

To: **Vida Christeller**  
CC: John McSweeney, John  
McDonald, Phil Becker

From: Adam McCutcheon and  
Andrew Wharton  
City Design and Place  
Planning

Date: 25/02/2021

Purpose: Advice

## **How the new district plan can help address housing affordability in Wellington City**

### **Key messages**

1. Housing affordability is a serious issue for Wellington City for renters and for people wanting to buy a home. The Council's Housing Strategy and Action Plan is in part a system response to address housing affordability and supply in the city. The Strategy works on a key principle of partnerships with government agencies, iwi, community housing providers and the market for delivery. Through the Action Plan, councillors have identified the new district plan as one of 5 priority areas to address the challenge of affordability, access, quality and supply of housing in the city.
2. Council's Long-Term Plan Committee resolved on 18 February 2021 that Council will "investigate how it can increase its ability to provide more affordable housing outcomes for the city and that the [Long-Term Plan] Consultation Document, via a signal, ask the public for their views on this topic to inform future work in this area." This will be done as part of the review of the Housing Action Plan.
3. The most effective way the new district plan can support the provision of affordable housing is through less restrictive land use controls. When coordinated with supporting infrastructure and Council services, this enables more houses to be built.
4. District plan rules requiring large multi-unit housing projects to provide some affordable housing (mandatory inclusionary zoning) in New Zealand has uncertain long-term effect, limited efficacy and would have a substantial risk of legal challenge. New Zealand also does not have the long-term private rental development sector that European and North American regulations target to get their affordable housing. If the Council wants to pursue mandatory inclusionary zoning, it is essential to analyse its likely effect on development feasibility, housing typologies and tenures, and the overall supply and cost of houses. Mandatory inclusionary zoning may be more successful if paired with regulatory and financial incentives.
5. The Council may want to investigate voluntary district plan methods that incentivise building affordable housing. To be attractive to developers, these incentives would involve either fewer regulatory controls or accepting some increased negative effects on neighbourhood amenity, in exchange for the positive effects from affordable housing. Trade-offs would need to be made given the limited range of regulatory and funding tools available to the Council.
6. The new district plan can also have objectives, policies and restricted discretionary matters that promote affordable housing. This allows planners to consider the benefits of affordable housing when evaluating a restricted discretionary, discretionary and non-complying application, and to include conditions to ensure that affordability is maintained. These provisions also help with any plan change that includes affordable housing.

7. The Government's reform of the Resource Management Act (RMA) and new legislation for land use planning is an opportunity for the Council to advocate for new planning and financial tools that incentivise affordable housing.
8. Council should continue its work on:
  - giving effect to the Final Spatial Plan through widespread up-zoning in the new district plan and infrastructure development, including leveraging urban development opportunities from Let's Get Wellington Moving (LGWM)
  - implementing the Housing Strategy and Action Plan including the Te Kāinga programme
  - partnering with community housing providers and Kāinga Ora
  - operating social housing

### **Recommendations on housing affordability in the district plan**

9. That no mandatory affordable housing interventions are pursued in the new district plan.
10. If the Council wants to pursue mandatory inclusionary zoning, that this is done with a thorough analysis of effect on development feasibility, housing typologies and tenures, and the overall supply and cost of houses.
11. That the Council instead investigates voluntary 'inclusionary zoning' methods for the new district plan to incentivise affordable housing products.
12. That the Council also investigates objectives, policies and restricted discretionary matters in the new district plan that promote affordable housing.

### **Background**

#### House and rent prices are unaffordable in Wellington City

13. Wellington City's housing is unaffordable. Median weekly rent was \$620 at the end of 2020<sup>1</sup>. The lower quartile house price (typical for first home buyers) was \$685,000 in September 2020<sup>2</sup>.
14. We are all deeply concerned about the lack of affordable housing in Wellington City, especially for first home buyers, for people on low incomes to rent, and to source for public/community housing. The Council's Housing Action Plan lists Planning for Growth and the reviewed district plan as one of five ways that the Council is targeting the issue. For advice on the other non-RMA ways to target unaffordable housing, please refer to the Housing Strategy and Action Plan.
15. There are many factors causing the decline in housing affordability. Low interest rates, immigration into Wellington and tax policy have contributed to increasing demand (and incentives) to purchase homes especially since COVID-19 lockdown. At the same time the amalgam of restrictive land use planning, limited incentives to upgrade infrastructure,

---

<sup>1</sup> <https://www.stuff.co.nz/life-style/homed/renting/124075999/rents-rise-in-all-regions-hitting-new-record-highs-in-some-areas-trade-me-says>

<sup>2</sup> <https://www.interest.co.nz/property/107652/house-prices-bottom-market-have-been-largely-flat-auckland-several-months-have-kept>

low construction sector productivity and capacity, and bank lending criteria have constrained supply.

