**

[28] I acknowledge and support the 2023 Joint Housing Action Plan (**JHAP**), which identified nine key solutions to the district's housing issues. In addition, I have considered three broad options to help gradually address the lack of housing, particularly for low- to middle-income families. Those options, which require input from central Government and other key stakeholders, are:

- (a) Encourage much greater supply, particularly smaller homes on smaller sections, to better align future supply with local needs.
- (b) Address the STR problem to free-up more housing for LTRs; and
- (c) Facilitate the provision of purpose-built worker accommodation.

### **Response to Council Economic Evidence**

[29] I have reviewed the evidence of Mr Eaqub for QLDC and I disagree with it because it:

- (a) Fails to address any of the issues identified in my peer review of his 2022 report, which provided the economic rationale for the proposed policy;
- (b) No longer provides a cost benefit analysis (**CBA**) to assess the policy and relies on broad-brush qualitative arguments instead, which I find unconvincing;
- (c) Confuses the presence or absence of windfall gains when assessing the policy. This is critical because the lack of any

windfall gains will aggravate the proposed policy's unintended consequences and exacerbate affordability as developers seek to pass on its costs via higher section and dwelling prices;

- (d) Does not appear to fully grasp the scale and likely impact of the district's flourishing STR market, particularly its effects on the price and availability of LTRs; and
- (e) Relies too much on overseas or past local experience to assess the proposed policy's likely impacts despite not being an "apples with apples" comparison.

### **Summary and Conclusion**

[30] The Queenstown-Lakes district is a highly desirable place to live and visit. Along with supply constraints, this enduring appeal has eroded district housing affordability. The best solution is likely to be multi-faceted and require coordinated input from Central Government and other key stakeholders. Options that encourage the provision of smaller homes on smaller sections, at both pace and scale, seem the most effective and efficient ways to address the problem, so I strongly support such initiatives on economic grounds.

## **PART ONE: REVIEW OF POLICY & SUPPORTING INFORMATION**

### **The Policy is a Blunt, Ineffective & Inefficient Tool**

[31] Before critiquing the proposed IZ policy, I wish to first clearly state my unequivocal agreement that the district has a profound housing affordability issue, and that QLDC is right to consider options for addressing it. However, in my view, the proposed IZ levy is a poor policy response, with more effective and efficient options likely available.

[32] Overall, I consider the policy a blunt instrument that wrongly places the blame for the district's housing affordability woes at the feet of developers, who, from an economic perspective, are an integral part of the solution, not the problem.

[33] To explain my position, we must first step back to consider the specific resource management issue targeted by the policy. This is explained in the proposed planning provisions for this variation, which state that:<sup>1</sup>

“The combination of multiple demands on housing resources (including proportionately high rates of residential visitor accommodation and holiday home ownership); geographic constraints on urban growth and the need to protect valued landscape resources for their intrinsic and scenic values, means that the District’s housing market cannot function efficiently. This has long term consequences for low to moderate income households needing access to affordable housing.”

[34] To address that issue, the policy seeks to ensure that:<sup>2</sup>

“Affordable housing choices for low to moderate income households are provided in new residential developments so that a diverse and economically resilient community representative of all income groups is maintained into the future.”

[35] This is echoed on the variation webpage, where the stated purpose of that variation is to “support access to affordable housing for low-moderate income earners, helping to attract and retain skilled workers to the district.”<sup>3</sup>

[36] Again, this *is* an important and relevant policy target for QLDC, but the proposed IZ policy is a distortionary tax that will make new housing more expensive, and thus less affordable, for all but the lucky few helped into a home by the Queenstown Lakes Community Housing Trust (**Trust**).

[37] This perverse outcome is illustrated in the sequence of supply-demand graphs below, which are a common economic analytical technique.

[38] Figure 1 first depicts the future state of the district’s housing market without the proposed IZ policy, where market supply and demand

---

<sup>1</sup> <https://www.qldc.govt.nz/media/m45ndkpg/inclusionary-housing-plan-change-proposed-provisions-final-11-oct-22.pdf>

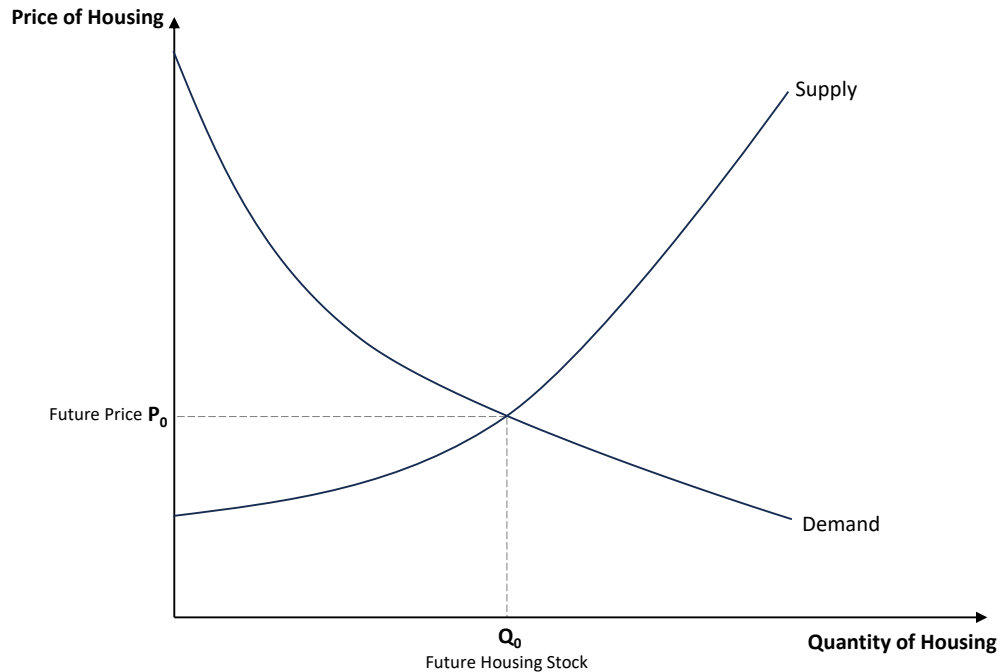
<sup>2</sup> *ibid*

<sup>3</sup> <https://letstalk.qldc.govt.nz/planning-for-affordable-housing>



intersect to yield the equilibrium (future) housing stock of  $Q_0$ , and the corresponding future average house price of  $P_0$ .<sup>4</sup>

Figure 1: Supply-Demand Graph of District's Future Housing Market **without** the Policy



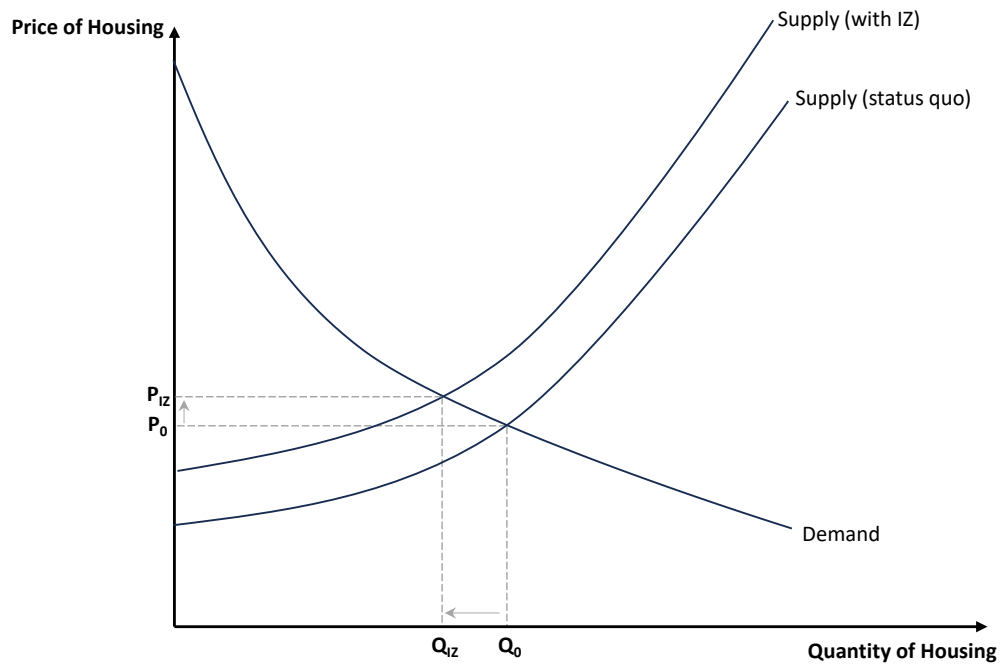
[39] The IZ policy imposes an additional tax on new housing supply, which increases its cost and shifts the market supply curve leftward, as depicted below. As that occurs, the size of the future housing stock shrinks relative to the future situation without the policy (from  $Q_0$  to  $Q_{IZ}$ ), while the average house price rises (from  $P_0$  to  $P_{IZ}$ ).

[40] Consequently, the policy reduces the future number of district homes available, and makes them less affordable for virtually everyone, except the small number assisted by the Queenstown Lakes Community Housing Trust (**QLCHT**). I return to this point shortly.

