

# Regulatory Impact Statement

*Adding the Queenstown-Lakes district to Schedule 1 of the Housing Accords and Special Housing Areas Act 2013*

## Agency Disclosure Statement

- 1 This Regulatory Impact Statement has been prepared by the Ministry of Business, Innovation and Employment.
- 2 The decision whether or not to include a region or district in Schedule 1 is determined by criteria the Minister of Housing must, or may, have regard to. These criteria provide a framework to illustrate the extent of a district or region's affordability issues
- 3 As regions often have numerous housing markets within them, the assessment does not consider adding the Otago region and instead focuses on the Queenstown-Lakes district. Furthermore, our ability to analyse all of the relevant tiers of local government is limited by data issues. In particular, REINZ release their regional data for Otago (where Queenstown-Lakes is located) split into Otago and Central Otago Lakes.
- 4 Assessing the land supply available for residential development is a complex task. Land availability is a mixture of zoning and plan rules, infrastructure, land ownership, development viability and economics, and other factors. This Regulatory Impact Statement has focussed primarily, but not exclusively, on the first of these factors. This is because the Housing Accords and Special Housing Areas Act 2013's primary intervention tool is to provide fast-tracked and more permissive resource consenting processes in special housing areas.
- 5 In Queenstown-Lakes approximately 30 per cent of houses are owned as holiday homes. The prices for these houses cannot be separated as they are part of the same market and there is no separate data set. Even if you assume, however, that local buyers only buy at or below the district median, Queenstown-Lakes would meet the criteria for inclusion in Schedule 1 on the basis of having significant housing affordability issues.
- 6 It is worth noting upfront that adding the district to Schedule 1 would not, in itself, have a direct impact on housing affordability, but will be a step towards implementing the powers of the Act. It is only when special housing areas are declared, and qualifying developments progress, that the impact of regulation will be felt. A further Regulatory Impact Statement will be prepared at the time any special housing areas are recommended to Cabinet.

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8 April 2014

## Introduction

- 1 This Regulatory Impact Statement regards the proposal to add the Queenstown-Lakes district by Order in Council to Schedule 1 of the Housing Accords and Special Housing Areas Act (the Act).

## Background / Status quo

- 2 Housing affordability is a key concern for Government. Home ownership contributes to social and economic outcomes, and provides New Zealanders with a tangible stake in the communities in which they live. Unaffordable homes translate into pressures on families, on the social housing system and on government support. They also result in proportionately more household income savings going into housing, leaving less for investment in other areas of the economy. All of this contributes to New Zealand being less globally competitive than it otherwise would be.

### *Housing Accords and Special Housing Areas Act*

- 3 The purpose of the Act is to increase the volume of land released for housing development and redevelopment over the short term so as to reduce pressure on housing supply in parts of New Zealand that face significant affordability issues. If achieved, it is expected this will lessen pressure on land prices, and by doing so will contribute to improvements in housing affordability.
- 4 The Act came into force on 16 September 2013. The Act provides for regions and districts that have significant housing supply and affordability issues to be added to Schedule 1 of the Act. Once a region or district is included in Schedule 1, a housing accord may be agreed between the Government and a territorial authority within the region or district. Auckland was included in Schedule 1 when the Act was passed by Parliament, and subsequently an Order in Council has added the five Wellington metropolitan districts, Tauranga city, Western Bay of Plenty district and Christchurch city to Schedule 1.
- 5 Under the Act, special housing areas can be established in scheduled regions or districts and more permissive consenting powers provided by the Act can then apply to qualifying developments in these areas. Special housing areas are defined geographic areas within scheduled regions or districts that have the potential to deliver increased land and housing supply. They are established by the Governor-General via Order in Council on the Minister's recommendation.
- 6 A range of other housing issues can be included in a housing accord where the Government and the territorial authority identify joint action as advantageous.

