

IS THERE A PLACE FOR AFFORDABLE HOUSING PLANNING REQUIREMENTS IN NEW ZEALAND?

A discussion document
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Community Housing Aotearoa¹ (CHA) and Community Housing Solutions² (CHS) have developed this paper to progress a discussion of Inclusionary Zoning as one of the tools that can support our vision of ‘all New Zealanders well-housed’. This paper builds upon prior work we have undertaken ourselves and with others interested in improving the responsiveness of the housing system.

CHA and CHS have worked with numerous councils on housing needs assessments, strategies and task forces. A recurring theme from this work is the desire for additional tools to address unmet housing needs effectively, with affordable housing arising consistently as a key area of unsatisfied demand.

There is widespread and growing interest in understanding Inclusionary Zoning and how it might work in the New Zealand context. This interest was confirmed by the remit passed by Local Government New Zealand at its Annual General Meeting in 2020. It stated that LGNZ:

Calls on the Government to introduce legislation that would fully enable councils to address housing affordability in their communities through a range of value uplift and capture tools, one such tool being ‘inclusionary zoning’;

Seeks to establish a working group on affordable housing, comprising of relevant/affected councils, central government (MHUD, Kāinga Ora, MSD), iwi, and the community housing sector; and

Advocates to central government for an affordable housing National Policy Statement to be developed.

We would like to thank Tanya Perrott for her preparation of this discussion document.

¹ Community Housing Aotearoa (CHA) is a peak body for the community housing sector. In order to achieve our vision of ‘all New Zealanders well-housed’, we have a strategic focus on supporting a well-functioning housing system and working toward the progressive realisation of the right to housing. Our 90 provider members are home for nearly 30,000 kiwis nationally across 14,000 homes, and our 19 partner members include developers, consultants and local councils.

² Community Housing Solutions is a wholly owned subsidiary of CHA formed in 2017. CHS is a specialist housing consultancy and assists clients with a range of assignments in relation to social and community housing.

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Executive summary

Inclusionary zoning is a tool local authorities in New Zealand could use to secure and ensure a reliable pipeline of affordable housing supply.

It offers one option delivering two critical system level interventions. The low amount of affordable housing supply is a critical failing of our housing system today, and inclusionary zoning offers the opportunity to produce a systemic response: not ad hoc affordable development, but a pipeline of affordable supply. Inclusionary zoning operates in a deeply systemic way, attached as it would be to the very planning tools and regimes that enable and ratify all residential development.

It is a planning requirement that means affordable housing is delivered as part of each development over an agreed size or number of units. Under this regime developers set aside a proportion of their project for “affordable” housing, or land or payment in lieu, often vested with not-for-profits. The requirements can in some way be seen as a trade with local authorities for planning uplifts.

Inclusionary zoning is common in the United States, England, Europe and parts of Australia. It has also been trialed in a small way here in Queenstown and other councils under the Housing Accords and Special Housing Areas Act.

A number of local authorities have been considering this tool and have now called on the Government to pass new legislation that supports the use of inclusionary zoning approaches in New Zealand. The purpose of this legislation would be to avoid lengthy and costly legal challenges and to ensure good practice. The review of the Resource Management Act might provide an opportunity to develop such legislation.

Housing in New Zealand cities is considered amongst the least affordable in the developed world. Low to middle income households, in particular, have few choices. There are not enough lower value homes to buy or rent, including for both small or larger households.

New house builds provide the main opportunity to increase the overall supply of homes and diversify the stock to meet changing needs, but for a range of reasons, the development of lower quartile homes has all but dried up since the 1990s.

There are different views about whether more affordable housing – as opposed to public housing for example - is required. Some question whether the market can produce more affordable homes without additional cost, whether it will need to be subsidised, and if so, by who? Many recognise that inclusionary zoning produces a modest but meaningful supply of lower cost housing, while some argue against it as distorting the market. However, debate to date has often been drawn down into specific policy design features rather than the effectiveness of a planning requirement per se: this is in part because without a legislative regime, the framework is not established so debate traverses the numerous provisions that remain in the *possible* category.

Inclusionary zoning approaches do vary tremendously. In some jurisdictions the requirements are a mandatory form of “value capture” while in others they are voluntary and accompanied by incentives (such as up-zoning). Existing programmes use different definitions of affordable housing and require different amounts to be set aside. The regulations might emphasise market provision of lower quartile homes, or a significant role for not-for-profits to provide subsidized housing for rent or progressive ownership. They might require the homes to be retained in place for future households or allow the initial home buyers to take the capital gain, re-privatising the public value created in the process.