---

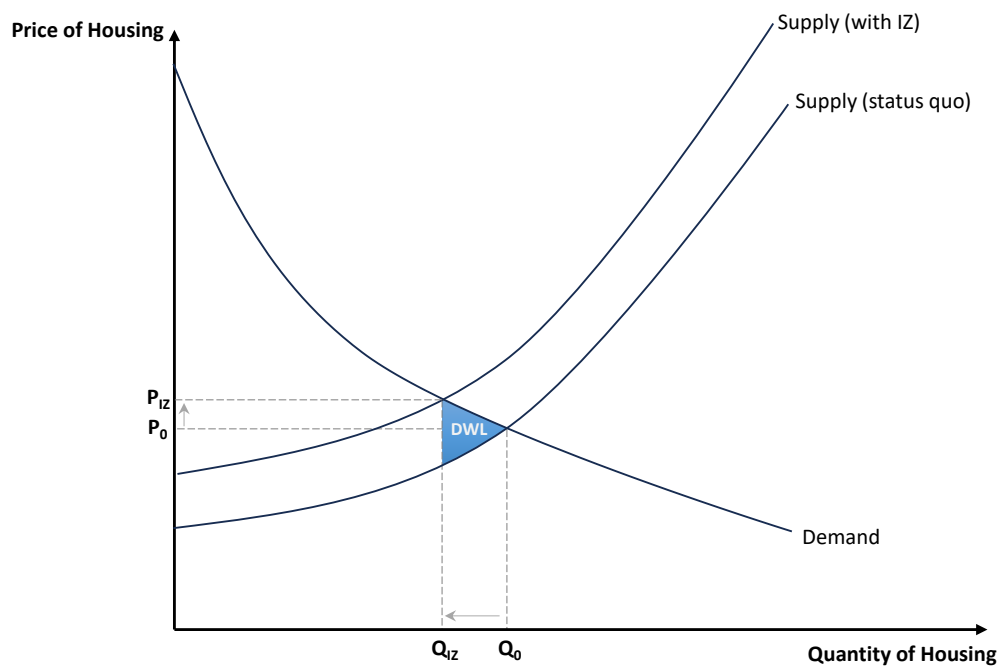
<sup>4</sup> The supply curve slopes up because, all other things being equal, a higher price entices more dwellings to be built, and vice versa. Conversely, the demand curve slopes down because a lower price makes homes more affordable to a larger number of prospective buyers, and vice versa. The intersection of these two curves defines the market equilibrium because it is a price that both (i) buyers are willing to pay for that quantity of housing, and (ii) sellers are willing to accept for it. No other price and quantity combination achieves that outcome.

Figure 2: Supply-Demand Graph of District's Future Housing Market **with** the Policy



[41] In addition to reducing housing affordability for all but the lucky few, the IZ policy also reduces economic efficiency by imposing what economists call a deadweight loss (**DWL**) of taxation. This economic inefficiency is represented by the blue triangle in the graph below.

Figure 3: Economic Inefficiency of the Policy Caused by Deadweight Losses (DWL)



[42] In essence, the policy shifts the housing market away from its optimal future price/quantity combination (i.e.  $P_0$  &  $Q_0$ ). As it does so, it erodes the gains that developers and new home buyers receive from trading with one another, which is the DWL of the policy. This is a real policy cost, which cannot be ignored.

### **Policy Lacks Rationale & Will Have Unintended Consequences**

[43] In my view, it seems oxymoronic to address housing affordability by imposing a levy that directly increases the cost of new homes. Intuitively, this will have the opposite effect, which my supply-demand analysis above confirms from a theoretical perspective.

[44] Practically speaking, FCs are usually levied to remedy or mitigate the specific, adverse environmental effects of a development in isolation. DCs, conversely, are used to recover the costs of growth-related capital expenditures that are caused cumulatively by different developments over time. Either way, FCs and DCs seek to recover the external costs of developments, which is both economically efficient and equitable.

[45] The proposed IZ FC levy, however, is neither efficient nor equitable, because it imposes a tax on new development for a problem that it has not caused, and for which that new development is instead a vital part of the solution.

[46] This contrasts, for example, with taxes imposed on harmful activities like cigarette smoking, which has negative impacts on society, and for which smokers must therefore pay excise taxes. These so-called 'corrective' taxes are economically efficient because they force individuals to account for the wider, harmful impacts of their decisions (like public health costs) and therefore ensure that the market produces outcomes that are the best for society overall.

[47] But, because there are no harmful effects of housing development that warrant a corrective tax like there is on smoking, the rationale for the proposed FC levy is unclear.

[48] Another possible explanation is that the IZ levy is meant to be a form of 'rent tax', which retains a share of the perceived excess profits (or rents)

earned, usually in return for specific rights conferred. For example, mining royalties imposed on the oil and gas sector are a form of rent tax, and they are an example of the use of a “common resource” which confers a significant value uplift or windfall to the entity extracting it.

[49] However, this description also does not fit the proposed IZ policy, because it is not tied to any form of value uplift or windfall gain, so there are no “rents” to be taxed. Instead, it is a straight-out tax.

[50] Given the lack of any obvious economic rationale for the policy, and noting its direct impacts on supply costs, I expect it to aggravate the very issue that it seeks to address. At the same time, its positive impacts will be muted, with only a modest number of lower-middle income families likely to be helped via funding generated for the QLCHT’s programmes.

[51] Overall, the **policy will likely have many unintended consequences**. They include:

- (a) Increasing the risk, cost, and complexity of development, which will erode financial viability, reduce likely future supply, and place even greater pressure on district house prices and rental values;
- (b) Impacting the district’s ability to meet its obligations to provide “at least sufficient capacity at all times” under the NPS-UD;
- (c) Pushing some prospective first-home buyers out to other areas like Central Otago District, and/or into the rental market;
- (d) Reducing the rate of future economic activity in construction, which is the district’s third largest employer. This will have knock on effects for the numerous families reliant on the incomes that construction activity provides;
- (e) Potential reputational damage for QLDC, including undermining its relationships with stakeholders in the development community;
- (f) Exposing QLDC to potential financial risk if a resulting slow-down in development activity causes an under-recovery of debt-funded growth infrastructure via lower DC revenues; and

- (g) Reducing household disposable incomes due to higher rents or higher mortgage repayments, which lowers spending on local goods and services and hence ripples throughout the economy.

**The Policy is Too Complex & Will Have High Transactions Costs**

[52] Not only do the policy’s economic foundations appear unsound, but it is also too complicated. This is demonstrated in the table below, which summarises the policy’s key elements.

Table 1: Summary of the Proposed Inclusionary Zoning Policy

| Clause   | Event       | Location  | Size         | Contribution Rate  |
|----------|-------------|---|--------------|--|
| 1(a)(i)  | Subdivision | Resi within UGB or other resi zones outside the UGB   | 2 to 19 lots | 5% of the estimated sales value of serviced lots   |
| 1(a)(ii) | Subdivision | Resi within UGB or other resi zones outside the UGB   | 20+ lots     | 5% of serviced lots  |
| 1(b)(i)  | Subdivision | Resi in other specific zones  | Any size     | 1% of the estimated sales value of serviced lots   |
| 2(a)     | Development | Resi floorspace for new/relocated units not subject to payments under 1(a)                        | Any size     | The lesser of 2% of the estimated sales value of additional units OR \$150/sqm of additional floorspace                                  |
| 2(b)(i)  | Development | Resi floorspace for new/relocated units not subject to payments under 1(b)                        | Any size     | \$75/sqm of additional floorspace  |
| 2(b)(ii) | Development | Resi floorspace for new/relocated units already subject to payments under 1(a) but not under 1(b) | Any size     | The lesser of 2% of the estimated sales value of additional units OR \$150/sqm of additional floorspace MINUS contributions already paid |

[53] Table 1 shows that the policy has several limbs, including potential top ups at construction, even if payments were already made earlier. I consider this too complex, and I also query the resulting long-term administrative burden.

[54] I am also concerned about the transaction costs of proposed levies set on estimated future sales values, which requires valuation advice, and the need to revise key policy parameters over time in line with inflation. This all introduces difficulty, cost, and delay, which will further reduce the desire and motivation to develop in the first place.

[55] In my view, the proposed provisions are far too complex, spuriously detailed, and lack real justification. As they stand, they not only present

a financial challenge, but they also make development “too hard” and will likely deter it to other areas without such onerous requirements. I note that Mr Dippie’s evidence draws similar conclusions, but from a commercial/developer perspective.

### **The Policy Fails to Identify the Root Causes of the Problem**

[56] More generally, I consider that the policy fails to properly identify and target the root causes of the district’s housing affordability problem in the first place. Below I discuss two key factors.

#### *New Housing is too Expensive to Provide*

[57] The first issue not properly identified or addressed by the IZ policy is the district’s high costs to supply new houses. Land is far too scarce, and construction costs are very high. Together, they greatly increase the cost of new housing, which flows directly into higher prices and rental values.

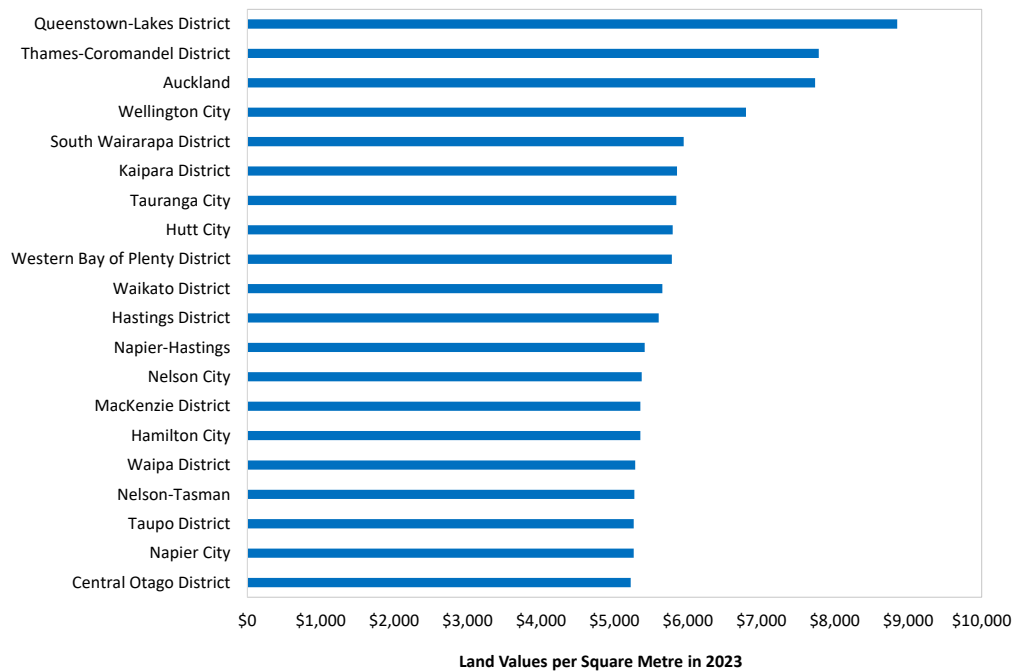
[58] To demonstrate these local cost pressures, I used data on land and construction costs by territorial authority, which are published regularly under the NPS-UD. They feed into the calculation of a price efficiency indicator called the price-cost ratio which, unsurprisingly, suggests that a lack of available land is also a big part of the problem.<sup>5</sup>

[59] Figure 4 first plots land values per square metre of floorspace for the 20 most expensive TAs in New Zealand. Queenstown-Lakes tops the chart with a value of \$8,850, which is almost 60% above the national average of \$5,630.

