

Housing Our Nation: Rebalancing the Equation in Planning

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Introduction

This paper sets out the legislative and professional practice context that has contributed to the current issues many centres in New Zealand have been facing for a number of years now with regard to housing affordability. It then goes on to address a variety of policy approaches, informed by professional practice experience, that can potentially be used by Councils to positively address the housing issue.

Housing affordability – it's about planning but also more than planning

From the outset, it is important to emphasise that planning regulation and process can have a very significant influence on housing supply and affordability. We think that the influence is compelling, and beyond reasonable challenge, and is embraced by all sides of the political spectrum¹. We address this influence later in the paper.

However, we also emphasise that there are a number of factors beyond planning that have a significant influence on housing affordability. Some of these factors are being investigated seriously by central government, others apparently not.

Some of the more significant influences include:

- Rules around foreign property investment
- New Zealand's taxation regime (in particular the absence of a Capital Gains Tax, and the impact of GST on new housing supply)
- The high cost of construction in the country and the associated lack of productivity gains and innovation in the construction sector²

These factors are beyond the scope of planning and beyond the scope of this paper.

¹ Historically, criticism of planning regulation's impact on housing has tended to emanate from the political 'right'. However this is no longer dominant. Some domestic and international 'left leaning' critics of planning regulation's (or at least status quo planning approaches) impact include Labour Housing Spokesman Phil Twyford, Economist Shamubeel Eaqub, and Nobel Prize Winning Economic Dr Paul Krugman. Very recently, Jason Furman, President Obama's Chairman of the Council of Economic Advisors wrote a strong piece critiquing some of planning regulation's impact on housing: https://m.whitehouse.gov/sites/default/files/page/files/20151120_barriers_shared_growth_land_use_regulation_and_economic_rents.pdf

² It is worth noting that planning regulation can potentially contribute to this issue. If plan regulation settings are poor, and profitable development is not enabled by regulation and process, then the construction sector is less likely to 'gear up' and develop scale and efficiency.

Our focus therefore is on planning's sphere of influence. Given planning's significant influence on housing, we think there is a lot of scope for planners as professionals to positively contribute to addressing this most pressing of policy issues.

This, in our view, does not *only* mean reducing planning restrictions and becoming more enabling to better enable a market response. We think that is critical – with the caveat applied that certain regulations and checks and balances are still required - but as we outline in this paper we think there is the potential for other more interventionist approaches, recognising that the market by itself will not solve the issue.

Legislative and Practice Failure

We believe housing has to some degree become 'lost' in the planning system in New Zealand.

Since the RMA was enacted in 1991, housing – somehow – slipped off the planning radar.

It was there, somewhere, hovering in and out of range, but never central to planning considerations.

Owen McShane was beating the critical neoliberal drum hard in the 1990s.³ The late McShane was a strong critic of the planning system's impact on housing supply and affordability.

Unfortunately, McShane's valid points and criticisms fell on deaf ears. Many Planners didn't want to hear.

McShane didn't help himself. He went too far with his criticism, sometimes he was overly simplistic, and the approaches he advocated for may have helped housing affordability a lot but they would likely, if enacted, led to poorer urban environments – urban sprawl, unfettered urban subdivision and development. In our view he was correct that planning regulation was too oppressive and that housing's critical social and economic role was not given enough weight. This could have translated into policy responses that took those valid criticisms into account without necessarily going to the extreme of McShane's solutions – which were essentially 'anti planning' (and perhaps that is why some planners became defensive – McShane's ideas if taken to the extreme could have wiped out most planning jobs)

Ironically, McShane advocated that planning was still wed to its dark Town and Country Planning Act 'control and command' planning philosophy. According to McShane, planning had to rip those shackles off and allow the free market to weave its magic – provided the environmental bottom lines – 'the 'effects based' foundation of the RMA – were respected.

An alternative view is that the RMA - or at least a certain interpretation of the RMA – was the big problem. Whilst McShane's position had logic if taken to its extreme application, in reality an 'effects based' view of the universe as applied in reality (far from its pure form) did more to hinder rather than promote housing. Because the conventional wisdom was

³ McShane's 'Think Piece', 'Land Use Control Under the Resource Management Act' (1998), commissioned by then Minister for the Environment Simon Upton, with critiques by Ken Tremaine, Bob Nixon, and Guy Salmon.

that the RMA was only about 'environmental effects' (despite what Part II said), perversely that meant that social and economic considerations were relegated or even ignored completely. Despite its flaws, at least the Town and Country Planning Act espoused explicit social and economic objectives. Look at some of the pre-RMA district schemes and you will often find residential policy and rules that provided far more flexibility and density than the post-RMA District Plans.

Further if the RMA was mainly about effects, then that meant that more intensive housing could be opposed, or not promoted, on the basis that it generated adverse effects on residential character and amenity.

Something got lost in translation. The notion of an 'effects based' planning system had its origins in neo-liberal economic theory, holding that people can do what they want provided externalities are avoided or minimised. Under this more pure vision, effects based planning would enable housing intensification provided quantifiable impacts such as shading were avoided or minimised.

