

**BEFORE THE INDEPENDENT HEARINGS PANEL
IN QUEENSTOWN**

IN THE MATTER of the Resource
Management Act 1991

AND

IN THE MATTER of the Inclusionary
Housing Variation to the
Queenstown Lakes
Proposed District Plan

**EVIDENCE OF SHAMUBEEL EAQUB
ON BEHALF OF QUEENSTOWN LAKES DISTRICT COUNCIL**

INCLUSIONARY HOUSING VARIATION TO THE PROPOSED DISTRICT PLAN

14 November 2023

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1. PROFESSIONAL DETAILS

- 1.1** My full name is Shamubeel Eaqub. I am an economist, operating through my economic consultancy business, Eaqub & Eaqub Limited.
- 1.2** I have worked as an economist for over 20 years at various banks and consultancies, in Wellington, Melbourne and Auckland. I have worked on housing issues advising developers, construction companies, building material suppliers, construction and related trades recruiters, local government and central government.
- 1.3** I hold a BCom with Honours in Economics from Lincoln University and I am a Chartered Financial Analyst (CFA) charterholder. I have worked as a macro-economist at the ANZ Bank in Wellington and Melbourne, as a macro-economist and financial analyst at Goldman Sachs JBWere in Auckland, as an economic consultant at the New Zealand Institute of Economic Research, and Sense Partners. I currently balance a portfolio of consulting, advisory and governance roles through Eaqub & Eaqub Limited.
- 1.4** My areas of work tend to focus on housing, construction, economic development, economic measurement and evaluation, finance, overseas investment, and cost benefit analysis. My role as an economic consultant has included giving expert economic evidence in court and in human rights cases and arbitrations.
- 1.5** Relevant to this evidence, I have worked on housing, related equity, and construction issues in depth over the course of the last decade and my expertise is called upon by industry and policymakers. I have been a member of the Auckland Mayoral Housing Taskforce (2017), the Housing Stocktake for the Minister of Housing and Urban Development (2018), and the Ministerial Housing Taskforce (from 2018). I have conducted consultancy projects for industry, central government, and local government on housing, considering urban development and construction issues, and co-authored a book on housing in 2015: "Generation Rent: Rethinking New Zealand's Priorities".
- 1.6** Although this is a Council hearing, I confirm that I have read the Code of Conduct for Expert Witness contained in the Environment Court Practice Note and that I agree to comply with it. I confirm that I have considered all the material facts that

I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise, except where I state that I am relying on the evidence of another person.

2. INTRODUCTION

2.1 My involvement with the Inclusionary Housing proposal being considered by QLDC began in 2020, when I was asked to assist the Council to consider the economic context and implications of the draft policy. Disruptions due to Covid meant my report was published in 2022¹. I have been asked by the Council to consider the findings of my 2022 report in light of the submissions received on the Inclusionary Housing Variation as well as whether there have been any material changes since July 2022 to the assumptions and data used in my analysis. In particular I review the choices available to QLDC to better provide adequate housing for all residents, as put forward by submitters.

2.2 My evidence steps through the following:

- (a) Historical context of the Queenstown-Lakes housing market and the current situation of very unaffordable housing. This arises because the Queenstown-Lakes district faces *additional* pressures due to its sheer pace of growth and additional demand relative to supply of homes, which intensifies the negative consequences of the housing crisis affecting much of the country. I consider there is an intensified local need to respond, in addition to national efforts.
- (b) Price signals are not enough to enable sufficient supply for all parts of the housing continuum, especially affordable and social housing. That is, there is a broader market failure as increases in supply have not led to more housing for all parts of the housing continuum to date.

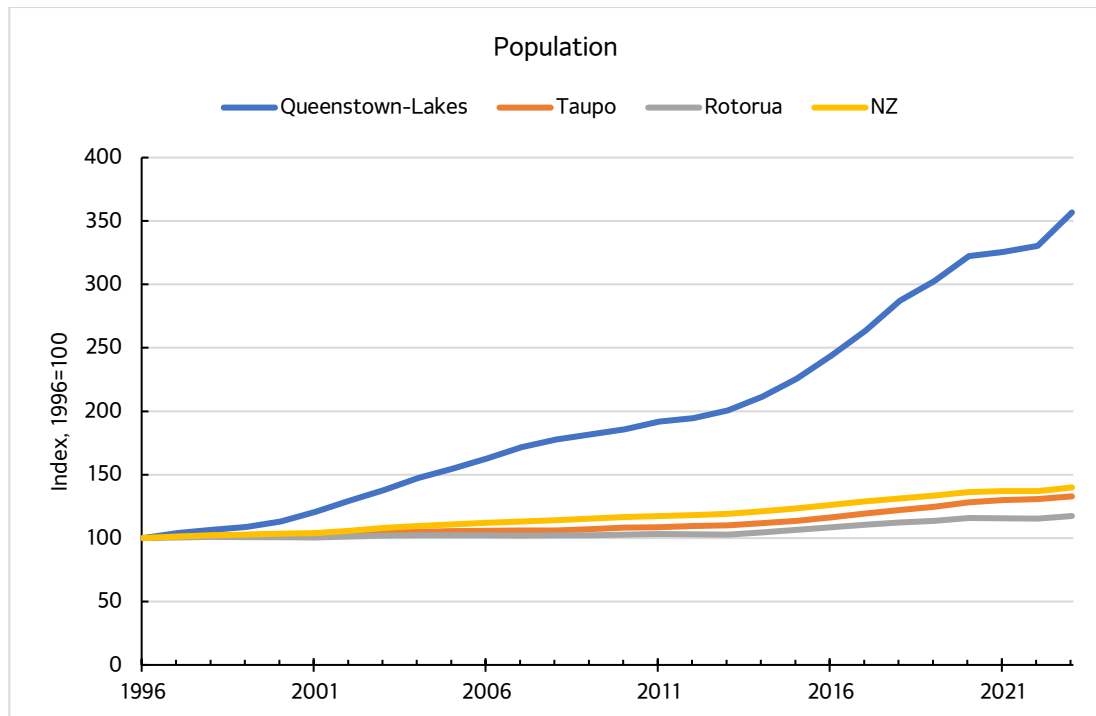
¹ The Economic Case for Inclusionary Zoning in QLDC, Sense Partners, 13 July 2022 <https://www.qldc.govt.nz/media/e1tdqkw/3g-economic-assessment-13-july-2022.pdf>

- (c) I summarise from my 2022 report the discussion of conferring of property rights by community on landowners, and the discussion of inclusionary housing through a tax lens, and how to ensure that costs and benefits fall in the least disruptive way. I consider that the starting point is inequitable, and unsustainable from a social and democratic, and thus economic perspective.
- (d) The role of local government and the policy choices available to it to progressively and credibly move towards adequately housing all residents, including Inclusionary Housing. To demonstrate that, while QLDC previously used the catalyst of private plan changes to direct some new supply to affordable housing, progress in national housing policies (especially NPS-UD and likely changes through RMA reforms) is likely to require much wider housing supply, without the opportunity to require affordable housing unless Inclusionary Housing policies are adopted now.
- (e) My conclusion is that the economic evidence shows housing supply needs to keep increasing, but to provide a long term sustainable pathway for the district's on-going growth, additional supply needs to be accompanied by a broadly applied moderate Inclusionary Housing policy. This will allow QLDC to progressively build up a stock of affordable housing ensuring housing choices across the housing continuum.