---

<sup>5</sup> This conclusion is reached because the price-cost ratio is 1.7. Values above 1.5 generally indicate a shortage of available land to meet growth in demand over time.

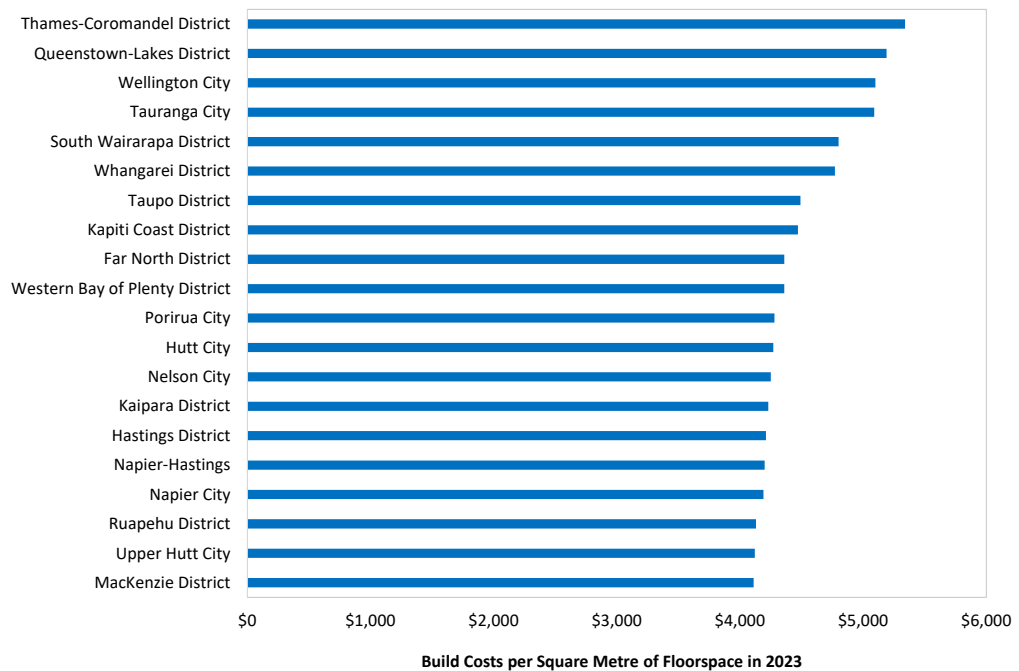
Figure 4: Land Prices per Square Metre of Floorspace in 2023 (Top 20 Territorial Authorities)



[60] While QLDC may have limited ability to address the district’s inordinately high land prices, not least due to the widespread presence of protected outstanding natural landscapes, the implications for housing affordability must be openly acknowledged. At the very least, options to amortise these extremely high land costs over more floorspace per site/dwelling should be closely considered via more enabling planning provisions.

[61] Construction costs are also high in the district, which compounds the land cost issue just identified. These are illustrated in the chart below, where the district is second only to Thames-Coromandel. Coupled with the district’s very high land costs, it is no surprise that housing is so expensive, but the IZ policy does not reflect or adequately respond to these cost pressures. Instead, it adds to them.

Figure 5: Build Costs per Square Metre of Floorspace in 2023 (Top 20 Territorial Authorities)



*The Impacts of Holiday Homes & Short-Term Rentals*

[62] In addition to the district’s very high land and building costs, an unusually high share of its dwellings are unoccupied for much of the year and/or are used as short-term rentals (**STR**) on platforms like AirBnB.

[63] The issue is that each home used in this way directly reduces the pool of properties that may otherwise be available for long-term rental (**LTR**). Thus, all other beings equal, the more homes used as STRs, the fewer available for rent, which drives up (long term) weekly rental values.

[64] Recent work by Benje Patterson<sup>6</sup> identified the high number of holiday homes and STRs as a key driver of the district’s insufficient LTR stock. His report from December 2022 examined “whether the evidence supports widespread reports that a shortage of rental housing is holding back recruitment efforts in the district.”

[65] The report’s key findings were that:

- (a) Consistent with widespread belief, the LTR situation had indeed deteriorated recently, with MBIE rental bond data – the official

<sup>6</sup> Benje Patterson, Queenstown-Lakes labour market snapshot to December 2022.



measure of LTR activity – showing 100 fewer LTRs in late 2022 than one year prior;

- (b) In addition, there was a 49% drop in district LTR listings on TradeMe during the year ended December 2022;
- (c) However, over the same period, AirBnB listings flourished; and
- (d) STRs and unoccupied holiday homes were likely the key causes of the lack of LTRs for district workers.

[66] I wholeheartedly agree with these findings but am concerned at the evident lack of an adequate policy response by QLDC.

[67] To measure the size of the district's current STR one year on from the Benje Patterson report, I wrote computer code to compile a list of all district dwellings currently on AirBnB. While this does not provide a full snapshot of current STR supply, because not all homes are listed on that platform, it is a useful starting point.

[68] To my surprise, the STR market is now much larger than it was even just a year ago. Specifically, Benje Patterson reported 3,181 homes on AirBnB and BookaBach combined in late 2022, compared to 4,447 homes in late 2023 on AirBnB alone. This is an increase of 40%, or 1,270 extra STRs, in just one year. Once BookaBach-only listings are included in today's total, the increase from a year ago will be even higher.

[69] It is not difficult to understand why so many district dwellings are being diverted to the STR market, though, as the returns can be lucrative, even if only relatively low occupancy rates are achieved.

[70] To show this, I first used the MBIE bond data to calculate average and median long term weekly rental values by number of bedrooms. Table 2 presents the details, where the average and median across all LTRs is \$803 and \$821, respectively.

Table 2: Long Term Rentals - Weekly Rents (from MBIE bond rent data)

| <b>Number of Bedrooms</b> | <b>Average Long Term Weekly Rent</b> | <b>Median Long Term Weekly Rent</b> |
|---------------------------|--------------------------------------|-------------------------------------|
| 1                         | \$546                                | \$528                               |
| 2                         | \$682                                | \$692                               |
| 3                         | \$808                                | \$833                               |
| 4                         | \$1,054                              | \$1,067                             |
| <b>ALL</b>                | <b>\$803</b>                         | <b>\$821</b>                        |

[71] Then, I extracted the median and average nightly tariffs for district AirBnB listings, which were \$406 and \$600, respectively. At these rates, homes need to achieve annual occupancies of only 25% to 30% to earn about the same annual rent as if in the LTR market, while leaving plenty of downtime for owners to occupy their homes as they please.

[72] To complete my analysis, I then wrote more code to compare the number of dwellings in each territorial authority (TA) that are either:<sup>7</sup>

- (a) On AirBnB;
- (b) Used as LTRs; or
- (c) Owner-occupied.

[73] This further highlighted the extent of the issue, with nearly 23% of the district's dwelling stock currently listed on AirBnB versus only 2.3% nationally. In addition, the number of district AirBnBs now exceeds LTRs.

[74] Overall, I consider the district's burgeoning STR market to be a key driver of its chronic, worsening affordability problem. So, too, did respondents to the Council's 2022 Satisfaction Survey. See the screenshot below.

---

<sup>7</sup> LTRs were calculated from MBIE bond rent data, while owner-occupied was calculated as the total dwelling stock (from NPS-UD data) minus LTRs minus AirBnBs.

Figure 6: 2022 Satisfaction Survey Comments on AirBnB

**TOO MANY HOUSES USED AS SHORT TERM RENTALS**  
Residents perceive that the difficulty finding rental accommodation is exacerbated by housing being rented out for short-term accommodation, in particular as Airbnb accommodation. There is a general perception amongst residents that the use of housing for short term rentals removes accommodation options for permanent residents and also contributes to the increasing prices of permanent rental accommodation in the district.

*“Stop Airbnb’s – they are pushing the rents up and causing a lot of people to leave the town, and if not, they are in constant stress. It is ruining our community. Amsterdam, Berlin, New York, have all regulated this – it’s time to stop it in QT.”*

*“Rents have again got out of control. Over \$500 a week for a one bedroom unit in Frankton is unbelievable. More needs to be done to stop people Airbnb’ing full homes.”*

*“Finding a house is very difficult in this town because every single house is being turned into an Airbnb. This is not fair and makes living very unstable, with leases ending and having to move out but no where to go. There needs to be more rentals available for people who actually live here and can’t afford to buy houses.”*

### **The Evidence Base Relies Too Much on Overseas Experience**

[75] I also believe that evaluations of the proposed policy rely too much on overseas experience, rather than analysing them directly to capture the district’s unique economic and housing context.

[76] For example, I have not seen any meaningful district-specific quantitative analyses of the proposed policy’s likely impacts on:<sup>8</sup>

- (a) Development viability, including potential variances by dwelling size or type, zone, and/or location within the district;
- (b) The future rate of dwelling supply, including potential displacement to other areas;

---

<sup>8</sup> I acknowledge that the 2022 Sense Partners report includes a cost benefit analysis (CBA). However, it is crude and flawed, as detailed in my peer review. In addition, the Sense partners report does not provide any material assessment of the other key policy considerations listed here.

- (c) Long term housing affordability for buyers and renters; or
- (d) The number of people housed by QLCHT via the funds raised.