#### What's 'affordable' is worked out with a specific methodology in Wellington

16. Council has developed the Wellington Housing Affordability Model (WHAM)<sup>3</sup>. WHAM is used to understand what housing is affordable, and for whom. WHAM is supplementary to other affordability measures.
17. WHAM is built based on the premise that assessing affordability depends on a household's circumstances and composition, and that housing affordability is more complex than only one set dollar amount or ratio.
18. WHAM makes assumptions about a household's expenditure (excluding housing cost) to understand the income available for housing. It is applied in different ways depending on three questions the user seeks to answer:
  - Who can afford a particular rent or purchase price
  - What is affordable for a particular population or group
  - how affordable a rental or purchase price is for a particular group (and by how much).
19. Other indicators for reference:
  - The Auckland Plan 2050 defines affordable housing as a "home that a household could occupy for less than 30% of its income whether renting or purchasing." This is a commonly used metric across the world. It is useful for renters, but when purchasing it does not factor in the ability for first home buyers to save the initial house deposit, or the risk of interest rates rising and making house mortgages unaffordable.
  - Building houses near good public transport corridors tend to increase overall affordability, as average transportation costs are lower. As a rule of thumb, to be affordable, housing + transport costs should not exceed 45% of a household budget.
  - In the often-quoted Demographia International Housing Affordability Survey, housing is affordable at a 'median multiple' of 3.0 or less, moderately unaffordable at 3.1 to 4.0, seriously unaffordable at 4.1 to 5.0, and severely unaffordable at over 5. Median multiple is the median house price divided by median household income. Wellington City was at 7.1 on July 2020. Interestingly this is lower than Kapiti Coast and Porirua (7.8) because of higher household incomes in Wellington City<sup>4</sup>. The Demographia measure is a useful long-term measure for buying a house, as it does not account for mortgage interest rates. It is not helpful for renters.
  - The current KiwiBuild price cap for a Wellington three-bedroom house is \$550,000, and \$500,000 for studio, one and two bedroom houses.
  - Under the expired Special Housing Areas legislation, Auckland Council defined 'affordable housing product' as either:
    - Homes for first home buyers priced at 75 percent of the Auckland median house price; or

---

<sup>3</sup> More information on WHAM is at <https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/housing-strategy>

<sup>4</sup> <https://cdn->

[flightdec.userfirst.co.nz/uploads/sites/plimmertonrotary/files/Viewpoints/2020/HOUSING\\_AFFORDABILITY\\_2020.pdf](https://flightdec.userfirst.co.nz/uploads/sites/plimmertonrotary/files/Viewpoints/2020/HOUSING_AFFORDABILITY_2020.pdf)

- 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<sup>5</sup>.

### There is differentiation in housing types

20. Housing exists in a continuum from those provided by the Government for emergency, through to full private ownership (Figure 1). There are relative levels of affordability within each part of the continuum.



*Figure 1: The housing continuum (Wellington Housing Strategy)*

21. 'Affordable housing products' commonly refer to lower cost homes including low cost homes controlled at a defined 'affordable' price, assisted rental products, and assisted home ownership products such as rent-to-buy, shared equity and leasehold arrangements.

### Affordability to rent and to buy is different

22. Home ownership and rentals have different rates of relative affordability. Rental affordability is a more accurate indicator of housing supply relative to number of households. Having affordable houses for people to buy typically raises household wealth, permanence and well-being, which then adds to community wealth, stability and wellbeing. However, house prices can become divorced from housing need. The factors listed in [paragraph 15] can push prices well above their rental returns.
23. Wellington's current gross rental yield ranges from 4% – 6% depending on the suburb. This ratio is dropping over time as buying a house becomes more unaffordable than renting a house. For an example of how separated rental and buying affordability can be, the gross rental yield in Taipei is only 1.04% meaning rent is affordable, but houses are very expensive to buy.