3. HISTORICAL CONTEXT AND CONSEQUENCE

Very High Demand

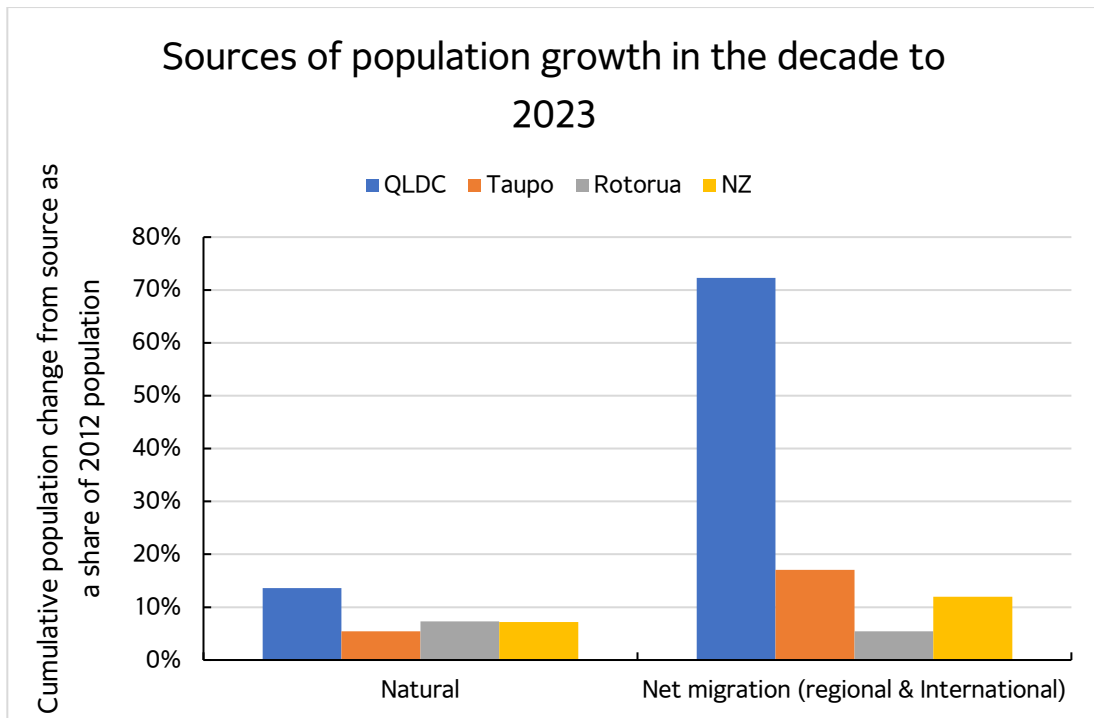
- 3.1** QLDC's population has grown rapidly in recent decades, much faster than the national average and other visitor focused districts like Taupō and Rotorua (shown in the figure below).



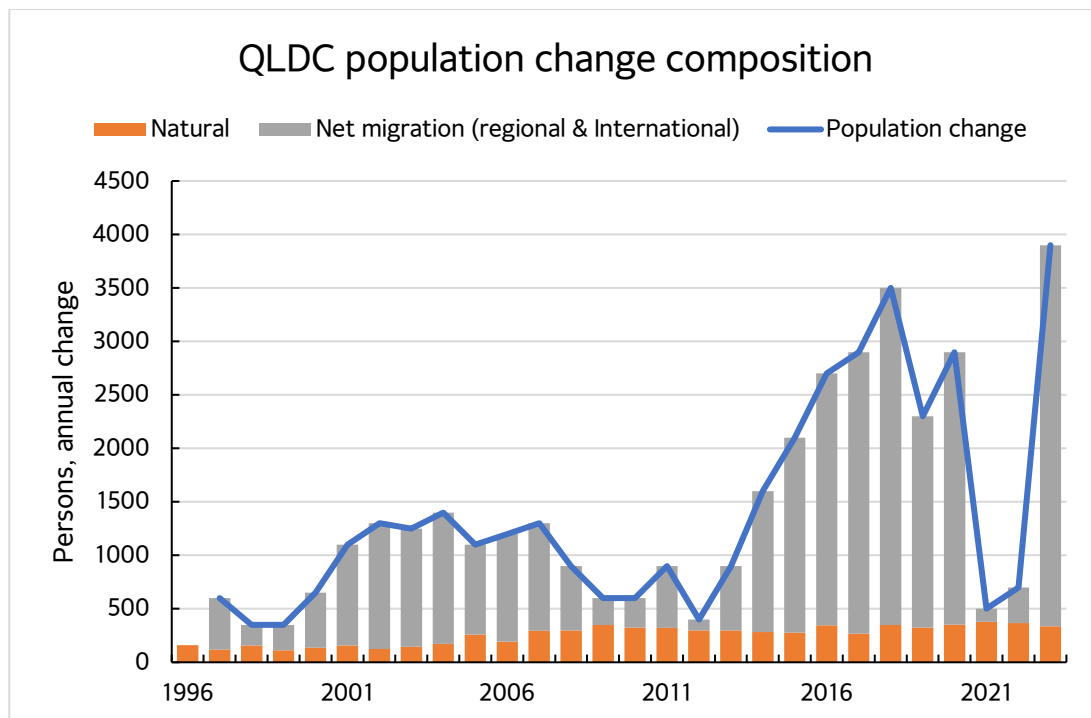
Source: Statistics NZ

3.2 The figure below shows the contribution natural (births less deaths) and net migration (through regional and international migration) have had on population growth in the Queenstown-Lakes district, Taupō, Rotorua and New Zealand in the decade to 2023. It shows just how exceptionally fast the district is growing from both natural population growth, but more importantly from very high net migration. Net migration (from other parts of New Zealand and internationally) in the decade to 2023 was equivalent to 72% of the population in 2012.

3.3 The experience shows there is very strong demand for people to live in Queenstown-Lakes and as I show below, this demand is not being sufficiently met (reflecting in rising house prices) and is particularly acute for lower income earners (reflected in rising rents and very few listings – or availability of – rentals in the area).



