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NEW ZEALAND PRODUCTIVITY COMMISSION'S NOVEMBER 2014 ISSUES PAPER 'USING LAND FOR HOUSING'

23 JANUARY 2015

Executive Summary and Recommendations

1. **Housing supply is only one part of a complex issue:**
   - The issues impacting housing affordability are complex and no single solution will address affordability on its own.
2. **There is a crucial role for Central Government:**
   - Local government's role in land supply is important, but strong leadership is needed from central government if the country is serious about addressing housing affordability.
   - There is a role for central government in:
     - Providing housing;
     - Strong legislative and institutional provision for affordable housing (such as through housing associations to ensure long-term affordability);
     - A stronger role for central government in affordable renting provision;
     - An increased range of effective local measures, including infrastructure funding options.
3. **Affordability differs throughout NZ**:
   - The affordability of housing in different parts of New Zealand can differ markedly and is a significant issue, particularly in Auckland and Christchurch.
   - Hamilton is still an affordable city to buy a house and has become more affordable in recent years based on the Demographia report series i.e. since Hamilton was first included in this report (2007), the index has reduced from 6.3 to 4.7 (2015 report) and has continued to trend downwards since 2010.
4. **Hamilton's approach to housing supply is sound:**
   - For many years Hamilton has had a strong approach to the strategic management of growth which has ensured that there is zoned land supply for the next 40 years, and serviced land supply for at least 10 years.
   - Although there is not a shortage of zoned or serviced land in Hamilton, there is a challenge with funding infrastructure.

5. **Funding of growth infrastructure is Hamilton's biggest issue:**
   - Funding infrastructure is the biggest challenge for Hamilton and all growth councils in the housing affordability debate.
   - HCC is not in a position to forward fund growth related infrastructure in all identified growth areas of the city.
   - Legislation and regulations (e.g. Local Government (Financial Reporting and Prudence) Regulations 2014), set the context in which councils must operate.
   - Department of Internal Affairs reporting shows that many high growth councils (including Hamilton) are already highly indebted which limits the ability to borrow further to fund growth infrastructure.
   - Development contributions only fund 50% of growth infrastructure and require investment upfront, with a long-lead time to recoup this investment. This puts pressure on council balance sheets.
   - As Hamilton is a high growth metro, assistance from Government should be investigated and additional funding options made available which minimise pressure on local ratepayers.
6. **RMA reforms supported:**
   - HCC supports regulatory/RMA reforms which could assist in providing housing land, and advocates for Government to develop a comprehensive policy to address housing affordability that addresses issues beyond supply side measures.
7. **Developers' incentives need to be examined:**
   - The Commission should recognise that councils have limited powers to directly control the timing and final stages of the development process creating 'shovel ready' capacity for building housing.
8. **Good practice examples:**
   - HCC has a number of examples where it has been successful in ensuring that the supply of housing meets the projected demand (refer point 62).

RECOMMENDATIONS

9. **Infrastructure for Housing (Questions 44-55)**
   - A form of Government assistance should be investigated and additional funding options made available which minimise pressure on local ratepayers and enable large capital investment in infrastructure. The Government should investigate:
     - Additional direct or indirect Government funding, such as via a regional infrastructure funding source;
     - Subsidies for growth councils;
     - Direct provision of housing by the Government;
     - Exceptions for growth areas;
     - Zero percent loans (subject to considerations regarding debt levels);
     - Funding guarantees, and grants;
     - Land uplift taxes as used in the UK;
     - Not charging GST on rates, or providing a refund.
   - Clarification in the LGA 2002 regarding obligations on territorial authorities and developers in regard to providing trunk and bulk infrastructure to service development would reduce delays to service provision and ultimately the supply of serviced land.
   - Financial regulations that came into force in 2014 act as a barrier to use debt funding for infrastructure investment to enable housing development and should be examined.

10. **The Planning and Development System (Questions 1-4, Q8, Q13, Q17, Q18, Q21-43)**
    - Any recommended changes to the RMA or other legislation would need to be part of a wider range of initiatives including funding and financing of infrastructure provision and not considered in isolation but could include:
        - A National Policy Statement or other instrument is needed in order to provide clear direction to councils;
        - Streamlined processes, including standard s32 reports, should be considered where a plan change/variation or plan review seeks to deliver affordable housing;
        - A standard plan format, including standard definitions, is supported;
        - Alternative planning arrangements that reduce timeframes, including by way of limiting appeals and objections, such as those provided through Board of Inquiry processes, the Auckland Unitary Plan process and processes in the Housing Accords and Special Housing Areas Act, should be considered.
        - Specific provisions to enhance the ability for councils to efficiently and effectively deliver infrastructure for growth. This could include streamlined RMA processes for council infrastructure projects.
        - A streamlined legislative process for Council-led spatial/strategic plans.
    - Any examination of the planning and development system should not be framed solely in terms of the system's ability to control externalities but should be part of a comprehensive analysis to ensure a focus on the delivery of quality, successful, urban communities. HCC made a submission to the Urban Taskforce in 2010 in which similar points were raised and elaborated on, and can provide a copy of this submission if the Productivity Commission would find this useful.

11. **Incentives on developers as landowners (Questions 68 – 70)**
    - The Productivity Commission's inquiry should examine options and solutions to ensure that residential developments will be brought to the market by developers in a timely manner. These could include:
        - Examining the incentives provided for developers due to the way that DCs and rates are charged;
        - Limiting the ability to stage subdivisions in a way that allows developers to sit on land and drip-feed it onto the market;
        - Significantly shorter timeframes from subdivision consent to s224c stage.

