

**QLDC Council
26 October 2017**

Report for Agenda Item: 1

Department: Planning & Development

Response to the three questions raised by Council in relation to the addition of Ladies Mile into Council's Lead Policy for Special Housing Areas

Purpose

- 1 To respond to the three questions from Council that arose at the 17 August 2017 meeting in relation to Council's decision on whether to include the Ladies Mile area in its Lead Policy for Special housing Areas.

Executive Summary

- 2 When considering whether to add Ladies Mile into the Lead Policy, at its meeting on 17 August 2017, Council asked officers to investigate three questions relating to:
 - a. what level of contribution could come to the Queenstown Lakes Community Housing Trust (QLCHT),
 - b. how can speculation in vacant sections be prevented, and
 - c. what other large tracts of land may be available to provide affordable housing at suitable cost in the district.
- 3 With regard to what level of contribution could come to the QLCHT, Market Economics Ltd were commissioned to undertake an assessment and applied the Ministry of Business Innovation and Employment's (MBIE) National Policy Statement Urban Development Capacity Development Feasibility Tool. The results of the assessment show that there is potential to increase the contribution asked of the developer under all but the most pessimistic development scenarios, however the report must be treated with caution as it is based on a model, the inputs for which can be challenged. That assessment was separately reviewed by MacDonald Consultancy and CBRE valuation who concurred with the view that a contribution higher than 10% could be considered under the SHA model, but noting that too higher a contribution could result in increased risk for QLDC, and unintended consequences including an SHA proposal not being proceeded with.
- 4 With regard to preventing speculation in vacant sections, Lane Neave have prepared a short report setting out the legal and non-legal mechanisms to prevent speculation in vacant sections. Preventing speculation or on selling of vacant land is difficult, and there is no mechanism that is entirely effective. Methods are available to reduce speculation, such as means tested eligibility criteria, restricting the on-sale of bare land, and a vetting process of perspective purchasers. The Lead Policy currently puts the onus on applicants to set out in the EOI how they intend to reduce speculation in vacant sections.

- 5 With regard to other available tracts of land, a high level assessment of other unzoned areas has been undertaken. Six broad areas have been identified as having capacity to accommodate a significant amount of housing. Each have differing strengths and weaknesses with regard to the assessment criteria, particularly the impacts on landscape, and the availability of / upgrades required to infrastructure. Land to the north of Hanley Downs, and at the end of Tucker Beach Road were most suitable, however both have constraints and neither area is as ready to go as the Ladies Mile.
- 6 Officers have further considered the public feedback and the value placed on the rural character currently experienced when passing Lake Hayes and climbing the hill onto the Ladies Mile. As a result an amendment is proposed to reduce the extent of the Indicative Master Plan. The change would see the area of development pulled to the west some 305 metres, away from Threepwood, to line up with an existing hedgerow.

Recommendation

That Council:

1. **Note** the contents of this report in relation to the three questions from Council when making a decision on the recommendation from the 17 August 2017 agenda item currently lying on the table [appended as **Attachment A**].
2. **Note** that since the 17 August 2017 agenda item was prepared, the Lead Policy for Special Housing Areas was amended by Full Council on 28 September 2017 and that proposed changes to the Lead Policy to incorporate Ladies Mile has been added to the revised Policy [appended as **Attachment B**.]
3. **Note** that following further consideration of feedback received, a reduction in the extent of the Indicative Master Plan is now proposed, pulling the area of development approximately 305m further west from Lake Hayes to align with an existing hedgerow. [The Indicative Master Plan is part of **Attachment B**.]

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Background

- 7 Council considered an agenda item on adding the Ladies Mile into the Council's Lead Policy on 23 June 2017. The background to this agenda item was covered under seven topic headings.
- 8 From a central government level, a range of matters have brought the Ladies Mile area before Council. Specifically the new National Policy Statement on Urban Development Capacity, the Housing Accord and its targets, and the Council's application under the Housing Infrastructure Fund for funds to provide infrastructure for development on the Ladies Mile.
- 9 From a local level, a range of matters have also led to the Ladies Mile area being brought before Council. Specifically the extreme housing affordability challenge the district is facing, the resolution of Council when recommending the Queenstown Country Club Special Housing Area (SHA) to the Minister, the subsequent resource consent decision, the Wakatipu Basin Land Use Study (WBLUS), and the review of Council's Dwelling Capacity Model (DCM).
- 10 At its 23 June 2017 meeting, Council resolved to:

Seek public feedback on the proposed addition of the Ladies Mile Area into Category 2 of the Housing Accords and Special Housing Areas Act 2013 Implementation Policy ("Lead Policy"), including the inclusion of:

- a. an Indicative Master Plan; and***
- b. an Indicative Landscape Strategy and***
- c. the Ladies Mile Development Objectives***

- 11 The proposed amendments to the Lead Policy were subsequently advertised for public feedback from 26 June to 26 July 2017. A discussion document, the indicative master plan and the proposed amendments to the Lead Policy were included.
- 12 The public feedback was considered by Council at its meeting on 17 August 2017. Council left the item lying on the table, and instructed Officers to consider three matters:
 - a. What level of contribution could come to the QLCHT from landowners? (recognising we need real value to the community);*
 - b. What protections can be employed to prevent speculation in sections and how would they work? (concern about people buying sections and on-selling at a profit, i.e. no point in creating affordable sections and someone buying and selling for a profit)*
 - c. What other large tracts of land may be available to provide affordable housing at suitable cost in the district?*
- 13 The three matters are considered under the headings below.