### *The Resource Management Act*

- 7 The amendments to the RMA, when they come into force, will provide for useful, but longer term mechanisms to address more efficient RMA processes, not necessarily directed solely at housing affordability, including:
  - more direction to councils on matters of national importance (such as the effective functioning of the built environment, including the availability of land

for urban expansion, use and development) that they must consider when creating plans. This will only impact on changes to current plans and the content of new plans over the medium to long term (next ten years);

- an obligation on councils to plan positively for future needs such as land supply. However, this will only impact on the content of new plans over the medium to long term;
- clarifying and extending central government powers to direct plan changes. However, these powers would likely be rarely used and the process proposed for their use would take time. As proposed, it requires the Minister to identify the issue or outcome they want addressed and invite the relevant authority to set out how it has addressed the matter in its planning. The Minister may then either direct a plan change (including the ability to specify the matters the authority must consider when developing the plan change and/or the outcomes to be achieved through the plan change), or may directly amend an existing operative plan (if the Minister considers the local authority has not adequately addressed the issue or outcome); and
- the more timely processing of major consents. A six month time limit is proposed for councils to process medium-sized consents, but this will only benefit developments that are generally consistent with the provision of existing plans.

### **Problem definition**

- 8 Cabinet is now deciding whether the Queenstown-Lakes district is experiencing significant housing supply and affordability issues as set out in the Act, and therefore should be included in Schedule 1.
- 9 Existing mechanisms to address housing affordability in the district appear not to be working (or are only having a marginal impact). Queenstown-Lakes experienced rapid house price inflation in the 2000s but has been steadier since the onset of the global financial crisis. Queenstown-Lakes has the second highest median house price in New Zealand, after Auckland.
- 10 It is not completely clear why existing mechanisms are not working to make housing more affordable in these areas. There are a wide range of factors that influence the housing market, many of which are not easily influenced by local government policy and regulatory tools.
- 11 In making the decision as to whether or not to add districts to Schedule 1, Ministers must have regard to the criteria established in the Act. These relate to affordability and are set out in detail in the objective section below.
- 12 Including the district in Schedule 1 is necessary step to establishing housing accords which could increase the volume of land released for housing development in the selected districts over the short term (next three years) so as to reduce pressure on housing supply. If achieved, it is expected this will decrease pressure on land prices, and by doing so contribute to improvements in housing affordability.

## Objective

- 13 The objective is to assess whether or not the Queenstown-Lakes district is experiencing significant housing supply and affordability issues and should therefore be added to Schedule 1 of the Act. If the district fit the criteria, it would indicate that it is in need of the mechanisms provided under the Act.
- 14 The Act sets out three criteria in coming to a view on whether a district should be added to Schedule 1. Before making a recommendation to insert the name of a district in Schedule 1, the Minister must be satisfied that the district is experiencing significant housing supply and affordability issues. The Minister, in determining whether a district is experiencing significant housing supply and affordability issues:
- Criterion 1:** must have regard to whether, according to publicly available data, 1 or both of the following apply to the district:
- **Criterion 1a:** the weekly mortgage payment on a median-priced house as a percentage of the median weekly take-home pay for an individual exceeds 50%, based on a 20% deposit:
  - **Criterion 1b:** the median multiple (that is, the median house price divided by the gross annual median household income) is 5.1 or over; and
- Criterion 2:** must also have regard to whether the land available for residential development in the district is likely to meet housing demand, based on predicted population growth; and
- Criterion 3:** may have regard to whether any other information indicates that there are significant housing supply and affordability issues in the district.
- 15 It is important to note that the Minister must *have regard to* these factors in making his decision as to whether the district is experiencing significant housing supply and affordability issues. The Minister could still be satisfied that a district is experiencing significant housing supply and affordability issues even if the district did not clearly meet one of these tests.

