

**QLDC PDP: Affordable and Community Housing
Chapter
Working Paper: Developing an Affordable Housing
Provision
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Status

This working paper has been prepared by David Mead, Hill Young Cooper Ltd, to assist with policy development associated with affordable housing. The matters addressed and draft plan provisions attached are not council policy.

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Introduction

Queenstown Lakes District Council (QLDC or the Council) is considering whether the Proposed District Plan (PDP) should contain provisions relating to affordable housing. In particular whether there should be a requirement on new housing developments to incorporate affordable housing in the form of residential lots or units sold at an affordable price, or through the transfer of land or money to the Council for the purpose of providing affordable dwellings.

Councillors have indicated support for the objective of increasing the supply of affordable housing through both ensuring adequate capacity to meet future housing demands overall, as well as measures aimed at securing a portion of that housing in an affordable price bracket. Council has sought that several options should be considered, with a preference for supporting the delivery of affordable housing through the Queenstown Lakes Community Housing Trust (QLCHT).

District Plan-based methods will sit alongside a range of measures that the Council takes under the Local Government Act to support the provision of affordable housing. District plan-based measures are only part of a response to the much wider and systemic issues associated with housing.

An Issues and Options paper has been prepared. This sets out the broader context for affordable housing and Resource Management Act (RMA) plans; past and current experience in Queenstown Lakes District (QLD) as well as high level options. It discusses a range of affordable housing programmes applied in North American mountain resorts, as well as metropolitan areas in the US, Australia and the UK.

The Issues and Options paper recommends that an Inclusionary Zoning (IZ) type approach be advanced, whereby all residential development be required to incorporate affordable dwelling lots or units in the development (a 'requirement'); or make a financial contribution (a 'contribution') to the Council to fund the provision of affordable housing by the QLCHT.

This working paper identifies a range of technical issues that need to be considered when formulating any affordable housing requirement or contribution. These include:

- Greenfield versus brownfields developments
- Rural residential, rural lifestyle or resort developments
- Requirement trigger and exclusions
- Quantum of requirement or contribution
- Specific issues with a requirement or a contribution.

Attached are 'indicative' plan provisions that address these matters, for discussion purposes.

Covid 19 observations

The COVID-19 pandemic has substantially changed the housing context in QLD due to a reduction in economic activity and expected population growth over the short to medium term. Economic forecasts vary about the duration and extent of the impacts of Covid 19, particularly on the housing market both across NZ and within QLD. The fundamental drivers of lower than average wages and higher than average house values and rental remain even as the economy slows due to Covid 19.

Background to Affordable Housing

Affordable housing (sometimes referred in the QLD context as Community Housing) is generally defined to be housing where a low-or moderate-income household spends no more than 35% of their gross income on rent or mortgage (principal and interest) repayments¹.

Community Housing is defined in the Operative Queenstown Lakes District Plan to mean a residential activity that maintains long term affordability for existing and future generations through the use of a retention mechanism, and whose cost to rent or own is within the reasonable means of low- and moderate-income households.

The ODP defines a low-income household as having less than 80% the district's median household income, and a moderate-income household as having between 80 and 120%.

Housing affordability covers both rental and ownership affordability. The focus of any planning-based affordable housing policies and methods is on increasing the supply of housing that is affordable, whether that be via rental, full ownership or some form of assisted (or progressive) ownership in conjunction with a Community Housing Provider. In all cases, as signalled by the definition in the District Plan, some form of retention mechanism is required to ensure that over time the affordable housing provided is directed at low to moderate income households, and that this 'resource' remains available to future households with similar needs. Retention mechanisms may involve a cap on annual rental or sale price rises and/or a requirement for on-sale or rental only to buyers who meet affordability criteria and/or ownership by a Community Housing provider.

Affordable Housing Programmes

In response to what may be termed 'structural' issues with housing markets, a number of planning tools can be used, such as Linkage Zoning (LZ) and Inclusionary Zoning (IZ), to increase the supply of affordable houses. These types of mechanisms are explained further in the Issues and Options paper.

IZ has a focus on residential development, while LZ focuses on employment generated by business and commercial development and resulting housing needs.

The long-term impact of affordable housing requirements on the price and quantity of housing provided through development is a matter of debate. These issues are discussed in the Issues paper and explored further in this Working Paper. There are transaction costs involved in affordable housing requirements (for example, additional costs in preparing and processing applications), while there can be transitional effects on the feasibility of development as new policy takes effect. Long term, some forms of development may become infeasible from a development perspective if any requirement or contribution is significant in scale, or poorly targeted.

¹ Mayoral Taskforce Report 2017

Whatever RMA-based option is selected, it is generally held that well-structured and clear requirements help to address some of the costs and risks involved in affordable housing provisions. It is also necessary to take a long-term view of the rate at which affordable housing stock is built up. Planning-based solutions will not deliver an immediate benefit.

Affordable housing programs can be divided into two broad types, being general, mandatory requirements and case-by-case assessments. The two approaches have grown out of two different development contexts:

- Most often mandatory schemes apply to greenfields developments where any requirement is ‘up front’ and can be easily factored into development feasibility assessments.
- In the UK, and in a number of US and Australian cities IZ programs for already built-up areas tend to be based on negotiation on a case-by-case basis, within a supportive policy framework².

The two sets of programs differ in at least two ways:

The “greenfield” programs typically impose the inclusionary obligation on virtually all private residential developments of a certain scale, including those that are completed under as-of-right provisions. They also typically fix all of the fundamental requirements (whether they involve land, serviced sections or houses) in a set of rules. An issue for QLD is whether rural-residential and resort style development should be part of any policy, given the prevalence of this type of development in the district. The district also has a number of outlying settlements.

The “brownfield” programs, on the other hand, have been applied mainly (but not entirely) to residential developments that obtain additional development rights through a resource consent or re-zoning. Also, they allow for determining the appropriate contribution – including density increases to off-set costs – on a negotiated, case-by-case basis. This is so as not to discourage brownfields redevelopment, which may be financially marginal but desirable from an overall planning policy point of view.

Alongside the greenfields/brownfields distinction, affordable housing policies vary between:

- A requirement that lots and/or units be sold at an affordable price (either to eligible buyers or to identified housing providers), or
- A financial contribution be provided to Council’s for the purpose of affordable housing provision (sometimes called a mitigation fee).

QLD Housing Development Context

Greenfields and Brownfields growth

In QLD approximately two-thirds (67%) of the housing capacity enabled by the PDP is planned to occur within the greenfield urban areas included within the various urban growth boundaries (UGBs) across the district. The Proposed District Plan (stage 1) enables up to 18,200 dwellings within the greenfield areas, two-thirds (12,200 dwellings) of which are included within areas where structure

² Review of best practices in affordable housing. Prepared by Tim Wake for Smart Growth BC.

plans or subdivision plans exist³. However, over time, an increasing proportion of dwellings will be delivered via redevelopment of brownfields areas.

The data in the following table is sourced from the Council’s 2017 Housing Capacity Assessment report⁴. The estimate of capacity is based on the proposed district plan as notified. Subsequent assessments will reflect changes to zoning arising from submissions and appeals.

Table 1: Dwelling capacities: proposed district plan

	Greenfield urban	Other urban (e.g. Brownfield)	Total Urban
Plan enabled capacity (excluding redevelopment)	18,590	9,060	27,650
Plan enabled capacity (including redevelopment)	18,590	19,760	38,350

Planned capacity (excluding redevelopment) includes in the brownfields capacity figures infill type development in existing residential areas; for example where a house is built at the back of an existing dwelling. Plan-enabled capacity with redevelopment involves assumptions around the removal of existing dwellings and their replacement with terraced housing or apartments.

The report’s assessment is that feasible redevelopment capacity (what is likely to be built) is less than plan-enabled capacity.

It is projected that QLD has feasible capacity for an additional 19,200 dwellings within its UGBs and 19,400 dwellings within the total urban environment in the short-term, excluding the potential for redevelopment. It is estimated that over half (56%; 10,800 dwellings) will be within the greenfield areas, with 8,400 commercially feasible dwellings within existing urban areas.⁵

Over time, further plan-enabled capacity will become feasible. In particular it is reasonable to expect brownfields urban sites with enabling zoning will be redeveloped on a site-by-site basis, with existing houses being removed and replaced with a range of dwelling typologies and densities. There are also options to add small flats and accessory units.

The 2017 Housing Capacity Assessment estimates that QLD will have commercially feasible capacity for an additional 23,900 dwellings within its UGBs and 24,200 dwellings within the total urban environment in the medium-term (to 2026)⁶

The 2017 Mayoral Taskforce on affordable housing reached the view that it would be beneficial to move towards a policy environment where there is a mandatory contribution towards affordable housing from new greenfield developments, and from other developments that intensify use of a

³ Housing Development Capacity Assessment 2017 Queenstown Lakes District 27th March 2018 –

⁴ Ibid, page 181

⁵ Page | 178

⁶ Page | 180

site⁷. By intensify, it is assumed to mean residential or mixed use developments that see a net increase in units.

The extent to which brownfield redevelopment will make up future development capacity means that any IZ policy must suit this type of development. Rather than develop a discretionary, case-by-case assessment process for brownfields development, it is recommended that a simplified requirement / contribution scheme apply. Relevant points are:

- Brownfields development will more likely involve smaller scale developments that sit below a threshold level where an affordable housing requirement may be triggered (for example developments of two or three units on a 800sqm section).
- Brownfields development cannot readily provide land, and therefore is better suited to a financial contribution approach, rather than a physical requirement to provide affordable lots or units.
- In the QLD context, which includes fast population growth and strong and sustained land and house price increases, it is not considered necessary to provide some form of bonus for brownfields developments that provide affordable dwellings.

A brownfields requirement could be tied to future plan changes (up zoning) rather than apply to development enabled by current zonings. This would, however, see a large pool of development capacity without any contribution flowing from it.

Having said that, transitional effects will be present for brownfields development sites. These transitional effects could be addressed through a stepped phase in period and/or delayed implementation. For example, any IZ policy could start with a small IZ contribution, rising to a larger contribution in five years time. Alternatively, the provisions could become operative after a set date, such as three years after the variation or plan change is settled. Either approach would allow markets to adjust and for sites which are currently in pre-development consenting stages to proceed.

In summary, a mandatory 'pre-set' requirement across greenfields and brownfields is appropriate. However, the contribution rate may vary between greenfields and brownfields to reflect differing feasibility, with scope for site specific approaches to be tested.

Settlement Zones

The QLD has a number of smaller villages outside the main urban areas. The PDP Settlement Zone applies to the settlements of Glenorchy, Kinloch, Kingston, Luggate and Makarora. The lack of Council servicing or limited servicing in these areas restricts the likely take up of housing capacities in these environments.

These settlements are mostly remote from the main centres and historically have offered a more affordable housing product. The PDP enables low-intensity residential development that retains character and amenity through the use of minimum lot sizes. Overtime, the settlements are likely to grow and develop as they respond to a range of demands. In this context it would be appropriate that they contribute to meeting affordable housing needs, but at a rate that recognises their circumstances.

⁷ 2017 Mayoral Taskforce, page 21.

Rural Residential, Rural Lifestyle and Resort development.

A feature of QLD is the significant pool of development potential in rural-residential, rural lifestyle and Special (resort) zoned areas.