However, the RMA was / is a weird amalgam of this neo-liberal philosophical basis, environmentalism and subjective notions and measures (As opposed to objective scientific measures). As Bob Nixon eloquently and almost prophetically stated in his 1998 critique of the McShane Think Piece:

'The environmental mission inherent in the creed of sustainable management, and in Part II, do not always sit comfortably with the market led methods of section 9 and Section 32: perhaps they never will'⁴

A strong element in the muddling of the system was the inclusion of principles in Part II of the RMA such as 'the maintenance and enhancement of amenity values' (Section 7(c)). Here lies perhaps the crux of the RMA's failure. The RMA is not truly effects –based because a principle that is subjective such as this effectively advocated for the status quo in urban environments. A truly effects based approach would have enabled significant change and flexibility provided objectively measured negative externalities were minimised. Our understanding is that in fact section 7(c) was a 'last minute addition', following expressed concern that the RMA was giving no expression to matters historically central to planning considerations – design, character. This may have been the beginning of the slippery slope that has been amendments to the RMA by 'a thousand cuts', the first erosion of the RMA's founding principles.

None of this is to say that section 7(c), or perhaps preferably (in our view) an alternate variant of it, should not exist. In fact, many individuals and communities care deeply about the more subjective and less quantifiable attributes and qualities of their physical environment. These are not only 'planning imposts' by any stretch of the imagination. Certainly these things can masquerade as 'anti-change NIMBYism', but often they are legitimate and well founded concerns. We think there should always be a place for some 'art' in planning, as well as objectivity.

⁴ McShane's 'Think Piece', 'Land Use Control Under the Resource Management Act' (1998), commissioned by then Minister for the Environment Simon Upton, with critiques by Ken Tremaine, Bob Nixon, and Guy Salmon.

The problem, in our opinion, has been the lack of counterbalancing criteria in the Act to 'rein in' the over-dominance that section 7(c) can attain in both plan making and resource consent decision making. This may have been a fundamental flaw in the RMA from the start. Without Section 7(c), the RMA was closer to a pure effects based approach. With Section 7(c), old Town and Country Planning Act concepts were kept alive, however there was not the same counterbalancing social / economic focus.

Amendments to the Act have helped. Most particularly section 32, and its greater emphasis on analysing the economic and social costs of regulation – which we think, in terms of residential provisions, should always include the impacts on housing supply and affordability. However, we also think that the inclusion of housing supply and affordability in section 6 or 7 of the RMA would make a big difference. But for now, that is not occurring. Yes, that would further detract from the 'pure philosophy' of the RMA. But as we suggest, that philosophy was not pure from the start.

This, then in our opinion, is the legislative basis for planning's failure to effectively address housing issues. Changes in recent years may have been tinkering but they have helped address the RMA's failures. In particular, the changes to Section 32 placed more focus on the social and economic costs and benefits of planning regulation.

But planning practice, ultimately, in our opinion has been just as problematic. And we have all known for a long time, even before the amendments of recent years, that there is far more ammunition in the RMA to promote housing approaches than was originally thought – especially embedded in Section 5 of the Act.

Auckland's housing crisis largely has its origins in the policy inaction and lack of leadership (political and professional) that occurred through the years 1999 – 2007. Despite the directive of a Regional Policy Statement and Regional Growth Strategy that demanded policy responses from the various Auckland local authorities, hardly any of the necessary upzoning occurred. This was a significant policy failure. If one is to promote and enforce a compact urban form – as Auckland region did- then it is essential that widespread upzonings are promoted and applied. For various reasons, this simply did not occur.

The rest is history.

In the face of strong population growth, without a sufficient housing supply response enabled with appropriate zoning and process, housing prices will rapidly inflate.

Why is this all a problem?

Whilst some house price inflation not way out of balance with income growth is usually a good thing, there is a large body of evidence that shows how large gains in prices out of line with income growth create a whole range of social and economic risks. We all know the huge fallouts that occur from housing busts – just turn the clock back to 2007/2008.

The issues are well documented.⁵

In the overview to its 2015 Inquiry report, the Productivity Commission states:

*Housing is fundamental to our economic and social wellbeing. It plays a central role in individual and community health, family stability and social cohesion. A responsive housing market facilitates labour market mobility, allowing people to move to take up job opportunities, thereby enhancing the productivity of the economy. A poorly performing housing market leads to high housing costs (whether rented or owned), overcrowding, barriers to home ownership, and risks to macroeconomic stability.*⁶

Just as well documented and researched as the centrality of housing to wellbeing is the negative impact that planning regulation often has on housing. A general weakness in research is perhaps the lack of counterbalancing assessment of the positive impact of planning in terms of not only environment, but also social and economic outcomes. For example, certain bulk and location controls are effective in protecting neighbours' amenity and property values, with a variety of benefits. Some of these are difficult to measure, but that does not mean they do not exist. Nevertheless, the focus of this paper is on what planning is doing wrong in terms of housing (and more importantly how things can be done better).