[77] While distilling overseas experience can be a useful adjunct to direct analyses of proposed policies, from my extensive experience as an economist in New Zealand overseas experience should not be the primary or sole basis upon which policies are assessed.

[78] This is because overseas experience invariably reflects countless political, economic, social, cultural, and environmental variables that affect observed outcomes, but which vary spatially. If not properly accounted for, these contextual differences can quickly invalidate the apparent lessons of overseas experience.

[79] This issue is known as the benefit transfer problem, and it also applies when trying to transfer lessons learned within a country. For example, Auckland's experience with a certain policy will often differ from Queenstown's because of key contextual differences, such as size, location, geography, population trends, housing needs, preferences incomes, and so on.

[80] Consider, for example, Queenstown's outstanding natural landscapes. On the one hand, these increase the demand for housing but, at the same time, they limit the amount of residential land available to meet it. This unique challenge does not apply in most other parts of New Zealand, nor in many of the overseas locations cited in support of the proposal. As a result, reliance on overseas experience requires the analyst to explicitly demonstrate that the jurisdiction being studied is the same as the policy location across all relevant dimensions.

[81] To put this in context, I reviewed the information and analysis supporting the proposed IZ policy, particularly the work of Messrs Mead and Eaqub. Both seem to heavily rely on the reported outcomes of supposedly

similar IZ policies in numerous jurisdictions across Australia<sup>9</sup>, the UK<sup>10</sup>, Germany<sup>11</sup>, USA<sup>12</sup> and, “various parts of Europe.”<sup>13</sup>

[82] Personally, I doubt the relevance of these cited experiences because, again, each area differs markedly from Queenstown. In other words, there is too much contextual variation that has not been accounted for, or even acknowledged, by Messrs Mead and Eaquib.

[83] The following quote from Mr Mead’s evidence illustrates this issue:<sup>14</sup>

“While the City West scheme [Sydney IZ scheme] has an inner metropolitan city focus that is different to Queenstown Lakes District, the model of a ‘simple’ contribution regime is applicable.”

[84] In addition, most of the studies cited in support of the policy are old and reflect a different (pre-pandemic) era, where development economics were generally more favourable than now.<sup>15</sup> Again, this has not been addressed in the evidence supporting the proposed policy.

[85] Even if one could find a robust study of IZ policy impacts from a comparable jurisdiction at a similar point in time, one must also ensure that the policies themselves are sufficiently similar in design.

[86] Key IZ policy features that can vary from one place to another, and which materially affect its outcomes, include:

- (a) Whether they are voluntary or mandatory;
- (b) Whether they apply to an entire city/region, or only parts of it;
- (c) The demographic for which affordable housing is sought;

---

<sup>9</sup> Eaquib paras 5.6, 6.2; Mead paras 3.15, 3.17.

<sup>10</sup> Eaquib paras 5.6, 5.18.

<sup>11</sup> Eaquib para 5.21.

<sup>12</sup> Eaquib paras 5.6, 5.17; Sense Partners 2022 pages 17, 19, 24.

<sup>13</sup> Eaquib para 5.6.

<sup>14</sup> Mead para 3.17.

<sup>15</sup> For example, the pandemic caused global shortages of many internationally traded building products, causing huge spikes in construction costs, while also causing interest rates to surge as the inflationary effects of pandemic-related stimulus were gradually unwound. Those interest rates hikes have caused a correction in house prices, which also undermining the economics of property development.

- (d) The size of the contribution, and the mechanism used to exact it i.e. land, money, or a combination thereof;
- (e) The types and sizes of development to which it applies;
- (f) Whether obligations can be met offsite or must be provided within the development; and,
- (g) Incentives provided to offset costs or encourage participation in voluntary schemes, such as density bonuses, upzoning, expedited approvals, or fee reductions/deferrals.

[87] I do not believe that Messrs Mead and Eaquad have fully acknowledged, let alone adjusted for, these key differences in policy design across the various jurisdictions they have cited in support of the policy, so I place little – if any – weight on the conclusions they have drawn.

[88] All that said, valuable insights *can* still be gleaned from experiences elsewhere provided that relevant contextual and policy differences are identified and controlled for. This is commonly done using econometric techniques that estimate the individual and interactive/cumulative effects of different contextual and policy variables on IZ policy outcomes.

[89] A 2022 article in the Journal of the American Planning Association, co-authored by a New Zealand academic, provides the most recent and comprehensive analysis of this type. Titled *Examining the effects of policy design on affordable unit production under inclusionary zoning policies*, the article used a range of contemporary techniques to assess the impacts of different contextual and policy variables on the number of housing units produced by 539 IZ schemes across 27 states in the USA.

[90] The study emphasises the critical importance of numerous factors in the success (or otherwise) of IZ schemes. The analysis reveals that:

- (a) 46% of the schemes failed to produce any affordable homes.
- (b) Amongst the other 54%, rates of supply were modest, at best. Schemes producing 20+ units annually, in cities with an average population of 800,000, were classified as “high performers.”

- (c) Outcomes varied by location. 66% of schemes in Massachusetts produced no IZ units, compared to only 6% in California. This illustrates the important influence of wider political, economic, and environmental factors on policy outcomes.
- (d) Incentives matter. Schemes that offered incentives (e.g. density bonuses) were 67% more likely to produce at least some affordable homes, compared to those without incentives. The most successful schemes offered an average of 2.3 incentives in exchange for providing affordable homes.
- (e) Empirical studies of IZ schemes are scarce, and many that exist are methodologically flawed, analyse the same unreliable data, and/or do not control for differences that affect outcomes.

[91] I acknowledge these conclusions and consider them to have important implications for the overseas experience relied upon by Messrs Mead and Eaquad. For example, most of the 539 IZ schemes summarised above provide some type of incentives, unlike the proposed IZ policy, but their analysis fails to recognise it.

[92] Similarly, any supposed lessons from earlier iterations of the IZ policy in Queenstown are also irrelevant because they were all tied to some form of planning gain or value uplift, unlike the latest IZ policy iteration.

[93] I therefore caution reliance on overseas or past local experience to predict the likely impacts of the policy because that is not an “apples with apples” comparison.

### **Need for a More Comprehensive Approach**

[94] I have no doubt that the QLCHT provides an invaluable service to the families that it has assisted, and those that it is currently assisting. It is clearly an important part of any future solution to the district’s chronic housing affordability issues.

[95] However, one must be realistic when assessing the ability of the Trust to address this wider economic issue. The Trust is only a small player from an overall housing supply perspective, so it cannot be expected to

address the problem in isolation. Instead, a far more comprehensive and holistic approach to the issue is urgently required.<sup>16</sup>

[96] For example, QLCHT’s 2023 annual report states that it has housed 244 families since its inception in 2005, with 123 families currently housed as at mid-2023.<sup>17</sup> While that is an important contribution, it represents only 0.6% of the district’s total dwelling stock.

[97] In addition, the Trust’s eligibility criteria are strict, which precludes many prospective families from being assisted. See the figure below, which shows the ‘basic’ eligibility criteria for assistance. Additional criteria also apply for each form of assistance available.<sup>18</sup>

Figure 7: QLCHT Basic Eligibility Criteria

## General Eligibility Criteria

- You must have lived in the Queenstown Lakes district for a minimum of six months and have made this your permanent home.
- At least one adult member of your household must hold New Zealand residency or New Zealand Citizenship.
- At least one member of your household must be working full-time (minimum 30 hours per week). This requirement is waived for those who receive NZ Superannuation and in exceptional circumstances.
- You must not own or have shares, in any property or land, anywhere in the world.
- You must not own or be a beneficiary of a business or trust that has adequate income and/or assets that enable you to enter into home ownership independently.
- A satisfactory reference from a previous landlord and a satisfactory credit check.
- Your total household income from all sources cannot exceed our income caps, as set out below:

| Maximum household income (gross amount per annum) |  |                   |            |             |
|---|--|-------------------|------------|-------------|
| Number of people in your household                | Public Housing Rental  | Affordable Rental | Rent Saver | Secure Home |
| 1   |  | \$85,000          | \$85,000   | \$85,000    |
| 2   | Public Housing income caps are set by MSD. View their income caps <a href="#">here</a> . | \$107,777         | \$103,333  | \$130,000   |
| 3   |  | \$117,987         | \$113,123  | \$130,000   |
| 4   |  | \$127,063         | \$121,825  | \$130,000   |
| 5   |  | \$130,000         | \$130,000  | \$130,000   |
| 5   |  | \$130,000         | \$130,000  | \$130,000   |

Each programme is further broken down with its own set of programme parameters. You can view the detailed criteria for each programme, held under [Our Policies](#).

<sup>16</sup> This is a common theme among the papers I reviewed on IZ policies, which all call for a multifaceted approach to addressing affordability issues affecting the various areas studied.

<sup>17</sup> <https://www.qlcht.org.nz/assets/Uploads/Annual-Report-31Mar23-v2.pdf>

<sup>18</sup> <https://www.qlcht.org.nz/programmes/eligibility-criteria/>



## Decoupling the Operation and Funding of QLCHT

[98] The proposed IZ policy also seems to conflate the operation and funding of the QLCHT thereby presuming that, as a housing provider, it *must* be funded by new housing supply as it “is in the same business.” However, that is incorrect, because the Trust has many other potential funding sources available.

[99] In my view, the Trust’s funding and operations should be decoupled to enable the best long term funding source(s) to be objectively identified.

[100] Although QLDC has many funding tools available to it, I consider rates the best option for the long-term funding of the Trust because rates:

- (a) Provide a very wide tax base, thereby lowering the tax ‘rate’ required, and hence diffusing the financial burden equitably;
- (b) Do not perversely penalise developers for supplying new homes to meet ongoing growth in demand and hence aid affordability;
- (c) Are easy to design and implement, thereby minimising ongoing administrative costs; and
- (d) Can also be used to target specific groups within the community via targeted rates if deemed appropriate.