### **Responses to address housing affordability**

24. The Beca *Wellington Housing Choice and Affordability* report (February 2021) identified potential district plan and non-district plan responses to address housing affordability. This memo elaborates on the findings of the Beca report and recommends further investigation on some of those options. Other options, such as targeted rezoning for medium density

---

<sup>5</sup> Auckland Council. 2018. 'Affordable housing in Auckland 'A snapshot report about the need and initiatives to increase low cost housing, assisted rent and assisted home ownership'.

areas and increasing the permitted threshold for multi-unit development will be incorporated into our assessments for draft district plan provisions.

25. The report has a broad summary of non-district plan actions that Council can consider for housing affordability. While outside the scope of this memo, we think these non-district plan actions have considerable potential to be more effective on provision of affordable housing.
26. Case law currently states that the district plan can address housing affordability. In the legal arguments around Queenstown-Lakes' Plan Change 24 (Community and Affordable Housing), the Environment Court found that affordability of housing is an effect that can be managed by district plans under the RMA.<sup>6</sup> This was supported by the High Court. Leave has been granted to appeal to the Appeal Court on the question of law whether Plan Change 24 comes within the scope of the RMA.

#### Housing Strategy and Action Plan is being updated

27. Planning for Growth is identified in the Council's Housing Strategy and Housing Action Plan<sup>7</sup> as one of 5 priority areas to address the challenge of affordability, access, quality and supply of housing in the city. This report focuses on options for how the Council can address housing affordability within the new district plan.
28. On 18 February 2021, the Council's Long-Term Plan Committee resolved that Council will:  
  
"investigate how it can increase its ability to provide more affordable housing outcomes for the city and that the [Long Term Plan] Consultation Document, via a signal, ask the public for their views on this topic to inform future work in this area."
29. The Build Wellington team is leading this investigation, as part of its review of the Housing Action Plan, on how Council can better enable the delivery of affordable housing. This includes an assessment of different levels of intervention and funding, also noting powers available through the Urban Development Act.

#### Long-term, more houses need to be built

30. In the long-term, the new district plan can support supply-side solutions to the housing affordability problem through less restrictive land use controls, particularly near public transport and city and suburban centres. This is the most effective way the new district plan can support the provision of affordable housing. The Council's other main roles in enabling more housing is to:
  - Fund, or source other funds, to upgrade 3 waters infrastructure. This can also include reducing per-household demand for this infrastructure, for example unit charging for services and water-sensitive urban design.
  - Improve public and active transport and community services (such as parks) to encourage and service new houses in quality urban environments. This includes LGWM projects, especially mass rapid transit.
  - Deliver housing development projects, including Te Kāinga programme, and getting best use of City Housing assets through the Strategic Housing Investment Plan.

---

<sup>6</sup> <https://www.qldc.govt.nz/your-council/district-plan/operative-district-plan/plan-changes-to-the-operative-district-plan>

<sup>7</sup> <https://wellington.govt.nz/your-council/plans-policies-and-bylaws/policies/housing-strategy>

31. If we don't do these things, we will always be dealing with the symptoms of the underlying issue.
32. But while these actions are implemented and start to take effect, there are options for the district plan which may help make housing unaffordability less severe for some people and address affordable housing products. We present these below:

**Mandatory inclusionary zoning.** Require all new housing developments above a certain number of units or site area to provide a percentage of houses at an “affordable” price to buy or rent.

**Incentivised (voluntary) inclusionary zoning.** Encourage housing developments with a percentage or number of “affordable” houses to buy or rent, by reducing regulatory controls, processing cost or risk, for example:

- height and density bonuses
- controlled activity status (normally multi-unit housing starts as restricted discretionary)
- non-notification
- fast-track consenting
- maximum consent processing fee (regardless of complexity)

**Promote affordability in objectives and policies.** District plan objectives and policies, and non-regulatory methods, can encourage and enable developers to provide affordable houses.