The Council's 2017 Housing Capacity Assessment found that residential capacity in the rural (non-urban) areas of the district is in the order of 3,600 dwellings, spread across a variety of zones.

Some of this capacity is in the form of one or two larger lifestyle or rural-residential lots that could be subdivided from an existing lot. In other cases, larger properties could be subdivided into more than 10 lots.

Resort zones like Millbrook have seen considerable residential development. Some special zones may incorporate worker accommodation.

In general, the rural-residential, resort and rural lifestyle zones are not appropriate locations for affordable housing. They are located away from key services and community facilities and likely to result in higher travel costs for residents. Land and buildings are likely to be expensive to maintain and subject to high resident society fees or similar.

Nevertheless, development in these zones generates demand for affordable housing. This is in terms of employment associated with the resort zones, as well as home and garden maintenance services and the like. Equally, the population resident generates demands for community services like education, health and local government services. This demand suggests that 'non-urban' residential development should contribute in some way to help mitigate impacts on low to moderate income households.

The Rural Residential zone generally provides for development at a density of up to one residence every 4000m². The Rural Lifestyle zone provides for rural living opportunities with an overall density of one residential unit per two hectares across a subdivision. Density of development in Special zones vary.

It is considered appropriate to apply any contribution to rural-residential and residential development in resort zones due to the urban type nature of these developments, as well as the indirect demands for affordable housing that they create. Rural-lifestyle and rural lots and housing should not be included, as these types of developments already play a significant role in management of resources (such as landscape protection).

Requirement trigger

This issue relates to what scale of housing development would trigger a requirement or contribution, for example a development of 10 or 20 more dwelling units or lots, and whether certain forms of residential development should be exempted from any requirement.

Generally, Inclusionary Zoning programmes have a threshold for contribution of 10 units⁸. The rationale behind treating small developments differently is that an affordable housing requirement might have a greater financial effect on them, compared to larger developments. On the other hand, because smaller developments could represent a significant portion of the total new housing production, exempting them could considerably reduce the provision of affordable housing.

Potential for “boundary effects”, such as developments being staged so each stage is below the trigger point (for example 9 units rather than 10 units) are likely to arise. Any cut-off will create a boundary effect. In comparison, Linkage Zoning requirements generally do not have a ‘cut off’. Rather there is a set fee that applies to all new jobs to be created, based on the floor area of the development.

In greenfields situations, housing subdivisions and developments generally involve larger scale projects where ‘boundary effects’ do not arise.

For brownfields, new development or redevelopment involving a net increase of 10 or more units usually involves comprehensive development of larger sites. A 10 unit ‘cut off’ may incentivise some scaling down or staging of such developments (such as 8 or 9 units on sites that could accommodate 11 or 12 units, or the 12 units being broken down into two stages of 6 units).

The alternative to a requirement is a financial contribution from all development, whatever its scale. Where specified in a plan, financial contributions can be imposed to avoid, remedy or mitigate adverse effects of activities, or to achieve specified outcomes associated with sustainable management of resources. Contributions can be in the form of cash, land or a combination of cash and land. An advantage of a financial contribution approach would be that it could be levied on all residential development over a certain minimum value or size, thereby avoiding most boundary effects. The issues associated with financial contributions are discussed further in the next section.

An affordable housing requirement could be built around a split fee-in-lieu / affordable unit contribution regime; for example for developments of 10 or more housing units, then 10% of units (or 1 unit out of a 10 unit development) must be an affordable unit. For developments involving less than 10 dwelling units, the contribution would be in the form of a financial contribution at a pro rata rate (for example a 6 unit development would pay a fee in lieu at a rate of 60% of the cost of providing an affordable unit).

Exclusions

IZ is aimed at residential development on the basis that mixed income communities provide a number of positive growth management benefits, while zoning decisions that provide for housing confer a degree of benefit to such developments, with that benefit reflected in higher land and property prices. On this basis, all forms of residential development that benefit from residential zoning should be included in any IZ scheme. However, there are a range of residential and related activities that may justify exclusion from any requirement on the basis of the activities providing alternative affordable housing choices.

The QLDC PDP defines a residential activity to mean the use of land and buildings by people for the purpose of permanent residential accommodation, including all associated accessory buildings,

⁸ A Guide to Developing an Inclusionary Housing Program. Developed for: Acorn Institute Canada, Sept 2010.

recreational activities and the keeping of domestic livestock. For the purposes of this definition, residential activity includes Community Housing, emergency refuge accommodation and the non-commercial use of holiday homes. Visitor accommodation, residential visitor accommodation and homestays are excluded.

In turn a residential unit means a residential activity which consists of a single, self-contained household unit whether of one or more people.

Clearly stand-alone dwellings, terrace houses and apartments fall within these definitions. There are a range of residential activities that do not necessarily involve residential units as defined, but which may have affordability benefits. Any affordable housing scheme should be explicit as to whether these other types of residential development should be subject to the requirement or contribution.

Possible exclusions from any IZ requirement include:

- Housing developments that share common facilities, (e.g. lodges, boarding houses)
- Retirement villages
- Developments undertaken by Registered Community Housing Providers (such as the Queenstown Lakes Community Housing Trust or Kāinga Ora)
- Minor household unit / granny flat/tiny houses.

It is also necessary to consider whether Residential Visitor Accommodation should be included, even though for District Plan purposes, it is not defined as a Residential activity.

Reasons for and against specific exclusions include:

- Boarding houses, lodges and student accommodation units that share common cooking and dining facilities generally seek to offer less costly accommodation, often on a temporary basis. Rooms in such developments may not be considered to be separate residential units. For example, boarding houses are defined by section 66B of the Residential Tenancies Act 1986 to be residential premises containing 1 or more boarding rooms along with facilities for communal use by the tenants of the boarding house. The proposed district plan QLDC does not facilitate these types of activities in residential zones, but they are possible in commercial areas.
- Retirement villages (under the Retirement Villages Act) offer a specific housing product that does not involve the creation of separately owned lots and dwelling units. However, independent living units can be provided in a retirement village development, along with supported care type facilities. The independent living units are similar to residential units and can benefit from a residential zoning. In the case of QLD, two retirement village developments have offered affordable housing contributions. Supported residential care facilities are facilities like 'rest homes' that provide accommodation and full-time care for the aged. A rest home is defined in section 58(4) of the Health and Disability Services (Safety) Act 2001. Supported residential care units should not be included, but there is justification for independent living units to be included.
- Housing developments that may be undertaken by Kāinga Ora and developments by a Registered Community Housing Provider will generally be aimed as delivering a range of housing products, including social and affordable housing. These should be excluded, provided that there are mechanisms in place to ensure retention of affordable units.

- Minor household units are a form of residential activity. They are generally limited in size and cannot be subdivided from the main unit. In the QLD context they are defined as residential flats, are a permitted activity and can be up to 70m² in area in urban zones and up to 150m² in the rural zones. They can provide for a form of affordable rental unit. ‘Tiny houses’ (such as houses less than 40 square metres in area and studio type apartment units) are a growing trend. They may be on a separate title and therefore can be classed as a separate residential unit. In a similar vein is studio or 1 bedroom apartments. Their small size is directly aimed at providing affordable living options to a sector of society and as such. Small dwelling units (less than 40 sqm) should be excluded.

In the QLD context, visitor accommodation is defined in two ways. Visitor Accommodation in the form of a hotel or backpackers is its own form of activity, and not defined as a residential activity. Residential Visitor Accommodation is a separate activity to that of Visitor Accommodation. Residential Visitor Accommodation means the use of a residential unit including a residential flat by paying guests where the length of stay by any guest is less than 90 nights. This covers activities such as Air BnB. If Residential Visitor Accommodation is excluded from any affordable housing requirement, then it is possible that residential units will be advanced on the basis of being Residential Visitor Accommodation and not be subject to any requirement or contribution.

In summary, it is recommended that:

- Independent living units within retirement village developments be included in any Inclusionary zoning requirement, along with residential visitor accommodation units.

Exclusions should cover the following sub types of residential activities:

- Boarding houses, lodges and student accommodation and similar co living arrangements that do not involve separate residential units for occupiers
- Managed care units in retirement villages and rest homes
- Small household units (self contained houses apartments less than 40sqm in net floor area)
- Affordable housing delivered by Kāinga Ora and Registered Community Housing Providers that have appropriate retention mechanisms in place.

Requirement / Contribution level

Under some IZ programmes, all eligible residential developments above a trigger level are required to provide the same fixed percentage of the total units as affordable units. In other cases, the requirement is determined on a case-by-case basis.

US evidence is that ‘fixed ‘contributions ranging from 10% up to 20% of dwellings being affordable have been proven to be acceptable in many jurisdictions⁹. In the UK, in major metropolitan centres, affordable housing requirements can extend to 30 to 50% of dwelling units, but each case is negotiated.

⁹ Inclusionary Housing Program Design Worksheet. Sourced from <https://inclusionaryhousing.org/>

Setting the contribution rate can involve modelling of the financial feasibility of different types of developments, consideration of demand for affordable dwelling as well as issues of practicality.

In principle, any affordable housing requirement should be based on a prescribed and fixed “below market” price or rent. A “below-market” price or rental is one that is likely to be substantially below the lowest market price or rent for the equivalent new unit.

For example, Quotable Value NZ data suggests that sections in Queenstown are in the order of \$400,000 to \$450,000; while houses in Lakes Hayes Estate and Shotover Country sell for up to \$1,000,000. The land component is approaching 50% of the total cost (land plus house).

Typically, inclusionary zoning aims to provide housing that is affordable to households on 80% to 120% of area median household incomes. These units have to be sold or rented to qualifying households; that is households that meet income and asset criteria.

In the case of QLD, with an estimated median household income of around \$110,000 an affordable home may need to be sold at between \$500,000 to \$550,000 to be affordable to a household on 80% of the median income. At this price, assuming 20% deposit, then approximately 35% of the households gross income is required to cover mortgage repayments.

It is important to understand that in most IZ schemes, the affordable unit is still sold by a developer, albeit at a below market rate. The house may be sold to a Community Housing Provider or brought by a household that meets income criteria.

Affordable housing schemes that operate in the form of a financial contribution (or offer this as an alternative) generally base the financial contribution on a monetary value that is similar to the requirement. For example, if the requirement is that 2 lots to be sold at \$250,000 each rather than a market rate of \$350,000, then the financial contribution is equal to the difference (i.e. \$200,000; being two times the \$100,000 difference between \$350,000 and \$250,000).

Responding to demand

Starting with demand, setting the requirement rate is not necessarily tied to demand, in that demand for affordable units may well exceed what is a reasonable contribution from development. Moreover, IZ programmes typically seek to address specific market sectors. For example, they may target key workers (workers like police, teachers, medical) who are important to the sustainable functioning of a community, or schemes may target moderate income households on the basis of other government programmes and support for low income households (for example targeting households on 80 to 100% of median household income).

The 2017 QLDC housing capacity assessment identified that estimated net shortfalls in the five lowest dwelling value bands (houses below \$880,000) over the period 2016 to 2046 represent 2,460 dwellings under a medium growth scenario. For dwellings below \$600,000, estimated demand between 2016 and 2046 is in the order of 5,400 dwellings, yet supply based on current trends may not deliver more than 3,800 dwellings, leaving a shortfall of 1,600 dwellings. Should high growth resume, then by 2046 the shortfall for under \$600,000 dwellings could be in the order of 2,400 dwellings¹⁰.