[101] For context, according to a late 2022 report by Community Housing Aotearoa<sup>19</sup>, the QLCHT received nearly \$25 million of funding from QLDC since 2005 via earlier iterations of the same IZ policy (including SHA agreements etc). Over that same period, QLDC raised \$1.02 billion from rates. If the Trust had also been funded from general rates during that time, it would have increased the average rates bill by only 2.5%.

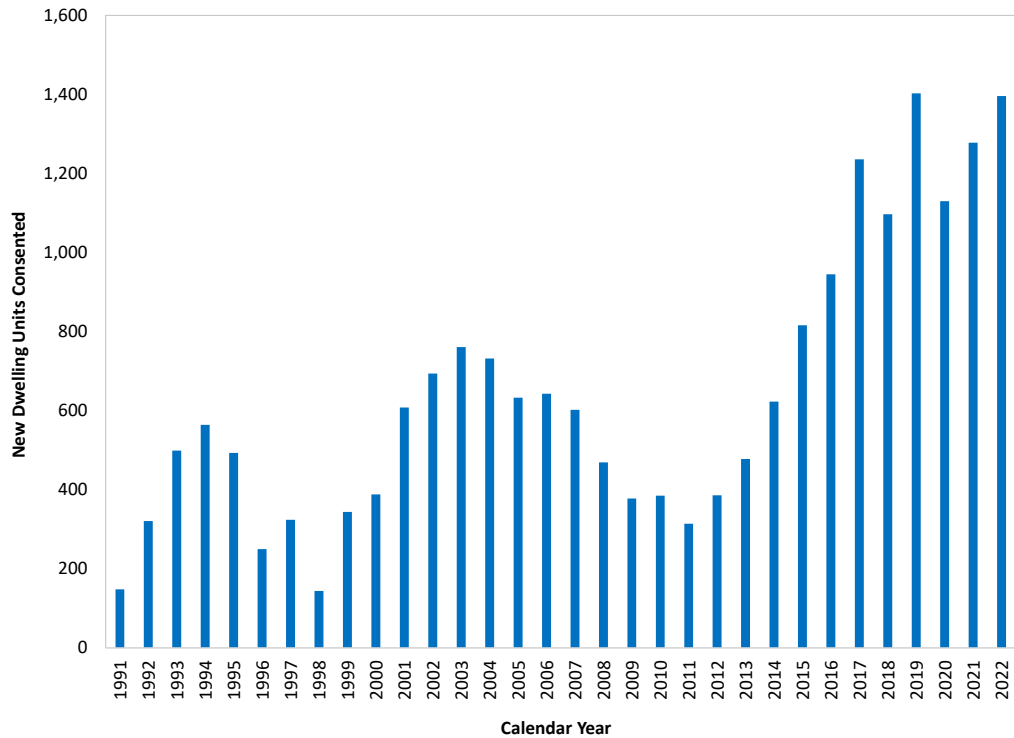
[102] In addition, and critically, rates are a much more stable and predictable revenue source than any levy tied to development because of construction’s cyclical nature. This is demonstrated in the chart below, which plots the number of new dwelling units consented in the district

---

<sup>19</sup> Community Housing Aotearoa, Inclusionary Housing - A Path Forward in Aotearoa New Zealand. October 2022.

from 1991 to 2022. Clearly, development is cyclical, and hence so too would the revenues be from any levy based on it.

Figure 8: Number of New Dwellings Consented in the District from 1991 to 2022

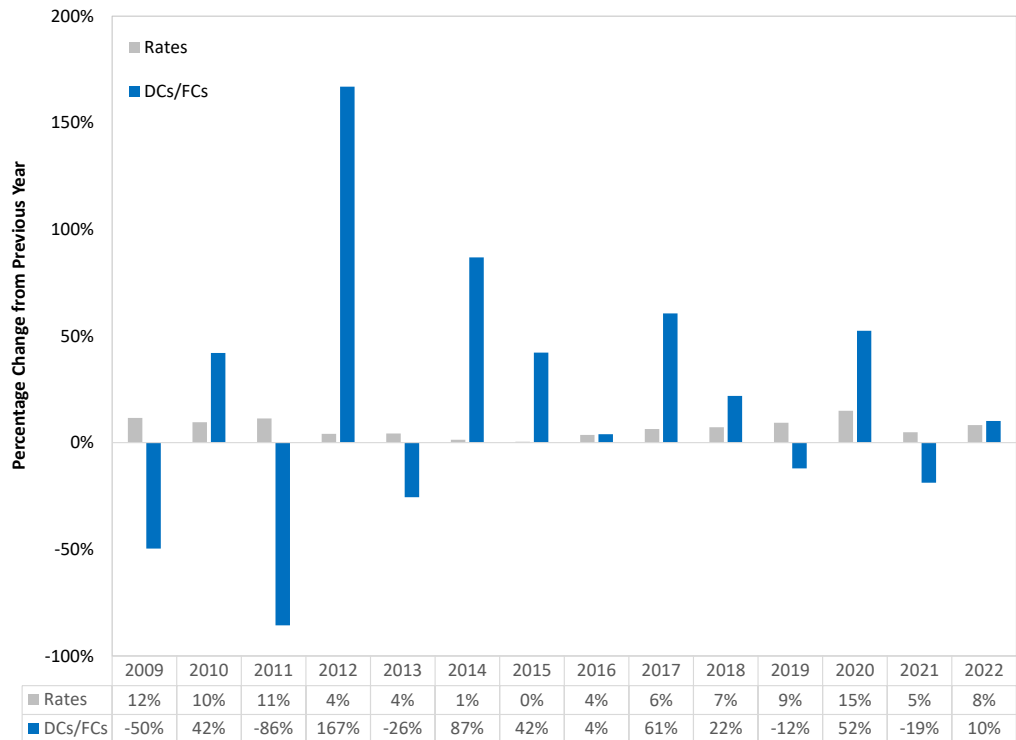


[103] To test my hypothesis that development- or construction-related levies like the proposal do not provide predictable revenue streams, I used Local Authority Financial Statistics to compare the variability of QLDC’s historic DC/FC revenues to its rates. Figure 9 presents the results. It compares year-on-year changes in QLDC’s combined FC/DC revenues and its general rates between 2009 to 2022.<sup>20</sup>

[104] Clearly, DC/FCs revenues are erratic, swinging wildly from one year to the next, while general rates are well-behaved by comparison. Since stability and predictability are both highly desirable features of funding sources, rates are an ideal way to help underwrite the Trust’s operation.

<sup>20</sup> Some FCs/DCs were collected in 2004/5 but none thereafter until 2009, after which it became a continuous annual stream. Those earlier DC/FC revenues were omitted from this comparison but would only further reinforce the point if included here due to their sporadic nature.

Figure 9: Annual % Changes in QLDC DC/FC Revenues and Rates from 2009 to 2022



[105] A 2021 legal opinion by Meredith Connell<sup>21</sup> also identified general rates as a potential alternative funding source (i.e. in lieu of the proposed FC). It noted that:<sup>22</sup>

“Rates are a particularly powerful local authority funding tool...it is very difficult for parties to challenge local authority rating decisions...we consider that QLDC could use a proportion of its general rate to address affordable housing issues in its district.”

[106] In addition, the Meredith Connell opinion noted that funds raised could be channelled into more proactive programs for addressing affordable housing, suggesting that:<sup>23</sup>

“QLDC could use a proportion of its general rates to build, or to subsidise developers through contracts to build, housing in the affordable price bracket to ensure that housing typologies that meet the needs of the district are built.”

[107] I agree with these comments from an economic perspective.

<sup>21</sup> Meredith Connell, Affordable housing – alternative mechanisms, 7 July 2021.

<sup>22</sup> Meredith Connell, Affordable housing – alternative mechanisms, 7 July 2021, para 6.

<sup>23</sup> Meredith Connell, Affordable housing – alternative mechanisms, 7 July 2021, para 8(b).

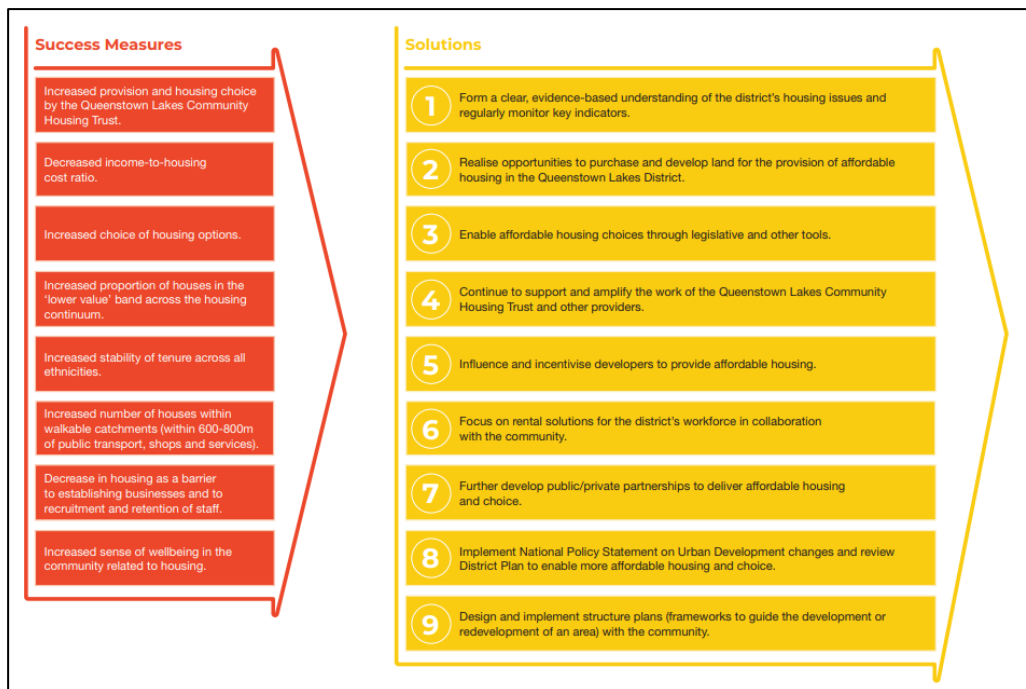
## PART TWO: IDENTIFICATION OF OTHER POLICY OPTIONS

### Introduction

[108] I have already recommended funding the QLCHT via rates to avoid undue financial burden on developers. I consider this a critical, immediate action point to avoid the proposed policy's likely unintended effects.