Assuming we are committed to ensuring that the supply of affordable housing increasing in the medium term, this paper poses the question: should we develop legislation to enable local authorities to implement well-designed inclusionary zoning in New Zealand?

1. Introduction

It is timely to consider whether there should be a greater role for well-designed inclusionary zoning requirements in New Zealand. This paper presents, for discussion:

- A definition of the problem that affordable housing planning requirements are focused on, and a summary of what we know about the causes of the problem and solutions to it
- Different forms of affordable housing planning requirements in place around the world and the debate about their impacts
- Good design features, and next steps.

Local Government New Zealand (LGNZ) members have passed a remit to ask the Government to introduce legislation that would *“fully enable Councils to address housing affordability in their communities through a range of value uplift and capture tools, one such tool being ‘inclusionary zoning’”*.

They have in mind local authorities being able to impose district plan requirements on developers to make a proportion of their developments available for “affordable” housing. This would be vested (either as homes, land or funding) in registered housing trusts, which would make subsidized housing available for low-middle income households. A wide variety of such zoning requirements are common overseas, and they would complement various central and local government and community initiatives to meet housing need.

There are already a couple of examples in New Zealand. Affordable housing provisions were a feature of Special Housing Areas which granted streamlined resource consenting, via accords between Government and local authorities until recently. Queenstown Lakes District Council has utilised inclusionary zoning since 2005, to capture the value created when land is up-zoned. The policies have provided \$19m in funding and land for its community housing trust. However, following years of legal challenges and appeals, Queenstown Lakes District Council made significant compromises that limit the effectiveness of the inclusionary zoning provisions in its District Plan. Throughout this process the Environment Court has repeatedly ruled that inclusionary zoning provisions are consistent with the Resource Management Act. But it hasn’t ruled on the legality of specific design features of such provisions (and there are many choices to make).

Councils want to avoid lengthy and costly challenges and appeals processes. They seek legal mandate of the process and key features of affordable housing planning requirements.

The recent recommendations of the Resource Management Act review panel could provide an opportunity. The panel recommends replacing the Resource Management Act with a Natural and Built Environments Act and making land use planning more focused on achieving outcomes, rather than just managing effects on the environment.

2. Context

2.1 Are enough affordable homes being built in New Zealand?

What we do know is that the proportion of lower quartile homes being built in New Zealand has fallen significantly in New Zealand since 1960. Housing in New Zealand cities is considered to be amongst the least affordable in the developed world, according to the Organisation of Economic Cooperation and Development (OECD) and Demographia's International Housing Affordability surveys.

These agencies use "average" measures of housing affordability which divide median house prices by median household incomes. They are useful headline indicators, but they don't tell the full story.

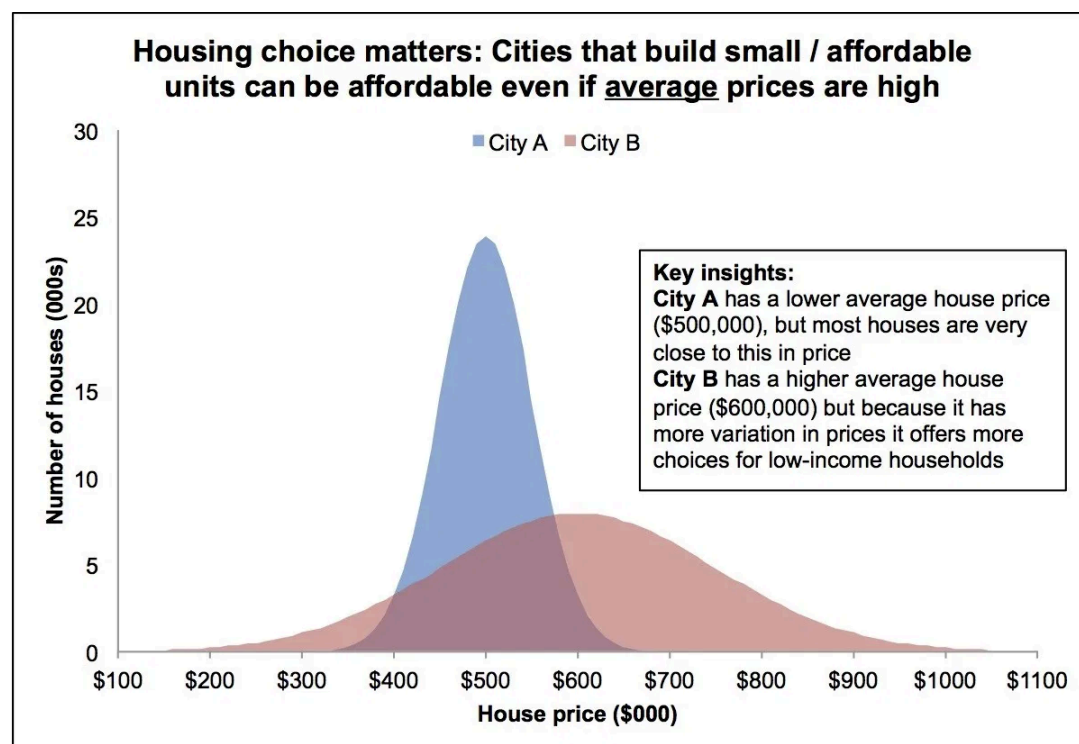
Local researchers provide rich information about:

- Where different people of different ethnicities and ages sit along the housing continuum, from homelessness, social housing, market rent and ownership, and how much this stresses their incomesⁱ
- Rental housing security, crowding and qualityⁱⁱ
- Broader educational, health, crime and productivity outcomesⁱⁱⁱ.

Less well understood is the extent of housing choices available to low-middle income households in New Zealand cities. Are there enough lower value homes available for purchase or rent? Are there enough smaller, attached homes for older people? Or larger homes for extended families?

Figure 1 shows how these choices can make cities affordable even if average prices are high.

Figure 1 Average house prices versus housing choice^{iv}



The proportion of lower quartile homes being built in New Zealand has fallen significantly in New Zealand since 1960. This is important because new builds both expand housing supply in growing cities and provide the main way of diversifying the housing stock as household types and sizes change.

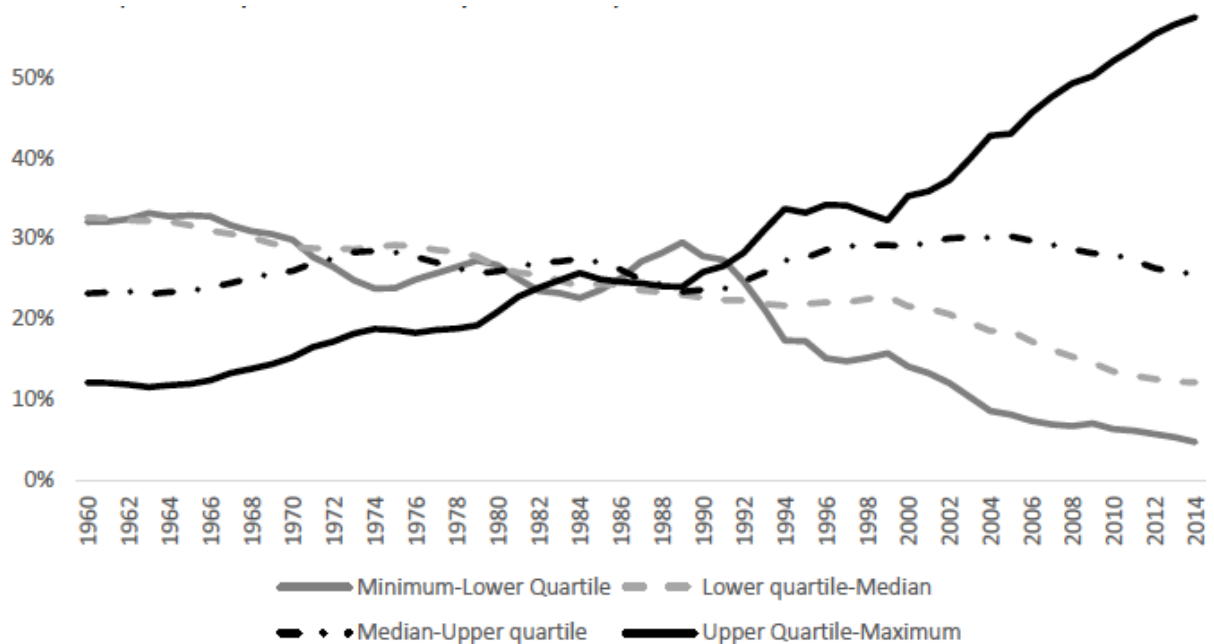
Currently new homes in New Zealand are primarily built for purchase by those on their second and third home, while everyone else buys second-hand. The market for first home buyers is small and build-to-rent almost non-existent. But this isn't necessarily the case in other countries, and it hasn't always been the case here.

Most of the new houses constructed in New Zealand between 1960 and 1990 were low to median value family homes. This corresponds with a time when the Government both built significant social housing and provided capital assistance for new house construction, including subsidized loans and the capitalization of the universal family benefit.

