

Full Council

19 September 2024

Report for Agenda Item | Rīpoata moto e Rāraki take [7]

Department: Strategy & Policy

Title | Taitara: Update to the Longview Hāwea Special Housing Area Deed (Infrastructure and Affordability) between Council and Universal Developments

Purpose of the Report | Te Take mō te Pūroko

The purpose of this report is to present a proposed update to the Longview Hāwea Special Housing Area deed between Council and Universal Developments.

Executive Summary | Whakarāpopototanga Matua

In 2018, Queenstown Lakes District Council (QLDC), Queenstown Lakes Community Housing Trust (QLCHT), and Universal Developments (the developer) entered into a stakeholder deed (**Attachment A**) to support establishing a Special Housing Area under the Housing Accords and Special Housing Areas Act 2013. The deed sets out various obligations, including for the developer to offer affordable housing at set agreed price points. The deed anticipated the need to update these prices due to changes in cost, demand, or government policy, and requires QLDC to give reasonable consideration to requests to do so. Prices have already been increased once before via a resolution in Council in January 2021.

The developer has proposed a range of new prices for the house/land packages. The deed requires Council when assessing changes to consider “changes in building costs in the Queenstown Lakes District, demand, or government and other policies”. QLDC officers have commissioned advice from a local quantity surveyor to provide an independent view on the market values and the extent of construction inflation for these packages to inform an assessment of the proposed prices.

This advice shows that these proposed prices are greater than construction-cost inflated prices from 2021, but lower than prices inflated with the market. Market prices have increased sharply, reflecting demand changes as well as cost factors.

Given the increase in demand and market prices, the construction cost inflation, wider costs, the current pressure on building companies, and the significant discount on market rates, officers consider the proposed prices are reasonable.

Recommendation | Kā Tūtohu

That the Council:

1. **Note** that the Hāwea Special Housing Area Deed (Infrastructure and Affordability) requires Universal Developments to advertise house/land packages at set prices, and anticipates the need to update these prices due to changes in cost, demand, or policy;

2. **Note** that Universal Developments has proposed new prices for the house/land packages at Longview, and that the deed requires Council to give reasonable consideration to this request;
3. **Note** that given the wider costs, the pressure on building companies, and the significant discount on market rates, officers consider the proposed prices are reasonable;
4. **Accept** the proposed variation to clause 41 of the Hāwea Special Housing Area Deed (Infrastructure and Affordability);
5. **Delegate** to the General Manager, Planning and Development the authority to execute the variation on behalf of the Council, subject to any non-material changes to reflect any further legal advice received; and
6. **Resolve** that the report and resolutions may become public once all parties sign the new variation, excepting the independent report which will remain public excluded to avoid prejudicing the commercial position of the developer and builders.

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2 September 2024

Reviewed and Authorised by:



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Title: GM – Strategy and Policy (Acting)
2 September 2024

Context | Horopaki

The deed sets house/land package prices and anticipates the need to increase these over time

1. In 2018, QLDC, QLCHT, and Universal Developments (the developer) entered into a stakeholder deed (**Attachment A**) to support establishing a Special Housing Area under the Housing Accords and Special Housing Areas Act 2013. The development, Longview, has 472 sections total. The deed requires the developer to provide 59 sections to QLCHT at no cost (“community housing”), and to promote house/land packages at set prices for the remaining sections (“affordable housing”). There are now 129 unsold sections, 11 of which are going to the QLCHT.
2. The community housing obligations in this deed have been immensely valuable for QLCHT, as the deed requires 12.5% of the land to be gifted to QLCHT at no cost (most other community housing requirements are around 5% of the land). These 59 homes will be retained in perpetuity to support the community. To date, QLCHT has received 48 sections worth approximately \$22 million, including nine ahead of schedule.
3. With regard to affordable housing there is a requirement to promote house/land packages at Longview until the sections are all sold. Clause 41¹ of the deed, as updated in January 2021, states:

Until the Hawea SHA outcome is achieved the Developer shall promote, so as to make widely known in the Queenstown Lakes District, land and dwelling packages for purchase with the following characteristics:

- a. *two bedroom, two bathroom single garage dwelling, with driveway and front yard landscaping for \$499,000.00;*
 - b. *two bedroom, one bathroom, double garage dwelling, with driveway and front yard landscaping for \$499,000.00;*
 - c. *three bedroom, two bathroom, single garage dwelling, with driveway and front yard landscaping for \$549,000.00*
 - d. *three to four bedroom, two bathroom, double garage dwelling with driveway and front yard landscaping for \$599,000.00*
4. The deed anticipates that these prices may need to be increased from time to time, due to changes in building costs, demand, or Government and other policies. Clause 42 states:

The Developer may, from time to time, propose to the Council amended or alternative land and dwelling packages where necessary or desirable because of demonstrated changes in building costs in the Queenstown Lakes District, demand, or government and other policies promoting home ownership and first home ownership. Should the Council agree that amendments or alternatives are appropriate, the parties will record the agreement by way of variation to this Deed. QLCHT agrees that its agreement to a variation under this clause will follow that of the Council’s and that it will execute any deed recording the variation.