A significant body of high quality economics research reinforces the impact that overly restrictive planning regulation can have on housing supply and affordability. The preeminent Harvard University economics Professor Edward Glaeser, and Wharton School of Business (University of Pennsylvania) professor Joseph Gyourko have been particularly prolific and influential researchers. In 2005 they concluded with the following simple but strong statement:

*"Measures of zoning strictness are highly correlated with high prices."*⁷

The OECD Economics Department have also carried out a number of studies researching the impact of planning regulation and other factors on housing supply and prices. Caldera Sanchez and Johansson (2011) state:

*"Land use and planning policies are intended to reduce negative externalities that can be associated with new housing construction, but if they are poorly designed they may also restrict supply responsiveness".*⁸

⁵ A good place to start for comprehensive research documentation of the social and economic ramifications of unaffordable housing markets – as well as the influence of planning regulation in contributing to these issues – are the various inquiry reports prepared by the New Zealand Productivity Commission over the past 5 years. The reports provide bibliographies of a substantial body of credible domestic and international research. <http://www.productivity.govt.nz/>

⁶ New Zealand Productivity Commission, Using Land for Housing Inquiry, Final Report

⁷ Glaeser, E., Gyourko, J., Saks, R. 'Why Have Housing Prices Gone Up?', NBER Working Paper No. 11129, 2005

⁸ Caldera Sanchez, A. and Johansson, A. (2011), "The Price Responsiveness of Housing Supply in OECD Countries", OECD Economics Department Working Papers, No. 837.

A further paper by the same authors in 2011 found that:

*“Badly designed policies can have substantial negative effects on the economy, for instance by increasing the level and volatility of real house prices and preventing people from moving easily to follow employment opportunities”.*⁹

The New Zealand Productivity Commission’s inquiries have identified the negative impact that development controls can have on the realization of housing supply:

*“Councils should ensure that their planning policies, such as height controls, boundary setbacks and minimum lot sizes, are not frustrating more efficient land use. Such policies put a handbrake on greater density and therefore housing supply.”*¹⁰

Also, importantly, The Productivity Commission state in their 2015 Inquiry:

*“The cumulative effect of multiple rules can also lead to disconnects between the stated objectives of a District Plan and its actual impacts on development capacity: While most RMA plans endorse some degree of residential intensification, many plans contain provisions that can act as disincentives to achieving this aim. These include provisions such as requiring a minimum area of land per dwellings (irrespective of dwelling size), open space requirements per dwelling, car parking rules and restrictions on converting existing houses into flats.”*¹¹

Private open space requirements can impact on development viability, and do not necessarily offer significant amenity benefits. For example, a balcony requirement can add substantially to the sale price of an apartment, and may offer minimal benefit if the development site is located in a dense urban setting or on a highly trafficked and noisy transport corridor. It doesn’t take too much thought to remember multitudes of New Zealand apartment buildings where the balcony is a wasted space, not much use other than as a space for a smoker to puff away whilst admiring the blank wall of a neighbouring building.

Interestingly, a curious view seems to pervade the planning and urban design professions that an apartment building is somehow deficient if the apartments do not have balconies. Anyone who has travelled through Europe will know that there are literally millions of apartments that do not have balconies, or may only have a ‘juliet balcony’. And often they are elegant buildings, and no doubt serve their inhabitants needs. Who are planners to judge or second guess what amenities residents need? From my observations, there is no causal link between how functional an apartment is or how nice it looks and the presence or lack of presence of balconies!

⁹ Andrews, D., Caldera Sanchez, A. and Johansson, A. (2011) “Housing Markets and Structural Policies in OECD Countries”, OECD Economics Department Working Papers, No. 836

¹⁰ New Zealand Productivity Commission, ‘Housing Affordability Inquiry’, 2012.

¹¹ New Zealand Productivity Commission, ‘Using Land for housing’, 2015.

A recent (January 2015) paper prepared for Treasury and the Ministry of Business, Innovation and Employment (MBIE) by economists Motu - 'Impacts of Planning Rules, Regulations, Uncertainty and Delay on Residential Property Development' – quantified some of the economic impacts of rules such as balcony requirements. Motu found that balconies (ranging in area from 5 to 8 square metres; fairly typical minimum balcony area dimensions imposed by many Councils, although they are sometimes higher: the minimum balcony area in the Operative Queenstown District Plan is 8 square metres) would typically add \$40,000 to \$70,000 to the selling price of an apartment. This is a major cost implication, especially for studio, one or two bedroom apartments.