[109] However, supporting the Trust is just one part of a much bigger policy response required to address housing affordability. This is reflected in the 2023 Joint Housing Action Plan (JHAP)<sup>24</sup>, where supporting and amplifying the Trust's work is only one of nine solutions identified.

Figure 10: Joint Housing Action Plan – Success Measures and Solutions



[110] Within the time available to prepare this evidence, I have not been able to fully review the status of the various initiatives proposed in the JHAP. However, to assist the Hearing Panel, I now briefly discuss three broad options to improve affordability, particularly for low to middle income earners. While these are just high-level, preliminary suggestions that

<sup>24</sup> <https://www.qldc.govt.nz/media/p1epjwfi/joint-housing-action-plan-final.pdf>

need more work, I consider them to highlight the most pressing economic issues for which policy answers are quickly required.

### **Encourage Much Greater Supply (Especially Smaller Dwellings)**

[111] The first and most important long-term option is to aggressively support and enable major increases in land and dwelling supply, including incentivising the provision of smaller dwellings on smaller sections. For example, Table 2 above showed that LTR weekly rentals were much lower for two-bedroom homes than they were for three- or four-bedroom ones, so boosting the supply of smaller dwellings is a good start.

[112] Despite that need, the district continues to build quite big and expensive homes instead. This is demonstrated in Table 3, which compares the average size of new dwellings consented in the district over the last five years to all New Zealand cities. The district's average new dwelling spanned 167m<sup>2</sup> of floorspace, which was second only to Invercargill (179m<sup>2</sup> vs 167m<sup>2</sup>).

Table 3: Number and Average Size of City Dwellings Consented Over Last 5 Years

| <b>Territorial Authorities</b> | <b>Dwellings Consented</b> | <b>Average Size (m<sup>2</sup>)</b> |
|--------------------------------|----------------------------|-------------------------------------|
| Invercargill City              | 1,002                      | 179                                 |
| Queenstown-Lakes District      | 6,328                      | 167                                 |
| Porirua City                   | 1,670                      | 161                                 |
| Palmerston North City          | 2,397                      | 158                                 |
| Nelson City                    | 1,405                      | 153                                 |
| Napier City                    | 1,588                      | 152                                 |
| Dunedin City                   | 2,453                      | 151                                 |
| Tauranga City                  | 6,435                      | 151                                 |
| Auckland                       | 88,542                     | 145                                 |
| Upper Hutt City                | 1,424                      | 138                                 |
| Christchurch City              | 18,032                     | 132                                 |
| Hamilton City                  | 7,754                      | 131                                 |
| Wellington City                | 5,505                      | 116                                 |
| Lower Hutt City                | 4,240                      | 104                                 |
| <b>Totals (14 TAs)</b>         | <b>148,775</b>             | <b>143</b>                          |

[113] The urgent need for a more aggressive supply strategy also appears to conflict with the apparent views of some QLDC advisors, who evidently consider there is already sufficient capacity to meet long-term demand.<sup>25</sup>

<sup>25</sup> See, for example, paragraphs 4.13 & 4.14 of Mr Mead's section 42A report, where he states that significant supply is enabled already, and hence that more supply is not the complete answer to affordability.

[114] I do not know the origins of that viewpoint, but the district's 2021 HCA – which is still the latest available – does not seem to support it.

[115] See the screenshot below, which summarises the 2021 HCA's findings on long-term sufficiency by location and by dwelling type. Red text and shading show a shortfall, while green shows a surplus (i.e. sufficiency).

Figure 11: 2021 HCA Long-Term Sufficiency by Area & Dwelling Type (Urban Environment Only)

| Reporting Area                  | Future Demand (incl. margin) |               |               | Potential Future Estate (RER Capacity + Existing Estate) |               |               | Sufficiency   |               |            |
|---------------------------------|------------------------------|---------------|---------------|--|---------------|---------------|---------------|---------------|------------|
|                                 | Detached                     | Attached      | Total         | Detached   | Attached      | Total         | Detached      | Attached      | Total      |
| Arrowtown                       | 1,100                        | 480           | 1,500         | 1,200  | 200           | 1,400         | 140           | -280          | -140       |
| Arthurs Point                   | 370                          | 260           | 630           | 760  | 210           | 970           | 390           | -50           | 340        |
| Eastern Corridor                | 2,400                        | 1,100         | 3,500         | 1,400  | 230           | 1,700         | -960          | -890          | -1,900     |
| Frankton                        | 2,500                        | 1,400         | 3,900         | 1,600  | 2,700         | 4,300         | -900          | 1,300         | 400        |
| Kelvin Heights                  | 840                          | 330           | 1,200         | 1,200  | 110           | 1,300         | 330           | -220          | 110        |
| Outer Wakatipu                  | -                            | -             | -             | 10   | -             | 10            | 10            | 0             | 10         |
| Quail Rise                      | 670                          | 250           | 920           | 220  | 260           | 480           | -450          | 10            | -440       |
| Queenstown Town Centre          | 3,400                        | 2,200         | 5,600         | 5,000  | 5,200         | 10,200        | 1,600         | 3,000         | 4,600      |
| Small Township - Wakatipu       | 540                          | 320           | 860           | 960  | 250           | 1,200         | 420           | -70           | 350        |
| Southern Corridor               | 3,600                        | 1,400         | 5,000         | 1,300  | 230           | 1,500         | -2,300        | -1,200        | -3,400     |
| <b>Wakatipu Ward Urban Env.</b> | <b>15,400</b>                | <b>7,700</b>  | <b>23,100</b> | <b>13,700</b>  | <b>9,400</b>  | <b>23,100</b> | <b>-1,700</b> | <b>1,700</b>  | <b>-30</b> |
| Cardrona                        | 330                          | 130           | 460           | 650  | 150           | 800           | 320           | 30            | 340        |
| Lake Hawea                      | 1,300                        | 590           | 1,800         | 680  | 100           | 780           | -570          | -490          | -1,100     |
| Luggate                         | 360                          | 150           | 510           | 570  | 10            | 580           | 210           | -140          | 70         |
| Outer Wanaka                    | -                            | -             | -             | -  | -             | -             | 0             | 0             | 0          |
| Wanaka Town Centre              | 8,400                        | 3,700         | 12,100        | 10,100   | 2,700         | 12,800        | 1,700         | -960          | 710        |
| <b>Wanaka Ward Urban Env.</b>   | <b>10,300</b>                | <b>4,500</b>  | <b>14,900</b> | <b>12,000</b>  | <b>3,000</b>  | <b>14,900</b> | <b>1,600</b>  | <b>-1,600</b> | <b>60</b>  |
| <b>Total Urban Environment</b>  | <b>25,700</b>                | <b>12,200</b> | <b>38,000</b> | <b>25,700</b>  | <b>12,300</b> | <b>38,000</b> | <b>-70</b>    | <b>100</b>    | <b>30</b>  |

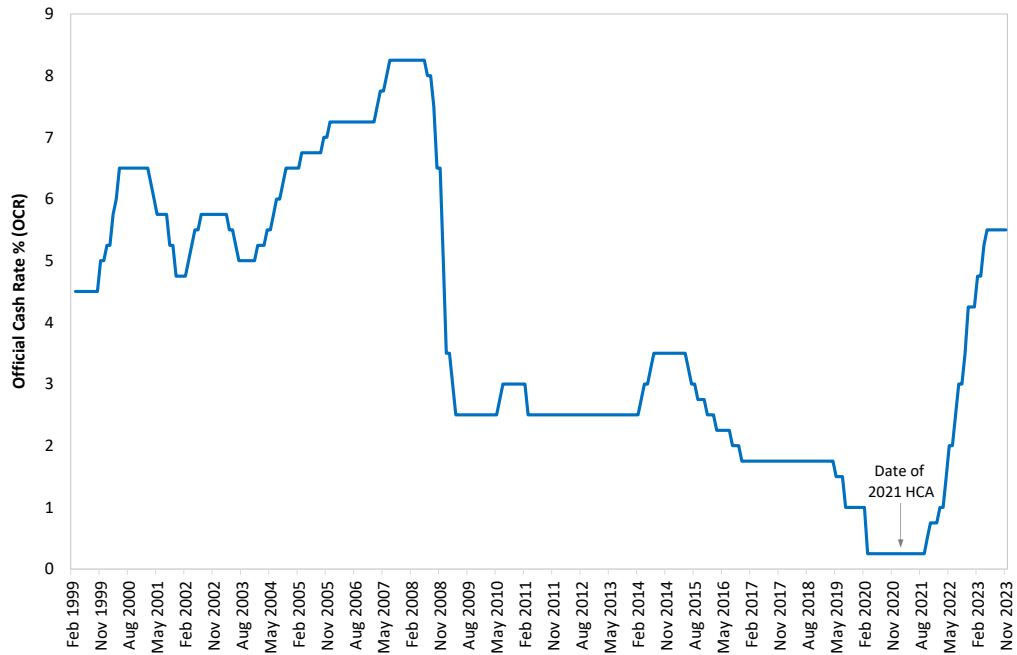
Source: M.E QLD Capacity Model 2021 and M.E Housing Demand Model, 2021.

[116] Figure 11 reveals that the district already had insufficient capacity in many locations, and for many dwelling types, in early 2021. Fast forward to now, and the situation has likely deteriorated due to recent, rapid declines in development viability. This, in turn, reflects:

- (a) Stagnating (or much slower growing) house prices;
- (b) Large and sustained spikes in construction costs, which are up 32% since the 2021 HCA; and
- (c) The rapid rebound of interest rates from historic lows in 2020/1.

[117] The latter is illustrated in the official cash rate (**OCR**) chart below. Clearly, interest rates are much higher now than back then. Coupled with higher construction costs, development viability is challenging indeed.