## Options and impact analysis

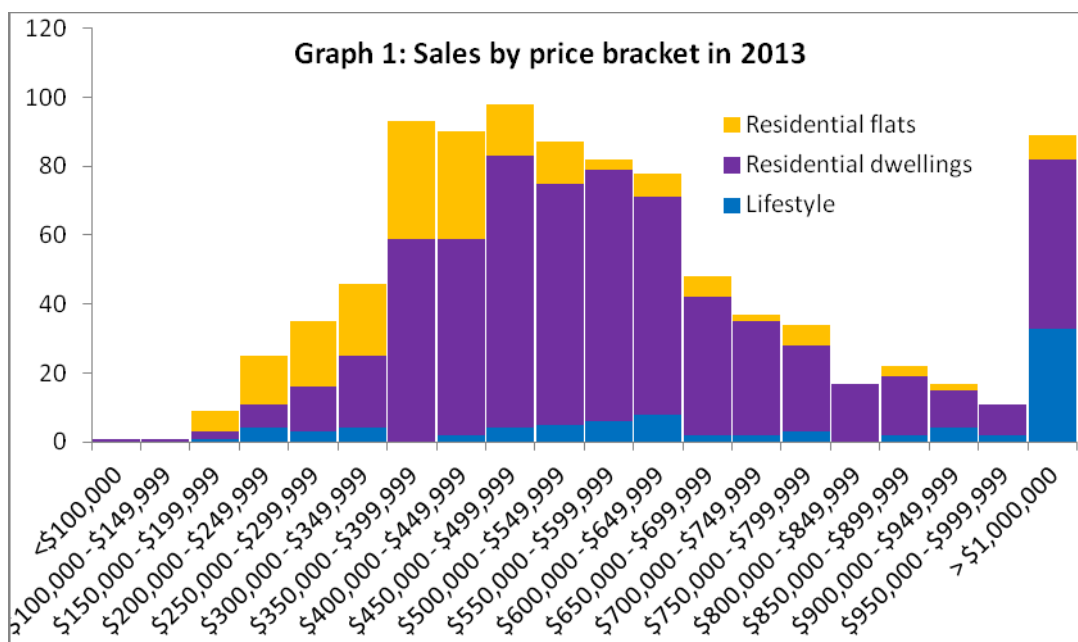
- 16 In effect, the options available are to include or not the Queenstown-Lakes district into Schedule 1.

### Criterion 1: Affordability measures

- 17 MBIE has assessed the district against criterion 1. Queenstown-Lakes clearly meet the criteria, as summarised in the table below.

	1a: Weekly mortgage payment test (>50%)	1b: Median multiple (≥5.1)
Queenstown-Lakes	93.9 per cent	7.0

- 18 These figures represent very high levels of housing unaffordability. Spending 93.9 per cent of weekly take home pay on mortgage payments is not sustainable for many people. This clearly exceeds the thresholds set by criteria 1. Queenstown-Lakes has the highest affordability metrics in New Zealand.
- 19 The data that these calculations rely on are set out in Appendix 1, as well as any assumptions made in the calculations. The figures are similar to those reported in publicly released measures of housing affordability, although there are some differences which may be the result of different data sources and assumptions.
- 20 Using median house prices may hide segments of the market which are more affordable. However, in Queenstown-Lakes there are very few affordable homes throughout the market. Graph 1 shows the sales by price bracket for all residential sales in 2013 in Queenstown-Lakes. Very few houses are sold below \$350,000. Using the lower quartile of prices in Queenstown-Lakes (\$371,875 in December 2013 according to data privately sourced from QV) the weekly mortgage payment test would be 65 per cent and the “median” multiple test would be at 5.07. These are still high levels of unaffordability.