After 1991 when these supports were withdrawn and housing policy reformed, the construction of low – median value homes rapidly declined. By 2014 over half of the houses built were in the upper quartile of value and less than 20 percent low-median value (see Figure 2)⁹.

This is the problem that inclusionary zoning requirements in New Zealand could be focused on.

Figure 2: Proportions of new house builds by quartile of value 1960-2014



2.2 Why aren't we building affordable homes?

There is a lot of debate about what is most causing our housing affordability problem. But it seems that fewer lower quartile homes are being built in New Zealand for some of the same reasons that housing is becoming less affordable in general.

First, these are global problems with some global drivers, including:

- Rapid expansion of credit and reducing interest rates since financial markets were deregulated in the 1980s, which has fueled demand for more and bigger homes^{vi}, and fueled the capability of households to borrow their way into the market at almost any cost
- Increased labour mobility expanding demand for homes in cities in particular
- Constraints on the supply of developable land, as it becomes more costly to service sprawling developments of stand-alone homes
- Governments withdrawing from both state house provision and capital assistance to first home buyers from the 1990s.

Some features of New Zealand may exacerbate the housing affordability problem here:

- Preferential tax treatment of capital gains, encouraging overspend on housing
- A dominance of landlords chasing that capital gain rather than looking after renters
- Government's reluctance to intervene (until recently), and then it's focus on homeownership and state housing and not market renters (until recently), leading to a constrained role of local government and community organisations in providing affordable housing
- The inability of our planning system, infrastructure and construction sector to respond to the immigration and investment demand shocks in the last ten years
- As a small, distant country we may be more attractive to live in (so people will pay a premium in house prices) than do business in (keeping wages low).

Since the early nineties section prices and construction costs have increased in real terms, and shortages of homes relative to demand have emerged. House prices have escalated at all levels. New house builds slumped with the removal of public subsidies and as developers focus on the highest margin products first.

But there also appear to be particular constraints or disincentives to building lower value homes in New Zealand, including:

- High land costs, preferential tax treatment and availability of cheap mortgage finance which incentivize developers (and buyers) to maximise capitalization
- Planning constraints on density
- Increasing use of covenants to control minimum size, typology and materials^{vii}
- Increasing fixed costs (including development contributions), which are a more significant share of lower value homes

- Higher per-square metre costs for building multi-storey and attached dwellings, because of more planning and Building Code requirements, scaffolding, etc.
- Recent difficulty obtaining finance for small homes and apartments.

2.3 Will recent housing reforms address the problem?

Prior to the 1990s New Zealand, like other countries, had an active programme of social housing building and provided subsidies for home ownership. This underpinned a significant production of lower quartile new house builds. From the 1990's on the Government withdrew these subsidies and wound down its investment in social housing.

But over the last five years the Government has introduced a raft of new measures to try to address rapid deterioration in housing affordability (Table 1).

Table 1 Recent New Zealand housing reforms

FOCUS OF REFORMS			
	Demand	Supply and input costs	Quality
Free the market		Local planning reforms Infrastructure funding & financing Building Act reforms	
Shape the market	Loan-to-Value-Ratio restrictions Bright-line property tax Foreign investment prohibition	Construction Sector Accord Kiwibuild Commerce commission building materials review	Healthy homes standards Residential Tenancies Act
Replace the market	First Home Grants and Loans	Kainga Ora Homes and Communities Act and Urban Development Act State housing programme Progressive Home Ownership Homelessness Action Plan	

Increasing the supply of housing and reducing its input costs

In particular the Government has sought to “free up the market” by removing land use planning and infrastructure constraints to housing development. It introduced:

- Independent Hearings Panels to oversee the Auckland Unitary Plan and Christchurch District Plan
- Special Housing Areas legislation to fast track consenting in developments
- The National Policy Statement on Urban Development, which requires councils to analyse housing affordability, provide sufficient opportunities for development to

respond to demand, enable intensification and remove car parking minima from district plans

- The Infrastructure Funding and Financing Act, which enables high growth councils to raise private sector finance for infrastructure through a special purpose vehicle, and levy future homeowners to recover the costs of this.

It has also started the process of amending the Building Act, in part to better enable prefabricated and off-site manufacturing of housing. However, it appears to have decided against action to facilitate build-to-rent.

The Government has sought to “shape the market” through an accord with the construction sector, producing a transformation plan to improve leadership, business performance, skills development, health and safety, the regulatory environment and procurement and risk. It introduced Kiwibuild to underwrite private provision of lower cost housing delivered within specified price caps intended to serve middle income first home buyers. The Commerce Commission also plans to review the competitiveness of building materials next year.

