

Before the Independent Hearings Panel

Under the Resource Management Act 1991 (**RMA**)

In the matter of submissions on the Inclusionary Housing Variation to the Queenstown Lakes Proposed District Plan)

Statement of Evidence of Philip Mark Osborne

(Economics)

19 December 2023

Introduction

- 1 My full name is Philip Mark Osborne.

Instruction

- 2 I have been instructed by Russell McVeagh, Brookfields, and Anderson Lloyd jointly to prepare evidence on behalf of their respective client submitters on the Variation (the '**residential development consortium**')¹.

Qualifications and Experience

- 3 I am an economic consultant for the company Property Economics Ltd, based in Auckland. My qualifications include Bachelor of Arts (History/Economics), Masters in Commerce, Masters in Planning Practice from the University of Auckland, and I have provisionally completed my doctoral thesis in developmental economics.
- 4 I have 20 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning.
- 5 I also provide economic consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.

Code of Conduct

- 6 I confirm that I have read the Code of Conduct for expert witnesses contained in the Environment Court Practice Note 2023. I have complied with the Code of Conduct in the preparation of this evidence, and will follow it when presenting evidence at the hearing. Unless I state otherwise, this assessment is within my area of expertise, and I have not omitted to consider material facts known to me that might alter or detract from the opinions I express.

¹ Darby Planning Limited Partnership, Glenpanel Developments Limited, Maryhill Limited, Station at Waitiri, Silverlight Studios, Gibston Highway Limited, Macfarlane Investments Limited, Remarkables Park Limited and Winton Land Limited.

Scope of Evidence

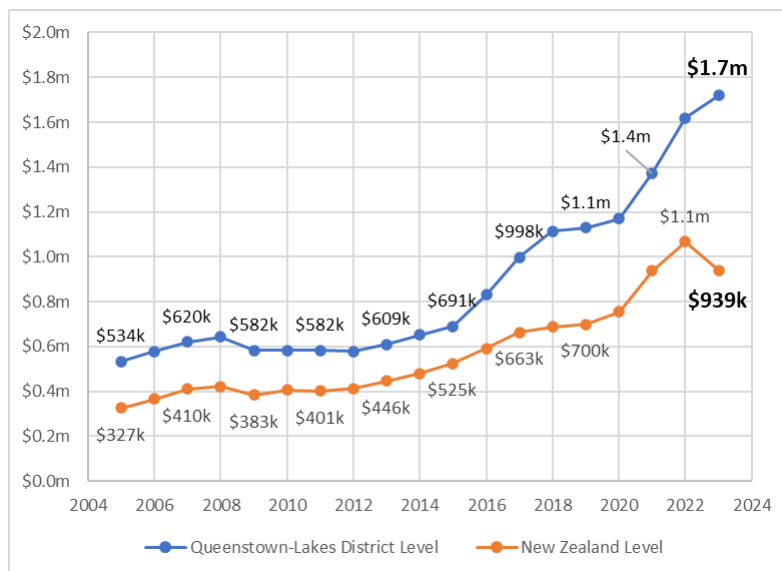
- 7 I have been asked to provide evidence in relation to the Queenstown Lakes District Council's (**QLDC**) proposed Inclusionary Housing Variation (**Variation**) to District Plan on behalf of the residential development consortium. My evidence provides commentary on the associated economic reporting and evidence that has formed the basis for economic support in relation to this Variation. I also, provide comment on the issues currently experienced within the Queenstown Lake District (QLD) housing market, the potential areas affecting housing affordability, as well as potential economic costs and benefits, of inclusionary zoning implementation, and their relative extent.
- 8 My evidence addresses the following:
 - (a) Commentary on the Queenstown housing market.
 - (b) Outline of the proposed Variation.
 - (c) The approach of the National Policy Statement on Urban Development (**NPS UD**) to housing affordability.
 - (d) Consideration of QLDC's economic evaluation of the proposed Variation.
 - (e) Evaluation of the alternative options (both in terms of policy and funding).
 - (f) Concluding remarks.
- 9 The documents that I have reviewed in preparing this evidence include:
 - (a) QLD Section 32 Evaluation, July 2022;
 - (b) the economic case for Inclusionary Zoning in QLDC, Sense Partners July 2022;
 - (c) peer review of Sense Partners report, Insight Economics November 2022;
 - (d) evidence of Shamubeel Eaqub, QLDC November 2023;
 - (e) QLD Intensification Economic Assessment, May 2023;
 - (f) evidence of David Mead, QLDC November 2023;
 - (g) evidence of Charlotte Lee, QLDC November 2023; and

(h) evidence of Amy Bowbyes, QLDC November 2023.