3.4 The figure below shows that the population of the Queenstown-Lakes district continued to grow through the border closures associated with the Covid-19 pandemic. There was uncertainty on whether the district’s population growth would continue at recent strong pace. There was continued net migration into the district through the Covid period and this has recovered in the latest year to a record high. This further confirms the very strong demand for housing in QLDC through population growth.



Source: Statistics NZ

Council can choose to act

3.5 The increase in population is a given. That is, people may choose to work and live in a particular place, that is not in the control of a territorial authority. A territorial authority can choose to use a variety of levers to provide planning and infrastructure settings to enable housing supply and how supply may affect different parts of the housing continuum. How quickly planned housing supply is delivered depends on market incentives and conditions.

3.6 Territorial authorities have significant flexibility in how to interpret its role in the community. The Local Government Act is a broad and permissive piece of legislation. Section 10 states that the purpose of local government is:

- enable democratic local decision making and action by, and behalf of, communities; and
- to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective for households and businesses.

3.7 In effect, this means that local government has significant breadth of what it chooses to focus on and how it operates. There is a statutory basis to deliver some

services and functions (especially centralised decisions and policies), and a democratic basis, where the local community through democratic processes chooses its priorities and how it delivers them. It can then attempt to utilise tools at its disposal to deliver these goals.

3.8 This is an important consideration for understanding the policy choices available at the local level. In this instance, it means councils can choose to only act on overall supply, but they may not be meeting their wider equity objectives. Or that some tools may enable overall supply, while others aim to increase housing supply across the continuum. This is the reasoning behind the common use of Inclusionary Housing policies in the UK, Europe, USA and Canada.

3.9 There is an additional consideration. Local authorities do not always have control over the policy process. For example, significant reforms for land markets are occurring at a national scale, via reforms to the NPS-UD, RMA, and infrastructure financing and funding, for instance. (For that reason, I am surprised by the submission of Mr Colgrave in which he says he is unaware of other housing supply policies being promulgated at this current time. These reforms are significant and will increase housing supply, but will not necessarily in and of themselves ensure supply across the continuum).

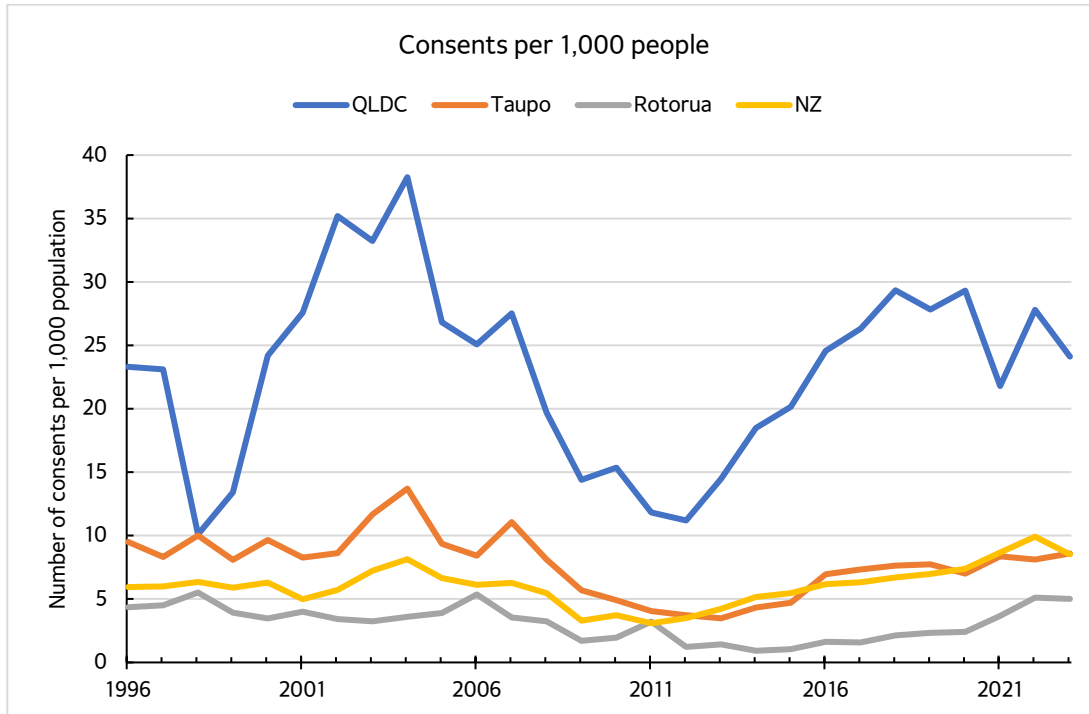
3.10 Here, local authorities have the ability and discretion to make significant policy decisions under general powers of competence given under the Local Government Act. As these broader policy reforms enable overall housing supply, it is sensible for Inclusionary Housing to apply at the local scale, given the extent of housing unaffordability in QLDC, and because zoning is the appropriate channel to influence and shape development level outcomes.

The Queenstown Lakes district builds a lot

3.11 Housing supply responsiveness needs to be considered in the context of two things: (1) the size of the local economy, to measure if the rate of building or supply is high for a given size of the local community; and (2) the supply relative to demand, that is, if the amount of new building is enough to meet demand.

3.12 Dwelling consents relative to population is a simple measure to look at the rate of building relative to the size of the local economy. The figure below shows that QLDC