For example it could mean the difference between a studio unit selling for say \$220,000, rather than \$270,000, which could have a fundamental impact on development viability (based on realistic rental return). The MOTU report also quantified housing cost implications of a range of other planning rules for apartments, with the additional costs (specified as a range) set out as follows:

- Building height limits: \$18,000 to \$32,000
- Floor to ceiling heights: \$21,000 to \$36,000
- Mix of dwelling units: \$6000 to \$15,000
- Other urban design considerations: \$1,500 to \$8,000¹²

It should be emphasized that the Motu study focused on the financial costs of planning rules and not potential benefits, and was explicit in acknowledging this. However, with regard to private open space it is considered that more flexibility is required and that generally speaking the market is best able to determine the need, depending on site location, views, aspect etc. Avoiding a mandatory requirement for balconies may help better realize the delivery of affordable rental studio apartments in central locations. But it is important to emphasize that the market will often, if not always, demand balconies – especially in high amenity locations where they offer the most benefit. So any notion that not mandating balconies will lead to most apartments not providing balconies is an unlikely one.

Queenstown Lakes District Council in its Proposed District Plan 2015 does not mandate balconies or private open space more generally. Another example is Wellington City, which removed minimum balcony requirements in the central area in Plan Change 48.

The Productivity Commission in its 2015 report also critically assessed the use of height limits. They stated:

“ Height limits can significantly reduce development capacity. This has implications not just for housing supply, but also for individual incomes and wellbeing and for the environment (as cities are forced to move outwards, increasing transport times).”

The report cites a number of studies that quantify the costs of building height limits. However the report goes on to acknowledge the potential benefits of building height limits.

¹² Motu Economic and Public Policy Research, Impacts of Planning Rules, Regulations, Uncertainty and Delay on Residential Property Development, January 2015

As is often the case in planning, a weighting exercise of the benefits and costs of height controls is required. Sometimes, we think that the potential costs of taller building heights have been over-emphasised at the expense of the benefits.

HASHAA – the panacea for the RMA’s ills for housing?

The Housing Accords and Special Housing Areas Act 2013 (‘HASHAA’) was introduced with much political fanfare in 2013. The political rhetoric that accompanied its assent into law was along the lines that: the RMA has failed to address New Zealand’s housing needs, it’s process too slow, it’s regulation too restricting.

Minister Nick Smith, in the reading of the Bill for the third time in Parliament in 2013, stated:

“We’ve got a convoluted RMA planning system where it takes an average of seven years to get a plan changed by the time you get through all the consultation and appeal processes.

And even when you get a plan change, it takes an average of another three years to get a consent for a greenfields development and a year for a brownfields development.

We’ve got a constipated planning system blocking new residential construction and this bill is a laxative to get new houses flowing.”

As we have alluded to in this paper, we have sympathy for this perspective. However, as also alluded to, we think the issue is more complex than just pointing the finger at planning and the RMA. For, if it was that simple, then we would expect to have witnessed some significant housing supply results through the de-risked and streamlined processes enabled by HASHAA.

The evidence suggests that HASHAA has resulted in only modest success in enabling housing supply¹³. In our experience with the HASHAA and Special Housing Area process in Wellington, Queenstown and Auckland, we think there may be several contributing factors to these only modest results:

- In Auckland, SHAs have aligned with upzonings proposed in the Auckland Unitary Plan. Whilst the Proposed Unitary Plan does not offer certainty in terms of likely upzonings, it provides a reasonable degree of security, especially given the parameters of the planning process and the ambitious intensification targets required. For landowners, there is less danger of the SHAs being a ‘use it or lose it’ opportunity.

¹³ Although recent trends in 2016 for significant increases in applications for ‘Qualifying Developments’ in SHAs in Auckland may suggest an uptick in interest.

- The significant additional development rights enabled by SHAs in Auckland has escalated land values, and it is likely that many landowners have been happy to enjoy the property value appreciation without having to take any risk and develop.
- The uptick in development activity in Auckland has placed limits on development sector capacity, and increased prices. This is likely to have halted some development projects in SHAs.
- The Christchurch rebuild has pulled some resources away from Auckland and contributed to cost escalation.
- The political process in assessing and establishing Councils' positions on potential SHAs can be associated with significant timing delays and risk.

Overall, our experiences with HASHAA and SHAs have been mixed. As outlined above, there are external factors to regulation that may have limited the success of the legislation, and a thorough analysis that isolated those factors would be needed to properly weigh up the effectiveness of the legislation.

However, in general terms, we support the streamlining and de-risking enabled by this legislation.

Thus far, this paper has focussed on identifying and analysing key issues. In the next part of the paper we focus on approaches that can result in better planning policy to promote better housing outcomes.

Step 1 Developing Evidence Base

It's difficult to develop a District Plan if you:

1. Don't have some idea as to how population may grow and change
2. Don't know how much dwelling capacity your zoning provides and how that capacity relates to population growth and change.

It is important to emphasise that although both of these steps are very important to plan making, they can also be over-elevated in importance.

Although they have elements of scientific method, they will always be based on qualitative assumptions. Further, in some urban environments demographic growth and change can be quite unpredictable.

Also these two aspects can be quite 'chicken and egg'. In some locations, growth may be significantly driven by housing supply and capacity, rather than housing supply being driven by growth.