12. **Definition of Development Capacity:**
    - A clear definition of development capacity needs to be provided. This should take into account that councils have little control over the timing of the final phases of development or ensuring land is brought to the market. HCC considers that a useful definition would be broken down into four categories to include:
        1. Land that is shovel-ready, which has all bulk/strategic infrastructure provided and all that remains is for a developer to obtain subdivision consent and provide local infrastructure;
        2. Land that has bulk/strategic infrastructure funded in years 1-3 of the LTP;
        3. Land that has bulk/strategic infrastructure funded in years 4-10 of the LTP;

4. Land that does not have bulk/strategic infrastructure funded and for which private developer agreement/funding would be required.

Specific Comments

The Hamilton Context - Housing Affordability in Hamilton

13. Hamilton has a rapidly growing population that is projected to grow by 50% in the next 40 years from 147,290 to 221,390 in 2063. It is also one of the fastest growing cities in New Zealand and experienced population growth of 9.3% between the 2006 and 2013 Census (source: Statistics NZ, 2014).

14. The three most commonly used indices showing Hamilton's housing affordability relative to other New Zealand cities are outlined in Table 1.

Table 1: Commonly Used Indices of Housing Affordability

City/District	Demographia (September 2014)	Demographia (September 2013)	Interest.co.nz (November 2014)	Massey University (June 2014)
Queenstown Lakes District	Not available	Not available	8.15	26.5
Auckland Metro	8.2	8.0	7.91	28.5
Tauranga City	6.8	6.6	5.05	19.5
Christchurch City	6.1	5.8	5.86	21.2
Wellington Metro	5.3	5.5	4.86	19.4
Dunedin City	4.6	5.2	3.91	13.9
Hamilton	4.7	4.8	4.81	19.5
Palmerston North City	4.1	4.5	3.64	12.2
Note: The Demographia and interest.co.nz indices are based on the 'median multiple' (the median house price divided by the gross annual median household income). Both indices rate 3.0 or below as affordable. The Housing Accords and Special Housing Areas Act 2013 specify that a median multiple of 5.1 or over is unaffordable. The Massey University index does not specify a point at which housing is 'affordable' but specifies that the lower the index, the more affordable it is.				

Source: 10th and 11th Annual Demographia International Housing Affordability Survey: 2014 and 2015 (data 3rd Quarter 2013 and 2014); www.interest.co.nz ; Massey University Home Affordability Report (Quarterly Survey June 2014, Volume 24 Number 2).

15. Since Hamilton was first included in the Demographia report (2007), the index has reduced from 6.3 to 4.7 (2015 report) and the index has continued to trend downwards since 2010, meaning that housing in the city has become more affordable.

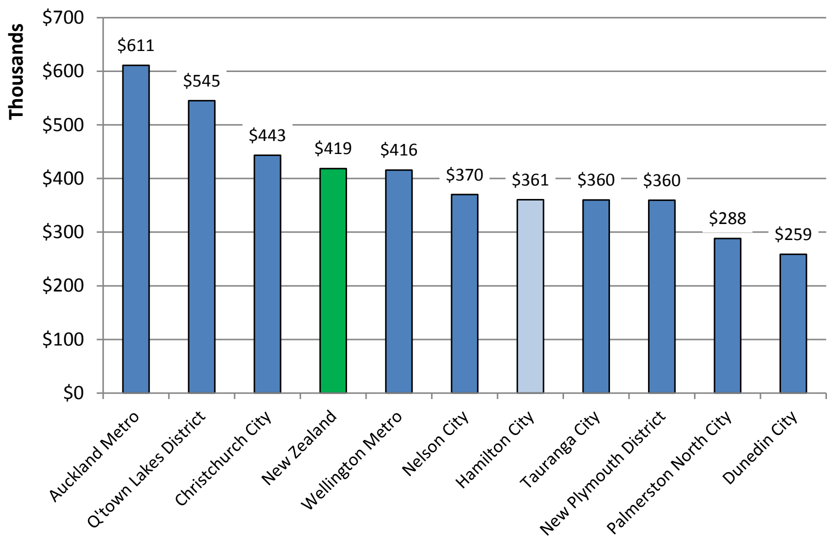
16. The 2015 report also showed that Hamilton was the 3rd best ranked city for affordability in New Zealand (Palmerston North was 1st at 4.1 and Auckland was 8th at 8.2), as well as being the 3rd best for Household Income after Auckland and Wellington i.e. $63,000 in 2013 and $67,000 in the 2015 report.

17. Hamilton does not have a housing affordability issue in terms of the factors specified in s9 (3) of the Housing Accords and Special Housing Areas Act 2013, despite Hamilton recently being placed in Schedule 1 of that Act. The measure specified in s9(3)(a)(i) of the Act is that the weekly mortgage payment on a median-priced house as a percentage of the median weekly take-home

pay for an individual should not exceed 50%, based on a 20% deposit. Based on current data, Hamilton housing meets this affordability measure with a percentage of around 38.7%[1]. The requirement in s9(3)(a)(ii)for the median multiple (the median house price divided by the annual median household income) to be less than or equal to 5.1 is also met, with this being 4.7 as measured by the 2015 Demographia report or 4.81 as measured by interest.co.nz.

18. Hamilton's median house price of $361,000 (June 2014) is at the lower end compared to other New Zealand major cities, as illustrated in Figure 1 below, even though Hamilton's median household income ranks third in the country behind only Auckland and Wellington at $80,500. The combination of lower house prices and higher median income gives Hamilton a favourable position regarding housing affordability.