However, the Government hasn’t acted on the NZ Productivity Commission’s recommendation^{viii} that the Ministries of Justice and of Business, Innovation and Employment should review the legislative provisions governing covenants.

The Government is subsidising significant new housing supply itself (“replacing the market”) by funding an additional 6400 public houses by June 2022. It has given Kāinga Ora responsibility for delivering most of these, as well as thousands of other new homes through its urban regeneration programmes. The Urban Development Act provides Kāinga Ora with more powers to meet these targets. The Government has put aside \$400m of loans for between 1500 and 4000 new homes developed for leasehold, rent-to-buy and shared ownership. It has budgeted \$300m for its Homelessness Action Plan^{ix}, including 1000 new transitional housing places by the end of 2020.

Managing demand for housing

The Government hasn’t focused so much on managing demand for housing. It decided against the Tax Working Group recommendation for a capital gains tax on housing, leaving the housing market attractive to investment and over-investment for profit. It also allowed rapid increases in external migration until border controls were introduced in response to Covid19.

However, it has prohibited foreign investment in housing and introduced the “bright-line test” to tax investment properties sold within five years. Until recently the Reserve Bank also imposed tighter restrictions on bank loan-to-value ratios, dampening the demand of first home buyers and investors. The Government’s first home grants and underwriting of loans somewhat offset the impact of LVR restrictions on prospective first home buyers unable to save sufficient deposit. However, the recent easing of those restrictions has seen a surge in demand and lending activity, including to investors. Despite the economic uncertainty created by Covid19, home prices are increasing to historic highs in many cities.

Improving rental quality and security

The Government has also turned its attention to improving the security and quality of rental housing, with the Healthy Homes Standards and the Residential Tenancies Act. The apparent conflict between investment for profit versus tenant security remains an entrenched narrative, but one that has some truth at its core. In a rental market dominated by the perception of quick profits (from capital value increases) and relatively easy profits (low maintenance), the security of tenure afforded tenants seems to require constant attention.

The impact of reforms

There is debate about the success or otherwise of these initiatives (with some still to be finalized or their impacts still to be felt).

House prices have continued to rise. However, Auckland and Christchurch experienced several years of stable prices after their district plans were made operative, enabling significant additional development. Housing supply increased in both regions, with attached dwellings comprising an increasing proportion of building consents in Auckland and average sizes falling. At the same time, the “bright-line test” and ban on foreign buyers dampened investor demand in housing. The loan-to-value-ratio restrictions reinforced this and also restricted first home buyer demand.

The Government has discontinued the Special Housing Areas legislation, noting that SHAs increased the supply of housing in some areas but did not improve affordability. Kiwibuild homes have fallen well short of targets with less than 500 developed by August 2020. The urban national policy statement has improved council information about housing demand, but not yet affected planning.

Some commentators consider the Government has had too much faith in freeing up the market to develop more affordable housing, and insufficient commitment to regulating the market. This is where local affordable housing planning requirements come in.

3. Affordable housing planning requirements

Local planning regulations that require developers to set aside a share of their development for affordable homes are variously called “inclusionary zoning”, “value capture” or “minimum affordable housing” policies, depending on the details of their design.

These planning requirements usually have at least one of two objectives:

- Affordable housing: to increase the city-wide supply of housing available for and within the financial means of low-middle income households
- Social inclusion: to facilitate mixed income or housing tenure communities at the neighbourhood level.

Inclusionary zoning emerged in the United States in the 1970s. Similar policies have become increasingly common there and in England, Canada, Europe, India, South Africa and Australia since 2000.

They have particularly flourished where they are mandated by national and state government legislation or court rulings. For example, most of the around 1400 inclusionary zoning programmes operating in the United States are in New Jersey, Massachusetts and California^x. California requires local governments to plan to meet the housing needs of everyone in the community, and to provide density bonuses and other incentives to developers of affordable housing. New Jersey prohibits exclusionary planning and requires municipalities to take affirmative action to provide a “fair share” of affordable housing. Massachusetts requires communities to establish smart growth districts that include 20 percent of affordable housing. Inclusionary zoning is much less common in other states where the law is silent or where mandatory provisions are prohibited.

A tremendous variety of approaches have developed, as summarized in Table 2. In some jurisdictions the requirements are mandatory while in others they are voluntary. They might apply to all residential developments or only larger projects. They may be accompanied by incentives such as up-zoning or streamlined consenting or be tied to these as a form of value capture. Various programmes use different definitions of affordable housing and require different amounts to be set aside. The regulations may demand housing, land or payment in lieu of direct provision. They might emphasise market provision of lower quartile homes, or a significant role for not-for-profits to provide subsidized housing for rent or progressive ownership. They might require the homes to be retained in place or the capital gain recycled to provide continued affordable housing into the future.