¹ These prices are the new prices that were agreed to in a 2021 amendment via a resolution in Council in Jan 2021, see Attachment B.

5. Council is required to give reasonable consideration to these requests. Clause 67 states:

No variation to this Deed shall be binding unless the variation is in writing and signed by the parties. The Council and QLCHT shall each give reasonable consideration to any proposals by the Developer requesting a variation of this Deed.

6. Full Council approved an increase in these prices once before in January 2021 (see **Attachment B**) for the following reasons:

- the real estate market and build costs had continued to increase
- the Government increased the threshold for access to the Homes Start Grant from \$550,000 to \$650,000 for the Queenstown Lakes District
- COVID-19 had also impacted the financial conditions of developments.

7. When the development was launched the packages were widely promoted and over 100 were sold (out of 472 sections total). The developer has advised that there have been no more sales at the set price since then. In practise, the developer sells the sections and relies on the building companies to deliver the packages. There are now only 118 sections remaining for sale. The developer has noted that many customers prefer to modify the basic packages when building a new home rather than take up the set price version.

The developer has advised that they can no longer deliver the packages at the set prices

8. Through monitoring of the Deed, it has been identified that the developer has not been meeting the obligations to advertise house/land packages for sale at the updated prices specified in clause 41. The developer has advised the updated prices set in clause 41 are now unable to be delivered, primarily due to the high inflation seen in the construction sector over the previous few years.

There have been significant changes in costs and demand

9. The deed anticipates the need to update the prices in response to demonstrated changes in building costs, demand, or government and other policies. Officers commissioned advice (Attachment C) from a local quantity surveyor to provide an independent view on the market values and the extent of construction inflation for these packages. This section outlines the way these factors have changed over time.

10. Change in demand is one of the justifications for increasing the prices in the deed. The independent quantity surveyor estimated the market prices for both 2021 and 2024. They found that the 2021 market prices were significantly higher than the 2021 agreed prices in the deed, and estimated that market prices for Longview had increased by 58-71% since 2021:

	2021 agreed prices	2021 market prices	2024 market prices	Increase in market prices from 2021 - 2024
Package A	\$499,000	\$550,000	\$940,000	71%
Package B	\$499,000	\$540,000	\$920,000	70%
Package C	\$549,000	\$620,000	\$1,035,000	67%
Package D	\$599,000	\$685,000	\$1,080,000	58%

11. When the prices were last raised in 2021, one of the justifications was the increase in the Kāinga Ora First Home Grant price cap, which is a measure of expected prices of first home buyer properties. In 2021 the cap was \$650,000 and this rose 72% to \$950,000 in 2024. This official figure is a useful benchmark and compares well with packages A and B.
12. Construction cost inflation has also been significant. The independent report estimated that construction inflation at Longview between 2021 and 2024 was around 25%. StatsNZ data shows an increase of 24% over the same period for Queenstown Lakes District (QLD) per m2.

Other factors are increasing costs to the developer

13. The construction cost inflation estimates include the impacts of changes in government policy regarding insulation standards, but do not consider some of the wider costs seen by the developer. Developments contribution costs in Hāwea have increased, with the cost per section (excluding reserve land) \$31,003 in 2021, and \$41,407 proposed for 2024.
14. There are also costs resulting from the delays to the provision of wastewater infrastructure. At the time of executing the stakeholder deed, QLDC anticipated delivering the necessary supporting wastewater infrastructure in 2020/21. As part of the deed the developer committed to funding a temporary truck transfer until the new solution was completed, and therefore took on this responsibility to enable the development to go ahead. It is acknowledged that this has continued longer than anticipated, and has extended the developers costs; construction is now planned to start mid-2025. The developer has reported it is costing them more than \$400,000 a year, which will increase as the population grows.

The developer has proposed new prices

15. The developer has proposed the following new prices in response to the increases in costs and demand. The developer has informed officers that partner builders are under considerable pressure, indicating that these prices are likely to be feasible until the end of 2024, but is uncertain about whether they will be able to be delivered beyond then.

Package	Proposed Prices
A. 2 bed, 1 bath, single garage, driveway, and front landscaping	\$809,000
B. 2 bed, 2 bath, single garage, driveway, and front landscaping	\$829,000
C. 3 bed, 2 bath, single garage, driveway, and front landscaping	\$859,000
D. 3-4 bed, 2 bath, single garage, driveway, and front landscaping	\$904,000

16. These proposed prices represent increases that are greater than just the construction inflation (25%), but are less than market inflation over 2021-2024 (58-71%). Therefore, the proposed prices provide bigger discounts from market prices than the agreed prices did in 2021. These revised prices still remain below the Kainga Ora first home price cap as noted in paragraph 11 above.