¹⁰ Page 230, 2017 Housing Capacity

The 2019 Housing Needs Assessment considered the vulnerability of households to economic conditions, such as increased costs of living. In 2018, 12% of households were estimated to be in the two most vulnerable bands (out of 9 bands). If this proportion continues to 2048, then a further 1,900 households will be added to this category¹¹.

The 2017 Mayoral Taskforce supported further work being done that explores how a rate of contribution could be set that would see the goals of the Taskforce achieved. These being 1,000 affordable homes by 2028, as well as the 2048 goal of all of the district's workforce being able to own or occupy a home the district at a cost that allows them to live within their means. For the short term, delivering 1,000 affordable homes in next 10 years is roughly 20% of the total of 5,000 homes required in that period.

Based on the above, affordable housing demand is in the order of at least 2,000 dwellings over the next 30 years.

Development feasibility

Consideration of the impact of any requirement or contribution on feasibility of development can involve consideration of the following matters:

- General assessment
- Screening tool
- Case studies.

The key issue to determine is whether a requirement or contribution is likely to deter needed housing development. In particular is whether costs of meeting a requirement or contribution are likely to be absorbed by development, passed forward to other home owners, or backwards to landowners of undeveloped land. Passed forward, the IZ requirement may raise house prices, deterring some buyers; passed backwards, the requirement may deter some land supply options from being actioned. If absorbed by the developer, this may see them not take on more marginal projects.

General assessment

At a general level, Queenstown Lakes Districts' track record with affordable housing is relevant in this regard:

- Historical plan changes have seen a voluntary contribution rate of 5% of lots transferred to the Council become established.
- Special Housing Areas initially required a 5% affordable housing contribution to be provided. This was amended to 10% in 2018. QLDC data shows that the contribution is based on lots transferred to the Council (although some SHAs allowed for contribution of cash, lots or lots and house packages).
- In other cases, developments have incorporated 'worker housing'.

¹¹ QLDC Housing Needs Assessment, 2017, page 6

These examples have generally involved land that is being converted from rural to urban use. In general, there is considerable value uplift in the process of zone changes. This value uplift has helped to absorb the costs of the affordable housing requirements.

The addition of some form of contribution or requirement onto land already zoned for housing raises a number of issues. A requirement will be perceived to add costs and risks. Increased risks arise from uncertainty over the sale of the affordable lots or houses and the implications for the behaviour of buyers of market rate housing in the development. Costs may not be able to be passed backwards.

Experience to date suggests that the risks to a development are not seen to be great, within the QLD context of strong growth pressures. Affordable housing is generally seen to be directed to the needs of working households that need assistance, while the Queenstown Lakes Housing Trust is seen to be an effective method of compliance with the requirements (that is, delivery of the affordable housing). The provision of affordable lots within a development is not seen to create a stigma on the rest of a development.

In terms of development feasibility, the generally rising market of the past 10 or so years has meant that developers have often been able to absorb the costs of the requirement, provided it is in the range of 5 to 10% of lots or units.

Screening test: MBIE development feasibility tool

The MBIE development feasibility tool (developed for the National Policy Statement on Urban Development Capacity) provides one tool to assess the financial feasibility of different development forms¹². See Appendix One for a copy of the excel worksheets used in the analysis below.

This is an 'off-the-shelf' tool that is based on standard industry assessments of development feasibility. The MBIE model is described as being an open source spreadsheet model which can be used to estimate the feasibility of land or building development in local areas.

Users can adjust the inputs and add or delete columns or rows to meet their needs. Local data can be inputted into the model to reflect local revenue and cost factors. This tool has been used to run some initial simulations of the impact of affordable housing contributions.

The analysis is necessarily at a high level and very dependent upon the assumptions around land values. The model is very sensitive to changed assumptions relating to other factors like civil costs and contingencies.

It is also important to understand that the model is a static model. The value of the development block assumed in the scenarios is 'fixed' and does not vary depending upon possible returns or

¹² Sourced from: <https://www.hud.govt.nz/urban-development/national-policy-statement-on-urban-development-capacity-nps-udc/guidance-for-local-authorities-on-the-nps-udc/>

possible costs. As discussed in the next section, these limitations mean that the tool is not an accurate valuation of a development proposal. It is at best a screening type tool.

For a greenfields scenario, the MBIE land development model has been used. The following basic assumptions have been used (as of mid 2020):

- (i) 10 ha lot assumed to be zoned residential
- (ii) Block land value of \$10,000,000
- (iii) Approximate per section costs (civil, design, fees and charges) of between \$135,000 and \$163,000 depending upon density
- (iv) Development contribution of \$30,000 per lot (included in (iii))
- (v) 8% cost of capital
- (vi) Sale values of \$300,000 for a 350m² section (inclusive GST)
- (vii) Development time – 36 months.

The value for the 10ha lot is a nominal value of \$1 million per hectare.

The MBIE spreadsheet model has three different “contingency” fields. These are for civil works, fees and charges and overall project costs. For the purposes of this exercise, these different contingency allocations have been collapsed into one project contingency of 10%.

Based on the MBIE model, with no affordable housing requirement and assuming a ‘standard’ profit/loss allowance of 20% for developer’s margin, then the model provides the following assessment of feasibility, across five different density scenarios.

Table 2 : MBIE development feasibility screening – greenfields subdivision

Net Density (lots per ha)	20 (average lot size = 500m ²)	23 (average lot size 444m ²)	25 (average lot size 400m ²)	28 (average lot size 364m ²)	30 (average lot size 333m ²)
Feasibility – no requirement	Yes	Yes	Yes	Yes	Yes

If an affordable housing requirement is then added, whereby 5% of the lots must be sold at an affordable price of \$250,000¹³ then the pattern of feasibility remains the same, although revenue does fall compared to the ‘without-a-requirement’ case. However, profit/risk remains above 20%.

¹³ And sold with a retention mechanism

Table 3 MBIE development feasibility screening – greenfields subdivision

Density (lots per ha)	20	23	25	28	30
Feasibility – no contribution	Yes	Yes	Yes	Yes	Yes
Feasibility – 5% lots are affordable	Yes	Yes	Yes	Yes	Yes

This exercise can be repeated for contribution levels of 10, 15 and 20% of lots sold at an affordable price. See Table 4:

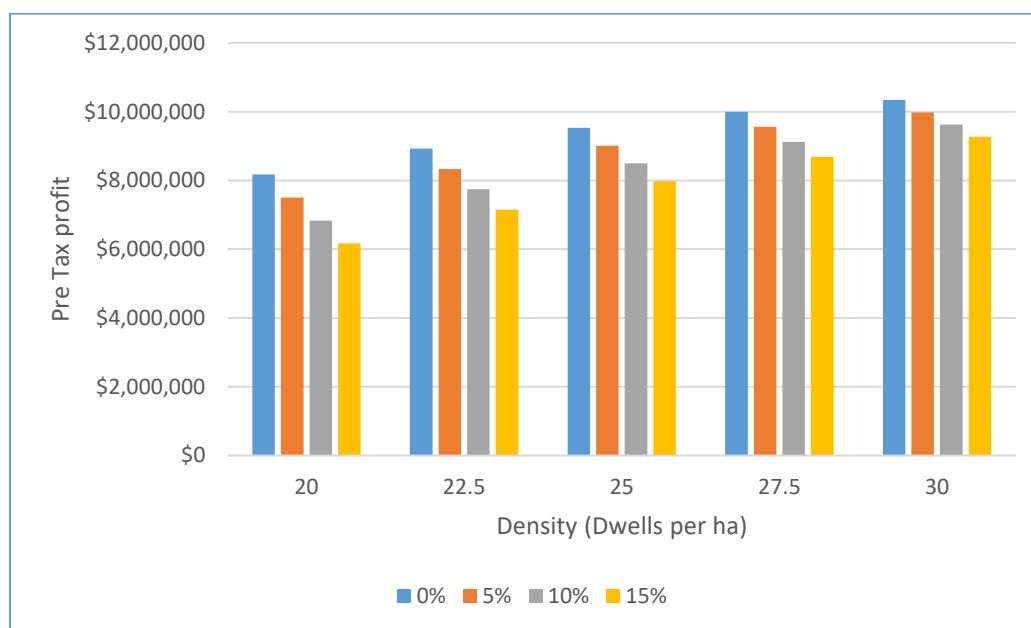
Table 4: Screening tool: different levels of requirement and development density

Density (lots per ha)	20	23	25	28	30
Feasibility – no contribution	Yes	Yes	Yes	Yes	Yes
5% lots are affordable	Yes	Yes	Yes	Yes	Yes
10% lots are affordable	No	Yes	Yes	Yes	Yes
15% lots are affordable	No	No	Yes	Yes	Yes
20% lots are affordable	No	No	No	Yes	Yes

As the affordable housing requirement increases, then a number of development scenarios become infeasible.

The following chart (Figure 4) displays the calculated pre tax profit under these different density and requirement scenarios. A pre tax profit of approximately \$7.5 million is needed to justify the costs of land purchase, expenditure on works, fees and charges etc and associated risks, for all the scenarios.

Figure 1: Impact on pre-tax profit of different requirement levels



The above simple calculations suggest that a requirement of 10% to 15% of lots sold at an affordable price will be unlikely to make medium density subdivision unviable, but may make lower density subdivisions less viable.

Turning to the situation where a financial contribution is made to the Council involving land or money, a 5% contribution (transfer of 5% of completed lots at no cost to the Council) would see a contribution roughly equal to 15% of lots being sold at an affordable price.

Table 5 shows the expected profit margin with no requirement, with a requirement for 15% of lots to be sold at an affordable price and with a requirement for 5% of lots to be transferred at no cost to the Council, across the density ranges.

Table 5: Impact on Pre Tax profit: 15% affordable versus 5% transferred

Density of development (dwellings per ha)	20	23	25	28	30
Pre tax profit margin: No contribution	23.6%	25.0%	25.9%	26.5%	26.7%
Pre-tax profit margin, 15% sold at an affordable price	17.8%	20.0%	21.7%	23.0%	23.9%
Pre tax profit margin: 5% of lots transferred	17.4%	18.7%	19.6%	20.1%	20.3%

For the 25 dwellings per ha scenario, the MBIE model suggests that pre tax profit would fall by around \$2.3m under the 5% contribution scenario, compared to the without contribution scenario. This is equal to a ‘per lot contribution’ of \$14,000. See Table 6.

Table 6: Model outputs: With 5% transfer of lots compared to no contribution

Density of Development	20	23	25	28	30
Reduction in profit	\$2,141,954	\$2,233,704	\$2,315,536	\$2,388,726	\$2,454,270
Number of lots	136	151	165	179	193
Per lot 'contribution'	\$ 15,779	\$14,817	\$ 14,007	\$13,312	\$12,708

However, as noted the screening tool is very sensitive to changed assumptions. Sensitivity testing indicates the extent to which assumptions can vary before alternative outputs are generated. For example, based on the model, a block land value of \$12m results in no forms of development being viable, unless land and house prices rise. In the above scenario of a 5% contribution rate, the value of the development block would need to reduce to make the development viable.

Brownfields

Turning to brownfields development, a number of development types are possible, such as infill development (add a unit) to redevelopment involving terrace houses or apartments.