### **Mandatory inclusionary zoning**

#### International evidence shows limited effect on overall housing affordability, and needs public funding

33. International evidence on the effects of mandatory inclusionary zoning is mixed<sup>8</sup>. A summary of studies in the USA found that while some programmes result in limited numbers of affordable homes being built, there are generally no impacts on supply, and no or modest increases on prices<sup>9,10,11</sup>. In general, mandatory programmes in strong housing markets that have predictable rules, well-designed cost offsets or bonuses for the developer, public sector investment, and flexible compliance alternatives tended to produce the largest number of affordable homes.
34. The relatively successful mandatory inclusionary zonings overseas are difficult to translate to the New Zealand context. Many regulations in European and North American cities target the long-term rental apartment sector, requiring them to set lower rents, often in exchange for incentives like density bonuses, low interest, etc. New Zealand's for-profit

<sup>8</sup>[https://www.urban.org/sites/default/files/publication/99647/inclusionary\\_zoning.\\_what\\_does\\_the\\_research\\_tell\\_us\\_about\\_the\\_effectiveness\\_of\\_local\\_action\\_2.pdf](https://www.urban.org/sites/default/files/publication/99647/inclusionary_zoning._what_does_the_research_tell_us_about_the_effectiveness_of_local_action_2.pdf)

<sup>9</sup><https://www.chapa.org/sites/default/files/Center%20For%20Housing%20Policy%20Research%20on%20Inclusionary%20Zoning.pdf>

<sup>10</sup> [https://www.huduser.gov/publications/pdf/awm\\_rep\\_0902.pdf](https://www.huduser.gov/publications/pdf/awm_rep_0902.pdf)

<sup>11</sup> <http://www.seattle.gov/Documents/Departments/SeattlePlanningCommission/MinutesAndAgendas/IZPolicyBrief.pdf>



long-term rental sector is in its infancy.<sup>12</sup> Our long-term multi-unit rental sector is almost entirely run through central government, local government and non-profit organisations.

35. The Productivity Commission's report Using Land for Housing 2015 presented international evidence to suggest inclusionary zoning policies have little impact on the overall supply of lower-priced housing. They can have undesirable effects including uncertainty and delays, higher prices for non-targeted homes, and significant administrative costs. Evidence suggested inclusionary zoning was most successful when accompanied by a wider suite of tools, including government funding.
36. Inclusionary zoning tools in New Zealand are constrained by the inability to incorporate financial tools: grants, penalties, etc. with land use planning. This can be done through Council agreements with developers, but not through district plans under the RMA.
37. When the Auckland Unitary Plan proposed inclusionary zoning in 2016, submissions and evidence from MBIE, Housing New Zealand and others stated that the proposed provisions were effectively a tax on the supply of dwellings and would simply be redistributive in effect. They would risk reducing the overall supply of housing due to lower developer margins. For some of these reasons, Auckland Council officers recommended not including mandatory inclusionary zoning interventions into the Unitary Plan in November 2020<sup>13</sup>.

#### Inclusionary zoning has considerable administrative costs

38. If mandatory inclusionary zoning is to work over the medium to long term, it requires ongoing monitoring, administration and enforcement. Monitoring of NZ's attempts at inclusionary zoning, such as Hobsonville and Special Housing Areas, has been limited, including how many affordable houses were actually built, whether household income limits were met, and whether the houses were held as affordable in the short-medium term.
39. If Wellington City had inclusionary zoning, Council would have to invest considerable effort to run and monitor the process over time to ensure the affordable houses went to those who need them, and that houses were not on-sold or sub-let for market prices. Contracts and covenants may be needed as well as consent conditions to ensure the house values or rental returns remain at an affordable level for an appropriate period of time.

#### Implications of pursuing mandatory inclusionary zoning

40. Any inclusionary zoning methods should not have the side effect of reducing the overall number of houses being built. Otherwise, while a few affordable houses may be built, long-term affordability for everyone else is reduced. It is essential to analyse the likely effect on mandatory affordability methods on development feasibility, housing typologies and tenures, and the overall supply and cost of houses.
41. If affordable houses required in the district plan rely on price differential, we want to ensure this is long-lasting with legally robust conditions and monitoring so that the houses aren't on-sold or sub-let on the open market at a higher price.