Figure 1: Median House Prices June 2014



Source: Real Estate Institute of New Zealand.

19. Renting in Hamilton is also relatively affordable. For example, a 3-bedroom home in Central Hamilton costs about 50% less to rent than it does in Central Auckland.[2]

20. MBIE's quarterly housing report (June 2014) highlighted the 'tale of two housing markets' – Auckland and Greater Christchurch, and the rest of New Zealand[3]. Their analysis indicates that the Auckland and Greater Christchurch markets are becoming increasingly separated from the rest of New Zealand. The Productivity Commission should take these differences into account when making any recommendations.

Growth Demand and Land Supply in Hamilton (Q14 and Q15)

21. For many years HCC has invested strongly in strategic planning and funding infrastructure for new greenfield land. Hamilton has an Urban Growth Strategy which sets out the future growth of the

[1] Based on a calculation as at 10 January 2015 at an interest rate of 6.74% for a 30 year loan, a median house price of $361,000 and a median income of $80,500, this would amount to 38.7% of take-home pay.
[2] Source: MBIE, Building and Housing Information, 2014, as quoted in 'Hamilton City Growth Overview' June 2014, BERL.
[3] http://www.dbh.govt.nz/UserFiles/File/Sector%20info/nzhc/2014/nz-housing-quarterly-june-2014.pdf

City. Hamilton is also a partner in the Future Proof strategy which was adopted in 2009 to achieve co-ordination of urban growth in the wider sub-region which encompasses Waikato District Council and Waipa District Council areas. The sub regional approach is very important because of the growing demand for city services and because understanding the land supply and demand close to Hamilton's boundary impacts on decisions the Council makes relating to investment in growth.

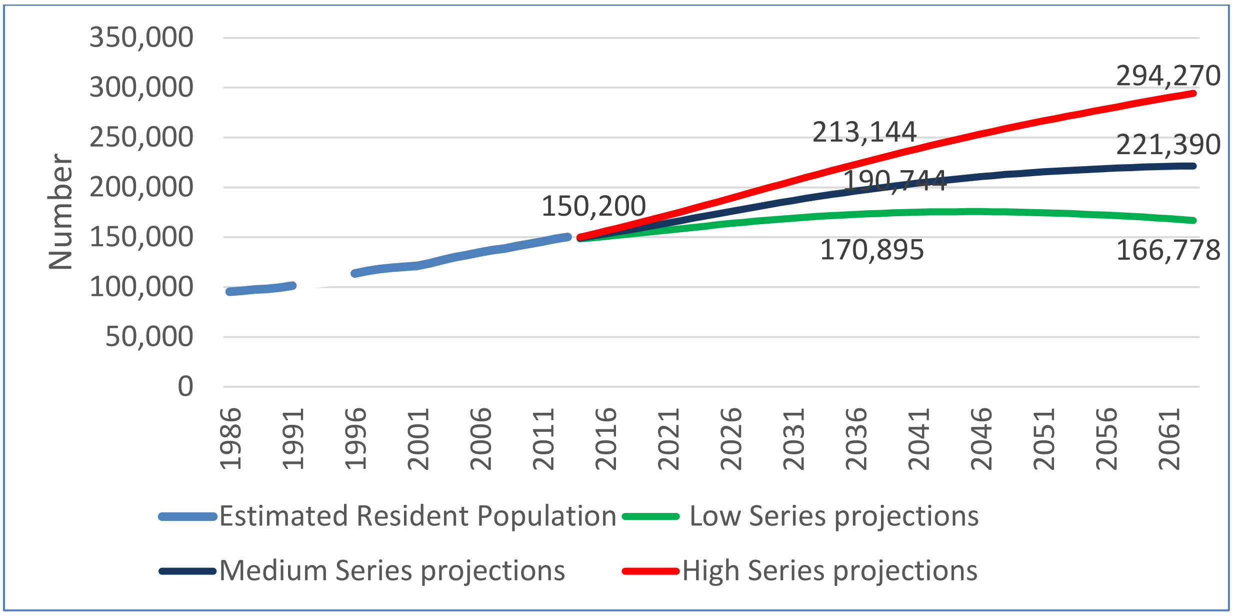
22. The two strategies outline where urban development will occur over the next 30-50 years which ensures the supply of housing will be sufficient to accommodate the expected demand driven by population growth. Demand projections have been completed by the National Institute of Demographic and Economic Analysis (NIDEA) at the University of Waikato for the Future Proof sub-region and wider Waikato Region to ensure a consistency of demand assumptions. Waikato councils have aligned the Regional Policy Statement, District Plans and Structure Plans within this long-term land use strategy.

23. A key feature of the Hamilton Urban Growth Strategy and the Future Proof Strategy is an integrated planning approach to ensure that land use planning is integrated with the planning for infrastructure. In our view, a strategic approach is therefore very important in providing certainty for the Council, community and developers for the proposed sequencing and staging of growth. These strategies have provided that.

<u>Housing Demand</u>

24. The principal drivers for dwelling growth are population growth, demographic change, economic activity and access to credit markets. Recent demographic work undertaken by the NIDEA on population projections for Hamilton is illustrated in Figure 2.

Figure 2: Population Growth Projections: Hamilton 2013 – 2061



Source: NIDEA Projections 2014.

25. Applying a medium population projection scenario to an assumed (Census 2013) 2.8 people per household, Hamilton will require the following number of new dwellings (refer Table 2).