Figure 12: Changes in the Official Cash Rate (OCR) Over time



[118] I am also aware of many prospective developers that have struggled to secure finance, even for projects that still stack up on paper, which is likely further hampering the district’s ability to supply enough homes.

[119] As a result, overall, I place little weight on the 2021 HCA to determine if there is sufficient capacity to meet demand.<sup>26</sup>

[120] Instead, QLDC, developers, and other key stakeholders should work collaboratively to unlock smaller homes on smaller sections at pace and scale to help realign future housing supply with evolving housing needs.

**Address the STR Problem**

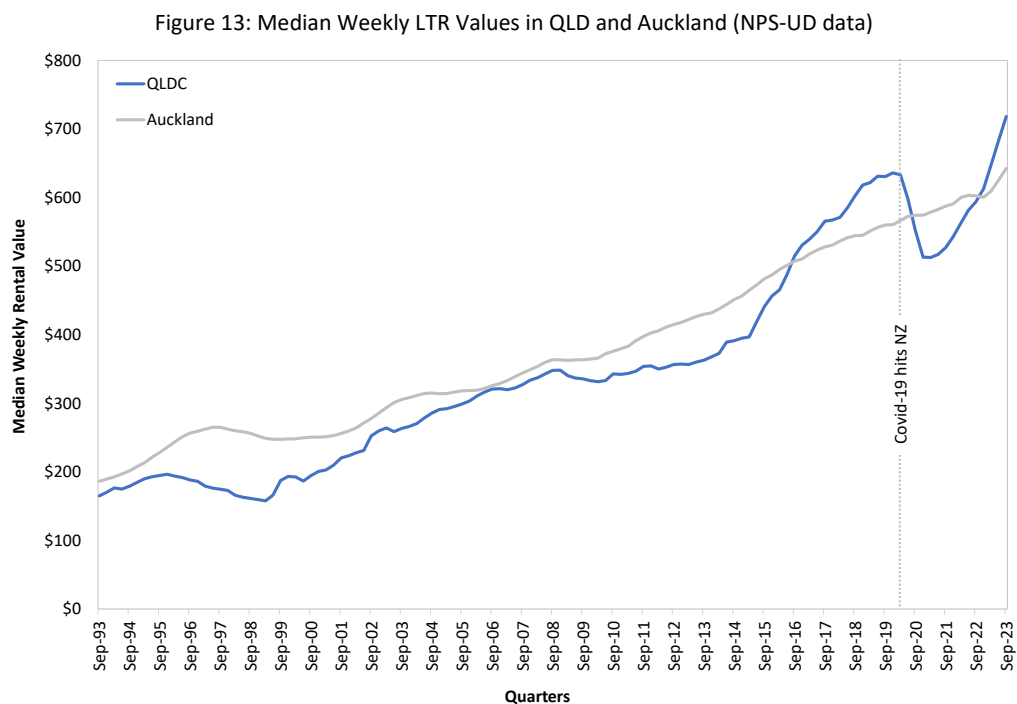
[121] As discussed earlier, the district has a pressing lack of LTRs, with STRs like AirBnB widely considered to be a contributing factor.

[122] QLDC is alive to the issue too, and even initiated a plan change in 2017 to limit the scope and growth of residential visitor accommodation (**RVA**),

<sup>26</sup> There are also other issues with the 2021 HCA, including that it (i) significantly underestimated short term growth, expecting only an extra 210 households between 2020 and 2023 vs estimated population growth of 5,100 people over that period (ii) understates demand for second/holiday homes and STRs, assuming that they will account for only 3.5% of future demand despite 28% of district homes being unoccupied at the 2018 census (iii) adopts unusual assumptions about infrastructure serviceability, and (iv) assumes that virtually all plan enabled, serviceable and feasible capacity will be realised, which overlooks numerous factors that naturally limit the rate of market supply.

which is another name for STRs. However, “there wasn’t deemed enough evidence to correlate housing issues with the supply of [residential] visitor accommodation.”<sup>27</sup>

[123] I accept that there was probably insufficient evidence in 2017 to prove the point, but the impacts of Covid-19 have since provided a timely natural experiment into the effects of STR supply on LTR price and availability. See Figure 13 below, which plots weekly LTR values for the district and Auckland since the mid-1990s using NPS-UD data.



[124] As we can see, when Covid-19 hit New Zealand, there was a rapid drop in the weekly rental value for LTRs in the district, but not in Auckland. This is because the pandemic caused a sudden drop in district STR listings, with many of those homes becoming LTRs. This, in turn, caused a sudden drop in district LTR values. However, since STRs account for a much smaller share of Auckland’s overall housing market (1% vs 23%), the same effects cannot be seen there, nor elsewhere generally.

[125] In my view, this graph demonstrates that there is a direct interplay between the STR and LTR markets, so some form of regulation may be

<sup>27</sup> <https://www.qldc.govt.nz/2023/february/23-02-01-changes-to-visitor-accommodation-rules-follow-environment-court-decision/>



needed to help recalibrate district LTR availability and affordability via limits on STRs. Again, however, this will likely need joint action between local and central Government.

### **Facilitate Purpose-Built Worker Accommodation**

[126] The other obvious policy option is to introduce planning provisions, and other related measures, that make it easier to provide dedicated worker accommodation, and to do so at both pace and scale.

[127] For example, planning rules could be altered to facilitate the provision of purpose-built prefabricated workers accommodation that would directly address the lack of housing for that market segment. The costs would presumably fall on the firms seeking to house workers, but there could be some flexibility in the specific delivery mechanisms via which the buildings themselves are physically provided.

[128] Such ideas are not new. I am aware of other district businesses that already provide worker accommodation to address the very issue that the IZ policy targets, but not necessarily in the way suggested here. In addition, worker accommodation is also explicitly provided for in resort zones (so they should be exempt from the IZ policy in the first place).

## **PART THREE: RESPONSE TO COUNCIL'S EVIDENCE**

### **Summary of Previous Peer Review**

[129] As noted earlier, I was commissioned in late 2022 to review Mr Eaquab's economic report for the proposed IZ policy, titled *The Economic Case for Inclusionary Zoning in QLDC – An Important Piece of the Puzzle* (dated 13 July 2022).

[130] My review identified several shortcomings with the report's analysis and conclusions, including that it:

- (a) Assumes that the policy will reduce the rate of worker turnover to the national level, and that this will have huge economic benefits. However, my statistical analysis showed that the district's high worker turnover was largely unrelated to housing affordability and instead reflected the district's seasonal economy plus its young

and highly transient international workforce. None of these underlying causes would be addressed by the proposed policy.

- (b) Treats housing developers as part of the problem despite instead being a critical part of the solution (by providing new housing to meet ongoing growth in demand). As a result, the policy will have serious unintended consequences, including increasing the price of new homes and eroding affordability for virtually everyone.
- (c) Did not identify a market failure to justify policy intervention. If the costs of worker turnover were as high as the report suggested, businesses already have a compelling reason to address it without the need for QLDC to act on their behalf.
- (d) Failed to consider impacts on development viability and hence the rate of new housing supply.
- (e) Relied almost entirely on the supposed effects of prior inclusionary zoning policies locally, or overseas experience, to justify the policy despite often not being vaguely comparable.
- (f) Included a flawed and misleading cost benefit analysis (**CBA**) that (i) was built on unsubstantiated benefit assumptions, (ii) omitted important policy costs, while (iii) masking major distributional effects. When the CBA was populated with more realistic input values, it indicated that the policy would have net costs of -\$114 million to -\$253 million over 30 years.

[131] I contacted Mr Eqaub in late 2022 to discuss my findings, but he did not wish to engage.

### **Comments on Mr Eqaub's Evidence**

#### *Continued Failure to Respond to Peer Review*

[132] Mr Eqaub recently produced a brief of evidence, which I hoped might answer some of the issues arising from my peer review. That was piqued by an introductory comment in his evidence, which disclosed that he had

been “asked by the Council to consider the findings of my 2022 report in light of the submissions received.”<sup>28</sup>

[133] Despite my name appearing three times in Mr Eqaub’s evidence<sup>29</sup>, however, it does not provide any substantive responses to the numerous issues identified in my peer review. In addition, his three brief responses either miss the point and/or systematically downplay the very resource management issue that he himself cited to justify the policy.

[134] For example, at para 4.24 of his evidence, Mr Eqaub remarks that:

“My evidence focusses on the housing issues, because that is what Inclusionary Housing policy is for. I disagree with the submission by Mr Colgrave [sic] which seems to think that the main consideration for Inclusionary Housing policy is to reduce labour turnover.”

[135] This comment makes no sense to me. My peer review did not state that IZ policies were designed to reduce worker turnover, and the first part of my peer review focussed on that issue only because it was the key policy rationale identified by Mr Eqaub in his 2022 report.

[136] For example, section three of Mr Eqaub’s report, which is titled *Housing affordability and its consequences*, argues that housing affordability is a “billion dollar” problem for the district before devoting the rest of that section to supposed links between housing affordability and worker turnover. The term “turnover” appears 22 times in that section alone, plus another 12 times elsewhere in his report. No other RMA issue receives anywhere near the same attention as worker turnover.

[137] In addition, Mr Eqaub’s report concludes that addressing worker turnover is the key economic benefit. Specifically, it states that:<sup>30</sup>

“The largest benefit is from improved labour market outcomes and stability (reduced turnover), which adds \$27m-\$53m of economic benefits, discounted over 30 years at 6%.”

---

<sup>28</sup> Eqaub para 2.1.

<sup>29</sup> Eqaub paras 3.9, 4.24, and 5.20.

<sup>30</sup> Eqaub para 4.28.

[138] For context, these reduced worker turnover benefits account for more than 90% to 95% of the economic impacts estimated in the 2022 CBA.

[139] In summary, the issue of work turnover was a central part of Mr Eaqub's original report, and that is why I responded to it in my peer review.