---

<sup>12</sup> <https://www.hud.govt.nz/assets/News-and-Resources/Proactive-Releases/Second-Tranch/c06b6cb7c0/Information-on-the-Built-to-Rent-sector.pdf>

<sup>13</sup> Affordable housing report back: Inclusionary zoning and options for a planning response. Report to Planning Committee. 5 November 2020. File No.: CP2020/15492

42. If the Council wants to pursue mandatory inclusionary zoning, we would recommend this is done with caution and with a strong evidence and evaluation base. This may include investigating how regulatory incentives (such as those discussed below) and financial incentives (for example lower development contributions, rates and Council partnerships) should be used with mandatory inclusionary zoning to increase its chance of success.

### **Incentivised ‘voluntary’ inclusionary zoning**

43. To encourage developers to provide affordable housing products, the provision of lower margin products may need to be made more attractive and viable. We would also want to enable Kāinga Ora and social housing providers to invest in Wellington City.
44. In Wellington, affordability is optimised by multi-unit housing development. These can be built more efficiently and are denser and usually smaller. This makes them more affordable per unit than detached bespoke houses. Improved certainty, shorter timeframes and cheaper costs for consenting this type of development may be an incentive to build affordable homes.
45. The advantage of using incentives rather than penalties for affordable housing is that the incentives do not reduce the viability of development projects. They may make some projects more viable. This encourages building more houses, as well as affordable houses, which targets the long-term supply issue as well.

### Height and density bonuses

46. The district plan could enable multi-unit residential buildings to be higher and bulkier than allowed under district plan rules. For example, if the maximum height for the zone enables 4 storeys or 6 storeys, a building that has 20% “affordable” units could get an extra 2 floors without making the resource consent application assessment more onerous. If the incentives were generous enough, the increased developer profit could offset the cost of selling the houses more cheaply.
47. However, there are some disadvantages. We are already enabling housing in appropriate locations near public transport and city/suburban centres. This is where the NPS-UD, regional policy statement and draft spatial plan already tell us to enable housing generally. This means Wellington City’s new district plan will have a limited scope to use height and density bonuses, unless we start trading off neighbourhood character and adverse effects for bigger and denser (but more affordable) multi-unit housing.
48. Allowing height or density beyond district plan standards may negatively affect neighbour sunlight, privacy, and neighbourhood character. Perversely, the density incentives may be applied more when adverse effects are significant. If adverse effects are only minor, a developer would be tempted to ignore the affordable housing incentives and just go for a discretionary/non-complying resource consent.

### Controlled activity status

49. The district plan could have a controlled activity<sup>14</sup> rule for multi-unit housing development that has affordable housing products. Controlled activity consents are usually fast-tracked under the RMA, and are rarely notified for submissions. They cannot have conditions

---

<sup>14</sup> Controlled activities must be granted resource consent, but conditions can be imposed within the matters the district plan has reserved control.



imposed that would in effect stop the development from happening. This would give developers considerable certainty, and may de-risk affordable housing projects.

50. We currently intend to propose that multi-unit developments are a restricted discretionary activity, able to be declined on a range of matters including building design. If affordable housing were a controlled activity, there are risks to Council in not being able to decline them for poor design. This may not align with the Councils current focus on 'design done well' and a high level of regulatory control for design matters.
51. The Place Planning team would also need to consider where this incentive would be most effective. The City Centre Zone and other Centres zones already enable considerable development density. Our initial thought is that the Medium Density Residential Zone and possibly the General Residential Zone have a better potential for an affordable housing controlled activity.
52. The Council should consider whether the benefits of reducing red-tape for affordable housing in this way is worth trading off more design control of the building.

#### Non-notification of affordable housing applications

53. The district plan could state that if a development met an affordable housing threshold, along with the other rules and standards, it would not be notified for public or affected party submissions. If an application is notified, this significantly increases time and cost to get a resource consent, especially if a hearing is needed.
54. However, we currently intend to propose applying a non-notification rule to all multi-unit development that complies with the zone standards, so this would not be an incentive for affordable housing specifically.