In all cases sales values vary, along with construction costs. Based on Building Permit data for Q3, 2019 as well as QV data on median sales values for QLDC, the following assumptions have been made as set out in Table 7.

Table 7: Brownfields assumptions

Type of development	Average sale value (1)	Average cost of construction per square metre (2)	Average floor area - new build (3)	Average sale value per square metre (4)
Houses	\$971,000	\$2,972	223	\$4,362
Town Houses	\$751,000	\$2,495	111	\$6,760
Apartments	\$672,000	\$3,288	71	\$9,502

Notes

(1) Data from Quotable Value NZ for QLDC as a whole, Feb 2020

(2) Data from Building Permits issued for last 12 months

(3) Data from Building Permits

(4) Sale value (1) divided by floor area (2).

(5) Development contributions of \$15,000 per dwelling have been assumed, based on QLDC development contributions calculator.

Table 8 presents the results of the development scenarios, with no affordable housing requirement or contribution in place.

Table 8: Base scenario -no affordable housing requirement

Requirement / development type	Small terrace	Larger terrace	Apartment 2-3 storeys	Apartment 4 storeys	Apartment 6 storeys
Site size (m ²)	800	1,500	1,500	1,500	1,500
Number of units	5	12	17	30	51
Profit margin (% of costs)	11.2%	16.8%	21.1%	21.5%	15.5%

The MBIE Screening tool uses a 20% profit/risk margin for both greenfields and brownfields developments as a measure of feasibility. This assumption may not hold true for brownfields, as discussed in the next section.

Based on the MBIE model and the assumptions used, any form of terrace development may not be viable at a 20% profit and risk margin. Neither is a larger apartment development.

If a contribution is then introduced, either in the form of the sale of a percentage of units at an affordable price, or a financial contribution based on a percentage of the value of the new units, then in all cases, profit margin is below the 20% mark.

The following graph (Figure 5) shows the relative decline in profit/loss margin as the contribution increases.

Figure 2: MBIE screening tool, pre tax profit margin under different development scenarios



The sensitivity testing would suggest that a financial contribution in the order of 2% of the sale value of the units (land and improvements) results in a similar contribution to 5% of lots being sold at an affordable price for the mid range densities. Table 9 shows the estimated contribution on a per unit or per square metre basis. For example, for the small terrace scenario, pre tax profit falls from \$377,000 under the no requirement scenario, to \$296,000 under the 5% sold at an affordable price scenario. This is a reduction of \$81,000m which if then spread across the units in the development, equals a per unit rate of \$16,000.

Table 9: Requirement versus contribution: contribution per unit or per square metre of floorspace

Scenario	Measure	Small terrace	Larger terrace	Apartment 2-3 storeys	Apartment 4 storeys	Apartment 6 storeys
5% sold at an affordable price	Per unit	\$16,087	\$16,087	\$14,130	\$12,174	\$8,043
2% of sales value contribution	Per unit	\$16,435	\$16,435	\$15,652	\$14,870	\$13,217
5% sold at an affordable price	Per sqm	\$115	\$115	\$141	\$135	\$101
2% contribution based on sales value	Per sqm	\$117	\$117	\$157	\$165	\$165

The 4 and 6 storey apartment development options pay more under the 2% of gross value scenario than if 5% of units are sold at an affordable price. This is because of the relatively small difference between affordable prices for units and market prices. It may be necessary to ‘cap’ the contribution on a per square metre rate. At the other end of the scale – a small terrace housing development – the 2% contribution is similar to the 5% affordable option.

Testing: Case Studies

The above screening exercise presents a ‘static’, generic picture of the possible impacts of a requirement on development feasibility for greenfields or brownfields sites (where the impact of any requirement is ‘absorbed’ by the development). As discussed in the Issues and Options report there is debate as to whether costs would be absorbed by the development, passed forward to other lots or houses in a development, or passed back into land values.

Over time, the most likely outcome is for costs to be passed back into land values. The question then arises as to whether the impact on land values would suppress prices to the extent that landowners would not be willing to sell land to a developer.

To further understand impacts of any requirement on development, a residual land value analysis was undertaken on four hypothetical developments – two greenfields and two brownfields using up-to-date data. These test cases were prepared by Telfer Young¹⁴. See Appendix Two.

The residual land valuation method is described in the Telfer Young report as follows¹⁵:

The methodology requires the assessment of the gross realisation from section sales from which costs of sales (real estate commissions and legal expenses) are deducted followed by a deduction of profit and risk to arrive at an outlay. From the outlay development costs (including development and reserve contributions, advertising costs and interest) are deducted to derive a residual block value for the land, which is the sum a developer could afford to pay for the land for subdivision.

The model can also be adopted for the brownfield development model. In this scenario the developer knows how much it will cost to acquire the land to be redeveloped given there is an active market for improved properties. Therefore, the key variable is what profit and risk is obtainable for undertaking the project.

Greenfields

Queenstown

In Telfer Young’s analysis of a hypothetical greenfields development of a nominal 11.6 ha block leads to a residual land value of \$14,176,000, with no affordable housing requirement. This output is based on a range of assumptions about the costs to undertake the necessary works, and sale value

¹⁴ Affordable Housing Project, June 2020. Telfer Young

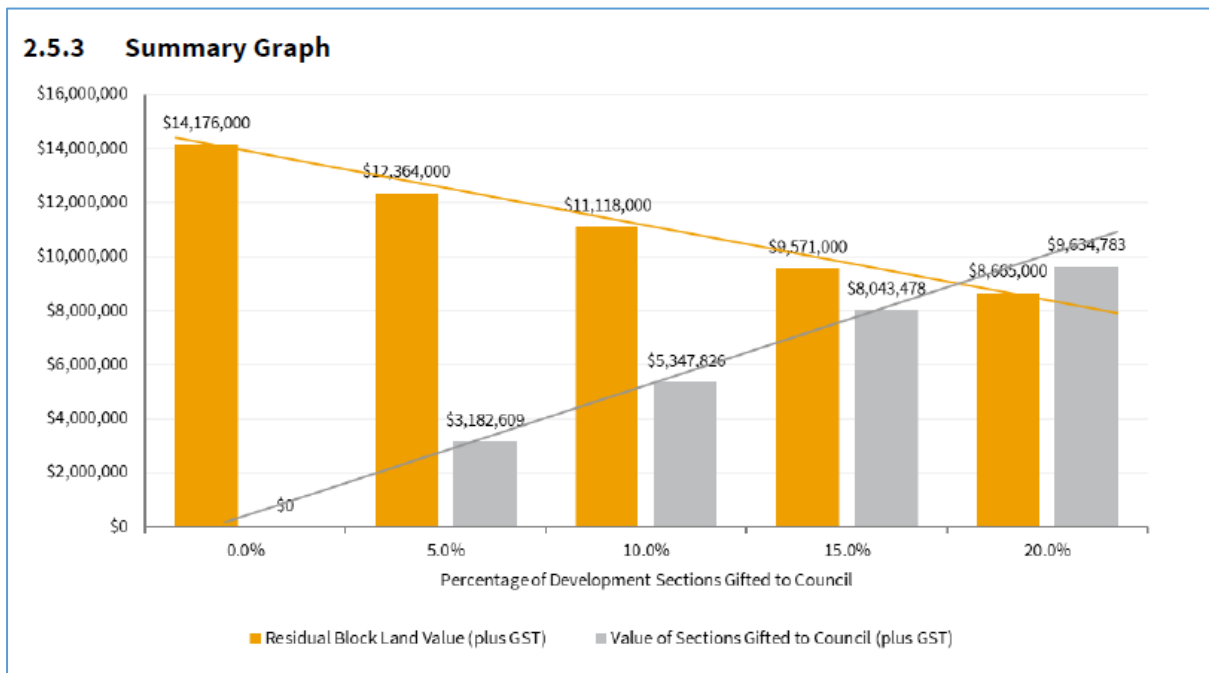
¹⁵ Ibid, page 3

of the lots created. Average costs per lot (civil works, development contributions, sales and marketing etc) are in the order of \$131,000. 177 lots are assumed.

These parameters are similar to the MBIE screening tool’s ‘25 dwelling per hectare’ scenario, which had 165 lots, and a per lot development cost of \$146,000.

Figure 3 below is a copy of Figure 2.5.3 from the Telfer Young report¹⁶. It shows the impact on the residual land value of increasing levels of affordable housing contribution to the council.

Figure 3: Summary graph: residual land values and affordable lots gifted to Council



Should a requirement of 5% of lots be gifted to the Council as a financial contribution be put in place, then the residual value of the development block drops to \$12,364,000. This represents a 12.8% reduction in residual value, or a reduction of \$1.8m.

Averaged over the 177 lots, the \$3,182,609 contribution equals \$17,980 per lot.

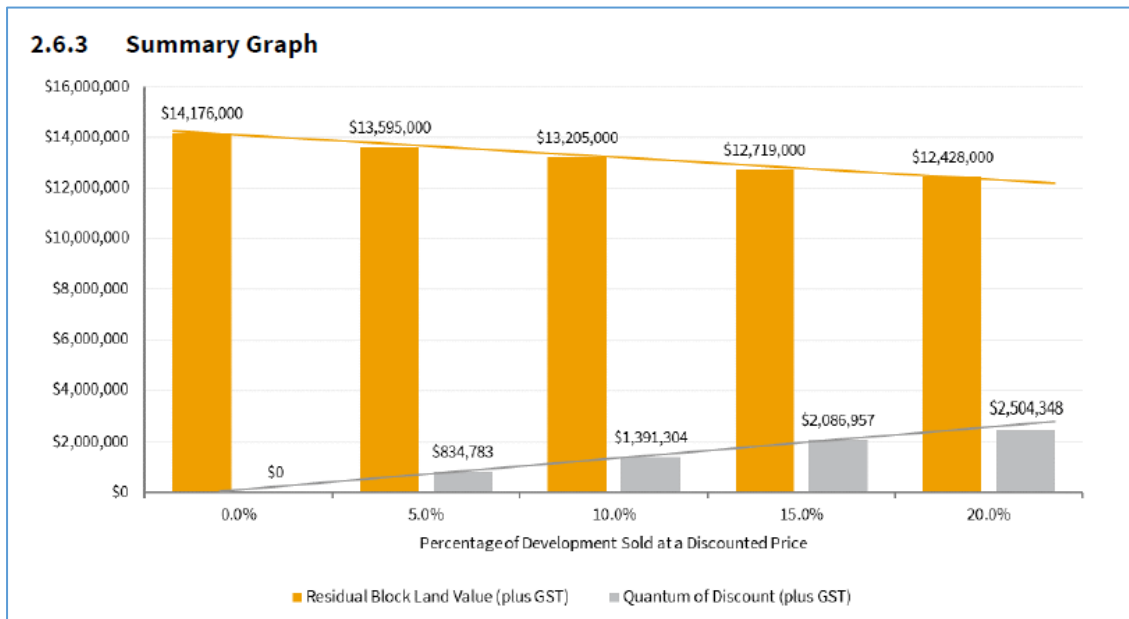
A requirement for a contribution of 10% of lots sees residual land value drop to \$11,118,000, or a 21% reduction in value, compared to the ‘no requirement’ case

Should the requirement be in the form of the sale of lots at a reduced affordable price (ie sale at a discount to market prices) then the following figures are generated by Telfer Young’s assessment¹⁷:

¹⁶ Ibid, page 8

¹⁷ Ibid page 9

Figure 4: Summary graph – residual land value and affordable lots



In this case the impact on residual value is less pronounced (but still present) due to the affordable sites still generating some revenue for the subdivider.