Queenstown Housing Market

- 10 While the topic of residential housing has seen a high level of commentary over the past decade, the experiences of the market, impact on the community, and the efforts through the NPS UD and RMA Amendment Act 2020 have been varied throughout the country.
- 11 An important consideration in contextualising the need for a more flexible and enabling housing development environment is understanding the extent of the market impacts, both historically and in the present day, and therefore the level of enablement that may be required to facilitate a more efficient and affordable housing environment.
- 12 Through to the end of 2021 the Queenstown housing market was following the national trends of rapid price increases (albeit at a faster rate) and strong resales. Over the past 2 years however, the New Zealand housing market has seen a significant shift with prices dropping (primarily as a result of interest rates rising) and pressure on construction providers.
- 13 The Queenstown market has, for the most part, resisted this wider market reversal. This is highlighted in Figure 1 below which illustrates the continued climb of housing prices within Queenstown in stark contrast to the majority of the national market.
- 14 In 2023, the average house price in QLD is \$1.7m which is almost double the national average of \$939k.

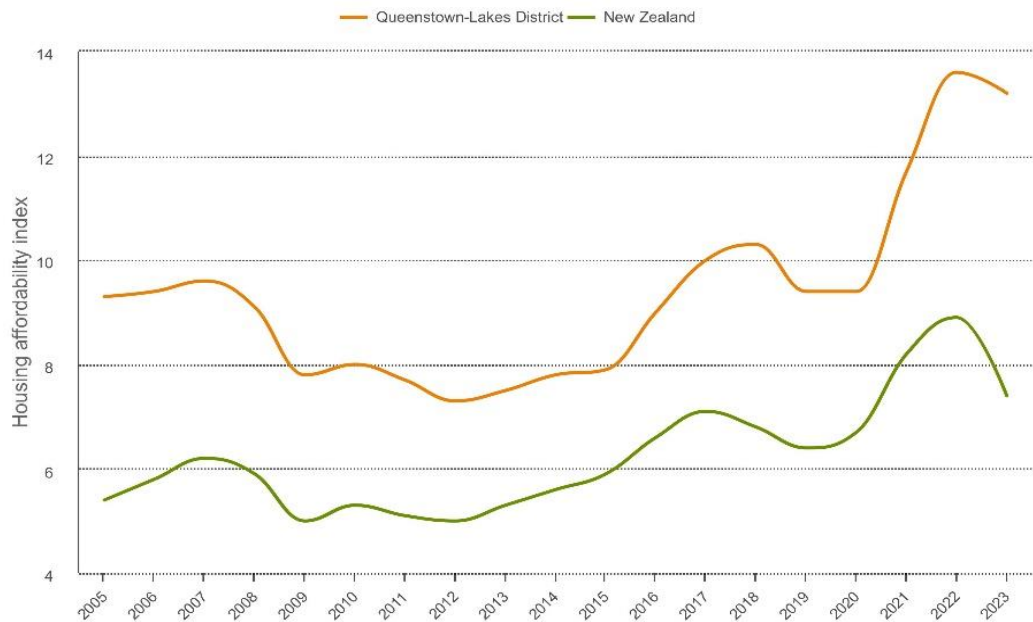
Figure 1: Housing Prices in Queenstown-Lakes District Compared to the National average



Source: Data from Infometrics Regional Economic Profile², Property Economics

15 This continued rise has had a material impact on Queenstown Lakes housing affordability with ratios of price to income at nearly twice the national average. Figure 2 illustrates this trend with most recent ratios for the district hitting over 13 times average household annual income (the appropriateness of this figure is discussed in paragraph 37 below).

Figure 2: Housing Affordability Trends (2005 – 2023)



Source: Data from Infometrics Regional Economic Profile, Property Economics

16 While this illustrates a poor level of affordability, the level of housing serviceability is worse still. With interest rates increasing from 2.6% to over 7.6%, the annual servicing costs of an average Queenstown mortgage has risen to almost the average household income.

17 An unusual feature of the district's residential property market is the significant level of site sales (sometimes referred to as 'lot or section' sales) that make up the market annually. Due to the rapid residential growth levels, it is anticipated that this component of the market would be higher than is normal.