Package	2021 agreed prices	Estimated 2021 market Prices	Discount on 2021 market prices	Proposed Prices	Estimated 2024 market prices	Proposed discount on 2024 market prices
A	\$499,000	\$550,000	9%	\$809,000	\$940,000	14%
B	\$499,000	\$540,000	8%	\$829,000	\$920,000	10%
C	\$549,000	\$620,000	11%	\$859,000	\$1,035,000	17%
D	\$599,000	\$685,000	13%	\$904,000	\$1,080,000	16%

17. Given the increase in demand and market prices, the construction cost inflation, wider costs, the current pressure on building companies, and the significant discount on market rates, officers consider the proposed prices are reasonable.

Analysis and Advice | Tatāritaka me kā Tohutohu

18. Option 1: Accept the proposed variation (**Attachment D**) to clause 41.

Advantages:

- This represents an opportunity to gain compliance with the deed and to demonstrate QLDC's commitment to upholding the deed requirements.
- QLDC will be upholding the requirements under the deed to give reasonable consideration to requests to increase the prices of the house/land packages.
- House/land packages will still be promoted at prices ranging from 10% to 17% below market rates.
- It will enable QLDC to maintain a constructive relationship with developers to continue improving affordable housing supply and supporting the Queenstown Lakes Community Housing Trust, as per JHAP action 5B: Improve partnerships between developers and QLDC, QLCHT or other community housing providers, service delivery agencies, banks (to understand financial issues), and other key organisations.

Disadvantages:

- The house/land packages will be advertised at higher prices than they were before.

19. Option 2: Do not accept the proposed variation to clause 41, and attempt to enforce the current requirements.

Advantages

- This option maintains the existing prices in the deed.

Disadvantages

- [REDACTED]
- The developer has advised that the packages can no longer be delivered at the set prices, and this is supported by Council's independent advice.

- [REDACTED]

20. This report recommends **Option One** for addressing the matter, in order to gain compliance with the deed, uphold Council's obligation to give reasonable consideration to the proposal, and to ensure that the prices in the deed are both providing a discount on market rates to improve affordability while also remaining feasible for the developer.

Consultation Process | Hātepe Matapaki

Significance and Engagement | Te Whakamahi I kā Whakaaro Hiraka

21. This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy 2021.
22. The persons who are affected by or interested in this matter are residents/ratepayers of the Queenstown Lakes district community, and specifically those who are looking for affordable housing or with an interest in Lake Hāwea.

Māori Consultation | Iwi Rūnaka

23. Te Ao Mārama and Aukaha have been informed through Grow Well Whaiora that QLDC is working with developers to ensure compliance with stakeholder deeds. Iwi were not consulted on this report as it proposes a change anticipated in the existing agreement.

Risk and Mitigations | Kā Raru Tūpono me kā Whakamaurutaka

24. This matter relates to the Strategic/Political/Reputation risk category. It is associated with RISK10056 Ineffective provision for the future planning and development needs of the district within the QLDC Risk Register. This risk has been assessed as having a moderate residual risk rating.
25. The approval of the recommended option will allow Council to retain the risk at its current level. This will be achieved by ensuring that packages are able to be advertised at feasible and relatively affordable levels, and ensuring that Council maintains its ability to reasonably negotiate with developers in order to improve housing and development outcomes for the district.

² These shaded sections will be redacted in order for the report to be considered in the public part of the meeting.

Financial Implications | Kā Riteka ā-Pūtea

26. There are no financial implications for the Council.

Council Effects and Views | Kā Whakaaweawe me kā Tirohaka a te Kaunihera

27. The following Council policies, strategies and bylaws were considered:

- Vision Beyond 2050: in relation to the district's goal of 'thriving community' and 'opportunities for all'.
- Queenstown Lakes Spatial Plan 2021
- 2022 Climate and Biodiversity Plan
- 2021-2031 Ten Year Plan
- Queenstown Lakes Proposed District Plan
- Queenstown Lakes Economic Diversification Plan 2024: New Pathways to a Thriving Future
- 2021-2031 Queenstown Lakes Homes Strategy
- Joint Housing Action Plan. Enforcing the stakeholder deeds is listed as action 4A.

Local Government Act 2002 Purpose Provisions | Te Whakatureture 2002 o te Kāwanataka ā-Kiaka

28. Section 10 of the Local Government Act 2002 states the purpose of local government is (a) to enable democratic local decision-making and action by, and on behalf of, communities; and (b) to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

29. The recommended option:

- Will help meet the current and future needs of communities for good-quality local housing, by remaining consistent with our obligations under the deed and supporting the delivery of housing in the Longview development.
- Can be implemented through current funding under the Ten Year Plan and Annual Plan;
- Is consistent with the Council's plans and policies; and
- Would not alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or transfer the ownership or control of a strategic asset to or from the Council.

Attachments | Kā Tāpirihaka

A	Hāwea Special Housing Area Deed (Infrastructure and Affordability) (Circulated separately)
B	2021 Amendment to the Deed
C	Independent Advice from QProperty: Longview Affordable Housing (Circulated separately)
D	Variation to the Deed