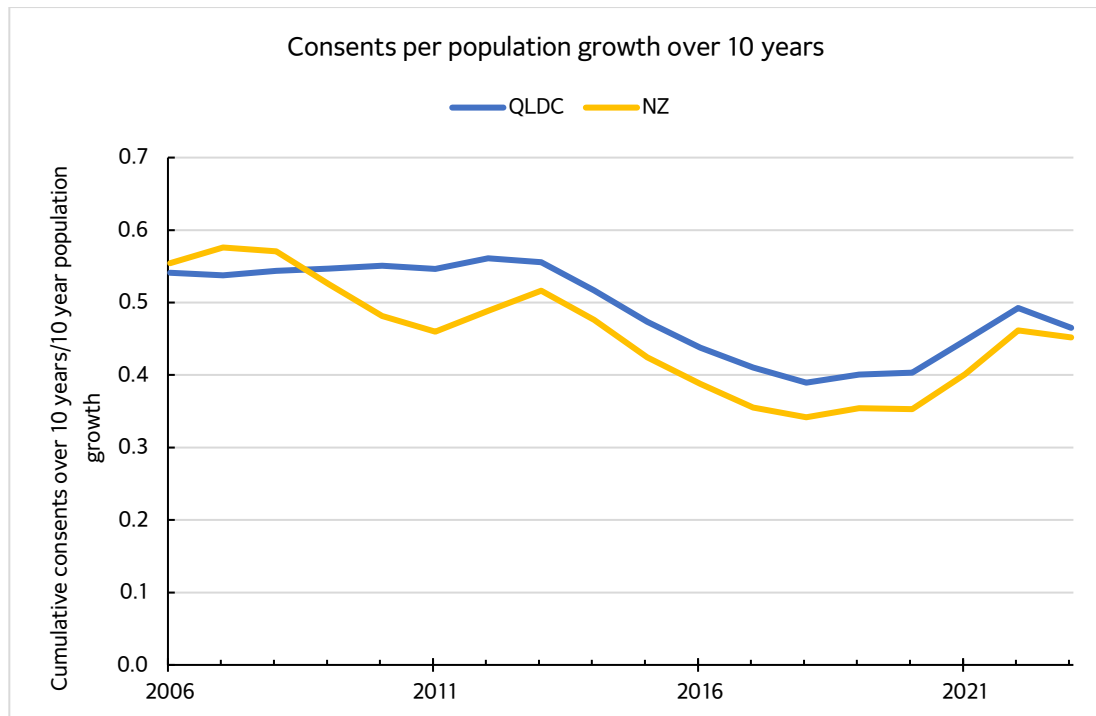
builds at a much higher rate than the national average, and other high-tourism locations of Taupō and Rotorua. The district is building at a high rate for the size of its population and has done for over thirty years.



Source: Statistics NZ

3.13 The QLDC experience is that it builds at a much higher rate than other comparable sized (by population) territorial authorities in New Zealand, but this elevated rate of building is simply not enough for a seemingly insatiable demand to live in the region. This means that more supply is important, but demand is so vast, that waiting for this demand to be satiated first will mean an extremely long wait before meeting housing needs of moderate and low income households. This again is the reason I consider it important to address both overall housing supply and targeted supply of affordable housing, a stock of which is built up progressively over time.

3.14 Dwelling consents relative to the *growth* in the population (rather than the level of population in the previous paragraph and figure) is a simple measure of sufficiency or responsiveness to demand. The figure below shows that housing supply is slightly better than the New Zealand average. That is, QLDC housing supply is responding to housing demand at about the same inadequate pace as nationally.



Source: Statistics NZ

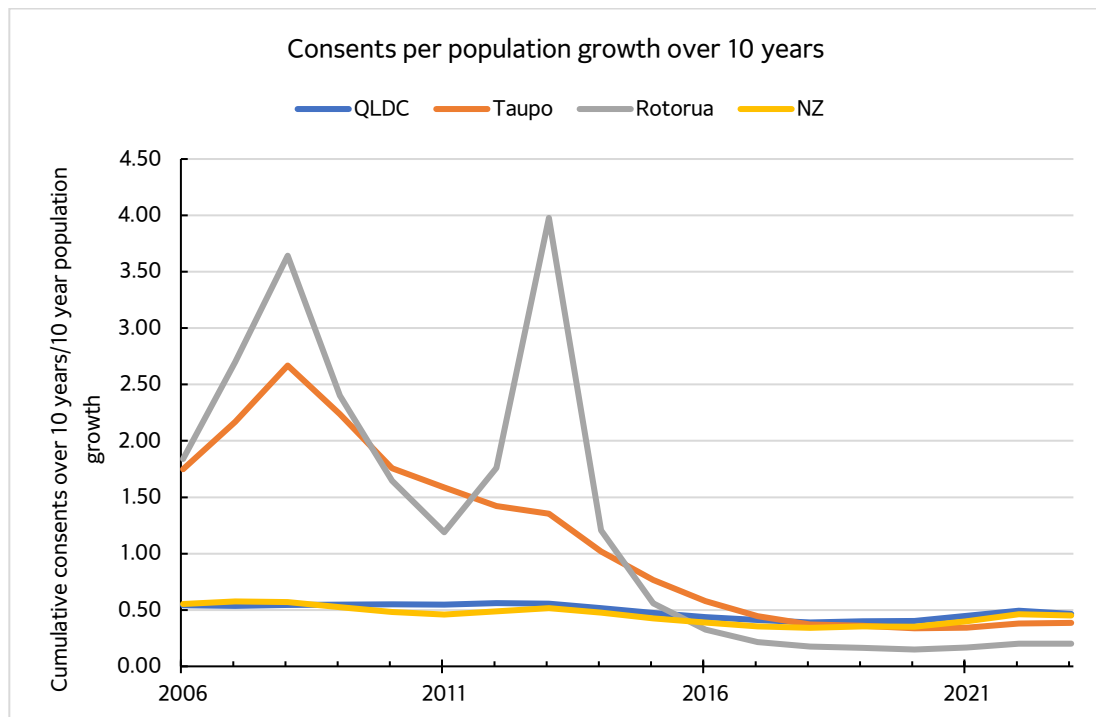
3.15 The following figure includes Taupō and Rotorua, but their responsiveness in the decades to 2014 was very high because there was very little population growth. This meant that housing supply far exceeded population growth, but that supply was mainly to meet short-term stay and holiday home demand. But more recently, housing supply has not kept pace with sudden increases in the population. In Rotorua, there were nearly 4 new consents for each additional person in the local population in the decade to 2013. In the decade to 2023, there were just 0.2 consents per each additional person. This has led to well-documented crisis of housing, including with the use of motels for emergency housing.

Building rate is not enough to meet demand

3.16 The Queenstown-Lakes district is building at around the national rate. But as I will explain below, it is not building enough to: (1) make prices more affordable; and (2) it is not building enough to provide housing for all parts of the housing continuum. Housing shortfalls are not experienced equally or equitably. Rather we tend to see it affect different parts of the housing continuum in different ways. Home buyers and renters experience higher house prices relative to incomes, renters experience less tenure security, and lower income renters can find it

difficult to secure a rental, may be forced to crowd up, and may experience homelessness (examples include couch surfing and sleeping in the car or tent).

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



4. STRONG PRICE SIGNALS ARE NOT YET WORKING

4.1 Queenstown has experienced a prolonged house price boom, reflected in very high house prices and rents relative to incomes. Higher prices in theory should bring forward more supply, but that has not been the case in QLDC or nationally.

4.2 There are common causes across New Zealand. The underlying cause is that demand exceeds supply. Put another way, supply is not sufficiently responsive to demand. When there is supply, it is not uniform across the housing continuum. That is, when starting from a position of a housing shortfall, additional supply is likely to go to those with highest ability to pay.