Table 2: New Dwellings Required in Hamilton to Meet Housing Demand

Period	New Dwellings Required
2014-2018	3,668 at a rate of approximately 730 per year
2019-2023	4,049 at a rate of approximately 810 per year
2024-2028	4,085 at a rate of approximately 820 per year
2029-2033	3,725 at a rate of approximately 750 per year

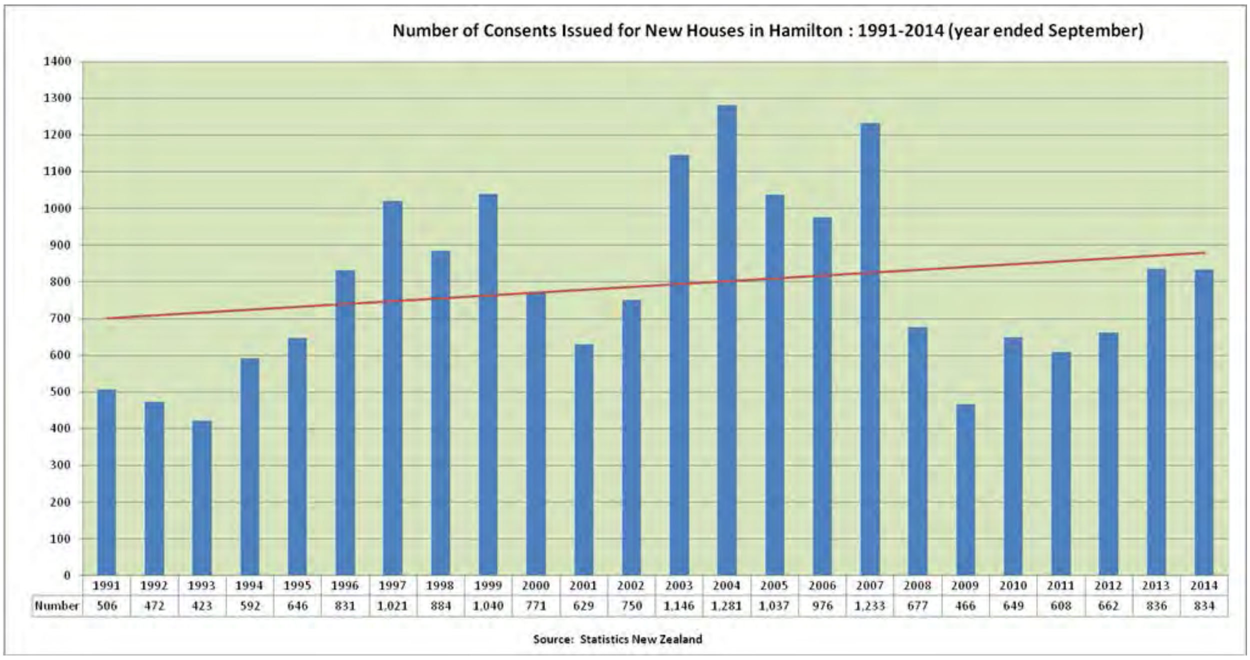
Source: HCC estimates.

Housing Supply

26. As a result of a strong focus on strategic planning, Hamilton has decades of supply of zoned and structure-planned land zoned or identified for future urbanisation, equating to a substantial supply even under high growth scenarios. HCC also has strategic infrastructure either in place already, or programmed in the 10-Year Plan to provide services to greenfield urban development.

27. The demand for new dwellings will be met through a mixture of new development in greenfields areas and from the existing parts of the city (through infill and intensification). Over the last five years an average of 40% of new dwellings were in the existing parts of the city. The total number of new dwellings completed in Hamilton has historically averaged about 790 per year. Over the housing boom period of 2002-2008 this rose to around 1,000 per year, but fell to around 500 per year from 2009-2011. The latest period from 2012-14 shows a return to longer-run averages experienced in Hamilton over the past two decades (refer Figure 3).

Figure 3: Number of Building Consents Issued for New Houses in Hamilton: 1991 – 2014



28. If the 25 year average growth rate of 790 dwellings per year is assumed, the current supply of land in Hamilton would be sufficient for over 60 years. Land that is zoned for residential use would provide capacity for around 40 years of growth. The Productivity Commission has not provided a definition of serviced land at this point, however in terms of land that is zoned, consented and/or serviced by infrastructure, the best estimate of supply for Hamilton is at least 10 years. This is conditional upon developers continuing to fund their growth development costs. This information is the best available at the present time and HCC would like to have discussions with the Productivity Commission in February 2015 about the data and assumptions used. HCC is also currently undertaking more detailed work on the nature, timing and capacity of the infrastructure serviced land supply, which will take into account the most up-to-date assumptions for the 2015-25 Long Term Plan. HCC is happy to provide that information to the Productivity Commission as it becomes available. Without a clear definition as to the Productivity Commissions' terminology (e.g. 'shovel-ready'), there will be variations amongst different councils as to how 'serviced' land capacity is calculated. This is discussed further below.

29. Summary:
    - Hamilton has benefited from having land use strategic plans, including sub regional plans, in place for many years.
    - Hamilton has sufficient zoned land to meet demand for housing for the next 40 years and infrastructure serviced land provision for at least 10 years.
    - Hamilton has sufficient supply of potential sections for housing purposes.
    - Release of further zoned greenfield sections in Hamilton would not materially improve the city's housing affordability.

Funding Infrastructure for Housing (Questions 44-55)

30. Funding infrastructure is the biggest challenge for Hamilton and all growth councils in the housing affordability debate. The reality is the Council is not in a position to forward fund growth related infrastructure in all identified growth areas of the city. A map showing the growth areas in Hamilton is attached for information.