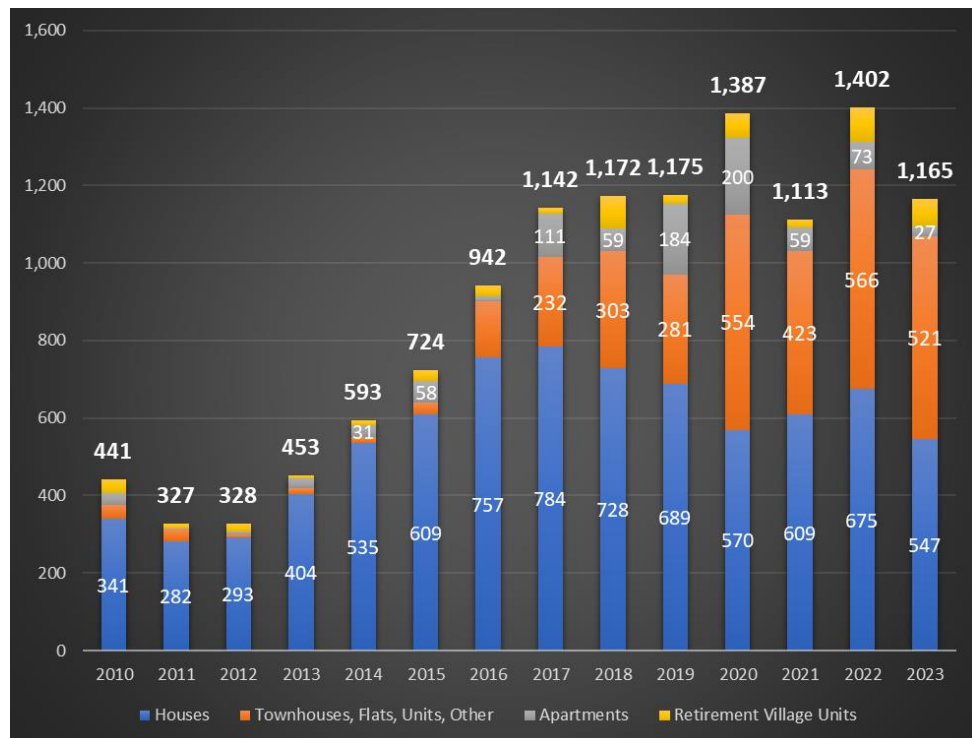
18 However, over the past 2 years site sales have consistently made up approximately 20% of all residential sales. This level of turnover is significant even when allowing for the large proportion of new homes and

² [Regional Economic Profile | Overview \(infometrics.co.nz\)](https://www.infometrics.co.nz/Regional-Economic-Profile/Overview)

the expected vacant site turnover. It would appear from this market indicator that there exists a greater than average market in the district for the trading of vacant residential sites as commodities.

- 19 In providing a balanced approach to housing provision and affordability within Queenstown it is important to consider the nature and responsiveness of the market and the role zoning and the extents of zoning have on this.
- 20 Figure 3 shows the building consent trends in the Queenstown-Lakes District between 2010 and 2023. This shows that, coinciding with the upward trend in house prices during the mid-2010s, there was an increase in the number of dwelling consents from an average of around 400 to over 1,100 dwelling consents per year following 2017. At its peak in 2022, there were 1,402 dwellings consented in 2022.
- 21 Notably, with the increasing housing unaffordability, there has been a shift in dwelling consents in favour of higher-density dwellings. Apartments and Terraces made up 50% of non-retirement village dwelling consents in 2023 whereas they previously made up only 10% of dwellings consents in the early 2010's.

Figure 3: Building Consents Trends 2010 – 2023



Source: Property Economics, StatsNZ

- 22 Over the same period QLD has seen substantial population growth with net migration running at a rate well beyond most other regions and in fact the national immigration rate. Over the past 13 years the district has seen a population growth rate of nearly 100%.
- 23 A key concern in relation to QLD housing issues is the level of supply versus demand. When considering resident demand versus consented homes, QLD performs well in terms of the ratio, with the last 10 years running above the national average.
- 24 However, the housing pressure appears to be the result of non-resident demand, with thousands of homes remaining vacant and the advent of the newly created short term holiday homes. This component of the market is an investment opportunity funded through portals such as Airbnb.
- 25 It would appear that growth in this market has placed significant pressure on the level of supply, with particular impact on the availability of longer term rentals and rental rates.

Queenstown Lakes District Housing Market Under the NPS UD

- 26 Resident population growth within QLD is expected to continue to grow at a material rate over the next 30 years. The QLD Housing and Business Development Capacity Assessment (**HBA**) 2021, has outlined dwelling demand, for both population and visitor accommodation, requiring an additional 17,000 units through to 2050.
- 27 At the time of the 2021 HBA assessment it was indicated that there was sufficient residential capacity 'likely to be realised' under the district plan. In terms of growth QLD is recognised as a 'tier 2' council under the NPS UD, meaning it was not mandated to implement the Medium Density Residential Standards (**MDRS**) under the RMA Amendment Act 2021.
- 28 To give effect to the NPS UD objectives, QLDC has notified a proposed urban intensification variation. As part of the section 32 report assessing the potential options, a capacity assessment was undertaken to illustrate potential plan enabled and commercially feasible capacity resulting from the intensification changes³. This assessment demonstrated significant increases in commercially feasible capacity resulting from the proposed intensification, in some cases at a rate 100% greater than the identified baseline.