- 4.3** Demand for houses has increased from population growth, investment demand, access to easy borrowing and few tax disincentives compared to other forms of investment. Supply must keep pace with all these forms of demand.
- 4.4** There are also unique conditions in the Queenstown-Lakes district, which experiences geographic barriers and consideration for natural amenity, which is a key attraction of the district. This means housing supply options can be reduced meet physical challenges and the need to prioritise important and valued natural landscape values.
- 4.5** The district also faces additional demand for second homes, short term accommodation, and a higher than national average demand from international buyers. This is consistent with previous Census data which showed 28% homes were vacant homes (second and/or holiday homes) and short stay accommodation (for example over 1,800 properties listed on Airbnb at the end of October 2023) – that is there is also demand from the special nature of QLDC as a holiday/resort destination.
- 4.6** The Social Impact Assessment also provides qualitative support for this, whereby an online community survey was undertaken from the 4th September – 16th October 2023 for the purposes of collating information for the Social Impact Assessment. The questions asked in this survey explored the community’s perceptions of housing supply and affordability in Queenstown, the barriers and opportunities of renting or owning a home in the district, and their support for permanent affordable housing in the community. There were 123 responses to the survey, of which 53% identified as renters, 33% own their own home, and 14% listed other: including housesitting, living with parents, living in hostels or in student accommodation. Stakeholder interviews were also undertaken with over 25 organisations and individuals.
- 4.7** The majority of interviewees noted recent changes in tenancy law that are, they said, disincentivising landlords to rent their properties longer-term, and instead encouraging them to list properties as short term rentals, which provide comparable levels of income over a shorter duration of tenancy. This is supported by a 49% reduction in rental listing in the district from December 2021 - December

2022 (Patterson, 2022)². Additionally, approximately 37% of community survey respondents commented on the negative impact of short term letting on housing in the district. Comments included the lack of rental accommodation, the increased costs for permanent residents and the constant fear and uncertainty of long-term rental accommodation being converted to short term letting.

Affordability for local workers

4.8 The extent of unaffordability is easily demonstrated. In my 2022 report I supplied housing costs relative to *household* incomes. Below I also show affordability relative to the *average job* available in QLDC. This is because household income may include income from other sources, or other locations and hence it will not necessarily reflect the means of *local workers*.

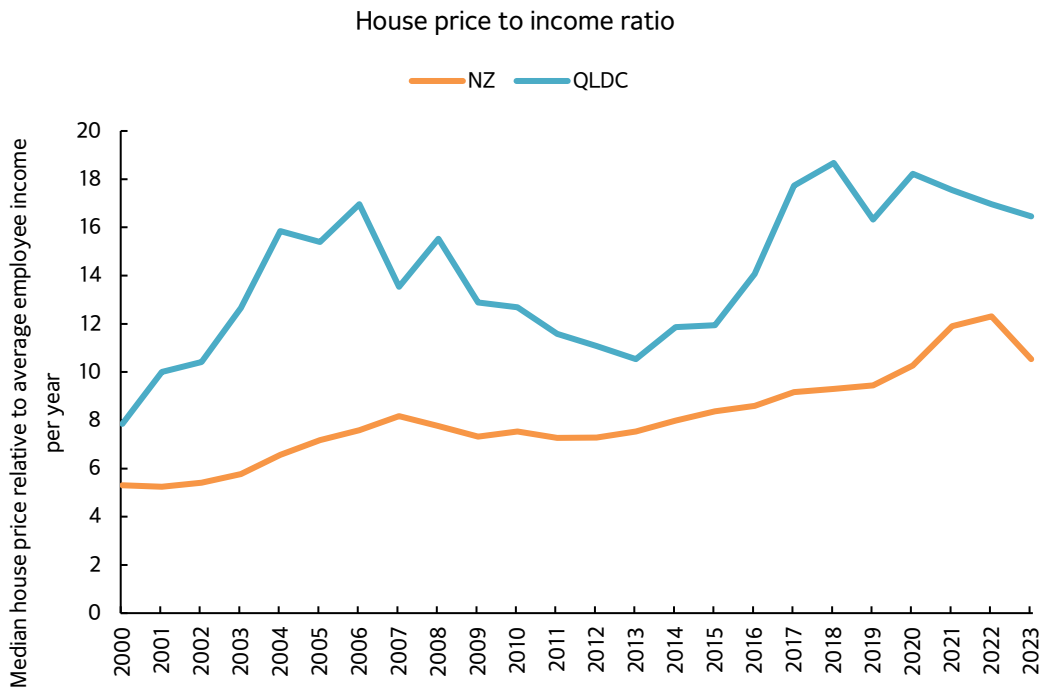
4.9 Data collected by Statistics New Zealand shows the annual average income from employment in the year to June 2023 was: \$65,688 in the Queenstown-Lakes District and \$72,619 in New Zealand. For context, the median income of a *family* on the QLCHT waitlist is around \$65,000 a year.

4.10 The median house price of sales recorded by the Real Estate Institute of New Zealand (REINZ), in the year to September 2023 was: \$1,096,521 in Queenstown-Lakes district and \$781,792 in New Zealand. The ratio of the median house price to the average annual income from work was 16 times in QLDC and 11 times in New Zealand. That is, Queenstown-Lakes house prices are much more expensive than the average across New Zealand, which are also high compared to history and international peer countries. The figure below shows that house prices have been persistently high in the district relative to local incomes, and much more so than national trends.

4.11 In the three months to September 2023, the median house price in the district was 20 times the average income from a job in the district, 12 times in Taupō, 10 times in Rotorua, and 7 times nationally. The level of house prices relative to incomes shows the high price of homes in the area, as well as relatively low incomes from jobs available in the locality. However, comparison with Taupō and Rotorua shows

² Patterson, B. (2022). Queenstown-Lakes labour market snapshot to December 2022. Retrieved from <https://www.qldc.govt.nz/community/economic-development/building-business-capability-and-talent>

that other tourism-reliant areas, while also very expensive, are not nearly as expensive as Queenstown-Lakes. High prices are an indication of housing demand exceeding available supply and data also establishes the unique nature of excess demand in QLDC.



Source: Median house price data from REINZ, income data from Statistics New Zealand

4.12 The average weekly rent in the year to August 2023 was: \$669 in Queenstown-Lakes and \$539 in New Zealand. For the average worker, the share of annual income that they would spend on annual rents is: 52% in Queenstown-Lakes and 38% in NZ. That is, rents take up over half of the average worker’s income in QLDC, compared to 38% nationally. The figure below shows that rents have typically been more expensive relative to incomes in the district compared to the national average for over two decades. In the 2018 Census, 730 households reported needing more bedrooms in Queenstown-Lakes, that is they were living in overcrowded conditions – a consequence of unaffordable housing renter. Recent research published jointly by the RBNZ, Treasury and Ministry of Housing and Urban Development showed that rents tend to increase relative to incomes when supply fails to match demand.³

³ <https://www.treasury.govt.nz/publications/media-statement/what-drives-rents-new-zealand>



Source: Average data from Tenancy Services, income data from Statistics New Zealand

Overall supply does not lead to supply across the housing continuum

4.13 An increase in house building does not necessarily mean this will lead to a proportionate increase in the number of rentals, especially affordable rentals, will increase at a uniform rate.