31. There are already around 1,000 ha of land (approximately 16,000 sections) in Hamilton zoned residential in greenfield areas that are undeveloped because of the cost to provide infrastructure by either private developers or the Council. Funding infrastructure to enable development is the Council's biggest challenge.

32. HCC's role in providing infrastructure is generally citywide and strategic (such as water and wastewater plants, bulk mains, arterial roads, and public open space). Developers pay for local infrastructure within their development. However, there is insufficient guidance from the LGA 2002 regarding the obligations of territorial authorities to provide trunk and bulk infrastructure to service development outside of the understood obligations in respect of headworks and development-specific infrastructure. This uncertainty leads to delays and disputes around who is responsible to fund and provide it, and therefore delays service provision and ultimately the supply of serviced land.

33. The Council's ability to provide infrastructure faster to facilitate development is constrained because of the following reasons:

- The significant financial commitment required which has to be managed within the fiscal constraints in which we operate.
- The need to balance this investment against management of the city's debt, including debt to revenue ratio, maintaining our credit rating, and maintaining affordable rate increases.
- The Council's obligations to comply with the Local Government (Financial Reporting and Prudence) Regulations introduced in 2014 require reporting on certain key financial measures, including debt affordability benchmarks and other financial benchmarks.
- Providing infrastructure to new areas of land far in advance of the time when this infrastructure is required for development is simply not financially feasible because large amounts of capital expenditure are required up front, and the payback period through additional rates income has a long lag time. Investing too early in strategic infrastructure results in an increased exposure to maintenance and operation costs and interest costs while the Council incrementally repays the debt by recouping its growth related costs from subsequent development (development contributions). Councils also take on the risk that growth will not occur at the speed anticipated, leaving councils with the holding and maintenance costs in the interim. Development cycles and understanding trends like net migration and what this means for Hamilton can sometimes be difficult to predict, although historically Hamilton has generally managed these predictions well.
- Less than 50% of HCC funded growth related capital costs are recovered through development contributions. This is due to the requirements of the Local Government Act and development contributions case law to ensure that the allocation of growth related costs recognises the fact that existing ratepayers may use or otherwise benefit from the new infrastructure. There is no scope to increase development contribution charges within the current legislative framework. HCC also does not want to create financial barriers to commercial investments in the city by increasing development contribution charges.

34. HCC's growth capital programme for the 2012-22 10-Year Plan period is $248 million, with the next 10-Year Plan expected to double that amount. To deliver what the city needs within this budget, the Council seeks to optimise the use of existing infrastructure to defer providing new infrastructure and adopts an approach of putting in new infrastructure on a just-in-time basis and only to the extent that the Council's debt to revenue ratio policy is not breached.

<u>Lack of Tools for Funding of Infrastructure</u>

35. With limited choices in the way the infrastructure is funded, the issue is one of timing – we can't afford to provide infrastructure all at once or ahead of when it will be required. The Department of Internal Affairs report 'Observations on the use of Debt by Local Government in New Zealand' (2011/01) noted that it was the high growth councils that dominated the debt risk assessments undertaken at that time[4] i.e. many high growth councils (including Hamilton) are already highly indebted and have limited ability to leverage further debt to fund growth. The DIA report notes that further work may be needed to understand the relationship between high population growth and debt levels. In addition, the recent changes to the Local Government Act in 2014 have further restricted local authority funding by restricting the collection and use of development contributions.

[4] Department of Internal Affairs, 'Observations on the use of Debt by Local Government in New Zealand' 2011/01, page 72.

36. Growth infrastructure for water, wastewater, stormwater and open space is not presently Government funded, and consideration should be given to a funding source for these types of infrastructure. While transport funding for growth infrastructure can be available through NZTA, it is difficult to secure. Currently, funding of growth infrastructure comes from ratepayers (through debt servicing) and developers through development contributions. Additional funding options are needed that could then allow important infrastructure projects to go ahead which would provide stimulus for regions and the national economy.

Initiatives

37. HCC has put in place the following to overcome the Council's financial constraints to funding infrastructure:
    - In 2013 the Council introduced a Growth Funding Policy which provides a framework for the development community to privately fund developments in advance of, or not anticipated in, the 10-Year Plan. This provides developers with greater certainty about how the development community can accelerate investment in growth infrastructure. Under the Growth Funding Policy, HCC may consider advance funding infrastructure projects in its LTP provided that it is cost neutral to the community i.e. the developer carries the costs (including interest) until the funding becomes available in the allocated year within the LTP. Developers have responded well to these agreements. Generally these agreements work well for smaller infrastructure projects but larger projects can be prohibitively expensive and there are few developers with sufficient access to capital to fund very large infrastructure projects.
    - HCC has reduced development contributions for infill development. This is a way of incentivising infill development which can provide a range of housing types, including affordable options, to meet different types of demand (e.g. for smaller households). Infill development can be more affordable to service in the short-term, but infrastructure for infill/intensification can be extremely expensive once capacity has been reached.

Recommendations

- New funding options, including directed and indirect government funded options, should be investigated and made available which minimise pressure on local ratepayers and enable large capital investment in infrastructure.
- Examples include a regional infrastructure funding source, subsidies for growth councils, direct provision of housing by the Government, exceptions for growth areas, zero percent loans (subject to considerations regarding debt levels), funding guarantees, and grants. Land uplift taxes as used in the UK should also be investigated. Not charging GST on rates, or providing a refund, would also be a valuable tool in reducing the costs to developers.
- Clarification is needed in the LGA regarding the obligations on territorial authorities and developers about responsibility for the providing trunk and bulk infrastructure to service development.
- The financial regulations that came into force in 2014 act as a barrier to use debt funding for infrastructure investment to enable housing development and should be examined.