³ *QLD Intensification Economic Assessment, May 2023*

- 29 The intensification variation also illustrated the potential for a massive shift in this feasible development potential towards more affordable building typologies such as terraced houses and apartments⁴. While the QLD plan has sought to provide sufficient development capacity within the market, this intensification variation represents a material change, as sought by the RMA Amendment Act 2021 to 'increase housing supply' and 'remove barriers to allow for a wider variety of housing'.
- 30 As stated by the Ministry of Housing and Urban Development to the then Housing Minister Megan Woods "*Increasing the overall supply of new build housing in the right places will have the greatest impact on affordability*"⁵

Queenstown Lakes District Council Inclusionary Housing Variation

- 31 Housing unaffordability is not a new concern for QLD. Since 2003 QLDC has implemented a number of approaches from voluntary transfers of lots to increasing contributions⁶ through Special Housing Areas that allowed for 'up zoning'.
- 32 The management issue identified in the section 32 evaluation is:
- "The combination of multiple demands on housing resources; the need to protect valued landscape resources for their intrinsic and scenic values; and geographic constraints on urban growth means that aspects of the district's housing market cannot function efficiently, with long term consequences for low to moderate income households needing access to affordable housing"⁷.
- 33 It has been asserted that the proposed Variation is the most appropriate response to these issues by implementing a compulsory financial contribution over the majority of residential development.
- 34 Table 1 outlines, at a high level, the proposed approach taken to evaluating the extent of the Affordable Housing Financial Contribution.

⁴ QLD Intensification Economic Assessment, May 2023, Tables 6-1 to 6-10

⁵ December 2020 press release

⁶ Either monetary or a proportion of lots

⁷ QLDC Inclusionary Pland Change s32 report July 2022, Section 9.1

Table 1: High Level Summary of Proposed Inclusionary Zoning Policy

Action	Composition	Rate of Charge
Subdivision	1- 19 lots	5% of total estimated land sales value
	20 plus lots	5% of serviced lots
	Non-urban	1% of total estimated serviced land sales value
Development	Total new or relocated floorspace	The lesser of 2% of floorspace sales value of \$150/sqm or \$75/sqm (for total additional floorspace plus top up)

35 There are a number of noted exemptions from this contribution, including the development of registered social housing, areas that already contain affordable housing provisions, as well as managed care units in retirement homes and residential flats.

36 It is proposed that the contributions collected will be provided to the Queenstown Lakes Community Housing Trust (**QLCHT**) as a source of ongoing funding to provide affordable housing.

QLDC Economic Assessment and Evidence

37 The section 32 analysis for the Variation relies on the July 2022, ‘The economic case for Inclusionary Zoning in QLDC’, report (**2022 report**) to understand the potential economic impacts of the variation, both on the housing market and the wider QLD economy.

General Market

38 The 2022 report outlines the general housing market that has transpired over the past 2 decades in QLD. While there is little doubt that the QLD housing market has experienced substantial average price growth there are a number of contributors that are important to identify.

- (a) Figure 8 of the 2022 report illustrates the level of demand versus supply for housing within the district. It shows that the market has under supplied housing for a period of time, but that more recently has seen a net gain in supply.
- (b) When considering this in relation to Figure 3.14 of Mr Eaquib’s evidence in chief, it would appear that the level of supply is more than sufficient to meet resident population growth (also at 4.14 of his evidence).
- (c) Critical to this market is the level of short-term accommodation demand competing for longer term rental supply. The growth in this market is not only in line with more recent price increases but is

highlighted in the lack of rental product, with only 25% of the housing stock (over the 5 years to 2018) growth contributing to rental stock.

- (d) While growth in short-term rentals has provided a significant avenue for revenue, there is little doubt that the capitalisation of this by investors has materially increased demand for lower capital (lower priced homes) higher return dwellings⁸.
- (e) Finally, the 2022 report raises the concern that ‘overall housing supply may not increase affordable housing supply’⁹. Although ‘recent experience’ is identified in support of this statement, recent experience is less likely to represent the future position for the market. This is because, in seeking to meet the objectives of the NPS UD, QLDC has identified a number of variations and plan changes that seek to materially increase feasible development capacity, as well as up to a three-fold increase in typologies such as terraced housing¹⁰.
- (f) Additionally, the Environment Court decision¹¹, at the beginning of this year, although not as stringent as originally proposed by Council, has the potential to better manage short-term rentals. Moreover, a material increase in housing supply, even within higher price brackets is likely to result in lower prices for existing housing product. An overall increase in housing supply increases pressure on the existing housing stock, lower the relative price.