4.14 This is clearly visible in the Queenstown-Lakes district over the 20 years to mid-2023. The population of the Queenstown-Lakes district has increased by 32,400 people, or around 11,636 households (at the average Queenstown-Lakes household size of 2.78 people per household in the 2018 Census). The number of consents over the same period was 15,906 – an apparent supply in excess of demand.

4.15 But the number of rentals (as measured by the number of lodged bonds) increased by just 1,305 bonds over the same period. This shortfall is consistent with increasing rent costs relative to incomes. Bonds are not a perfect indicator of the number of rentals, because there are likely many instances of tenancies which do not have formally lodged bonds. However, any under-coverage of tenancies in bonds also mean many tenancies do not enjoy the formal protections and obligations of the Residential Tenancies Act.

- 4.16** While prices show a lack of affordability, there is also an added issue of availability. As at 30 October 2023, there were just 18 properties listed for rent in QLDC on Trade Me. A chronic shortage and high cost of rental properties has a disproportionate impact on lower income renters.
- 4.17** The reason for looking at the housing tenures separately is because a house to buy and rent are not necessarily the same. From a renter's perspective, there are two key drivers: their planned duration of stay (some may be working for a short period in the locality and renting gives them flexibility) and their ability to afford to buy or rent. As shown earlier, the price of homes is very high relative to local jobs. So, ownership is out of reach for workers at the average wage and below. For them, owning is not an option and renting is their only choice. In their personal circumstances, homes to buy are not comparable to a home to rent.
- 4.18** The consequence of unaffordable housing is not always easily seen in market rent data, as faced with shortages of housing and inability to afford the prevailing market price, renters may crowd up, or live in their cars, tents or become visibly homeless.
- 4.19** The impact of precarious housing is well documented. It impacts on a person's wellbeing, physical health (especially link between overcrowded housing and health, and reduced reliance on long commutes), mental health, education outcomes (stability, attendance, etc), ability to maintain and perform at work. These are social and economic costs, some are short term and some are long term. My report includes an indicative CBA, which does not define all these costs, as we do not have the data and resources available, but I highlighted some of the costs and benefits to give a sense of proportion and trade-offs.
- 4.20** The experience of the Housing First Alliance, a group of community housing providers who provision permanent housing for those precariously housed or homeless, the majority of incoming people are from 'hidden homeless' groups, such as couch-surfing on friends' or families' homes, living in garages, or living in cars. These experiences are sometimes recorded in the local media of workers living in cars and tents.

QLDC is a unique case

4.21 The experience in the Queenstown-Lakes district can be summarised as strong demand is not being met by significant supply. This undersupply is magnified for those renting, and especially those who are renting on lower incomes.

4.22 The takeaways for me from this analysis are:

- Even though the district is building homes at a nationally comparable rate (relative to population growth), it has not been enough to meet all of the demand for homes, which are higher in Queenstown due to demands for second homes, holiday homes and short term accommodation.
- Current supply is not enough to flow through the entirety of the housing continuum, visible in not boosting the rental stock enough, and rising rents relative to incomes means there is an acute shortage of affordable rentals.
- Without the adoption of a policy to influence a channelling of dwellings to the more affordable end of the continuum, the status quo will continue, and likely worsen.

4.23 This is the key reason to consider an Inclusionary Housing policy, to ensure when new homes are supplied, some of them will be for affordable housing.

4.24 My evidence focusses on the housing issues, because that is what Inclusionary Housing policy is for. I disagree with the submission by Mr Colgrave which seems to think that the main consideration for Inclusionary Housing policy is to reduce labour turnover. The *indicative* cost benefit analysis I presented was to help consider the costs and benefits to various stakeholders, which will always be contested to be higher or lower depending on the stakeholder submitting. The consequences of poor housing are almost always in hidden costs, often social or in other areas of cost such as mental and physical health, education outcomes, and other factors discussed in the 2018 report I co-authored for the then incoming Housing Minister: A Stocktake of New Zealand's Housing.⁴

⁴<https://www.beehive.govt.nz/sites/default/files/2018-02/A%20Stocktake%20Of%20New%20Zealand's%20Housing.pdf>

5. INCLUSIONARY HOUSING IS A TOOL THAT CAN BE USED BY COUNCILS

- 5.1** My 2022 report highlighted that the proposed Inclusionary Housing policy is a continuation of such a policy by QLDC: voluntary contribution of 5% of lots to begin with, Special Housing Areas requiring 5% affordable housing contribution related to 2013 legislation, and increase in the requirement to 10% in 2018 policy, and 12.5% in the final iteration of that policy. The new Inclusionary Housing policy needs to apply broadly under the Resource Management Act, but with due consideration for commercial feasibility for different types of developments (greenfield vs brownfield for example).
- 5.2** Past application was mainly applied on land that was up-zoned from rural to urban land use, which significantly increased the economic value of the land and inclusionary provisions only had a modest impact on financial returns. A more widely applied policy including on existing residential use land would not have the same zoning uplift to offset it. But with increased land and housing supply enabled in other central government policy efforts (NPS-UD, reform of the RMA, work on enabling infrastructure etc), local authorities may have fewer choices to time their policies in such a way in the future. So, the Inclusionary Housing policy needs to be applied broadly, compulsorily and with more nuance. If the requirement is set too high, it will make some projects unfeasible and delay supply. Set too low, and there will not be enough affordable housing.
- 5.3** My report also identified that the Queenstown-Lakes housing market fails to provide affordable housing across the continuum. The data shows that housing supply responsiveness to population growth is similar to the national average, but that is not enough nationally (evidenced in rents rising relative to income, increasing reliance of renters on housing subsidies, and long waitlists for social housing) and it is especially not enough in the Queenstown-Lakes district, which experiences much greater demand for housing from second homes, holiday homes and short term accommodation. As I have explained above, there is also an apparently insatiable demand for people to live in the district, which – outside of the Covid-19 pandemic period – has consistently grown faster than official

population projections. While there is planned housing capacity, it is not being supplied fast enough across all price points, with particular shortages in affordable rentals.