For example, 10% of lots sold at an affordable price reduces residual block land value from \$14,176,000 to \$13,205,000. A 15% affordable lot requirement is roughly equal in monetary terms to a transfer of 5% of lots to the Council.

Wanaka Greenfields

The same exercise has been completed for a hypothetical subdivision in Hāwea. In this case three scenarios were developed, based on a 10, 50 and 200 lot subdivision. The scenario was based on current lot sizes of around 480sqm with an average value of \$300,000. The 200 lot subdivision involved a staged approach to the development, spread over 7 years.

In terms of the option of lots gifted to the Council at no cost to the Council, the following table lists the calculated reduction in residual land value of the 5% or 10% lot options, compared to the no requirement scenario.

Table 10: Reduction of residual land values: gifting of lots

Scenario (number of lots in subdivision)	5% of lots gifted	10% of lots gifted
10	-18.24%	-18.24%
50	-10.68%	-17.79%
200	-10.64%	-18.61%

The results are consistent with the Queenstown model previously discussed, while the results are also similar across the development scales.

If the option is to require lots to be sold at an affordable price, then the following reductions in block values are estimated:

Table 11: Impact on residual land values: sale of affordable lots

Scenario (Number of Lots)	15% lots affordable	20% lots affordable
10	-8.24%	-8.24%
50	-6.58%	-8.23%
200	-6.63%	-8.68%

A requirement that 15% to 20% of lots be sold at an affordable price has a similar impact on residual land values to that of 5% of lots being transferred to the Council.

Market Impacts

The Telfer Young report notes that the affordability options impact on the value of the land (primarily) and prior to the development commencing. The affordability measures typically have less impact on profitability because most developers enter a project with a pre-determined rate that they expect to make from the exercise and would therefore pay less to acquire the block at commencement.

The report does not state whether the estimated extent of reduction in possible land value would be sufficient for landowners to hold off selling the land. There are various ways to consider this potential effect on behaviour:

- Whether a landowner is willing to sell to a developer is partly dependent upon whether there are alternative offers for the land which do not involve the contribution (such as using the land for industrial activities). In general, residential land use will outbid industrial land uses and in the Queenstown context it is unlikely that there will be strong competition from alternative uses.
- The reduced residual land value is likely to be well above raw block value under a rural zoning (even if the land has re zoning potential).
- The reduction in residual value is a one off reduction, and in a rising property market, is likely to be overtaken in a few years by land price increases.
- The QLD has experienced a number of swings in property prices over the years. It is therefore not uncommon for the market to experience down turns, followed by resurgence. These down turns can be in the order of 15 to 20% and may slow development interest in the immediate period of the down turn, however long term, development interest soon returns. A down turn is often followed by a period of slow growth in values as the market re adjusts to the revised conditions.

Brownfields

For brownfields development, the Telfer Young analysis notes that as all inputs into the development feasibility are known (such as land acquisition costs, construction costs, sale values) with the exception of profit and risk, residual land valuation is less pertinent to feasibility. More relevant is profit/risk margin. For context, Telfer Young note that a profit and risk rate ranging from 10 to 15% of costs is generally appropriate for development of medium density housing. This is less

than for greenfields development, which is higher due to the increased risk associated with subdivision of land.

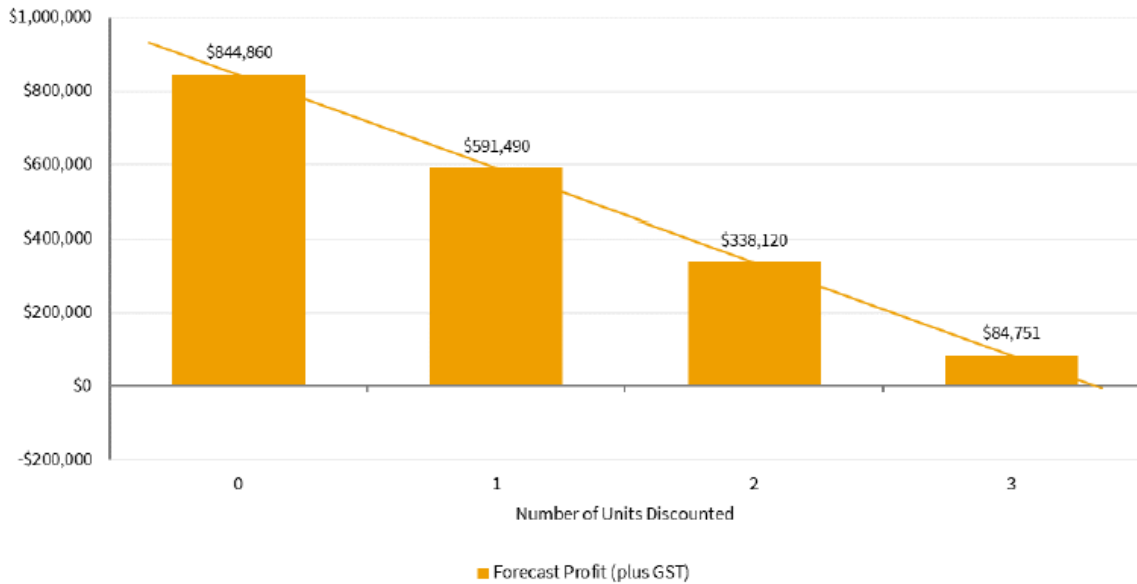
Telfer Young considered two brownfield sites in Queenstown the details of which are set out in their report.

Both of the hypothetical developments involve a 12 unit redevelopment, one near the centre of Queenstown, with units selling for a market value of \$800,000 each, and one along Frankton Road, with units selling for \$950,000.

Figure 5 below shows the impact on expected profit if one, two or three units are required to be sold at a more affordable value of \$500,000 in the development closer to the CBD.

Figure 5: Copy of Summary graph - impact on profit, affordable units sold at discount

4.1.3 Summary Graph - Fryer Street



Note this analysis assumes that the units sold at a more affordable value are the same size as the market rate units. It is possible that the affordable units could be in the form of 2 one-bedroom units replacing one larger three bedroom unit, for example.

The sale of 1 unit at an affordable price in a development of 12 units represents a contribution rate of greater than 5%.

If the contribution was in the form of a financial contribution rather than discounted unit, then the following analysis is generated.

Figure 6: Summary table

4.3.2 Summary – Fryer Street

Description	Units Developed	Percentage of Gross Realisation - Affordable Homes Levy	Total Levy (plus GST basis)	Standard Value per Unit (incl GST)	Gross Realisation (incl GST)	Percentage Profit on Outlay	Profit on Outlay (plus GST)
Scenario H	12	0.0%	\$0	\$800,000	\$9,600,000	11.65%	\$844,860
Scenario I	12	2.5%	\$208,696	\$800,000	\$9,600,000	8.34%	\$623,432
Scenario J	12	5.0%	\$417,391	\$800,000	\$9,600,000	5.23%	\$402,004
Scenario K	12	7.5%	\$626,087	\$800,000	\$9,600,000	2.28%	\$180,576
Scenario L	12	10.0%	\$834,783	\$800,000	\$9,600,000	-0.50%	-\$40,851

In this case a 2.5% contribution on the value of the completed development has a similar impact on profit on outlay to a unit being sold at a discounted value.

The profit on outlay is below the 10 to 15% feasible development band under the ‘with requirement’ scenarios (8.34% for the 2.5% contribution scenario, or 8.16% profit if one unit is sold at a discounted price). The without any requirement scenario has a profit on outlay of 11.65%. This suggests that the contribution would make the redevelopment unviable.

The same exercise was undertaken for a site in Frankton Road. In this case, sales values of units are somewhat higher due to lake views. With no requirement, profit on outlay is just under 12%. If one unit is sold at a discounted prices, profit reduces to 7.7%. If a 2.5% contribution is applied, profit on outlay falls to 8.66%.

In both cases, the 2.5% contribution on sale price results in a substantial contribution (upwards of \$200,000), or \$17,400 per unit. The analysis suggests that the contribution may make such development commercially infeasible (at least until market conditions adjust to the requirement).

Sensitivity testing suggests that a 2% contribution on sale value results in a financial contribution in the order of \$14,000 to \$16,000 per unit. Profit /risk on outlay is in the order of 9.5%.

A 1.5% contribution on sales value results in a contribution of around \$9,000 to \$10,000 per unit.

Market impacts

The impacts on market feasibility of brownfields development are more complex than for greenfields. This is because the ‘asking’ price for brownfield development sites is set by the wider housing market. A financial contribution cannot be readily ‘passed back’ to land prices in this case. The effect of a brownfields contribution may see some projects delayed until market prices for houses rise to a point where redevelopment again becomes feasible.

In general, to be viable terrace and apartment-type housing needs to sell at a discount to stand alone houses in the same area. This discount may be in the order of 20% to 30% less, due to the smaller land area, smaller floor area and closer neighbours. Increasing the cost of brownfields development means that overall house prices may need to rise to re-establish market relativities.

This dynamic suggests that brownfields development must be treated differently to greenfields, with a lower rate of requirement applied than for greenfields.

Rural-Residential, Rural Lifestyle and Resort (Special) zones

No specific assessments have been undertaken of the possible impact of an affordable housing requirement or contribution on the feasibility of rural-residential, rural-lifestyle or residential development in resort zones.

In general land and house prices are very expensive in these areas. Rural-residential and rural lifestyle lots can easily fall in the \$1m to \$2m range. A similar contribution per lot as for greenfields development would be 1 to 1.5% of the value of the lots.

Conclusion: Feasibility testing

The above discussion of testing of some form of requirement or contribution has demonstrated some key points:

- Brownfields development is likely to be much more sensitive to the effects on feasibility of any contribution or requirement, than greenfields.
- The impact on greenfields development depends upon whether the reduction to residual land values is such that landowners withdraw their land from the development market.
- A requirement in the form of a financial contribution is likely to generate fewer affordable lots or units than a rule requiring a certain proportion of lots or units be sold at a (discounted) affordable level.

A requirement on greenfields development of either 15% lots sold at an affordable price or 5% lots transferred to the Council (for on-transfer to the Housing Trust) results in a similar impact on feasibility. Testing suggests that at or around this level of requirement or contribution is sustainable.

For brownfields development, any requirement or contribution needs to be at a lower level, recognising the sensitivities of this form of development. Options to address the sensitivities of brownfields developments could include:

- a) Reduced the contribution rate compared to greenfields, e.g. 2% of the sales value of the development
- b) Applying the contribution to improvements only (building work put in place), not to final sale value – which includes land value).
- c) Calculating the contribution on the basis of the additional floorspace only, that is the net increase in floor area, and or units.

Quantum of lots or housing arising from requirement or contribution: possible Scenarios

Possible scenarios as to what number of affordable units may eventuate from any affordable housing provisions depends upon a range of assumptions as to what type of development is subject

to the requirement, the requirement level, and the impact of this requirement on development patterns (for example, does it see some development not proceed).

In terms of demand for housing over the next 30 years, QLDC data estimates demand for 15,000 dwellings from resident households and up to 2,000 dwellings for non-residents, under a high growth scenario.