A location such as Wanaka may demonstrate this over time, given that it has highly desirable lifestyle characteristics, and a significant proportion of the housing is used as second or holiday homes (a classic example of housing supply not being driven by

population growth based on natural growth and migration based on employment prospects and growth). There are different predictive models that can be applied in areas like this. In theory it is possible to chart the trajectory of second homes / holiday homes in a place like Wanaka and project future growth – even if it is outside the usual orthodoxy of forecasting dwelling growth.

These matters do not obviate the need for population projections and dwelling capacity models. However, they can be important qualifying factors in a nuanced assessment of policy responses.

In terms of dwelling capacity models, it is important that pure theoretical capacity is reduced to some form of ‘realistic capacity’. The review of the Queenstown Dwelling Capacity Model in 2014/2015 introduced a number of ‘discounting factors’. These include discounting theoretical capacity by accounting for:

- Land that contains buildings that have a high capital value relative to the value of the land
- Steeper slopes or hazards

Passive tenure is also important – properties with significant residual development potential but where nothing will happen because the owners aren’t motivated by this. This is a material proportion of properties in most areas. Planning analysis regularly underestimates this.

The application of these sorts of factors significantly reduced dwelling capacity in brownfield locations in the Queenstown Dwelling Capacity Model.

In looking at dwelling capacity, it is also important to consider the composition of the capacity. For example, a city or town may have a large capacity for low density suburban housing, yet market demand may be growing for more compact housing on smaller sections closer to centres or amenities for which there may be very little capacity. Alternatively, a locality may have a seemingly large dwelling capacity however this may be less meaningful if that capacity is controlled by a small number of landowners or developers who can readily manipulate the market or land bank.

In addition, you will always need significant development capacity ‘fat’. Capacity does not equal propensity to develop, and there are all sorts of reasons why many landowners with land that has feasible development capacity do not take up the opportunity offered. There will always be location-specific variations, but as a general rule of thumb we think there should be twice as much realistic capacity provided in response to anticipated population growth, as opposed to an approach that very closely matches projected population growth with dwelling capacity. A downside of this approach is that infrastructure may need to be ‘overprovided’ at times.

Therefore, the interpretation of dwelling capacity becomes just as important as the calculation of dwelling capacity.

This then forms the basis of residential policy development – the ‘how much’, the ‘where’ and the ‘what’ of residential zoning provided by a Proposed District Plan.

Step 2 – Developing Policy

But it’s not so simple as to ‘zone and pray that they come’. A common issue of many plans over the years has been a lack of feasibility testing of planning provisions.

For example, your council may think it’s a great idea to enable half of your dwelling capacity through 6 storey apartment developments. However if such development forms are unlikely, for the most part, to be viable in the short to mid term (5-10 years), then you have fundamentally flawed policy and you’ll soon be looking at compensatory plan changes.

Some planners may gain a good basic understanding of feasibility over time, however it is useful to ‘check in’ with developers or consultants with a strong understanding of development and market factors, in testing planning provisions. Particularly so because land prices, build costs, and the finance sector are all fluid and fundamental to the economics of housing.

It is important to emphasise that quite high densities can be attained with enabling density rules (or no density rule) and two storey building forms. Indeed, in many cases this is a mix that best realises better development feasibility and better affordability. In addition, there are potentially creative ways of crafting a suite of planning rules that can help promote more affordable housing outcomes. For example, you could consider a suite of rules that includes having unlimited density, but places limits on the ratio of dwelling floor area to site area (‘plot ratio’ or ‘Floor Area ratio’ controls) as a way to provide some protection of amenity values (and achieve affordable housing outcomes). If coupled with a two storey height limit and a relatively high site coverage (say 45-50% or higher), this may incentivise the development of a larger number of smaller townhouses or units as compared to a smaller number of larger dwellings. This can be further incentivised if a development contribution regime is in place that charges significantly lower contributions for smaller units.

An issue with enabling greater density is that it does not necessarily get rid of market speculation. Unless development is suddenly highly profitable, there may be a propensity for landowners to sit on property and enjoy capital gain – without taking risks. This matter is a paper all in itself, and not only on planning (ie. Tax is critical). However, briefly, this is where it’s important to get other policy optimised – de-risking of process, greater efficiency of process, regulation designed so that strong profit potential is available etc. In addition, speculation can be disincentivised, at least to some extent, if upzoning is reasonably widespread – so that the opportunity to intensify is not a scarce opportunity and subject to ‘monopolisation’, and therefore of greater economic value to retain and not develop.

Queenstown tried some new approaches in the Proposed District Plan to try and address this issue. In the Medium Density Zone, a rule was created that provides for unlimited density where a minimum Homestar rating is achieved. Importantly, the rule as notified has a 5 year lapse upon becoming operative. The aim here was to try and incentivise more

immediate development and housing supply delivery, given that as notified the Plan contemplates that the rule will disappear after 5 years ('use it or lose it'). Of course the potential exists for the period to be extended via a plan change (if housing demand justifies it), however until that occurs the development rights are 'at risk', so this may incentivise earlier redevelopment.