Some of these design features interrelate.

Table 2: Design choices for affordable housing planning requirements

<i>Coverage</i>	<i>Delivery form</i>	<i>Definition of affordable housing</i>	<i>Percentage set aside</i>	<i>Retention mechanism</i>	<i>Cost offsets / value uplift / incentives</i>
Mandatory or voluntary	Home (of different sizes, and for rent, shared equity or ownership)	Relative to market prices, eg: <ul style="list-style-type: none"> • Lower quartile • Median price 	5%? 15%?	Vest with not-for-profit to: <ul style="list-style-type: none"> • Retain home for rent 	Planning incentives eg rezoning, density bonuses, reduced requirements
City-wide or select zones	Land	Relative to median incomes, eg affordable for households with 80-120% of median income to buy	Of total value or just value uplift?	or	Faster consenting
Minimum development size (eg 10 dwellings)	Financial contribution	Vested with public or not-for-profit organisations and reserved as subsidised rentals or shared ownership homes for low-middle income households	Determined by: <ul style="list-style-type: none"> • Overall target or • Share of market renter households or • Development feasibility 	<ul style="list-style-type: none"> • Recycle share of capital gain Covenant	Delayed development contributions, targeted rates, grants
	On-site or off site allowed		Site-specific depending on existing tenures and objectives	No retention mechanism	No cost offsets

3.3 What is the purpose of Inclusionary Zoning? Who should it help? Does it have an enduring role?

The states of New Jersey, Massachusetts and California mandate inclusionary zoning schemes and also specify many of their features, such as how affordability is defined, retention and incentives. The policies emerged in reaction to the socially exclusionary impact of planning rules. They aim to promote socio-economic and racial integration. As a result, most of the inclusionary zoning schemes in the United States^{xi}:

- Apply to all residential development across the entire town, city or county
- Require 6-15 percent of the value of the development to be affordable housing
- Result in on-site development unless the project is too small, when payment is common
- Require the affordable housing to be in place for 30 years.

In Britain, the Town and Country Planning Act enables local authorities to demand a payment for “planning gain” in affordable housing or other contribution, reflecting nationalised land development rights. The Greater London Authority and most London boroughs require a minimum of 30 – 50 percent affordable housing on new development sites. To achieve these high percentages, affordable housing has increasingly been defined to include homes priced only modestly below market rates^{xii}.

The two New Zealand inclusionary zoning examples have both been voluntary and in exchange for planning incentives. However, they are underpinned by different views about whether the market can provide affordable housing and its need to be subsidised.

The Housing Accord and Special Housing Areas Act (HASHA) attempted to address what was seen as a temporary dysfunction in the market by stimulating housing supply overall and private sector development of lower quartile homes in particular. The Act provided for select developments to benefit from permissive consenting processes in return for developing a set number of dwellings, often including affordable homes. Each council set different affordable housing targets (if any) related to house prices or household incomes.

By contrast, Queenstown Lakes District Council set out to use inclusionary zoning to provide an ongoing flow of resources for its community housing trust. The council anticipated an enduring need to provide subsidised housing for low income households, many of them essential workers struggling in a housing market otherwise catering to wealthy people. The Council designed mandatory inclusionary zoning district plan provisions based on the features of initial deeds it signed with developers in 2006. However, after a series of legal challenges the District Plan provisions were made a matter of assessment rather than mandatory. The HASHA provided an alternate, more certain way of obtaining inclusionary zoning contributions of around 10 percent on specified developments. With the HASHA coming to an end, the council intends to notify new inclusionary zoning provisions as part of its District Plan review in December 2020.

3.4 Should inclusionary zoning capture up-zoning value or be incentivized?

Value capture is usually thought of as a type of public financing that recovers some of the value that public infrastructure generates for private landowners. The concept is also often part of inclusionary zoning policies that are mandatorily applied when land is up-zoned. In contrast, voluntary inclusionary zoning policies tend instead to come with incentives or cost offsets. Both ideas incorporate a notion of public-private exchange.

Value capture is based on the idea that infrastructure and zoning confer benefits to landowners reflected in increased land values at the point of development. These are what economists consider “private” rather than public benefits, because they are:

- Excludable: Only available to those land-owners in the zone or near the infrastructure
- Rivalrous: Can be used up – ie the capacity of the infrastructure is finite, and once the land has been developed as zoned, the development right no longer has a value.