Housing Affordability Economic Costs and Benefits

- 39 Section 3 of the 2022 report, identifies the potential impacts resulting from unaffordable housing prices and their extent.
- 40 The 2022 report identifies the scale of ‘unaffordability’ at \$1b i.e. this is the extent to which incomes would need to rise for housing to be affordable at current prices. While it is accepted that house prices in Queenstown have continued to rise beyond the reach of an increasing proportion of the

⁸ QLCHT Chief Executive Julie Scott ‘a proliferation of homes on Airbnb was adding to the (affordability) crisis’, *Housing affordability crisis continues to grow in Queenstown Lakes*, 15 November 2022.

⁹ *The economic case for Inclusionary Zoning in QLDC*, Sense Partners July 2022, page 9.

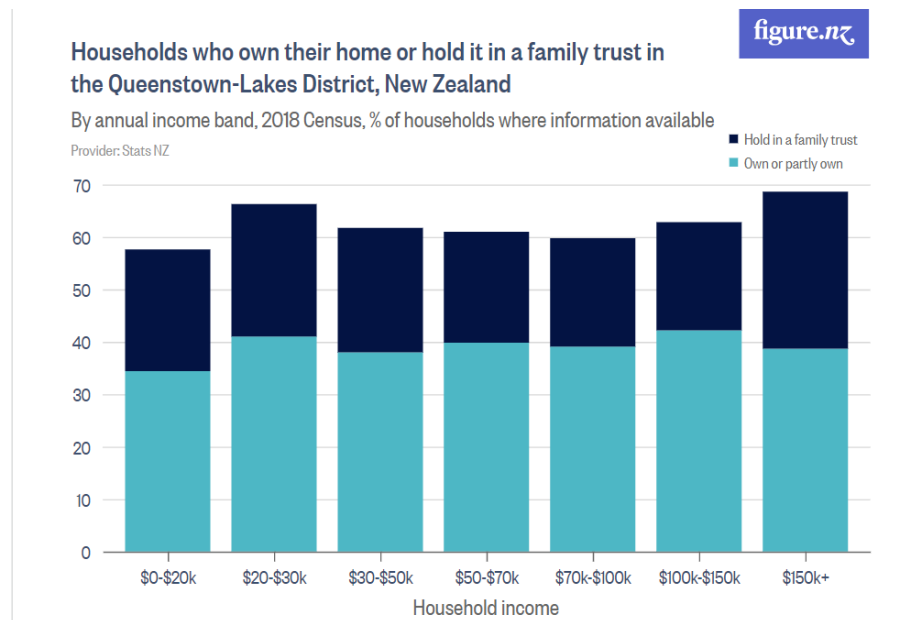
¹⁰ QLD Intensification Economic Assessment, May 2023

¹¹ 30 January 2023 *Regarding Residential Accommodation, Residential Visitor Accommodation and Homestays*.

district's residents this figure does not consider the extent of some unique issues in the QLD market.

- 41 Firstly, QLD attracts a larger proportion of international buyers as well as wealthy nationals. This level of wealth is not generally represented in income levels and as such drive demand for a greater proportion of high value homes without the commensurate increase in income. This anomaly is seen in Figure 4 below (NB: the national average ownership rate for a household income under \$20,000 is less than 40%). Additionally, as identified above, the market for short-term accommodation also increases pressure on prices. Until more recently¹² interest was tax deductible on mortgage payments for these investments meaning that household income (from rentals) was artificially low while capital gains were high. While not denying unaffordability within the QLD market these factors are likely to significantly impact the measure of extent in the 2022 report.

Figure 4: QLD Homeownership by Annual income Bracket (Census 2018)



Source: figure.nz

- 42 While this factor is addressed in detail and plays a significant role in the cost benefit assessment quantification later, the peer review provided by Insight Economics (November 2022) provides a clear and compelling context to comment on this aspect.
- 43 The 2022 report considers that significant economic costs in terms of labour turnover arise as a result of housing unaffordability. The Insight report has

¹² It has been signalled that this will be reinstated under the new National government.

a number of findings with regard to the potential impact on labour turnover and the associated cost including:

- (a) The Insight report review found there was very limited relationship between house prices and worker turnover ($R^2 = 0.02$), as well as worker turnover to median house price / median income.
- (b) Worker turnover rates had been falling over the past 20 years, during which QLD experienced significant house price inflation.
- (c) Other factors that were found to have material impacts on worker turnover included worker age, firm size and private/public firms.
- (d) It is unclear how the \$55,000 - \$110,000 per job turnover on page 16 is generated. This is also difficult to reconcile with the literature estimate at 25% of an industry salary per job turnover (which would be more in line with the \$15,000 per job identified in the Insight report).

44 I agree with the above concerns raised through the Insight report about the validity of the 2022 report's assessment of potential economic benefits resulting from the Variation in relation to reduced workforce turnover.