It will be interesting to see how this approach fares through the Hearings occurring in Queenstown through 2016.

We also think that 'Gentle Density' has tended to be underutilised in many parts of New Zealand. 'Gentle Density' – a planning buzzword in North America, and pioneered in Vancouver and Seattle the USA – is where extra density is accrued in a low impact, or gentle, manner.

Examples of Gentle Density include:

- Detached secondary dwellings or 'granny flats'
- Duplexes: two attached townhouses, whether single or double storey
- Conversion of existing houses into flats
- 'Fonzi flats': small flats located above garages

The key in maintaining 'gentleness' is to apply development standards. In a low density residential zone, you may enable a duplex as a permitted activity, subject to standards such as floor area ratio (so that the two townhouses are each relatively small in floor area and 'read' as one mid-large scale house.)

Secondary dwellings can be subject to floor area and building height standards. We do not favour controls that require the secondary dwelling to be retained for use only by family members, and we also think that the potential for the secondary dwelling to be subdivided (subject to some performance standards) should be enabled. Also, for one bedroom secondary dwellings, parking requirements should be waived. An off site parking space and associated access will often not be practicable, or will be cost prohibitive. The on-street parking pressure created by intermittent one bedroom flat developments is likely, in most cases, to be minimal.

Whilst being low impact, gentle density can cumulatively accrue some significance in terms of housing supply. It is also an approach that can be more acceptable to many communities afraid of density, and hence politically palatable.

Again, 'Gentle density' was utilised in the Proposed Queenstown District Plan. Unlike the proposed Medium Density zone, the proposed gentle density rules received almost no negative feedback in either non-statutory consultation or in submissions on the Proposed District Plan.

In addition to intensification approaches, we think more utilisation could be made of low impact, ex-urban ‘hamlet’¹⁴ development options to respond to housing demand, especially in regions where the hinterland of urban centres is not dominated by outstanding landscapes or highly productive environments where reverse sensitivity issues may be heightened by more residential development. We think various parts of the Auckland region offers excellent opportunity for such approaches, in particular, and that this was a lost opportunity in the Unitary Plan. Broad areas could be demarcated or zoned for such approaches, where high or even exemplary expectations around on-site servicing and environmental standards, design and landscape would be set in Plans.¹⁵ Preliminary analysis would suggest that if such ‘hamlet zones’ were enabled in 5 or 6 locations throughout the Auckland region, realistic development potential of some 10,000 - 15,000 dwellings could be enabled over the next 20-30 years, accommodating some 25,000 to 40,000 people. If this development potential was well distributed through the region, then impacts on roading infrastructure could be mitigated. Such an option could also help take the edge off urban housing affordability issues – again, the scarcity of region-wide development opportunities is reduced, and at least in theory this could help take inflationary pressure off urban land prices.

From our experience, when developing residential policy it is very important that the issues are clearly laid out, and several policy options (and their broad costs and benefits) as outlined above are set out to address the issues. This can minimise unrealistic discussions around ‘stopping growth’. Mid to high growth districts or cities will not be able to stop growth – that is a given, then the focus needs to move to how that growth will be responded to. As we have outlined above, we think there is a good ‘menu’ of potential planning approaches that can be considered. All or only one of these approaches may be chosen, although generally speaking we think a mix of these various intensification and ex-urban policy approaches will result in the most robust outcomes for a variety of reasons, including in terms of housing affordability.

We have also found it useful to provide information around ‘Density Truths and Myths’ when consulting on policy options to intensify. Unfounded views on density are quite prevalent, and we think planners should be bold (respectfully) countering such views, by providing access to credible research that effectively debunks some unfounded claims.

Step 3 – Financial incentives / disincentives

Whilst we think this step is less critical or fundamental as compared to steps 1 and 2, it can be a meaningful policy resource depending on the nature of the housing market.

¹⁴ This concept revolves around a cluster of residential allotments, typically 1000-2000 square metres in area, serviced by community infrastructure systems, surrounded by landscaped open space. The typical development size would range between 50 and 300 dwellings. High sustainability expectations would be mandated, and strong environmental enhancement or rehabilitation would be expected. As well as mixed communities, it could be an attractive option for new ‘boutique’ retirement communities.

¹⁵ Refer: Paetz, M. (2010) ‘Sustainable Suburbia – Oxymoron or Realistic Goal?’ Paper presented at the 2010 Conference of The Sustainability Society, Auckland, New Zealand.

Some will argue that development and reserve contributions represent a small proportion of the total cost of housing. Whilst that is true they can represent a significant proportion of a developer's margin. That is not to say that they shouldn't be treated as part and parcel of the development equation, but where there are opportunities to reduce or even waive them this can fundamentally alter whether a developer is prepared to take a risk on pursuing a particular project. Of course, such initiatives always need to be considered for their financial impact on ratepayers and pressures on Council's finances.

There are simple things that could be done regardless of housing issues. For example, does your Council really need to charge reserve contributions in all locations in its city or district? Many locations in New Zealand appear to be very well served by reserves, at least in their area quantum (quality is a different question).