Table 12: Dwelling demand – QLDC

Demand	High Growth	
2018-48	Residents	15,120
	Non residents	1,810
	Total HH	16,930

Current (plan enabled) zone capacities provide space for up to 38,350 dwellings in greenfields and brownfields areas, based on Council’s assessments. Rural zones add capacity for a further 3,400 dwellings.

Table 13: Zone capacities

Capacity - zonings	Dwellings	Percentage
Greenfields	1,8590	45%
Brownfields	19,760	47%
Rural	3,400	8%
Total	41,750	100%

Source: Housing Capacity Assessment

If it is assumed that over the next 30 years most housing growth will occur through expansion into greenfields areas, then the following generalised pattern may occur.

Table 14: Possible growth pattern

Scenario: Mostly Greenfields			
2018-2048	Type of growth	% of Growth	Dwellings
	Greenfields	65%	11,005
	Brownfields	30%	5,079
	Rural	5%	847
	total	100%	16,930

Requirement

Looking first at a requirement to provide units at an affordable price, it is necessary to first assume how much development may be subject to an affordable housing requirement. For example, it is reasonable to assume that most greenfields growth would involve subdivisions of 10 or more lots. Brownfields will involve a mix of smaller and larger developments. Table 15 sets out one set of assumptions as to what percentage of developments would be ‘caught’ by a requirement (i.e. be subject to the requirement).

Table 15: “eligible’ development

Type of growth	% of growth within threshold	Number of lots/dwellings
Greenfields	80%	8,804
Brownfields	40%	2,032
Rural	20%	169

The 40% of brownfields units being in developments that trigger a requirement is an estimate only. That is, it is assumed that 40% of units are delivered through developments of 10 or more units.

If an IZ requirement is then applied to this ‘pool’ of development then the potential number of lots or units to be generated over a 30-year time period, all else being equal, can be determined as follows.

Table 16: Number of affordable lots/units

IZ Requirement: lots/units		% requirement	Number of units
Greenfields	Lots	10.0%	880
Brownfields	Units	5.0%	102
Rural	\$\$ equivalent	2.0%	4
Total			982

Financial Contribution

If rather than lots or units sold with a retention mechanism in accordance with the affordable housing requirement, the intention is that council solely seeks a financial contribution of land or units, targeted at most developments, then the feasibility calculations suggest the following:

Table 17: Lot/unit equivalents – broad-based financial contribution

Financial contribution		Rate	Estimated lots / units
Lots	Greenfields	5.0%	550
	Brownfields	2.0%	102

Floor area of units	Rural-residential	1.0%	13
Total			665

These steps can be repeated for a range of assumptions. For example, if there was more demand for brownfields redevelopment and as a consequence more developments involved 10 or more units, then the following range of outcomes might occur.

Table 18: Alternative scenarios

Mix of development	Mostly greenfields		Mixed greenfields / brownfields	
	Requirement	Contribution	Requirement	Contribution
Lots	880	550	542	339
Units	102	127	233	233
Total	982	677	775	571

In summary, the number of lots or dwelling units generated by the provisions will not be large in absolute terms, but will make a significant contribution towards the goal of 2,000 affordable homes. In addition, over time, a stock of affordable housing will be built up that can work alongside and complement a range of other actions including direct provision of social housing by the government, as well as a greater range of market rate housing option.

Requirement or Contribution?

Previous sections have discussed two main methods to implement an affordable housing policy:

- A physical requirement on development to incorporate and sell affordable lots and dwellings to eligible buyers; or
- A financial contribution to Council of money or land to be used for the provision of affordable housing by the Housing Trust.

To date in QLD, most stakeholder deed obligations and Special Housing Area requirements have been based on the transfer of lots to the QLCHT at nil consideration. That is, rather than the developer building a home to be sold at below market rates or a subdivider selling a lot at a reduced price, there is the transfer of land at no cost to the council, who then passes it to the QLCHT. Some house and land packages have been provided. With the demise of Special Housing Areas, in the future the transfer of land or units will need to be treated as a financial contribution under section 108 of the RMA. This raises a range of specific issues with financial contributions which are discussed below.

As discussed in the Issues and Options, physical requirements can take a variety of forms. For example, SHAs established in Auckland based a contribution on relative price (e.g. 10% of dwellings to be sold at 75% of median house price), which can be met by smaller houses on smaller lots. Purchasers must meet certain income requirements and must agree to hold the property for a

period of time. This approach does not involve retention of the affordable unit for future buyers, rather relying upon the smaller house and section sizes for the dwelling to remain (over time) more affordable, relative to surrounding housing.

A requirement to sell a percentage of lots or units at a discounted (affordable) price will require a range of measures to be put in place to ensure:

- lots are sold at an affordable price
- a retention mechanism is included in the sale
- buyers must meet eligibility criteria
- there is some form of balloting or similar process to fairly allocate lots should demand exceed the number of lots to be sold at the reduced price.

Transfer of land at no cost to the QLCHT (or a house and land package or cash in lieu equivalent if that is negotiated) provides a convenient method for developers to meet obligations. Equally, the Trust does not have to have funding in place to purchase completed dwellings, even if sold at an affordable rate. The transfer of land is an accepted method in the QLD context and it is appropriate to build any method around a similar requirement.

While the current method of a contribution of land tends to suit greenfields development, it may not suit redevelopment involving new multi-unit developments, for example apartments.

Brownfields development will increasingly involve the redevelopment of existing sites, where a stand-alone house is demolished or removed, and new terrace units or apartments are built. This model of development does not lend itself to the transfer of land to the Council (and ultimately the Queenstown Lakes Community Housing Trust). In an apartment development, a separate bare land section is unlikely to be able to be identified and transferred. Similarly, with a terrace housing type development.

In addition to the limited ability to transfer lots, the size and type of units will vary in an apartment development (for example 1 or 2 bedroom units are common in apartment developments. Smaller studio units are also possible). In addition, in most brownfields developments a requirement to sell 10% of units at an affordable price point will result in a fractional amount (e.g. a 15 unit development requiring sale of 1.5 affordable units).

The most straight forward method is likely to base a monetary contribution on a percentage of residential floorspace in the development. For example, the requirement may be a financial contribution equal to 2.0% of the sale value of the development, rather than a percentage of units.

Ideally, the District Plan would specify a monetary value for the contribution, such as a rate per square metre. Otherwise, each development will require specific assessment of likely value.

Specific Issues: Financial contributions

The Councillors have expressed a preference for a financial contribution-based approach, and as outlined above there is a basis to use this technique in QLD. This approach suits the QLD context as the Housing Trust is present and has become an established mechanism to advance the supply of affordable housing. In the QLD context a financial contribution route is likely to be a more efficient and effective methods of implementing affordable housing objectives, than a requirement route.

There are a number of factors relevant to the decision to pursue a financial contribution-based approach.

The RMA provides scope for councils to impose a financial contribution on resource consents. Section 108 (2) (a) of the RMA specifies that a resource consent may include, subject to subsection (10), a condition requiring that a financial contribution be made.

Subsection 10 stipulates that a consent authority must not include a condition in a resource consent requiring a financial contribution unless:

(a) the condition is imposed in accordance with the purposes specified in the plan or proposed plan (including the purpose of ensuring positive effects on the environment to offset any adverse effect); and

(b) the level of contribution is determined in the manner described in the plan or proposed plan.

The jurisdiction in section 108 to impose conditions is not limited to the amelioration of adverse effects¹⁸. Rather, the requirement is that the purposes of the contribution are specified in the district plan in accordance with s108(10)(a) and there be a logical connection between the condition and the proposed activity.

The Environment Court¹⁹ has listed a four-point¹⁹ process for considering the validity of financial contributions:

- (i) Is the contribution imposed for a purpose specified in the Plan?
- (ii) Has the level of contribution been determined in a manner described in the Plan?
- (iii) Does the condition imposing the contribution satisfy the Newbury tests?
- (iv) Is the condition fair and reasonable on its merits?

This means, to meet the requirements of s 108(10), a plan must in some way, either broadly descriptive or narrowly prescriptive, specify the method (in a non-technical sense) in which a financial contribution can be determined. The provisions cannot be left in a general policy²⁰.

The reference to the Newbury tests addresses standard tests for consent conditions. These are that:

- The condition must be for a resource management purpose, not for an ulterior one.
- The condition must fairly and reasonably relate to the development authorised by the consent to which the condition is attached.
- The condition must not be so unreasonable that no reasonable planning authority duly appreciating its statutory duties could have approved it.

Section 108AA has modified these tests to a degree. Section 108AA (1) states:

A consent authority must not include a condition in a resource consent for an activity unless—

¹⁸ McLennan v Marlborough DC W058/01.

¹⁹ McNally v Manukau CC (2007) 13 ELRNZ 144 (EnvC).

²⁰ South Port New Zealand v Southland RC C091/02.

- (a) *the applicant for the resource consent agrees to the condition; or*
- (b) *the condition is directly connected to 1 or both of the following:*
 - (i) *an adverse effect of the activity on the environment;*
 - (ii) *an applicable district or regional rule, or a national environmental standard; or*
- (c) *the condition relates to administrative matters that are essential for the efficient implementation of the relevant resource consent.*

An affordable housing financial contribution is covered by 108AA (1) (b) (ii). Furthermore, Section 108AA 5 states:

Nothing in this section affects section 108(2)(a) (which enables a resource consent to include a condition requiring a financial contribution).

This means that the first Newbury test is modified to the extent that so long as the condition relates to a matter specified in the District Plan, then it is reasonable to say the condition relates to a resource management purpose.

For a large greenfields subdivision, transfer of 5% of serviced lots to Council for use in the provision of affordable housing provides a clear benchmark and purpose. A monetary contribution rather than transfer can be readily determined, as the sales value of lots is easily obtainable.

For brownfields development, a contribution equal to 2% of the value of floorspace created is more difficult to prescribe in a way that is able to be met without substantial case-by-case assessments of sales values. One option is for the plan to adopt an average contribution rate per square metre of floorspace (i.e. a set \$ per square metre). However, this benchmark would require constant updating to remain consistent with market movements. This would likely require regular plan changes.

For example, based on the Telfer Young Report and using the Fryer Street scenario, a requirement for one unit to be sold at an affordable price (\$500,000 rather than \$800,000) results in a reduction in gross realisation of 3%. If the financial contribution was set at 2% of gross realisation, this equals a contribution of \$192,000 or \$16,000 per unit. At 110 square metres per unit, this equals \$150 per square metre. Using a single per square metre rate means that more expensive properties would have a relative benefit, while less expensive developments would have more of a disbenefit.

If the QLD Community Housing Trust is the sole beneficiary of any contribution, then a broad-based affordability scheme relies on the ability of the Trust to scale up its activities to match the amount of contributions obtained in order to ensure delivery of the affordable units. The integrity of the scheme wholly relies on the ability of the Trust to manage the development of the asset portfolio. There may also be concern that if the Trust is the sole arbiter of what contribution mix is appropriate - land versus money (as the Trust would need to agree to the mix), then this may 'skew' implementation of the scheme. However, this risk is mitigated to an extent by the Trust's Relationship Agreement with the Council.

It may be necessary to provide for a number of implementation routes. For example, the rules could refer to a Registered Community Housing Provider approved by the QLDC as being the recipient of any contribution, rather than directly referring to the QLCHT. This would provide scope for other providers to receive contributions and deliver units, in the future. However as with the Housing Trust, there would have to be certainty over long term retention of the units created.