Need for more affordable housing

45 The 2022 report also includes commentary around the need for a targeted supply of affordable housing. This section is again accompanied by commentary on the lack of rental properties in Queenstown, with population growth at 70% over the past decade while rental properties increased only 36%¹³.

46 As identified above, the rental market in Queenstown appears to be significantly impacted through homeshare accommodation with product that would typically accommodate this sector of the housing market being absorbed through short-term tenants. As also identified above, greater intensification sought through Council plan changes have a higher propensity to impact the level of both demand and supply for this sector.

47 While agreeing with Mr Equab's evidence at paragraph 4.21 that QLD is a unique housing case I disagree that past conditions can be trended and

¹³ *The economic case for Inclusionary Zoning in QLDC, Sense Partners July 2022, page 18*

that the 'status quo'¹⁴ is the likely outcome within a market, given the latest Residential Visitor Accommodation changes and intensification enablement through the NPS UD (proposed to be implemented in the intensification variation). In my opinion, as these changes to the market are bedded in, dynamics with regard to housing affordability are likely to shift and improve.

- 48 The section 32 report addresses the potential for increased capacity to affect house prices. In paragraph 11.10 the section 32 report states that *'To a large extent the 'supply' option has been pursued over the past 10 years in response to high house prices. Despite these measures urban land prices and house prices have increased substantially.'*
- 49 It is clear from most national housing markets that the simple zoning of additional residential land is not the complete solution to the affordability issue. This is especially relevant in QLD where natural land restrictions and infrastructure requirements combine to make this option less viable. A crucial issue with regard to QLD housing affordability is the type of product being developed. Additional land provided along similar zonings to those developed in the past have not result in an affordable product for Queenstown. The shift in capacity has to be based on a change in typologies with smaller more intense dwellings with greater levels of accessibility and amenity.

Inclusionary Housing

- 50 The supporting council economic examination (both in the 2022 report and Mr Eaquab's evidence) provides two approaches to assessing inclusionary housing.
- (a) The first relates to empirical evidence relating to both international examples of inclusionary housing and the impacts of the Special Housing Areas policy historically implemented in QLD.
 - (b) The second approach is a first principles identification and assessment of the proposed Variation itself.

First approach

- 51 In terms of the first approach, both the council's economic report and evidence provide a synopsis of international research regarding inclusionary housing and the potential impact upon overall housing supply.

¹⁴ Evidence of Shamubeel Eaquab, QLDC November 2023, paragraph 4.22

Mr Serjeant's evidence discusses the applicability of international examples of inclusionary zoning, noting that context is very important for understanding overseas experience which does not necessarily translate to the particular context of Queenstown.

- 52 As such, while these examples provide an overview of potential impacts there are a number of defining factors that limit the effectiveness of them in the QLD context. A key issue with regards to most international examples is that they provide for development incentives coupled with the inclusionary zoning. A 2017 study of US Inclusionary Housing programmes found that over half offered increased densities while most of the remaining provided for 'other zoning variances', fee waivers or fast tracking. An example closer to home is that of the NSW programme which seeks 15% affordable housing while providing an additional 30% increase in floorspace and height.
- 53 In 2013 QLDC initiated SHA's (Special Housing Areas) with 5%, rising to 10%, affordable housing. Paragraph 5.21 of Mr Eaquib's evidence states that the introduction and increase of the SHA's by Council had no 'discernible negative impact on supply. While acknowledging there are 'other drivers' to this supply, there is no evidence to identify what bearing or extent the identified SHA's had on QLD overall supply.
- 54 Furthermore, the SHA's provided incentives for affordable housing provision which most international assessments indicate mitigate, at least in part, impacts on housing supply. By contrast, the financial contribution required by the Variation applies on a retrospective basis rather than at the time of 'up zoning' and does not offer any other incentives.

Second approach

- 55 In terms of the second approach taken by Council to assessing the Variation as set out in council reports and evidence (a first principles identification and assessment of the proposed approach itself) it is important to note that the development of affordable housing within a district, not only creates social benefits, but also provides for increased security and typically discretionary spending within an economy. Along with impacts, such as improved health and, as recognised, potentially greater levels of job security, affordable housing provides a number of community benefits that, has the ability to improve the economy as a whole. The issue in economic terms is the most appropriate efficient and effective mechanism to achieve these benefits.
- 56 The benefits of affordable housing have a public-good nature as the community and economy as a whole benefit from its provision. The

recognition of which sectors of the economy benefit from policy is a key economic consideration regarding market efficiency and equity. The QLD community will be the key beneficiary both socially and economically from the provision of affordable housing, therefore it is appropriate that the cost of this provision lies with the community as a whole.