In Queenstown, we looked at this hard and reviewed the approach to reserve contributions. We found that the existing urban areas of the District were sufficiently served by reserve land, even accounting for significant future growth, and the decision was made to not mandate the charging of reserve contributions (for reserve land) in urban areas. In higher value locations, this represents a saving of between 12,000 and \$15,000 per new dwelling. Over a 20 unit development, say, this represents a significant saving that may well cover, for example, all professional consulting and council fees on the project.

Queenstown maintained the charging of contributions for reserve improvements, as more can be made of existing reserve land in terms of amenities.

In 2015 Porirua City Council (PCC) adopted a residential incentives policy for its city centre area. Over many years Council has had a policy of revitalising this area but faces major challenges in the form of competing big box retail areas and a poor quality public realm that is unattractive to new investors. Promoting residential development is one strand in a multi-faceted approach to breathe life into the area and improve the quality of the public realm. PCC's incentives policy includes:

- Waiving of all development and financial contributions
- Waiving of PCC's resource consent processing fees
- 50% of PCC's building consent processing fees
- Waiving of residential rates for a three year period

Before adopting the policy PCC undertook financial and infrastructure analyses and determined that on balance there was more to be gained than lost in adopting the policy. The overarching philosophy was that this package of fee reductions would improve developer's cashflow at the front end of their projects, and in doing so reduce their risk and increase their willingness to invest in the city centre. It is too early to say whether the policy has been a success but there has been an increased level of engagement from the residential development sector. Although this policy was directed to addressing urban renewal objectives rather than housing affordability per se, there are lessons to be learned from taking a big-picture view of the risks to local authorities of reducing fee structures and the barriers to entry for the private development sector. That is, if infrastructure is already in the ground and operating below capacity (and the financial impacts on ratepayers within

acceptable levels) why not forgo the collection of fees in return for faster and cheaper delivery of housing? (and accrual of additional rates).

'Rates holidays' can also be utilised. In Wellington, some greenfield developers tend to 'drip feed' sections to the market, limiting the supply response. This will always be done to some extent for quite logical reasons. However Wellington City Council showed through its Housing Accord that this situation can be improved through having a policy that does not require developers to pay rates on lots created through subdivision for two years, or when the lots are sold (whichever is earlier). This can improve the developer's cashflow, and reduces their upfront cost structure – with flow on effects to affordability to the end purchaser.

And how about....Inclusionary Zoning?

'Inclusionary zoning' is a planning approach where developers are compelled to deliver a certain proportion of a development as affordable housing – housing delivered to the market at a particular set price point, and which must be 'retained' in perpetuity as affordable housing.

Inclusionary zoning has not been utilised much at all in New Zealand by Councils. Queenstown Lakes District Council promoted Plan Change 24 to the Operative Queenstown Lakes District Plan, which as notified constituted a form of Inclusionary Zoning. However, the approach did not survive legal challenge. Meanwhile Auckland Council has promoted a form of Inclusionary Zoning through the Proposed Unitary Plan and Auckland Housing Accord.

Despite the superficial appeal of the concept, we are somewhat cautious of the merits or otherwise of Inclusionary Zoning. Evidence from several North American constituencies suggests that Inclusionary Zoning can be problematic – it can impact negatively on development feasibility, and can be generally counterproductive for housing affordability as the market rate units often need to effectively subsidise the affordable housing component. This may mean no overall downward pressure on overall prices. These issues may point to fundamental problems with Inclusionary Zoning, or possibly the way Inclusionary Zoning is designed and implemented.

Inclusionary zoning is often utilised in Australia, and provides a better comparison (in terms of culture, form and history of urban settlements, and legal settings) than the USA or the often cited example of the United Kingdom. My experience in Adelaide between 2011-2014 shows the pros and cons of Inclusionary Zoning. In South Australia, development comprising more than 20 units or allotments must provide 15% of the development at a specified affordable price point.

In Adelaide, this was achieved relatively easily in greenfield settings. This was due to the fact that the planning system allowed developers the flexibility of creating small lots (ie.

between 220 – 270 square metres), and developers could easily achieve the affordability requirement by creating the small lots (on cheaper greenfield land) and building compact single storey townhouses on them. In fact, many developers found this product and price point so lucrative that they built affordable housing above and beyond the mandatory requirement, despite early resistance.¹⁶

However, the requirement was a lot more challenging in brownfield infill locations with medium density development typologies. Typically, this is due to higher land prices, and less scope relative to a greenfield setting to vary section sizes between affordable and market rate housing. In addition, there is less scope to build cheaper single storey housing typologies ie. development in such locations typically needs to go up to two or three storeys.

Different again, it was not too difficult to get inclusionary zoning to work in central city locations, where high yield is possible out of land with high rise development, and there is also the ability to create smaller units.