Some argue that it is reasonable for the public to seek a share of these private benefits especially where they incur public costs^{xiii}. In line with this the New Zealand Productivity Commission recommended new value capture tools to raise revenue for infrastructure from property owners that stand to receive windfall gains.

There are some conceptual and practical difficulties in assessing how zoning provides landowners with private benefits. Landowners tend to benefit from up-zoning, but this depends on how selective or widespread the up-zoning is, ie how many competing developments might have been enabled. (For example, Greenaway-Mcrevy et al found that large scale up-zoning by the Auckland Unitary Plan had an immediate depreciative effect on pre-existing intensive housing^{xiv}). Alternatively, it might be argued that landowners benefit from zoning *constraints* to development, rather than up-zoning. These constraints protect their amenity from neighbours’ actions and maintain the scarcity and therefore elevated value of existing homes and developable land. Finally, capturing the value created by zoning at the point of development could act as an incentive to land bank, rather than to develop. An alternative would be to capture the value from land-owners irrespective of whether they are developing their land – in effect this would be a targeted rate.

Value uplift or incentives for affordable housing depend on the opportunities available to up-zone or remove other planning rules. Councils at the beginning of their District Plan cycle may have relatively few of these opportunities. The National Policy Statement on Urban Development reinforces this situation, because it requires district plans to, *as of right*:

- Provide plenty of development capacity
- Enable intensification around centres and along public transport routes
- Remove car parking minima.

Arguably the National Policy Statement directs councils to remove planning rules that currently limit affordable housing or have exclusionary impacts. Councils may need to explore other incentives or cost-offsets for inclusionary zoning.

4. Debate

4.1 Does affordable housing need to be subsidised and if so, who should pay?

Planning requirements to produce a percentage of homes within a particular price/cost segment do not necessarily have to impose costs on individual developments. A range of developers specialise in this segment^{xv}, and it may be entirely possible for the overall market to profitably produce a greater share of lower value homes. It could be achieved in part by producing more smaller homes, attached typologies and manufacturing off-site or using modular prefabricated technologies.

Modelling undertaken for the Proposed Auckland Unitary Plan in 2013 assumed that an affordable housing planning requirement would have a cost. Nevertheless it suggested that a mandatory requirement would still be “development feasible”, and that any reduction in profitability could be passed on to landowners in the form of lower prices for greenfield land thereby mitigating the cost^{xvi}. This relies on the requirement being applied to all developable properties, and certainty that it would be a long term feature of the planning system. It would take time to flow through because of the stickiness of land prices.

However, the Auckland Unitary Plan Independent Hearings Panel saw affordable housing provisions as effectively a “tax” on the supply of dwellings that may reduce the supply or increase prices in another part of the market, resulting in an inefficient/opposite outcome than intended^{xvii}. Property developers voiced concerns^{xviii} that imposing requirements on developers may incentivise land banking, while targeting larger scale developments could particularly disincentive apartment building right now.

Research suggests that the individual and market impact of planning requirements depends on the strength of demand and the property cycle^{xviii}, as well as design features such as the definition of “affordable” housing and the percentage required. These variables would be key inputs to feasibility modelling of the planning requirements^{xix}.

Some argue that the cost of providing affordable housing should be shared between the public, private and community sectors, or that inclusionary zoning is simply a way of capturing the private value of zoning^{xx}.

This issue of whether there are costs associated with a requirement to provide lower value dwellings, and who pays for them – known as “incidence controversy” – is a key debate internationally and remains unresolved^{xxi}.

4.2 Does inclusionary zoning increase the supply of affordable homes?

An international review of case studies in USA, Canada, UK, Ireland, France, Spain and Italy in 2010 found inclusionary housing to be “*the best answer to addressing global affordable housing needs*” in the economic and political climate at that time^{xxii}.

Recent Australian research finds that planning tools, supported by subsidies, leverage significant quantities of affordable housing supply in many parts of the UK, the US and in South Australia. In 2015-16 affordable housing requirements facilitated nearly 13,000 dwellings in England, 43 percent of all of affordable housing. Between 2005-15, 5,485 affordable homes (17 percent of total housing supply) were delivered through an inclusionary planning target in South Australia^{xxiii}.

However, a New Zealand Productivity Commission review of international evidence found that affordable housing planning requirements have little impact on the overall supply of lower-priced housing and can create uncertainty, delays and administrative costs^{xxiv}.