- 5.4** Introduction of the NPS-UD means more housing supply will be enabled. But it also means that QLDC will lose its previous opportunities to negotiate on private plan changes for Inclusionary Housing. So, while overall national policy direction will enable greater overall housing supply, the mechanism previously used to gradually and progressively build up a stock of affordable housing will be lost.
- 5.5** Importantly, overall supply does not manifest itself through proportionate supply across all parts of the housing continuum. This is logical, with market forces allocating new supply to those with the most resources. The impact of lack of supply therefore most affects those on lower income persons and households, which in the Queenstown-Lakes district captures people working in the main industries like retail and hospitality, and key workers such as nurses, teachers and police officers.
- 5.6** This experience is not unique internationally and has led to implementation of Inclusionary Housing in various designs and forms. This is long-standing practice in London, various parts of the Europe and USA, and more recently has been adopted in some Australian states (South Australia, NSW, and ACT).
- 5.7** The trade-off is between known costs and benefits for low-income households (the beneficiaries of affordable housing), against an interaction of current and future policy and regulatory settings and proposed Inclusionary Housing policies and their impact on overall housing supply and affordable housing supply. That is, the policy process wants to enable more supply generally, but it also wants to use special tools to additionally ensure gradually increasing stock of affordable housing.
- 5.8** Fundamentally, Inclusionary Housing is designed to work alongside overall housing supply policies to ensure the supply also includes affordable housing. While overall housing supply is efficient in creating more housing, it is inefficient in meeting acute needs in the affordable part of the housing market.

5.9 Some submitters wanted Inclusionary Housing to be delivered via rates or other mechanisms, rather than linking it to a planning process. Given the objective is to ensure a portion of new housing supply is affordable and that affordable housing stock is progressively built up over time, I believe Inclusionary Housing is the most economically efficient way to achieve this objective. Inclusionary Housing is a single mechanism for proportionate affordable housing levied on those who receive or have received planning windfall gains, within a wider set of tools to enable supply. Rates is a general tool, levied on every resident, for which there are many competing uses. I would note that local authorities around the country are experiencing significant increases in rates to keep up with delivery of existing services and commitments, without adding even more demands on it.

5.10 I do not consider rates to be a credible or appropriate tool to provide affordable housing in the district. Instead, Inclusionary Housing is more appropriate as it is targeted at those who benefit from planning gains, and linking it to housing supply – that is, when the planning gain is crystallised – makes it an efficient mechanism to capture a small portion of the planning windfall gains to direct towards affordable housing.

Inclusionary Housing as a share of windfall gains

5.11 One way to conceptualise Inclusionary Housing is as a tax on planning windfall gains.

5.12 In the past, this planning windfall gain was typically done when considering a private plan change. But if more land is upzoned through other tools and measures (such as NPS-UD and perhaps forthcoming RMA reforms), then this windfall is already being delivered in a broad scope. Given that the upzoning windfall is widely shared, Inclusionary Housing policy would be better applied widely and at a low level, rather than at the catalyst point of plan changes as before.

5.13 But first, some foundational things. The property rights of a landowner are the rights commensurate to current planning provisions. There is a potential value uplift in future planning changes, but there is associated risk. Those planning changes and value uplifts may not happen. Rules may change around flood plains

or the imposition of the Inclusionary Housing clauses. This is a risk that a landowner takes when anticipating changes in future planning rules.

5.14 Unless the Inclusionary Housing provisions reduce the value of the land at prior use plus the cost of infrastructure provision (which would reduce land and housing supply), then no property right has been reduced. Rather, any extension of property rights would have been conferred by society to the landowner. When it includes Inclusionary Housing, it reduces the additional property rights and associate value uplift conferred to the landowner and subsequently to the developer and home buyer.

5.15 New planning provisions also have an impact when implemented, but the impact fades over time. So, if Inclusionary Housing is imposed uniformly and consistently across a broad class of land and developments, then there will be a one off reduction in the value of this class of land, but over time it will not represent additional friction in land supply.

5.16 There is a substantial planning windfall gain when there is planning change of land to residential use. That is, conferring of additional property right by the community through the local authority (when land is up-zoned) is a windfall gain which not related to productive efforts of the landowners. In the Queenstown-Lakes district, limited expansion options due to landscape considerations and very high demand meant that selective upzoning created even greater conditions for planning windfall gains. Requiring some of this uplift to be used for the benefit of the community can be a considered through a windfall tax lens, ie, partial value capture of windfall gain. This “tax” will fall on consumers and developers, unless significantly increasing the supply of zoned and serviced land. So, it is critical to use all available levers to enable overall supply. At the current time, overall land and serviced land supply policies are being advanced by central government, but there are no clear mechanisms yet to capture some of this windfall gain locally to apply to supply of affordable housing. As I described earlier, there are unique considerations in QLDC where demand is extremely high and supply is simply not sufficient. While there is opposition to change in the district, inclusionary housing practice in both the US and UK reveals that schemes gain traction over time. Private

developers accept inclusionary housing requirements when they are known in advance and levied in a consistent way.

- 5.17** A key risk identified by submitters is that Inclusionary Housing policy may slow housing supply. The international evidence of Inclusionary Housing policy impact on housing supply is mixed. High quality studies have not found large negative effects on supply. Large cross jurisdiction studies have generally found no effect, or marginal effect on housing supply relative to non-Inclusionary Housing locations. The SIA cites US research on the conditions when Inclusionary Housing is effective: *“A recent study in the USA (which has the largest number of inclusionary zoning policies) examined the relationship between inclusionary zoning policy features and average annual affordable rent production for 27 states. It found that jurisdictions where the policy was mandatory, older, and covered the entire jurisdiction, or had complex requirements to reach lower income levels, had higher production of ‘affordable units’ (Wang & Fu, 2022).”*
- 5.18** A study of such policies in England by Murphy and Rehm (2013)⁵ found that inclusionary housing policies reduce the unearned benefit of higher land value, not the profit margin of the developer. Unless land supply is constrained, there should be – from an economic perspective – no change in the incentives for developers to build houses. The prudent approach would be to enable ample supply in planning provisions alongside other tools to ensure it is not a binding constraint, to offset any *potential* impact from Inclusionary Housing policies.
- 5.19** This means that it is important to apply such a policy at a low level, broadly and compulsorily, to create a level playing field, while using other tools to enable increasing overall supply.
- 5.20** There may be some disruption to existing land holdings, but that should not be a reason for not changing policy settings. It is important to consider the policy not only for its impact at the onset of the policy, but also once the initial dislocations, if any, have dissipated. It would be strange to argue policy should not change (as

⁵ Murphy, L., & Rehm, M. (2013). Inclusionary Zoning and Brownfield Residential Development: A Feasibility Study Report prepared for Auckland Council July 2013. July, 1–45

argued by Mr Colgrave in his submission), because the policy change would affect those decisions made under a previous policy regime.