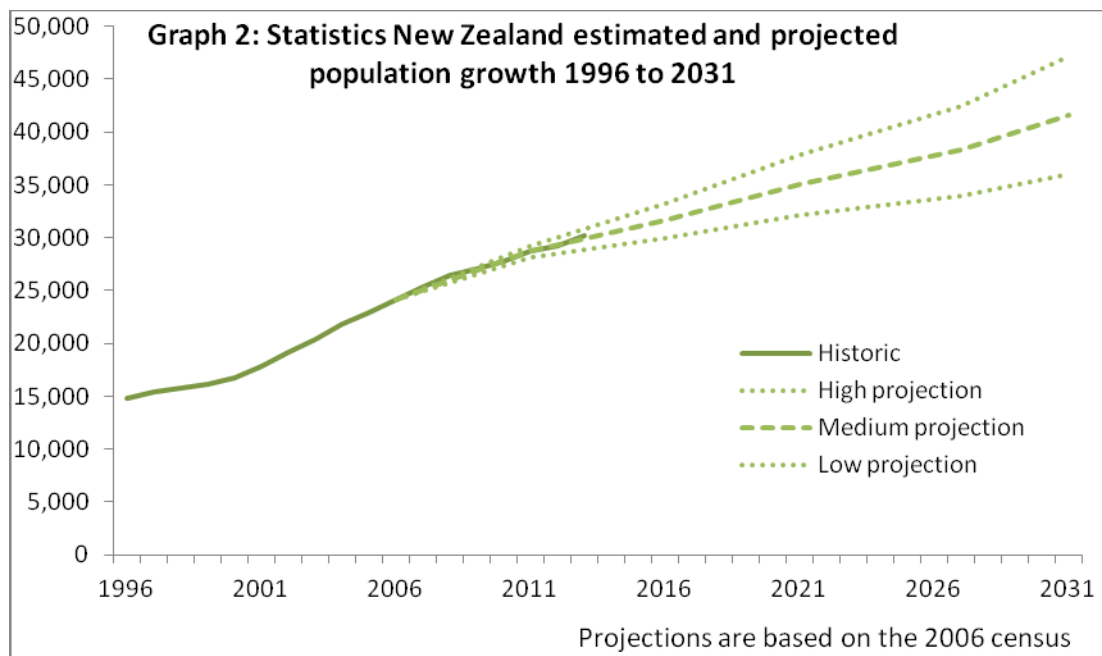


- 21 It should be noted that in Queenstown-Lakes the data sources do not necessarily align as well as they might in other parts of the country. The median house price that is publicly available is the median price for all dwellings sold in the district. The income levels used are for the local residents only. Given the high proportion (approximately 30 per cent) of homes owned as holiday homes in the district, this could potentially give a skewed view of the affordability issues faced by locals. However, given the degree to which the two markets appear to be intertwined, MBIE’s view is that using median house prices for all dwellings is still a meaningful and appropriate test.

## Criteria 2: Land available for residential development likely to meet predicted population growth

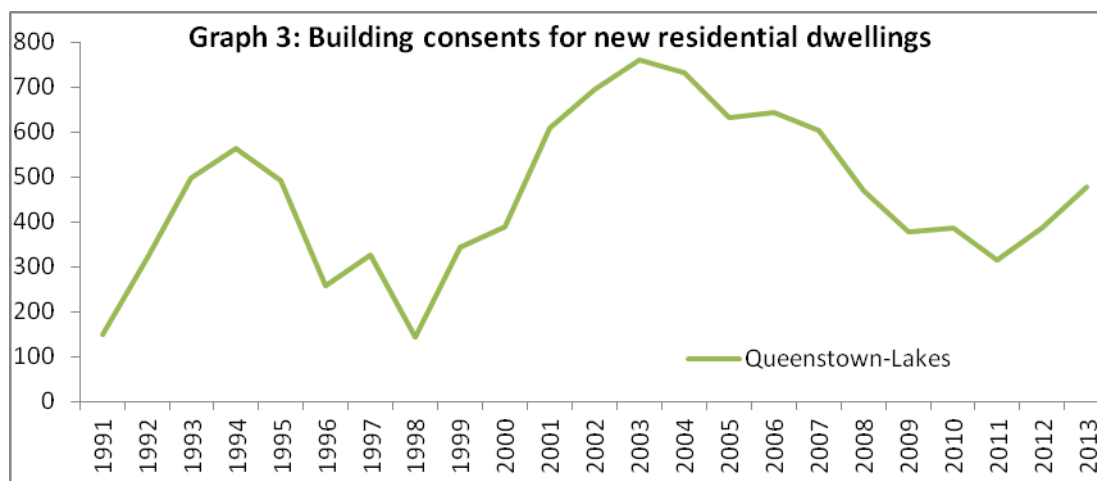
### Population and household growth

- 22 Districts that do not have significant projected population or household growth will not benefit from being included in Schedule 1 of the Act. The Act's tool to address housing affordability issues is to increase the land supply available for residential development (through more permissive and fast-tracked consenting and planning processes) to allow developers to increase the supply of houses. However, in a district with little population or household growth, there is little demand for new developments. Increasing the supply of houses would be uneconomical as houses would be left empty.
- 23 Statistics New Zealand projections for Queenstown-Lakes is that the district will add 11,000 people from 2013 to 2031 on medium projections. On high projections, Queenstown-Lakes will add 17,000 over that time period (see graph 2).
- 24 In 2011 the Queenstown-Lakes District Council (QLDC) commissioned a study of existing capacity and expected future population, visitor accommodation and dwelling growth in order to best be able to plan for likely future land needs. This Growth Projections study (based on 2011 data) indicated that the average total population of the Queenstown-Lakes is likely to grow by approximately 13,500 residents from 46,612 (28,440 residents and 18,172 visitors) in 2011, to 67,439 (44,093 residents and 23,346 visitors) by 2031. The growth in visitor numbers is an important aspect of housing in Queenstown-Lakes given the impact on infrastructure to support this growth.