An Auckland Council report showed that of 46,793 sites or dwellings consented in Auckland under the Housing Accord and Special Housing Areas Act, 2.9 percent were “relative affordable”³ and 4.5 percent “retained affordable”⁴. This fell well short of targets. Another study found that the median prices inside the Auckland Special Housing Areas (SHAs) were 6 percent higher than median prices just outside the SHAs^{xxv}. This was due to the selective nature of the SHAs, the impact on land prices (with some owners selling rather than developing) and lax monitoring of the affordability requirement.

Inclusionary zoning has provided the Queenstown Lakes Community Housing Trust with \$19m in assets over the last 13 years, which it holds in perpetuity to offer a range of subsidised housing tenures to low income households. The Trust has been able to help 176 households since its establishment and has 300 sites still to develop.

4.3 Does inclusionary zoning achieve social integration?

Some research suggests that affordable housing planning requirements are not an effective approach to achieve social integration, especially when alternatives to on-site construction are applied^{xxvi}.

On the other hand, the planning requirements also face criticism from local residents who fear negative impacts on amenity and their property values, increased crime, and the characteristics and behaviours of prospective residents. An evaluation of impacts in Queenstown found these fears to be unfounded^{xxvii}.

4.4 Does inclusionary zoning solve the housing affordability problem?

It seems unlikely that inclusionary zoning addresses the causes of unaffordable housing (if we could agree what these causes are). Rather, in the absence of policies targeted at the causes, inclusionary zoning may be best seen as part of a package of initiatives to mitigate the effects of the problem. In particular its place is to help out low-middle income households and ensure some level of social integration spatially.

³ Homes for first home buyers priced at 75 percent of the Auckland median house price.

⁴ Held by community housing providers and made available to owner occupiers such that their monthly mortgage payments would not exceed 30 percent of the median household income.

4.5 Summary

There is some agreement in the literature that in order to be effective, inclusionary zoning requirements should:

- Be mandatory across the geography of the housing market, not voluntary or selective
- Define affordability with reference to the incomes of target households and informed by evidence about the local housing market
- Use feasibility modelling to test the impact on different developments of required affordability percentages required and other features
- Allow a range of delivery forms (eg land, houses or financial contribution)
- Require retention through a range of mechanisms, (such as covenants, retention of rental stock, recycling of capital gain in shared equity arrangements)
- Be accompanied by cost off-setting measures such as faster consenting, delayed payment of development contributions, and/or planning concessions⁵
- Provide a significant role for the not-for profit sector in designing and managing the affordable homes with a range of tenure options
- Be carefully enforced and monitored by the council
- Be formalised in legal frameworks (eg district plans, legislation) that demonstrate long term commitment.

Most of the literature underpinning the debate is descriptive, theoretical or correlational. Very little empirical work has been undertaken demonstrating a causal relationship between the planning requirement and outcomes^{xxviii}. The debate is often more about the impacts of different planning requirement design features and their interaction with local context, than about the effectiveness of a planning requirement per se. It has not been possible to find the “model” answer.

A New Zealand approach could also specifically consider the role of Papakāinga/ Kāinga Nohoanga and iwi and Māori housing providers.

5. Next steps

The purpose of this paper is to stimulate discussion between local authority officers, Government officials, community, iwi and Māori housing organisations and property sector representatives about whether there should be a stronger role for inclusionary zoning in New Zealand.

The answer to this partly depends on the detail. The paper provides some information to develop “good design” principles, objectives, parameters and processes for local authorities

⁵ The planning concessions that are commercially advantageous depends on type of development and market, and how enabling the Plan already is. Many developers may not want density bonuses.

to develop specific inclusionary zoning policies. Preferably these would be workable and effective for all stakeholders (and might be co-designed by them).

If there is sufficient appetite to progress, such design principles etc. could be written into legislation. This could take the form of a revised version of the Affordable Housing Enabling Territorial Authorities Act 2008, which was repealed in 2010 following a change of government. Alternatively, it could be incorporated into something like the Natural and Built Environments Act recommended by the Resource Management Act Review Panel.

Alongside this process it would seem fruitful to explore further what is needed to support the development of more lower quartile homes in New Zealand. This might provide added impetus for other initiatives such as restricting covenants, planning provisions that *enable* more affordable housing, and the provision of public land for build-to-rent.

5.1 What are your thoughts?

The issues raised in this paper do not have easy answers. Only by exploring the issues together can we discern a path forward. We welcome your ideas and input. To further the discussion we plan to hold meetings, seminars and webinars to engage with all who are interested in finding solutions to the housing challenges we face. However, you do not need to wait for these events to share your thoughts. Please email your ideas, proposals or questions to Chris Glaudel at projects@communityhousing.org.nz to further this discussion.

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