- 57 There are a number of approaches to this including incentives for development (i.e. the subsequent increased density or other variations comes at a potential cost, e.g. amenity, parking etc, to the community). A more direct apportioning of community cost would be through general rates, which would spread the cost among the community as a whole.

Costs

- 58 Costs of inclusionary housing as proposed in the Variation include:

Potential impact on housing supply.

- (a) When considering international literature regarding the potential impacts of Inclusionary Housing on housing supply it is important to note that there is significant variance within the programmes (as noted most are accompanied by development incentives). Most examples found there is a very real potential for negative impacts on supply, which is consistent with economic theory.
- (b) A key factor in these programmes were their age, with supply-side impacts being more pronounced over the short to medium terms. As identified above there is no meaningful assessment regarding the impacts of QLDC's inclusionary zoning within SHA's on supply¹⁵. However, a study on the Auckland SHA's found "*results indicate that the SHAs caused an average price increase of approximately 5% and did not contribute to increases in the likelihood of affordable transactions*"¹⁶.
- (c) In terms of the level of growth and subsequent economic activity, the Variation represents a disadvantage to the district and could result in a distribution of growth to competing districts.

Potential price impact.

¹⁵ Additionally, the SHA's represented incentives in the market (or a windfall gain)

¹⁶ Price effects of the special housing areas in Auckland, Fernandez 2019

- (d) As identified above there is a market risk associated with what is essentially a tax on residential development. There are a number of aspects to this. The council's evidence itself recognises the potential for a general housing price increase between 0 -2.2 %, based on the literature¹⁷. This is based on a number of factors including the rate of cost.
- (e) The thresholds established in the Variation for the monetary or land contribution appear to be based on development feasibilities. These feasibilities were undertaken pre-Covid at a time in the market cycle where development was strong, subsequent changes in the housing market have been dramatic, with construction costs increasing rapidly and interest rates nearly 3 times higher, feasibilities have significantly changed.
- (f) The Council's economic evidence discusses the need to frame the Variation as a tax on a windfall gain. While the description of the tax is important in its general acceptance (and notwithstanding the final aspect of the development market this impacts), it belies the fact that there is a real risk that at least part of this tax will be paid through higher housing costs for the whole of QLD residents. Additionally, the Variation itself does not provide a windfall gain for developers, any potential for greater levels of development, through the intensification variation, is currently uncertain and not uniformly applied.

As identified economic efficiency is also concerned with who pays.

- (g) While providing economic and social benefits for the community as a whole, the cost of affordable housing as proposed in the Variation is focused on a small (while important contributor to the housing issue) sector of the economy.
- (h) It is projected that QLD will require an additional 1.8% annual increase in houses over the next 30 years. When considering the exclusions from this market (also identified later in this evidence through section 42 changes, as a material level of this development will not be captured through the Variation) the cost associated with the Variation is spread over a very small part of the QLD housing market.
- (i) The market research provided through the 2022 report would suggest that a key contributor to the affordability issue facing QLD is the

¹⁷ *The economic case for Inclusionary Zoning in QLDC, Sense Partners July 2022, footnote 20, page 27*

significance of residential visitor accommodation. As such a materially larger component of the housing sector, that contributes to the district's affordability cost, is passing this cost onto new residential housing costs.

Administrative costs

- (j) A further cost, not included in the Sense Partners cost benefit assessment relied on by Council, relates to administrative costs, including costs associated with RMA legality testing and transaction costs (e.g. valuations of likely sale prices). Given the low end represented in Figure 16 of the assessment these costs could materially impact the overall level of quantified benefit (and have partly been included in the Insight 'reworked' figures).

Quantified Net Benefits

- 59 Figure 16 of the Sense Partners report (2022) is headed 'Estimated Economic Benefits of QLDC IZ Policy'. This includes the identification of potential economic benefits resulting from the Variation. The most significant quantified benefit, within the report is that resulting from reduced worker turnover. This is estimated at between \$27m to \$96m (Net Present Value) over a 30-year period.
- 60 Paragraph 38 of my evidence outlines the concerns raised by the Insight Economics' report (section 6.4) regarding the extent of this potential economic benefit. The Insight report also identifies the fact that this value is essentially, at least in part, a transfer of value from developers to the businesses within QLD.
- 61 A key input into the extent of these identified benefits is the assumed level of affordable housing resulting from the Variation. While unexpected changes in the housing market, as a result of the Variation, may ultimately lower this number, through the market's increased attraction to options that result in a lower 'inclusionary tax', a key factor for change is likely to result from proposed changes to the provisions of the Variation in the section 42A report. These changes include: (removal of)
 - (a) subdivision creating one additional lot;
 - (b) the building of a single house on a lot; and

(c) development on vacant lots that exist prior to the variation having legal effect¹⁸.