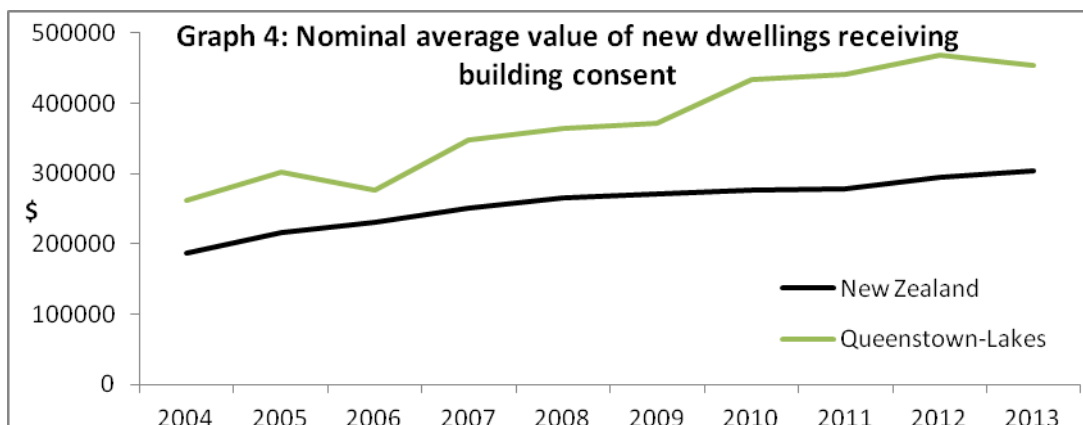


### **Land available for residential development**

- 25 Queenstown-Lakes had the fifth highest proportion of unoccupied dwellings at the 2013 census. 28 per cent of homes were unoccupied. This provides a rough indication of the proportion of holiday homes owned in the district.
- 26 In addition to the Growth Projections study (above), QLDC produces an annual Dwelling Capacity Model that estimates the amount of capacity that remains in the existing zones of the district and determines when a zone has reached capacity. According to the latest published version of this table (March 2013), zoned land has not yet reached capacity with 68.8 per cent of dwelling potential as yet unbuilt across the district. QLDC estimate they have 15 to 20 years' land zoned for housing development, so have adequate land available to meet population growth demand.
- 27 However, the capacity of zoned land available is not being translated into new houses. An average of 500 new homes has been built per annum between 2004 and 2013 (see graph 3). However, consent numbers have been falling since 2003, well before the peak in New Zealand-wide consents in 2008. This suggests that there may be local factors which have led to the fall in consents. There may be a range of factors which need further analysis to assess what is preventing this construction as part of negotiating a housing accord.



- 28 Further, the value of new homes being constructed in Queenstown-Lakes is significantly higher than the New Zealand average (contributing to this is a significantly larger floor size as well as environmental factors leading to the need for more insulation and heating) (see graph 4). This means the new supply is likely adding to the affordability problems, not helping to ease them.



- 29 Without using the HASHA Act, QLDC's tools to influence affordability are restricted to:
- the 'HOPE Strategy', agreed in 2005, which sets a range of actions to address housing affordability;
  - the Queenstown-Lakes Community Housing Trust, which was established in 2007 as an independent charitable trust to provide affordable housing to low and medium income households in the district;
  - 'Plan Change 24', which allows the Council to give consideration to new residential, commercial and industrial developments to provide for a small number of affordable dwellings for workers (either on- or off-site) as part of resource consents; and
  - Standard plan change processes to enable developments, but that can take several years to make operative.
- 30 For a housing accord to increase supply in the Queenstown-Lakes district in a way that improves affordability in the local market, the supply needs to be available to local residents and not solely soaked up as additional holiday homes. How this will be achieved will be subject to discussion during negotiating a housing accord. Potentially the provisions in section 15 of the HASHA Act could prescribe affordability criteria for qualifying developments that make developments suited to the local market.