We think, therefore, that there can be a place for inclusionary zoning, potentially an important place – recognising that the market often delivers typically more profitable larger and more expensive dwellings, and that there is a form of ‘market failure’ at work in terms of the lack of delivery of smaller, more affordable dwellings (and changes to District Plan rule settings can probably only go so far in enabling / incentivising this form of development). However this view comes with some critical caveats:

- It should generally only be applied in greenfield locations - unless a range of mitigating approaches as outlined below are utilised for brownfield locations - and with sufficient flexibility to create smaller allotments to assist developers in achieving the requirements at no or minimal impact to the viability of the overall development.
- The system and process needs to be as efficient as possible: not complex, burdensome and costly.
- If to be considered for application in brownfield infill locations, then cost offsetting incentives must be offered eg. Development contribution waivers for the affordable units, or GST exemptions (an idea we are researching further). Other incentives – such as height or density, may also be required. Also Councils need to be very careful around setting minimum floor areas for dwellings, and as outlined earlier demanding expensive balcony requirements. If all these factors are not considered, then development is likely to be deferred as feasibility will often not stack up, with

¹⁶ It is interesting that this housing typology has not gained much traction in New Zealand. We think there are several possible reasons for this. Firstly, this type of approach is not compelled given the absence of inclusionary zoning in New Zealand. Secondly, District Plans have often not offered the flexibility to create smaller allotments within a subdivision. Thirdly, the development sector (and the market) can be conservative and slow to embrace new approaches. There are signs of change however. The Bridesdale SHA in Queenstown is dominated by smaller lots (250- 320 square metres) with single storey townhouses, marketed at around \$450,000. A similar product and price point is being offered by the same developers at Northlake in Wanaka.

supply-limiting effects for both market-rate and affordable dwellings, that are likely to exacerbate housing affordability issues.

Thorough analysis of these potential approaches should be undertaken if they are to be considered. All too often, inclusionary zoning approaches have been advanced without properly understanding the potential unintended policy consequences, which result from a lack of understanding of the economic ramifications of such policies, especially if there are no compensatory mechanisms in place. Again, we think this approach has potential, but will depend on case by case analysis and utilisation of compensatory mechanisms as outlined above.

Conclusion

This paper shows that a wide range of planning / local government policy initiatives are available to make positive progress with addressing in housing issues. We steadfastly disagree with those who argue that planning does not influence housing outcomes, nor that planning cannot do anything to address the issue.

Where there is a will there is a way. Importantly, there needs to be steadfast commitment from the Planning profession and also from Elected Members. We believe that in order to make really meaningful progress, Councils need to take a multi-faceted approach to addressing housing issues, preferably within the context of a multi-dimensional Housing Action Plan that brings all the disparate but often inter-related approaches together.

There are several other approaches that should be woven into this overall multi-pronged approach, not addressed in this paper. Importantly, a number of Councils are reviewing their assets and strongly considering the potential of selling land for housing development (and where they have an opportunity to demand housing affordability outcomes). There is also increasing appetite for Councils to form or consider forming Development Agencies (as council controlled agencies).

Overall, the approaches available within planning and local government to address housing are like a microcosm of the overall approach required (which goes well beyond planning). As a complex and multi-factoral issue, the solutions to the issue must also be multi-dimensional.

As Planners we can play a leading role in improving housing affordability in New Zealand.

Author Profiles

Matthew Paetz is Auckland Planning Manager at The Property Group. With 20 years' experience in planning, Matthew has specialised in urban planning policy, especially in the areas of housing and centres.

Matthew's policy knowledge and understanding has been strongly informed by experiences at the coal face. In the mid 2000s he worked for Housing New Zealand, and was part of

numerous development project teams. In the private sector he has worked as part of project teams on more than 25 medium and high density residential projects.

Matthew worked as Team Leader Development Policy at the City of Onkaparinga in Adelaide from 2011 -2014. His work leading a Medium Density Housing Review won two major awards at the Planning Institute of Australia's awards in 2014.

From 2014 to 2016 Matthew was the District Plan Manager at Queenstown Lakes District Council, where he drove the development of the Proposed District Plan. He initiated a review of Council's Reserve Contributions policy, a review of the Council's Dwelling Capacity Model and was heavily involved in the Queenstown Housing Accord and Special Housing Areas.

He was a co-founder / author of the NZPI's Development Economics course in 2010/2011, and is on MfE's Working Group on a National Policy Statement on Urban Development.

Andrew Macleod is the National Planning Manager for The Property Group. Andrew has 15 years' experience in urban planning in New Zealand, Australia, private practice and local government. Immediately before joining The Property Group he was the district and spatial planning manager at Wellington City Council.

In his current role Andrew works closely with local authorities and central government in housing and urban development policy matters. He has recently assisted the Ministry of Business, Innovation & Employment in the implementation of the Housing Accords and Special Housing Areas Act in Auckland, Wellington and Queenstown and the Ministry for the Environment on RMA reform matters. He also works with various local authorities in district plan making and broader housing related responsibilities such as development contribution policies and development facilitation.

Andrew also assists a range of residential development clients in preparing large scale greenfield and brownfield development schemes and resource consent applications.

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