The Planning and Development System (Questions 1-4, Q8, Q13, Q17, Q18, Q21- 43)

38. The planning and development system associated with housing supply includes the Resource Management Act 1991, the Land Transport Management Act 2003 and the Local Government Act 2002. The Reserves Act 1977 is also a key piece of legislation which is central to providing open space, one of several crucial infrastructural elements required of integrated, functioning, sustainable urban communities.

39. The legislative requirements set out in these Acts provide the framework within which councils must act.

40. A number of key areas within the planning and development system are outlined below, including any current innovations and areas of best practice, and any recommendations for change.

<u>Plan Changes/Variations</u>

41. HCC does not currently have an affordable housing issue or a lack of supply of zoned land. HCC has, since as early as the 1970's, undertaken strategic planning for future land requirements, most recently by way of the Hamilton Urban Growth Strategy and the Future Proof sub-regional growth strategy. As a result, HCC has been able to promulgate plan changes/variations for a number of growth cells (e.g. Rototuna, Rotokauri and Peacocke) in advance of the land being needed for growth. HCC has also advanced the ability to utilise brownfield land and existing areas of the city for a more concentrated settlement pattern, including provision for intensification in parts of the City, via the Operative and Proposed District Plans.

42. Despite HCC being well placed in providing zoned land, the ability to re-zone land in a timely and affordable manner is clearly important to ensure sufficient supply of land. The processes required to re-zone land are costly to councils and ratepayers because of the requirements in the RMA. The recent changes to section 32, for example, will potentially further increase the costs and time to prepare plan changes/variations and reviews. The Government should consider providing a standardised process, including standardised section 32 information, which can enable plan changes/variations for affordable housing to be prepared quickly and cost-effectively.

43. Government could also consider a streamlined process whereby third party rights of appeal could be limited where a plan change/variation relates to affordable housing. In order to implement this kind of framework, it would need to be accompanied by a set of national policies, such as through a National Policy Statement, to provide clear direction to councils. At the moment, there is no clear direction for councils, and affordable housing is just one of many factors to be weighed under the RMA. If an NPS was developed, this would need to be in the context of a wider range of initiatives, specifically to ensure that financial burdens were not imposed on councils. For example, if an NPS were to promulgate a specific amount of zoned/serviced land per district (e.g. a 10 year supply), this would have significant financial implications for councils in terms of providing services ahead of when they are needed, particularly in slower market conditions.

44. In previous submissions on the RMA reform, HCC has supported the concept of a standardised plan format, including standard definitions, and these proposals continue to be supported. The Productivity Commission should also consider if there is value in other alternative planning arrangements that could assist in speeding up processes. For example, a recent Board of Inquiry

process for the Ruakura Inland Port development in Hamilton was concluded within 9 months. There are no rights of appeal to a Board of Inquiry process except on points of law and this resulted in a considerable time saving for the applicant. The Auckland Unitary Plan process also contains alternative planning arrangements, with no appeals except on points of law. Further, the Housing Accords and Special Housing Areas Act 2013 also contains limitations on rights of appeal and objections. HCC considers that alternative methods such as these should be considered. As discussed above, particular consideration needs to be given to matters such as how infrastructure is funded and financed. Regulatory solutions alone are not enough.

Recommendations

- Any recommended changes to the RMA or other legislation would need to be part of a wider range of initiatives including funding and financing of infrastructure provision and not considered in isolation.
- A National Policy Statement or other instrument is needed in order to provide clear direction to councils.
- Streamlined processes, including standard s32 reports, should be considered where a plan change/variation or plan review seeks to deliver affordable housing.
- A standard plan format, including standard definitions, is supported.
- Alternative planning arrangements, such as those provided through Board of Inquiry processes, the Auckland Unitary plan process and the processes in the Housing Accords and Special Housing Areas Act should be considered.

<u>Resource Consents</u>

45. HCC provides a number of best practice processes which assist in the processing of resource consents. 99% of resource consents are processed on time, and almost all consents are processed within the original deposit paid, so that there is certainty both of time and cost for a developer. HCC also provides other initiatives such as free pre-application and pre-design advice, and making draft conditions available for discussion before release of the consent. A Major Development Case Leader position has been operating for over 3 years to assist major complex development in the city. This position has no influence on the consenting process but works to ensure a 'one-point-of-contact' for developers at a senior leadership level. All appropriate staff are available for any pre-application meeting including infrastructure, reserves, and consenting staff. This is to facilitate a no-surprises approach and leads to faster processing of the application when it is lodged. Around a third of applicants (or 150 out of the average 400 consents per year) take advantage of the pre-application process, and this is an increasing trend. Feedback from developers indicates they are happy with HCC's processes so this does not appear to be an issue in terms of providing housing land in a timely manner.

<u>Proposed District Plan</u>

46. Hamilton City Council's Proposed District Plan went through hearings in the past year. The Plan contains a framework that is enabling of development and provides flexibility.

47. The District Plan provides for a range of section sizes and household choices, including smaller sections and more compact living environments (such as townhouses and apartments), as well as the traditional larger lots with backyards. Higher density housing is provided for in specified locations within the city, and allows flexibility for developers. The District Plan also enables a

range of duplex and other infill in the general residential zone. Structure Plans are in place for all greenfield areas to ensure growth is managed in an integrated way and that quality communities develop. These provisions align with the Proposed Waikato Regional Policy Statement and the Future Proof Growth Strategy provisions.