[140] For the record, I confirm that all the issues identified in my peer review remain unaddressed today, with Mr Eaqub's recently exchanged evidence raising further concerns. I elaborate briefly below.

#### *Apparent Departure from CBA Approach*

[141] The other stated purpose of Mr Eaqub's evidence was to consider "whether there have been any material changes since July 2022 to the assumptions and data used" in his prior analysis.<sup>31</sup> I took this to mean in relation to his cost benefit analysis (**CBA**).

[142] However, not only does Mr Eaqub's evidence fail to address any material changes that might affect his prior analyses, including his CBA, but he also no longer mentions the CBA at all.<sup>32</sup>

[143] As a result, and seemingly without explanation, Mr Eaqub's evidence appears to be an unannounced, wholesale departure from his prior approach to analysing the policy's likely economic effects. For example, his conclusion now simply states the following in relation to likely policy costs and benefits:<sup>33</sup>

"My analysis suggests that from a monetary perspective, the benefits and costs accrue to different cohorts, but that the overall net impact is neutral at worst, but most likely positive."

[144] I do not understand the reasoning behind this abrupt change of tack and the resulting, broad-brush nature of Mr Eaqub's latest analysis. It fails to quantify (let alone monetise) any policy outcomes, including likely effects on:

---

<sup>31</sup> Eaqub para 2.1.

<sup>32</sup> Except in passing at para 4.19

<sup>33</sup> Eaqub para 6.5.

- (a) Development viability, including potential variances by dwelling size or type, zone, and/or location within the district;
- (b) The future rate of dwelling supply, including potential displacement to other areas;
- (c) Long term housing affordability for buyers and renters; or
- (d) The deadweight loss of the policy, which is a real economic cost.

*Confusing Commentary on Windfall Gains*

[145] Another issue arising from Mr Eaqub's evidence is the seemingly fluid understanding of the policy's context, especially around windfall gains. On the one hand, the evidence records that the proposed policy will apply absent windfall gains, unlike previous IZ policies or agreements, yet later the evidence appears to contradict that.

[146] This is important because windfall gains or other incentives can help offset policy costs, thereby improving effectiveness while minimising any unintended consequences.

[147] For example, at para 5.2, Mr Eaqub's evidence concedes that past application of the policy applied mainly on the upzoning of land, but that the new policy does not.<sup>34</sup>

[148] This is correct, but Mr Eaqub's evidence seems to contradict this several times later, including at:<sup>35</sup>

- (a) Para 5.9, where it states argues that inclusionary housing is a levied on those who receive or have received planning windfall gains; and
- (b) Para 5.10, where it states that inclusionary housing is better than rates because it is targeted at those reaping planning gains.

[149] These comments lead into a broader discussion of inclusionary housing as a share of planning gains (from para 5.11 onwards), where Mr

---

<sup>34</sup> Eaqub para 5.2.

<sup>35</sup> Eaqub paras 5.9 and 5.10.

Eaqub's evidence frequently muddles the presence or absence of planning gains within the context of the proposed new policy. I am not convinced by his analysis.<sup>36</sup>

[150] This raises the issue of how the proposed levy would likely be borne by developers and/or the buyers of new homes or sections. A worked example, for the subdivision of urban zoned land, may assist.

[151] Suppose a developer spends \$8 million to create 20 new residential lots (i.e. at a cost of \$400k each), which they plan to sell for \$500k each to earn a standard developer margin of 25%.

[152] Now, suppose that one of the 20 lots is gifted to QLDC via the proposed policy, leaving 19 to sell "on market." The developer can either:

- (a) Sell those 19 lots for an extra \$26,300 each (\$526,300) to offset the financial cost of the policy and maintain their 25% margin or
- (b) Sell them for less than \$526,300 each and earn a lower margin.

[153] Accordingly, in this example, the policy either:

- (a) Directly increases the prices of new land and dwellings as the tax is passed on (at least partly) via higher selling prices; and/or
- (b) Reduces profitability. If profitability falls below the minimum rate of return, development activity may be deferred (in time and/or in space to other areas), which lowers supply and increases prices.

[154] Regardless, the price of new homes will increase for all but the lucky few assisted by the Trust, so the absence of windfall gains fundamentally alters the policy's likely impacts. The quote below from the international literature neatly captures this point:<sup>37</sup>

"Mandatory programs with no offsets can lead to lower overall numbers of units produced (although the impact can vary depending on local market and economic conditions), but mandatory programs

---

<sup>36</sup> Eaqub para 5.11.

<sup>37</sup> <https://ihiusa.org/wp-content/uploads/Seperating-Fact-from-Fiction.pdf>

with cost offsets including density bonuses and fast-track permitting are much more effective at creating an environment where an inclusionary housing program can both create more affordable units and mitigate potential negative impacts on the overall housing market.”

[155] However, Mr Eqaub’s assumptions about the presence or absence of windfall gains appear to somewhat waver throughout his evidence, which undermines my confidence in the now largely qualitative policy assessment set out therein.

*Failure to Recognise the Magnitude & Implications of STRs/Visitors*

[156] Mr Eqaub’s evidence spends considerable time reconciling the district’s rate of population growth with new dwelling supply to see whether enough housing is being built to keep up with demand.

[157] He produces graphs on pages 11 and 12 showing that QLD builds new dwellings at roughly the same rate as the national average relative to population growth, from which he concludes at para 3.17 that:<sup>38</sup>

“My assessment is that the demand for housing in QLD is so high that even though the rate of building in the district is high by national comparison, it is not enough to meet overall demand and this shortage has a concentrated negative effect on affordability and availability on lower income earners.”

[158] However, this conclusion overlooks additional dwelling demand from second/holiday homes or people wanting to enter the STR market. Instead, it only considers dwelling demand related to population growth.

[159] This omission is subsequently acknowledged later at para 4.5, where Mr Eqaub’s evidence accepts that the district faces additional demand from second/holiday homes, or people purchasing homes to use as STRs. His evidence even acknowledges at para 4.7 that recent changes in tenancy laws have made STRs more attractive, but Mr Eqaub does not

---

<sup>38</sup> Eqaub para 3.17.

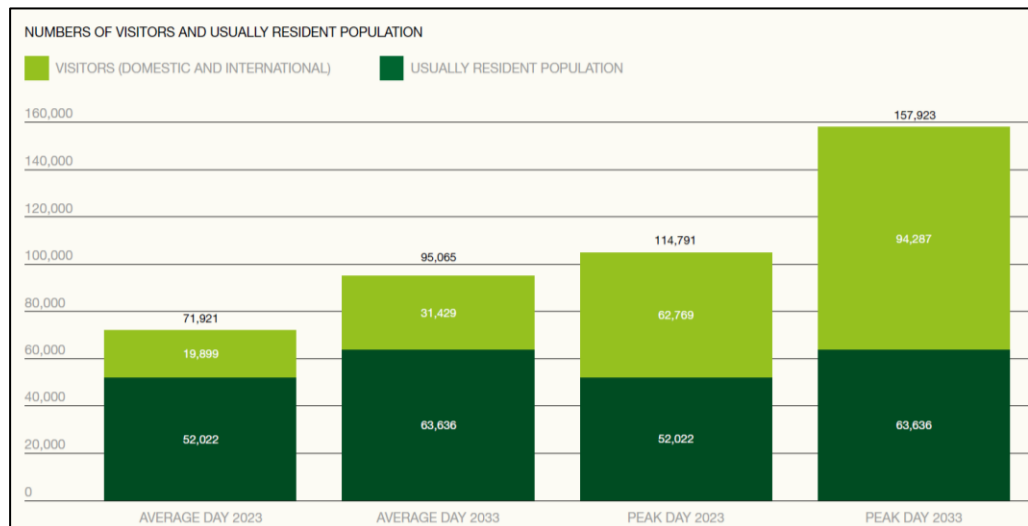
redo his calculations to include demand from any sources other than the resident population.<sup>39</sup>

[160] With nearly 4,450 (23%) of district homes currently listed on AirBnB, I consider the STR market to be a major missing piece of the puzzle in Mr Eaquab's analysis of supply sufficiency. I also disagree with his unreferenced claim at para 4.5 that there are only 1,800 district properties currently on AirBnB. My analysis shows that the true number is much larger, as did Benje Patterson, who estimated it to be 3,181 in late 2022.<sup>40</sup>

[161] For context, Figure 14 shows the growth projections adopted by QLDC in its 2023/24 Annual Plan, which are split into residents and visitors. Clearly, visitors are a large share. In fact, there are already more visitors in the district on peak days than usual residents, with this gap projected to increase over time.<sup>41</sup>

[162] Unfortunately, however, Mr Eaquab's evidence does not adjust for this effect when assessing rates of new housing supply and demand, which I believe has distorted his view of the district's broader housing situation.

Figure 14: QLDC Growth Projections from its 2023/24 Annual Plan



<sup>39</sup> Eaquab paras 4.5, 4.7.

<sup>40</sup> Eaquab para 4.5.

<sup>41</sup> I acknowledge that some visitors will stay in commercial visitor accommodation, but recent trends suggest that an increasing share will stay in STRs instead, which directly increases the demand for STR-related housing over time.



### *Reliance on International and Past Local Experience*

[163] As discussed above, I disagree with Mr Eaquab's reliance on international or past local experience to assess the policy's likely impacts.

[164] Most of the overseas studies cited reflect different policy designs and contexts, and are from different points in time, so they offer few if any insights into the proposed policy as-is.

[165] Similarly, past local experience with earlier versions of the policy are also irrelevant because they were invariably offset by various incentives, such as density bonuses, unlike the proposed new policy.

### **SUMMARY & CONCLUSION**

[166] The Queenstown-Lakes district is a highly desirable place to live and visit. Along with supply constraints, this enduring appeal has eroded district housing affordability. The best solution is likely to be multi-faceted and require coordinated input from Central Government and other key stakeholders. Options that encourage the provision of smaller homes on smaller sections, at both pace and scale, seem the most effective and efficient ways to address the problem, so I strongly support such initiatives on economic grounds.

**Fraser James Colegrave**

21 December 2023