### Impact analysis

- 31 Adding the Queenstown-Lakes district to Schedule 1 would not, in itself, have an impact on housing affordability, short of providing a starting point for housing accords to be established. It is only when special housing areas are declared, and qualifying developments progress, that the impact of regulation will be felt. A further Regulatory Impact Statement will be prepared at the time special housing areas are recommended to Cabinet, and will set out the impact of those decisions.

## Consultation

- 32 For the purposes of assessing whether or not to add districts to Schedule 1 of the Act, the main stakeholders are the responsible councils.



- 33 MBIE officials have discussed the inclusion of Queenstown-Lakes with District Council officials.

### **Housing accords**

- 34 The Minister of Housing will seek to negotiate a housing accord with the Mayor of Queenstown-Lakes. In formulating a housing accord, councils will consult with developers, infrastructure providers, stakeholders and local iwi as appropriate. Councils may also need to follow their own processes for consulting with the community depending on whether decisions in the housing accord reach statutory thresholds for consultation.

## **Conclusions and recommendations**

- 35 The overall conclusion is that adding the Queenstown-Lakes district to Schedule 1 of the Act, thereby enabling the subsequent establishment of a housing accord and providing for the possibility of special housing areas, will most likely increase land supply over the short term. This option is also consistent with a collaborative central/local government approach to addressing land supply and housing affordability issues.

## **Implementation plan**

- 36 If the Queenstown-Lakes district is added to Schedule 1 the Government and Councils will:
- discuss whether to enter into, and if so the details of, housing accords; and then
  - consider whether, and if so where, to establish special housing areas in the relevant council's territory.

## **Monitoring, evaluation and review**

- 37 As noted above, adding regions to Schedule 1 is a necessary step towards implementing the powers of the Act. It will serve as a signal and starting point for housing accords to be developed between the Councils and Government, but it is only when special housing areas are declared within these regions, and qualifying developments progressed, that the impact of regulation will be felt.
- 38 Monitoring the impact of special housing areas on housing affordability will occur under the governance structures of any housing accords that are entered into.

## Annex A: Data for assessment against criterion 1a and 1b

		Figure for Queenstown-Lakes
Weekly mortgage payment as percentage of weekly pay	Roost	<b>79%</b>
	MBIE calculation	<b>93.9%</b>
Median multiple	Interest.co.nz	<b>7</b>
	Demographia	-
	MBIE calculation	<b>7</b>
Data used for MBIE calculations	Median house price	<b>\$510,500</b>
	Median weekly mortgage payment	<b>\$579</b>
	Median weekly individual take-home pay	<b>\$616.77</b>
	Median household income	<b>\$73,300</b>

### Data sources:

- a. Roost Home Loan Affordability Index for December 2013, released 29 January 2014, <http://www.interest.co.nz/property/home-loan-affordability> (accessed 14 February 2014)
- b. Interest.co.nz, House price-to-income multiple for December 2013, <http://www.interest.co.nz/property/house-price-income-multiples> (accessed 14 February 2014)
- c. No report from Demographia has yet covered Queenstown-Lakes, <http://www.demographia.com/>
- d. Median house prices for August to October 2013 from QV's Residential sales prices by council, <http://www.qv.co.nz/resources/residential-sales-prices-by-council> (accessed 14 February 2014)
- e. Mortgage payments based on a 20 per cent deposit (as required by the Act), with a 5.51 per cent interest rate (the effective interest rate for December 2013 according to Reserve Bank statistics at <http://rbnz.govt.nz/statistics/tables/b3/>) on a 25 year mortgage. The payment level was calculated using interest.co.nz's mortgage calculator available at <http://www.interest.co.nz/calculators/mortgage-calculator>.
- f. Median individual income from Statistics New Zealand's Linked Employee-Employer Data (LEED) for the September 2012 quarter (the latest available release at the time of the assessment) (available at [http://www.stats.govt.nz/browse\\_for\\_stats/income-and-work/employment\\_and\\_unemployment/leed.aspx](http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/leed.aspx)), which is then calculated into a weekly take-home pay using a PAYE calculator available at <http://www.paye.net.nz/calculator.html>
- g. Median household income from the 2013 census (available from regional summary tables part 2 at <http://www.stats.govt.nz/Census/2013-census/data-tables/regional-summary-tables-part-1.aspx>)