48. The District Plan provides the opportunities for mixed housing typologies the market is not delivering and there is a trend towards increasing gross floor areas despite the demographics showing a falling household size driving a demand for smaller living spaces. This situation is exacerbated by developers including private covenants requiring large sized houses on subdivision lots, which increase housing costs. There has been an increase in the use of covenants in recent years.

49. The observations of planning staff are that the District Plan is not affecting the availability of houses or housing land in the City.

Consenting Requirements for Local Authority Infrastructure

50. Councils are required to operate within the legislative provisions of the planning and development system which provide infrastructure for new residential growth areas. This may include resource consents or designations. Both processes can add cost and time to the process of providing infrastructure for growth areas.

51. The effects-based RMA approach can undermine the LGA drive for efficient and effective delivery of infrastructure for growth i.e. there are opposing purposes in the Acts. For example, Council may identify the most efficient and effective way to service a growth area, however a direct effects based approach sees developers in a position where they can argue that the development only needs to address its own effects and therefore the developer should only provide for temporary / ad hoc solutions. This can complicate or compromise a more efficient (and cost-effective) growth-area-based solution and ultimately adds costs to provide growth infrastructure.

Recommendation

- The Government should consider specific provisions to enhance the ability for Councils to efficiently and effectively deliver infrastructure for growth. This could include streamlined RMA processes for council infrastructure projects.

Additional Regulatory and Institutional Tools Required

52. In the Issues Paper the Commission asks whether increased supply of development capacity would lead to an increased supply of affordable housing, or whether further regulatory or other interventions would be required. HCC's view is further interventions are required to achieve affordable housing. The release of further housing land by councils will not guarantee that it is released to the market (as discussed below) and will not guarantee that the housing built on that land will necessarily be any more affordable. The additional holding costs for councils of providing infrastructure to greenfield areas before it is needed, if recouped, could increase the costs to developers and therefore negatively impact on housing affordability.

53. In order to ensure 'retained' affordability, that is affordable housing that will remain affordable through time, a mixture of regulatory and institutional tools is required. For example, in England,

housing associations are utilised at an institutional level to ensure that affordability is retained. Regulatory intervention, such as through the use of a National Policy Statement or similar intervention to require developers to provide a certain percentage of affordable housing, could also be utilised. The Urban Taskforce work on Building Competitive Cities in 2010 contained a number of useful recommendations.

<u>Integration of Acts</u>

54. An important aspect of planning for future housing supply needs in Hamilton has occurred through the Future Proof Strategy and the Hamilton Urban Growth Strategy. The development of these strategies occurred under the Local Government Act 2002 special consultative procedures. However, in order to embed these into RMA documents to give the strategies sufficient statutory weight, further processes such as a Regional Policy Statement Review, district plan changes/variations and reviews, have been undertaken. These have taken around 5 years in total to date and some of the processes are still not complete. To enable a more effective and timely process, these kinds of plans should not be required to go through a full Schedule 1 RMA process. This could then speed up the release of zoned land. Integration of the RMA and Building Act could also be an effective mechanism to ensure more integrated and consistent requirements.

Recommendation

- Provide a streamlined legislative process for Council-led spatial/strategic plans.

<u>Integrated, Functioning, Sustainable Urban Communities</u>

55. The Issues Paper provides a view that the role of the planning and development system is a way to control externalities. This incorrectly assumes that the delivery of housing is the only function of the planning and development system. Under the RMA, the need to provide for land for housing is not explicit, and this is weighed alongside other environmental, social, economic and cultural matters. NZPI's position paper 'Managing Urban Growth' (March 2014) states that planning for urban growth is not just about accommodating new homes and building the infrastructure to support them, but also about maintaining a high quality of life and delivering an attractive environment. Urban settlements provide the focus for communities, including homes, shops, leisure, open space, recreation and cultural facilities, and places of work. The planning and development system in an urban context means planning for a range of environmental, social and cultural outcomes to create quality, sustainable communities. There is also a requirement to ensure that cultural, historic and natural resources are identified and protected. A focus on a single outcome, i.e the supply of houses, could result in the poor outcomes for social and community infrastructure, including public open space, and ultimately result in deprivation. Locations that are poorly provided for in terms of social and community infrastructure can also ultimately not be attractive to the market.

Recommendation

- Any examination of the planning and development system should not be framed solely in terms of the system's ability to control externalities but should be part of a comprehensive analysis to ensure a focus on the delivery of quality, successful, urban communities. HCC made a submission to the Urban Taskforce in 2010 in which similar points were raised and elaborated on, and can provide a copy of this submission if the Productivity Commission would find this useful.

Incentives on Developers and Landowners (Questions 68 – 70)

56. The Commission has already acknowledged that there are a complex set of factors contributing to affordability of housing. The relationship between land supply and the triggers and market considerations which lead developers to bring sections to the market is complex. There are a number of incentives for developers to hold land or drip feed sections, thereby affecting housing affordability.
    - In Hamilton it is commonplace for developers to stage subdivisions to allow the release of only a portion of available land. This means that development contributions are fixed at the levels as at the date the consent is granted and are payable later in the development process and in smaller quanta. It consequently incentivises the developer to release small amounts of land at a time, and also allows the developer to control the release of land in order to ensure land prices remain high and profit is maximised.
    - Land is rated at a full rate only once all services are available. Additionally, land is rated more cheaply as one large lot. Developers have been observed to hold on to the large lot and only sell a few lots at a time, which minimises the rates expense. The use of rates as a tool to incentivise developers to bring land to the market is complex and likely to be a blunt instrument, however it is important to be aware that this is a factor in developers' decision-making.
    - Under the RMA, developers have up to 8 years to progress consents to s224c certification. An analysis of consents has identified that there are currently around 780 greenfield sections in Hamilton that have received consent for subdivision that, for strategic reasons in many cases, developers have not yet sought title. The timeframe to bring land to s224c certification stage used to be 5 years under the RMA. Consideration should be given to a shorter time-frame to incentivise developers to bring land to the market, such as the shorter time-frames provided for in the Housing Accords and Special Housing Areas Act 2013.