5.21 Some international studies found housing supply slowed due to Inclusionary Housing policies, but that depended significantly on the stringency of the inclusionary requirements.⁶ However, when QLDC adopted more stringent Inclusionary Housing requirements in 2013 (increasing them from 5% to 10% in SHAs) housing supply improved, both in levels and relative to population. There are other drivers, but it does not appear that Inclusionary Housing policy had a discernible negative impact on housing supply. The mixed nature of evidence, combined with no clear local evidence of reduced housing supply responsiveness with past Inclusionary Housing requirements, justifies Inclusionary Housing policy that is broadly applied and has a low contribution rate.

Choices available to QLDC

5.22 My evidence has outlined the very high demand for housing, supply not keeping up, and the resulting worsening in housing affordability and availability. I have also demonstrated that the scale of demand in the Queenstown-Lakes district is unique in a New Zealand context. The district is as good as the national average in building relative to population growth, but that it is not enough to provide more affordable homes.

5.23 In the past, QLDC has used the catalyst of private plan changes to negotiate Inclusionary Housing contributions. New national policies such as the NPS-UD and the requirement for Future Development Strategies mean that a component of the district plan review work is to strategically upzone rural land and use existing urban land more efficiently. This approach however reduces opportunities for private plan changes that have in the past been used to leverage affordable housing contributions.

5.24 The national policy direction seeks to improve overall housing supply. This is positive and will be necessary to reduce housing pressures gradually over time.

⁶ Barker, Andrew. (2019) "Improving Well-Being Through Better Housing Policy in New Zealand." OECD Economics Department Working Papers No. 1565, 39.

However, the experience of QLDC has shown that demand is so high that it is unclear when there will be enough supply to also provide enough affordable housing. Given the uniquely high level of demand for housing in QLDC, there is a role for the provision of affordable housing through Inclusionary Housing. That is, Inclusionary Housing policy is nested within a broader body of work designed to increase housing supply to progressively build up a stock of affordable housing.

5.25 The purpose of Inclusionary Housing is not to increase total housing supply to increase per se, rather the housing supply to adopt tools to ensure distribution of that supply to a wider part of the affordability spectrum, particularly to the more affordable end of that spectrum.

5.26 Inclusionary Housing policy requires choices between well-defined beneficiaries, but less certain costs, which may be mitigated through other efforts. With Inclusionary Housing policy, we know the target group who will receive housing and benefit from the affordable housing. But we do not know for sure if house prices and rents for other groups will be higher or lower with the policy. The current situation is also the same, even with concerted effort to increase housing supply, rents and house prices have continued to increase relative to incomes and are much higher than national trends. Inclusionary Housing ensures that that at least some of the new housing will be affordable, rather than most likely no houses for the foreseeable future as has been the case to date.

5.27 These trade-offs should be explicitly considered in making policy, as the consequence of not making these decisions is further negative outcomes for lower income households.

6. CONCLUSION

6.1 My conclusion on Inclusionary Housing remains the same as my report. QLDC is exploring Inclusionary Housing policy because there is a lack of affordable housing supply. Current prices of houses and rents are high relative to incomes available through many local jobs. Prices did not become more affordable even during the Covid-pandemic period, when closed borders affected both tourism and immigration.

6.2 Inclusionary Housing is used in many international jurisdictions. Some of the key lessons from a large Australia study, in my view, are:⁷

- The most successful applications of Inclusionary Housing are in places where the mechanism is simple to administer, there is an established delivery mechanism and the policy applied widely.
- Inclusionary Housing helps to supply lower value/affordable homes into supply. Without this, supply of this type of housing falls dramatically.
- Inclusionary Housing is not common in Australasia, but widely used in USA (more than 500 cities), UK and other parts of the world with varying degrees of success. In recent decades South Australia (around 5,500 units over a decade to 2015) and Sydney (around 2,000 units over a decade from 2009) have both used Inclusionary Housing. Neither are sufficient to deal with housing stresses for all.
- There is some risk of reducing incentives for overall supply, but because Inclusionary Housing tends to be used in very expensive markets, good quality quantitative studies find no impact on overall supply. But the published evidence is mixed, although of varying quality and scope (many do not include wider social benefits).
- Inclusionary housing practice in both the US and UK reveals that schemes gain traction over time. Private developers accept inclusionary requirements *when they are known in advance and levied in a consistent way*.
- Even with Inclusionary Housing, low income families often need additional support to afford homes.
- Inclusionary Housing on its own cannot be the answer. As other mechanisms required to ensure housing supply is responsive to demand across the continuum of housing need.

⁷ Gurran, N., Gilbert, C., Gibb, K., van den Nouwelant, R., James, A. and Phibbs, P. (2018) Supporting affordable housing supply: inclusionary planning in new and renewing communities, AHURI Final Report No. 297, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/297>, doi: 10.18408/ahuri-7313201.

- 6.3** The district's experience of recent years shows that housing supply can be ramped up. But even when that happens, there is not enough supply of affordable homes. Until there is an abundant supply of homes, market provision of affordable housing is unlikely.
- 6.4** Inclusionary Housing is a planning tool to specifically generate affordable housing, the goal. On its own, it can be distortionary. When combined in the context of other policies (such as NPS-UD implementation, infrastructure funding and financing tools, etc) that facilitate housing supply, these distortions can be mitigated.
- 6.5** My analysis suggests that from a monetary perspective, the benefits and costs accrue to different cohorts, but that the overall net impact is neutral at worst, but most likely positive. Much of the costs of poor housing affordability and availability are usually hidden, but important. The purpose and motivation of this policy is to ensure availability and provisioning of affordable housing, which QLDC has not been able to provide without Inclusionary Housing policies in the past, even though the district builds at a high rate for its population size.
- 6.6** My analysis of QLDC Inclusionary Housing policy to date shows that the common criticisms of Inclusionary Housing policy internationally have not been evident (reduced supply, reduced size, and increased price).
- 6.7** My opinion is that a broadly applied Inclusionary Housing policy will gradually increase affordable housing stock in the district. The Inclusionary Housing policy, applied at a moderate contribution rate and broadly, will match the broad increase in planning windfall gains (and housing supply) enabled by NPS-UD (and likely future changes from RMA reforms). Inclusionary Housing is to use a range of tools to ensure that QLDC continues to increase housing supply, and that some of that supply leads to progressive accumulation of affordable housing. The choice is between the known benefits of Inclusionary Housing policies in the district to date and continuing progressive accumulation of affordable housing or reverting to little or no provision of affordable housing.

A handwritten signature in black ink, appearing to read 'Shamubeel Eaquib', with a long horizontal stroke extending to the right.

Shamubeel Eaquib

14 November 2023