Specific Issues associated with a physical requirement

The alternative to a financial contribution - a development standard (or requirement) – raises a different set of issues to be addressed. These covers matters such as:

- Design standards
- Off-site provision
- Retention mechanisms.

Consideration of these matters raises the issue of whether all developments triggering a contribution will require resource consents to be prepared and processed so that affordable dwelling requirements (number, location and design) can be assessed, resolved and appropriately conditioned.

Design standards

Ideally the affordable lots or units should be similar in design and layout to the market rate units in the development. Depending upon the approach taken, standards or assessment criteria may be needed to address the following specific aspects of the affordable units:

- their minimum size/ floor space;
- their distribution and location.

Controls should prevent the affordable lots or units being segregated in a separate area, and preferably should require them to be inter-mixed and dispersed throughout the market units in a way that leaves the affordable units difficult to distinguish from market units. Where the contribution is in the form of a dwelling, consideration can be given to providing cost savings to the developers by allowing a different standard of interior finishes and amenities in the affordable units, provided that the standard is based upon acceptable building practices and the energy efficiency of the units is not compromised.

On site versus off-site

In principle, the affordable lots or units should be provided within the same site as the market units. However, there is usually pressure for an off-site contribution, either in the form of cash, or units located in less expensive areas. In some cases, Community Housing Providers may not wish to receive a lot or dwelling, due to factors like isolation or associated development costs required by private covenants.

Typically, affordable housing programmes allow for alternative means of meeting obligations, such as the following:

- payment of fees-in-lieu,
- construction of affordable units on another site,
- purchase of existing units and on-sale at a reduced, affordable price.

However, in the absence of policy on the use of these alternatives, few inclusionary units may actually be built, or they may be concentrated in certain areas, or inappropriately scattered. QLDC has a strong preference for obtaining a standardised contribution of a percentage of subdivided sections that are connected to roads and utility services, spread across neighbourhoods.

Retention

Maintaining affordability for future generations and avoiding windfall benefits for first occupiers are important factors.

In the US-based IZ programs, inclusionary ownership units are controlled almost universally through restrictive covenants registered on the title of the property. The covenants bind the initial as well as all subsequent owners to the various affordability restrictions over a prescribed period of control.

Some early schemes had a ‘control period’ of 30 years. After this time period had expired, then the retention mechanism is lifted. This resulted in the loss of the investment in affordable housing. More recently, retention in perpetuity is common, as otherwise the stock of affordable dwellings can decrease if the additions into the affordability housing ‘pool’ are fewer than the number of affordable units leaving the pool as their control period expires.

Through the covenants, the initial price reduction is locked in and passed on to the subsequent buyers, allowing for some suitable inflationary adjustment. This means that the owners of the unit do face limited capital gains.

In some places, this primary legal instrument is also supplemented by an “option to purchase”. This option allows the Council (or perhaps Housing Trust) to buy the affordable units whenever offered for resale. They typically exercise this right, not by buying the unit, but by assigning the option either to a non-profit agency or to an eligible buyer on their waiting list.

Retention mechanisms based on some form of covenant on a title would be a new feature in the NZ housing market and may see some resistance from banks (for example when lending), or future buyers unsure as to the implications of the mechanism. For example, the retention mechanism narrows the pool of potential buyers and limits capital appreciation. Retention mechanisms will require the Council to monitor sales and purchase agreements.

Transfer of land to the QLCHT does involve on-going retention due to the term of the Relationship Agreement that the Trust has with Council.

Another option to avoid retention issues is to seek to control the size of the unit, rather than its cost. For example, a requirement that a percentage of units be one or two bedrooms, rather than all being three bedrooms. However, this approach does not necessarily deliver a unit that is affordable to households on below median incomes, particularly ‘family’ households. It may not result in an effective match between supply and demand.

Possible approach

Based on the discussion in this working paper and the Issues and Options paper, the following approach is suggested as a possible model for subsequent consideration and assessment as part of Section 32 reporting under the RMA.

Table 19: Possible approach

Development Type	District Plan provision	Notes
Large greenfields residential subdivision on land within a urban growth boundary or other residential zone, e.g. more than 20 lots created	5 - 10% of lots transferred to the Council at no cost. Option via consent to provide equivalent off-site or in the form of a monetary contribution	Preference for lots within the development is to support mixed communities across the district
Smaller residential subdivision, 3 to 19 lots, on land within urban growth boundary or other residential zone	5 - 10% of the value of the lots created to be provided as a monetary contribution to the Council. Value to be based on valuers report on likely sale value.	Contribution in form of money to be used for affordable housing. Cut off of 2 lot subdivision recognises potential for smaller development to add to housing supply options
Rural Residential subdivision, Settlement or Special (Resort) zone subdivision of more than 2 residential lots	1 - 4% of value of lots created to be paid as a contribution	Contribution level recognises higher value of lots created. Contribution reflects that development does generate indirect demand for affordable housing
Residential development involving more than 2 dwelling units on a lot. Includes Residential Visitor Accommodation and independent living units in retirement villages	1 - 4% of the sale value of the additional units to be provided as a monetary contribution, or set amount per square metre of floorspace added. Possible option for larger developments (e.g. more than 20 units) to provide contribution in the form of a unit or units, subject to consent	Aimed at brownfield type development. Lower rate reflects feasibility issues. To avoid double dipping, if built on a lot for which a contribution has already been made a subdivision stage, then contribution would be reduced or not apply (i.e. a credit is recognised).
Residential development in Settlement, Resort and Rural-Residential zones	Set amount per square metre of floorspace added	
<p>Exempt types of residential development:</p> <ul style="list-style-type: none"> • Small units – less than 40sqm • Boarding houses, worker accommodation • Managed care facilities in retirement villages • Developments by Kāinga Ora / Community Housing providers 		

Affordable Housing (Indicative provision)

The following is a draft of possible amendments to the Operative and Proposed QLDC District Plans relating to affordable housing. The amendments have not been adopted by the Council. The following is provided as an 'exposure draft' to help elicit feedback.

Operative District Plan

Delete 4.10 Affordable and Community Housing.

Proposed District Plan

Insert the following into Chapter 3 Strategic Direction

3.2 Strategic Objective

Add the following to 3.2.1 The development of a prosperous, resilient and equitable economy in the district (addresses issue 1):

3.2.1.8 Affordable housing choices are provided so that a diverse and economically resilient community representative of all income groups is maintained into the future.

Note: Existing Strategic Objectives 3.2.1.8 onwards to be renumbered.

3.3 Strategic Policies

Affordable housing

3.3.38 Ensure affordable housing choices for low to moderate income households are incorporated into new neighbourhoods and settlements and in redevelopments of existing neighbourhoods.

3.3.39 Ensure that affordable housing provided in accordance with Policy 3.3.38 is retained to meet the long term needs of current and future generations of low to moderate income households.

3.3.40 Require from development and subdivision that has a residential component, the transfer of land or money to the Council as a financial contribution towards meeting Objective 3.2.1.7 and policy 3.3.38 and 3.3.39.

40 Affordable Housing

40.1 Purpose

The purpose of this chapter is to make provision for housing choices for low to moderate income households in new neighbourhoods and in redevelopments of existing neighbourhoods.

The combination of multiple demands on housing resources including geographic constraints on urban growth, the need to protect valued landscape resources for their intrinsic and scenic values, proportionately high rates of residential visitor accommodation and holiday home ownership means that the District's housing market cannot function efficiently, with long term consequences for low to moderate income households needing access to affordable housing. This has adverse consequences for the integrated and sustainable management of natural and physical resources, including pressure for additional urban expansion, displacement of lower income households to outlying settlements, and disablement of social and economic well being.

Affordable housing is where a low or moderate income household spends no more than 35% of their gross income on rent or mortgage (principal and interest) payments. In the Queenstown Lakes District, and for the purposes of these provisions, 100% of the District's Median Household Income for the most recent 12 months is used to define a low to moderate income.

The rules in this chapter apply to residential activity (subdivision and development). Provision is made for affordable housing through imposing as standard and as conditions of consent a requirement for a financial contribution to be made.

This Chapter sets out the purpose of a financial contribution, and the manner in which the level of contribution (i.e. the amount) is determined. A financial contribution taken by the Council is for a different purpose to any development contribution listed in the Council's current contributions policy and may be imposed in addition to a development contribution.

40.2 Objectives and Policies

40.2.1 Objective: Provision of affordable housing for low to moderate income households in a way and at a rate that assists with providing for social and economic well-being and managing natural and physical resources.

Policies

40.2.2 Target affordable housing contributions to residential subdivisions and developments (including Residential Visitor Accommodation and independent living units in retirement villages) where housing is in high demand and generally close to employment, educational and community services, being land within Urban Growth Boundaries, or where a plan change or resource consent seeks to establish urban scale development.

40.2.3 Require developments that indirectly influence housing choices for low to moderate income households, such as residential development in Resort, Special and Settlement zones and Rural Residential subdivisions to contribute to meeting affordable housing needs.

40.2.4 Recognise that the following forms of residential development provide affordable housing and should not be subject to the affordable housing contribution:

- a) social or affordable housing delivered by Kāinga Ora, a publicly owned urban regeneration company, the Council or a registered community housing provider,
- b) managed care units in a Retirement Village (as defined by the Retirement Villages Act 2003) or Rest Home (under the Health and Services Disability Act 2001)
- c) Residential units less than 40m² in floor area), or

- d) residential development in which rooms are individually let and cooking and living facilities are shared, such as boarding houses (as defined by the Residential Tenancies Act 1986).

40.2.5 Determine the amount of financial contributions in consideration of the following matters:

- a) The longer term demand for affordable housing
 b) The impact of a contribution on the commercial feasibility of development at an area-wide scale and over different time periods.
 c) The differences in commercial feasibility between greenfields and brownfields urban development.

40.2.6 Financial contributions in the form of a monetary contribution are preferred. Contributions in the form of land should be of serviced lots located within larger developments. Contributions of lots located outside the development site should only occur where this leads to a superior outcome in terms of access to services and community facilities.

40.2.7 Financial contributions received by the Council shall be used for the purposes of providing affordable housing for low to moderate income households.

40.3 Other Provisions and Rules

40.3.1 District Wide

Attention is drawn to the following District Wide chapters.

<u>1 Introduction</u>	<u>2 Definitions</u>	<u>3 Strategic Direction</u>
<u>4 Urban Development</u>	<u>5 Tangata Whenua</u>	<u>6 Landscapes</u>
<u>25 Earthworks</u>	<u>26 Historic Heritage</u>	<u>27 Subdivision</u>
<u>28 Natural Hazards</u>	<u>30 Energy and Utilities</u>	<u>31 Signs</u>
<u>32 Protected Trees</u>	<u>33 Indigenous Vegetation and Biodiversity</u>	<u>34 Wilding Exotic Trees</u>
<u>35 Temporary Activities and Relocated Buildings</u>	<u>36 Noise</u>	<u>37 Designations</u>
<u>39 Wāhi Tūpuna</u>	<u>Planning Maps</u>	

40.4 Interpreting and Applying the Rules

40.4.1 The requirement in Rule 40.8 for affordable housing applies to any residential development that is located:

- (a) inside the Urban Growth Boundaries as identified on the Proposed District Plan Maps, or
 (b) outside the Urban Growth Boundaries but within:

- (i) a Settlements Zones;
- (ii) any Residential Zone;
- (iii) in a Rural-Residential Zone; or
- (iv) Special Zone or Resort Zones.