57. Different owners have different motives to release or hold onto land, but the incentive in a rising housing market is for developers to hold on to land and watch the potential sale price rise. This appears to be happening regardless of how much land is available. The solution is complex but does require more than just looking at the planning and development system and must go further to understand and influence the incentives by which landowners will supply land to the market in a timely manner.

Recommendation

- The Productivity Commission's inquiry should examine options and solutions to ensure that residential developments will be brought to the market by developers in a timely manner. These could include:
    - Examining incentives provided for developers due to the way that development contributions and rates are charged;
    - Limiting the ability to stage subdivisions in a way that allows developers to sit on land and drip-feed it onto the market;
    - Significantly shorter timeframes from subdivision consent to s224c stage.

Definition of Development Capacity

58. Throughout the document there are various references to development capacity and to the term 'shovel-ready'. There remains significant uncertainty in how to define "development capacity". It would be helpful if this were clarified, particularly if this is to inform future targets or to establish measures of performance.

59. Various interpretations of "development capacity" include:
    - Land that could have housing constructed on it ("shovel ready") without any further consenting requirement (i.e. all necessary consents under the RMA or building consent under the Building Act have been obtained by the developer);
    - Land that could have housing constructed on it, subject to requiring a building consent; or
    - Land that could have housing constructed on it, subject to completing the s224(c) requirements of a subdivision consent (e.g. the developer completes installation of local infrastructure ("shovel ready")) and obtaining building consent; or
    - Land that has all strategic infrastructure provided and all that remains is for a developer to obtain subdivision consent; or
    - Land for which strategic infrastructure has either been provided or is provided for within the Long Term Plan.

60. Councils don't control many parts of the process e.g. subdivision timing, developer land banking, whether a developer proceeds to 223/224c in a reasonable timeframe, whether the land is then released to the market and whether services (e.g. electricity) need to be in place. The supply of land is a separate matter from the good provisioning of it.

61. The Commission needs to recognise that councils currently have very limited powers to directly control the timing of final stages of the development process creating "shovel ready" capacity for building housing. Land may be zoned, strategic infrastructure capacity available, and subdivision consents granted, however the developer then controls the timing for what of their land is then released and when.

Recommendation:

- A clear definition of development capacity needs to be provided. This should take into account that Councils have little control over the timing of the final phases of development or ensuring land is brought to the market. HCC considers that a useful definition would be broken down into four categories to include:
    1. Land that is shovel-ready, which has all bulk/strategic infrastructure provided and all that remains is for a developer to obtain subdivision consent and provide local infrastructure;
    2. Land that has bulk/strategic infrastructure funded in years 1-3 of the LTP;
    3. Land that has bulk/strategic infrastructure funded in years 4-10 of the LTP;
    4. Land that does not have bulk/strategic infrastructure funded and for which private developer agreement/funding would be required.

Local Government Practices (Question 5)

62. One of the inputs being sought through the Issues Paper are good practice examples on which to base any recommendations to the Government. HCC has a number of examples where it has

been successful in ensuring that the supply of housing meets the projected demand. These are set out in the preceding sections but in summary include:

- HCC has invested strongly in strategic planning and funding growth infrastructure over its history and as such has a good supply of housing, with sufficient zoned land for around 40 years of supply and serviced land for at least 10 years;
- HCC has a growth strategy and a sub-regional growth strategy which set out the location and staging of growth for the next 30 – 50 years, providing certainty for the community, Council and developers;
- HCC has a prudent fiscal strategy to ensure that debt levels are contained;
- Housing in Hamilton is rated as affordable;
- HCC has introduced a Growth Funding Policy to enable developers to provide infrastructure ahead of the Long Term Plan timings in order that HCC's ability to debt fund infrastructure does not unduly restrict development;
- HCC provides a range of initiatives such as free pre-application meetings, free pre-design meetings, standard resource consent conditions, and capped resource consent deposits;
- The position of a 'Major Developments Case Leader' was established by HCC around three years ago. This person provides a 'one point of contact' within HCC for key development relationships and reports directly to the Senior Leadership Team;
- HCC has provided development contribution reductions for infill housing to encourage infill and intensification in the existing areas of the City;
- HCC ensures there is a structure plan in place before any greenfield development occurs in order to ensure development occurs in an integrated manner which provides certainty for the community, Council and the developer;
- HCC's policies provide flexibility for development of higher density housing in specific locations throughout the City.

Further Information

63. Should the New Zealand Productivity Commission require clarification of the points raised in this submission, or additional information, please contact Susan Henderson (Principal Planner, City Planning Unit) on 07 958 5901, email susan.henderson@hcc.govt.nz in the first instance.

Yours sincerely

Richard Briggs
CHIEF EXECUTIVE

Although this submission has been circulated to HCC's Elected Members for consideration and feedback, it has not been adopted through the formal committee process. HCC's submission is to be considered and adopted retrospectively at the 24 February 2015 Strategy and Policy Committee meeting. We will advise you after this meeting if HCC makes any changes to its submission.