62 Not only would these changes decrease the extent of financial contributions collected under this Variation (and in fact focus the cost on a smaller component of the economy), but the identified exemptions are likely to increase the proportion of the market represented by these forms of development or existing areas (as these are now more competitive). This will further erode the contribution to the affordable housing approach proposed but it is likely to have significant impacts on the mix of dwelling typologies and the efficacy of QLDC's intensification objectives (and subsequent affordability goals).

63 In considering Figure 16 of the 2022 report, I am in closer agreement with the 'reworked'¹⁹ assessment of the Insight peer review. While the 0 – 1% house price change has been explained in the Sense Partner report, I would be more inclined to err on the extent present in the Insight report, due to the fact that, as identified, many of the Inclusionary Housing results assessed include incentives that are likely to counter the supply and price effects of these programs.

64 Additionally, there are likely to be associated costs including:

(a) Cost of establishing the legally contentious Variation through hearings and appeals processes.

(b) Administrative costs of implementation (in particular through the 'collection' of contributions after the issuing of Code Compliance Certificate

(c) Additional development costs with valuation mediation and assessment, as well as the increased risk associated with 'up front' costs and the potential impact on financing.

(d) The economic impact of increased house prices on worker turnover.

Overall, I would suggest that the 'reworked' Insight assessment may not represent the full extent of the 'worst case' scenario and community cost

¹⁸Section 42a report of David Mead 14 November 2023, Paragraph 10.2.

¹⁹ Peer review of Sense Partners report, Insight Economics November 2022, Table 4.

for this Variation. Overall this would suggest a larger net economic cost from the proposed Variation.

Potential Unintended Consequences

65 While there are a number of potential costs and benefits of the proposed Variation outlined in the Sense Partners report and subsequent evidence of Mr Eaquib, there remain a number of potential unintended market responses that are likely to reduce the efficiency and effectiveness of the Variation and the QLD housing market as a whole.

(a) There is likely to be a competitive disadvantage to areas identified by Council (both now and in the future) as suitable for greater intensification and smaller typologies²⁰. There is also likely to be a delay in development as appeals on this Variation proceed over time.

(b) Research has also indicated that a mandatory inclusionary zone has the potential to increase the proportion of residential development in more expensive areas within a district comparatively to those of lower (or more affordable) value *'In short, under a mandatory requirement in brownfields, higher value development will have to include some affordable units, while some development in medium value areas will be more marginal. This is a reverse of the situation for a bonus-based system, where it was unlikely that the higher value areas would take up the bonus, but it would have been used more extensively in the medium value areas'*²¹.

Essentially, the feasibility and risk associated with higher priced developments are less likely to be impacted through the Variation tax, while lower priced housing development has the potential to experience a greater impact.

66 Overall, the short-term costs are likely to be much more pronounced than the longer-term impacts, at which time the Sense Partners report agrees increased supply will play a greater role in market stabilisation.

67 It is also unclear whether potential alternatives to funding affordable housing have been adequately assessed. The provision of affordable housing provides public benefits and as such the economy as a whole benefit from its provision. A potential alternative to the proposed

²⁰ Paragraph 11.50 of the QLDC section 32 report identifies the need for smaller more diverse typologies to improve affordability.

²¹ 'Affordable Housing and the Auckland Unitary Plan', July 2013.

Inclusionary Housing 'tax' is a rates charge that places a cost where the economic and social benefits lie. It is difficult, at this point, to assess to what extent rate charges would need to apply given the recent changes in the application of the Variation in the 42 report and the inevitable change to the 1,000 affordable homes identified in the assessment.

Conclusion

- 68 There is little doubt that the QLD community is experiencing an increase in unaffordable housing, with a larger proportion of its residents facing housing cost greater than 30-35% of gross household income²². The sources of this issue appear to be varied but are inherently linked to additional demand from residential visitor accommodation and non-resident homes.
- 69 This demand-side issue is heightened by an historical undersupply of suitable dwellings to the market as well as the suitability of land for development and associated infrastructure costs. Both these issues are key objectives in QLDC plan changes to meet the requirements of the NPS UD.
- 70 The international literature on Inclusionary Housing is mixed in terms of supply and price impacts, with assessments ranging from no negative change to a measurable reduction in supply and subsequent increase in price. Ultimately the proposed Variation represents a risk to the efficient and effective operation of the QLD housing market and more recent changes to give effect to the NPS UD, with significant uncertainty regarding the assessed economic benefits.
- 71 Additionally, in considering the potential level of the quantified benefits presented by Council, there is a higher likelihood that the quantified economic impact will be materially negative combined with potentially inefficient impacts on housing provision as a whole.

Philip Osborne

19th December 2023

²² A figure maintained by Community Housing Aotearoa, the QLDC s32a identifies 35% ratio.