- 40.4.2 Contributions of money from a subdivision activity must be paid to the council before the issue of a certificate under section 224(c) of the RMA. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of a certificate under section 224(c) of the RMA.
- 40.4.3 Contributions of money from a land use activity must be paid to the council before the issue of the necessary building consents under the Building Act 2004. Where land forms part or all of a contribution, all necessary legal agreements to ensure implementation of such a contribution must be completed before the issue of the necessary building consents under the Building Act 2004.
- 40.4.4 Where relevant, the estimated sales value of lots, units or residential floorspace shall be determined by a valuation report prepared by a Registered Valuer (mutually agreed between the Council and applicant) within the 3 months prior to the financial contribution being paid.
- 40.4.5 The requirement in Rule 40.4.1 for affordable housing does not apply to any development that:
- (a) will provide more than 10% of dwellings as social or affordable housing delivered by Kāinga Ora , a publicly owned urban regeneration company, the Council or a registered community housing provider that complies with the requirements of Schedule 40.1, or
 - (b) is a managed care unit in a Retirement Village or Rest Home (as defined by the Retirement Villages Act 2003 or the Health and Disability Act), or
 - (c) is a residential development in which multiple households share cooking facilities and living areas, such as boarding houses as defined by section 66B of the Residential Tenancies Act 1986, or
 - (d) Is located in a Zone that already contains affordable housing provisions in the district plan, or where previous agreements and affordable housing delivery with Council have satisfied objective 3.2.1.8 and policies 3.3.38 to 3.3.40.
- 40.4.6 For the purposes of this Chapter, residential floorspace is defined as any floorspace in a building that accommodates bedrooms, living areas, home offices, kitchen dining areas, and bathrooms and laundry facilities used for domestic activities and associated circulation spaces like hallways and entrance areas.
- 40.4.7 Where an activity does not comply with a standard listed in the standards tables, the activity status identified by the 'Non-Compliance Status' column shall apply. Where an activity breaches more than one Standard, the most restrictive status shall apply to the Activity.

40.4.8 For restricted discretionary activities, the Council shall restrict the exercise of its discretion to the matters listed in the rule.

40.4.9 These abbreviations are used in the following tables. Any activity which is not permitted (P) or prohibited (PR) requires resource consent.

<u>P – Permitted</u>	<u>C – Controlled</u>	<u>RD – Restricted Discretionary</u>
<u>D – Discretionary</u>	<u>NC – Non – Complying</u>	<u>PR - Prohibited</u>

40.7 **Advice Notes - General**

To be developed. Likely to refer to Council practice note.

40.8 **Rules – Activities**

	<u>Table 45.4 – Activities - Affordable Housing</u>	<u>Activity Status</u>
40.8.1	<u>Subdivision or development that is proposed to contain residential lots or units (including residential visitor accommodation units) and provides an affordable housing financial contribution in accordance with standard 40.9.1.</u>	<u>P</u>
40.8.2	<u>Subdivision or development that is proposed to contain, or is capable of containing residential lots or units (including residential visitor accommodation units) and does not provide an affordable housing financial contribution in accordance with standard 40.9.1.</u>	<u>D</u>

40.9 **Rules - Standards**

	<u>Table 45.5 – Standards - Affordable Housing</u>	<u>Non-compliance status</u>
40.9.1	<p><u>An Affordable Housing Financial Contribution shall be provided to Council as follows:</u></p> <ol style="list-style-type: none"> 1. <u>Subdivisions:</u> <ol style="list-style-type: none"> a. Residential subdivisions within urban growth boundaries or other Residential Zones outside urban growth boundaries, <ol style="list-style-type: none"> (i) <u>resulting in more than 1 but less than 20 new lots: A monetary contribution shall be paid to the Council equal to 5 - 10% of the sales value of serviced lots.</u> 	<u>D</u>

	Table 45.5 – Standards - Affordable Housing	<u>Non-compliance status</u>
	<p><u>(ii) resulting in 20 or more lots: 5 - 10% of serviced lots are transferred for no monetary or other consideration to the council.</u></p> <p>b. Residential subdivisions in a Settlement, Rural-Residential, Resort or Special zones:</p> <p>(i) A monetary contribution shall be paid to the Council equal to 1 - 4% of the sale value of the lots created.</p> <p>2. <u>Development:</u></p> <p>a. <u>Residential floorspace for any new or relocated units on lots that have not been subject to a financial contribution under 1 (a) above: A monetary contribution shall be paid to the Council equal to the lesser of:</u></p> <p>(i) <u>2.0% of the estimated sale value of the additional units, or</u></p> <p>(ii) <u>\$150 per sqm of the net increase in gross residential floorspace.</u></p> <p>b. <u>Residential floorspace for any new or relocated units on lots that have not been subject to a monetary contribution under 1 (b) above: A monetary contribution shall be paid to the Council equal to:</u></p> <p>(i) <u>\$75 per sqm of the net increase in gross residential floorspace</u></p> <p>c. <u>For residential floorspace on lots that have provided a monetary contribution under 1(a) above, a ‘top up’ monetary contribution shall be paid to the council, equal to the lesser of:</u></p> <p><u>1 - 4% % of the estimated sale value of the additional units, or</u> <u>\$150 per sqm of the net increase in gross residential floorspace, and</u> <u>less the per lot contribution paid under 1(a) or (b).</u></p> <p><u>For the purposes of this standard, the following types of residential developments:</u></p> <p>a. <u>residential units less than 40sqm in floor area</u></p> <p>b. <u>managed care units in retirement villages and rest homes</u></p> <p>c. <u>residential floorspace that is used to provide social or affordable housing delivered by Kāinga Ora, the Council, a publicly owned redevelopment agency, or a registered community housing provider that complies with Schedule 40.1</u></p> <p>d. <u>residential floorspace in boarding houses for the purposes of providing accommodation involving shared living and kitchen</u></p>	

	Table 45.5 – Standards - Affordable Housing	<u>Non-compliance status</u>
	<u>shall not be counted as contributing to the total number of residential units in a development, nor be counted towards fulfilling the requirement of 40.9.1.</u>	
40.9.2	<u>Affordable lots provided in accordance with 40.9.1 (a) (ii) shall be located within the development site.</u>	<u>D</u>
40.9.3	<u>Where development is to be staged, the affordable housing contribution is to be provided as each stage proceeds, on a proportionate lot basis.</u>	<u>D</u>

40.10 Assessment Matters

40.10.1 Discretionary Activities

Council has full discretion but will shall consider the following but not be limited by:

40.10.1.1 The amount of the contribution

- a. Whether the site or development has unique or unusual characteristics that would mean full provision of the required number of affordable lots or monetary contribution imposes a significant financial burden on the development that would make the development unviable, as demonstrated by a site specific development feasibility assessment that utilises industry accepted assessment methodologies, and an alternative mix or contribution is appropriate. It is expected that a full assessment of costs will be required based on an “open book” approach i.e. the developer will be expected to make all of the relevant cost information available.

40.10.1.2 Lots versus monetary contribution

- a. Whether the contribution is more appropriately provided in the form of money rather than land (lots) due to the location of the lots; their size and on-going high costs of upkeep
- b. Whether there are advantages to community mix and affordable housing choices from transferring serviced lots or completed floorspace.

40.10.1.3 Off-site provisions

Affordable lots should be provided within the development site, however off-site locations may be considered for all or part of the requirement where:

- c. there are exceptional reasons to avoid on-site provision, such as the site being poorly located for affordable provision, and/or

- d. the alternative sites are in close proximity to the development (i.e. within 2kms) and offer a superior outcome in terms of improved access to services and transport and or improved mix of dwelling types. Particular consideration will be given to whether the off-site provision will better address priority needs, particularly family housing, and/or
- e. the applicant has entered into a legally binding agreement with an Council approved community housing provider who can demonstrate that on-site provision will not meet their operational requirements and that an off-site location will deliver a superior outcome in terms of the number, mix and/or on-going management of the required retained affordable housing.

40.10.1.4 Staging of dwellings units and/or lots

- a. Deferral of provision of affordable lots or units to subsequent stages should generally not occur.
- b. Whether delayed delivery of the affordable dwellings or lots can be appropriately secured through a bond.

40.10.1.5 Alternative forms of contribution

- a. Alternative forms of contribution to that specified in 40.9.1 (such as sale of lots or units to a Community Housing provider) should not result in a lesser contribution.
- b. Transfer of lots or units should involve an appropriate retention mechanism and be subject to eligibility criteria (as specified in Schedule 40.1).
- c. Alternative forms of contribution should only be considered where exceptional circumstances apply.

40.11 Schedule 40.1

Retention Mechanism

40.11.1.1 Where a financial contribution is not provided, and an alternative solution proposed, then the requirements in 40.9.1 must be met by the lot or floorspace being sold to an eligible buyer with a legally enforceable retention mechanism which is fair, transparent as to its intention and effect and registrable on the title of the property, including, but not limited to, a covenant supported by a memorandum of encumbrance registered on the certificate of title or consent notice under the RMA, that:

- a. limits ownership and re-sale (including a future dwelling in the case of a vacant site subdivision) to:
 - (i) a registered community housing provider, Housing New Zealand or the council, or
 - (ii) an occupier who is approved by the council as meeting the eligibility criteria below, and

- b. limits rent and resale to an eligible buyer based on a formula that ensures that the lot or dwelling remains affordable into the long term, including a future dwelling in the case of vacant site subdivision; and
- c. prevents circumvention of the retention mechanism and provides for monitoring of the terms of the retention mechanism covenant or consent notice and the process should those terms be breached including where occupiers have defaulted on the mortgage and lenders seek to recover their interests in the property, and
- d. is legally enforceable by the council in perpetuity through the means of an option to purchase in favour of the council at the price determined in accordance with (e), supported by a caveat.
- e. at the time of resale, requires the reseller to:
 - apply the same formula used to determine the price of the original purchase;
 - allows the reseller to recover the cost of capital improvements made subsequent to purchase, approved by the council at a value determined by a registered valuer.

Eligibility

40.11.1.2 For the purposes of this Chapter an eligible buyer shall:

- a. Be a household with a total income of no more than 120% of the District's median household income;
- b. Whose members do not own or have interest in other property;
- c. Reside permanently within the District during the majority of the year;
- d. Will live at the address and not let or rent the unit to others; and
- e. Have at least one member who is a New Zealand resident or citizen.

Affordability

40.11.1.3 Affordability means households who have an income of no more than 100% of the district's median household income and spend no more than 35 per cent of their gross income on rent or mortgage repayments, where:

- a. median household income shall be determined by reference to Statistics New Zealand latest data, and as necessary, adjusted annually by the average wage inflation rate.
- b. in the case of purchase, normal bank lending criteria shall apply, and shall at a minimum be based on a 10 per cent deposit, a 30 year loan term and the most recent 2 year fixed interest rate published by the Reserve Bank. Body Corporate or Resident Society fees may be included in the calculation of purchase costs;
- c. In the case of the sale of a vacant site only, the site is sold at a price such that the resulting dwelling plus the site will meet the criteria set out above.