#### Fast-track consenting

55. The district plan could state that if a development met an affordable housing threshold, along with the other rules and standards, it would be processed quickly.
56. Non-notified resource consents without hearings are already processed within 20 working days. The clock can be stopped if further information is required, but removing this would be impractical and would risk poor decision-making. This timeframe can be shrunk to 10 working days for controlled activities. Fast-track consenting would not be an incentive for affordable housing specifically.

#### Capping resource consent costs

57. The risk that resource consenting fees and related costs will spiral upwards is a risk for all developers, especially if the development is new or innovative. For example, the 26 Aroha development in Auckland which met almost all standards was pushed into a limited notification hearing by the volume of earthworks and a construction noise breach. This added nine months to the project and it cost \$800,000 to gain the resource consent<sup>15</sup>. In Wellington, the Zavos Corner apartments in Mt Victoria met all planning standards and guidelines, but because it replaced a pre-1930s building and the Mt Victoria Residents Association opposed it, the lawyers, council and architect costs were expensive<sup>16</sup>.

---

<sup>15</sup> Architecture New Zealand magazine, November/December 2020.

<sup>16</sup>

[https://static1.squarespace.com/static/56ca5424c2ea51c475f63cee/t/570f05982eeb8126f679c81f/1460956290649/Parsons\\_on\\_Zavos\\_corner.pdf](https://static1.squarespace.com/static/56ca5424c2ea51c475f63cee/t/570f05982eeb8126f679c81f/1460956290649/Parsons_on_Zavos_corner.pdf)

58. If multi-unit developments with a certain number of affordable houses were guaranteed a maximum resource consent cost, regardless of council-required expert assessments and hearing commissioners, this would be an incentive for developers who are considering building affordable houses. But there would be a corresponding cost for the Council for consents that are more difficult to process than expected or require a hearing. It could also enable developers to push the density limits or not bother with quality design, knowing that Council will bear the cost risk for processing the consent.
59. The Council should decide whether a risk of higher Council costs (paid by ratepayers) is worth the trade-off to incentivise more innovative affordable housing products.

### **Promote affordability in district plan objectives, policies and RD matters**

60. District plan objectives and policies can promote affordable housing. For example, Queenstown-Lakes' proposed district plan has content such as:

*4.2.2.7 Explore and encourage innovative approaches to design to assist provision of quality affordable housing.*

*4.2.2.8 In applying plan provisions, have regard to the extent to which the minimum site size, density, height, building coverage and other quality controls have a disproportionate adverse effect on housing affordability.*

61. These provisions can help support applications for affordable housing, especially discretionary and non-complying activity applications. The consent planner can then weigh up the relative benefits of providing affordable houses when deciding whether to recommend granting consent, and what conditions to impose.
62. These provisions are also useful for private plan change applications. For example, if Kāinga Ora decided to apply for a plan change for a combination of affordable houses and social housing, these sorts of plan provisions would help the affordable housing aspect of the application.
63. Objectives and policies on affordable housing will also be needed to support any of the other mandatory and voluntary inclusionary zoning methods discussed above.
64. Many multi-unit developments in Wellington City are restricted discretionary activities. Extending Council's discretion to include an affordable housing matter would allow resource consent planners to consider the benefits of affordable housing when assessing applications. These provisions also enable the consent planners to recommend conditions to help ensure that affordability is maintained over time, within RMA constraints. This is similar to the objectives and policies for discretionary applications discussed above.

### **New tools for affordable housing may be part of the new land use planning system**

65. The government announced on 10 February that the RMA will be repealed and replaced with three new Acts:
  - **Natural and Built Environments Act** (NBA) to provide for land use and environmental regulation (this would be the primary replacement for the RMA)
  - **Strategic Planning Act** (SPA) to integrate with other legislation relevant to development, and require long-term regional spatial strategies
  - **Climate Change Adaptation Act** (CAA) to address complex issues associated with managed retreat and funding and financing adaptation.

66. The NBA will be processed first, with the Minister for the Environment expecting the complete NBA will be formally introduced to Parliament by the end of this year. The NBA will consider the problem of housing affordability, as outlined in the Resource Management Review Panel's June 2020 report. The Strategic Planning Act is also likely to focus on the housing affordability issue.
67. The government will run a submission and select committee process this year on a working draft of the NBA. This is an opportunity for the Council to advocate for new planning and financial tools that could work together to build more houses and better enable a range of affordable housing products.