What level of contribution could come to the QLCHT from landowners?

- 14 Previous agenda items have proposed a special 10% contribution to the Queenstown Lakes Community Housing Trust (QLCHT) for the Ladies Mile.
- 15 The 28 September 2017 Full Council meeting, when considering the inclusion of areas of Wanaka into the Lead Policy, amended the Lead Policy to now require a 10% contribution to the QLCHT on a district wide basis.
- 16 Prior to the September 2017 meeting, the contribution was historically set at 5%, a figure based on the Stakeholder Deeds negotiated to date with developers for both plan changes and Special Housing areas. There is some variation around this 5% figure depending on the willingness of the developer and their ability to provide land / money or buildings. Approximately 20 Stakeholder Deeds have been agreed to date.
- 17 Mr Derek Foy, Associate Director, of Market Economics Ltd has prepared a short report appended as **Attachment C**. Mr Foy used the Ministry of Business, Innovation and Employment (MBIE) 'NPS-UDC Development Feasibility Tool', which is a tool recognised by central government, and is supported by background research from a number of agencies supporting input assumptions.
- 18 The model contains indicative assumptions relating to the cost of land purchase, holding costs (using capital value to which is added a holding cost) and development, including all civil works, fees and charges and potential sales prices for bare land (although as per below, Queenstown specific values are applied for this assessment). The model includes allowance for the cost of capital, and compares total revenue with total costs (including land purchase and holding) to calculate expected profit and hence development feasibility. Like any model, because it is based on assumptions, the outputs must be treated with some caution.
- 19 For the purposes of this modelling, Market Economics ran a core scenario which contains the best estimate of current development parameters (lot yield etc.), and which applies the model's core assumptions relating to the cost and timing of civil works, consultants fees and infrastructure connections.
- 20 Market Economics then undertook some sensitivity analysis using a number of different scenarios to show the sensitivity to different costs, different dwelling yields, different development timeframes and different raw land Capital Values (CV). The CV of land is used as a cost in the model.
- 21 The Market Economics report concludes that:

Although every effort has been taken to source accurate and representative data to populate the model for this assessment, this kind of development modelling is subject to significant uncertainty, and the developer will naturally offer different opinions about some of the key assumptions. The assumptions presented have been made with a view to providing an objective and impartial opinion to Council, and while some assumption could be adjusted, adjustments could be made in a way that would increase or decrease the assessed profitability.

22 Notwithstanding these uncertainties, the report concludes that:

The results of the assessment show quite clearly that there is significant potential to increase the contribution asked of the developer under all but the most pessimistic development scenarios, with only very minimal financial implications for the developer, given the context of the large profits this type of development will generate.

23 Given the nature of the modelling undertaken by Market Economics which has a number of assumptions built in about how the market may respond, and the importance of setting the contribution level to achieve the housing supply outcomes, a separate and independent view was also sought from MacDonald Consultancy / CBRE valuation who were asked to review and advise on the impact of differing levels of contribution from a commercial perspective. This report is appended as **Attachment D**. When looking at the SHA process they noted, in favour of an increased contribution:

- Significant time and cost savings for the developer when compared to a Private Plan Change or Proposed District Plan variation
- Greater certainty for the developer together with no appeals meaning a development can start sooner
- Increased yields over that which is enabled under the District Plan
- Contributions had already been obtained by the Council for Private Plan Changes and other SHA applications at varying effective percentages
- The recommendations of the Mayoral Housing Affordability Taskforce, if implemented, would result in any developer contribution being put towards a series of offerings that are intended to retain an affordability aspect in the long term to reflect the community investment aspect of a contribution

24 MacDonald Consultants / CBRE Valuation also noted there are a number of risks associated with an SHA and an increased contribution requirement from the Council:

- If the contribution is too high, a developer may not pursue the SHA option if they perceive the costs outweighing the benefits of the process, and the SHA would then not achieve its objective of bringing land to market at higher densities.
- There is a market risk of the higher densities associated with the SHAs as to their acceptability in the Queenstown market (i.e. higher density generally means smaller sections and different housing products).
- There is a risk, as for any development, of market demand for sections reducing or slowing, and therefore the theoretical returns are not guaranteed or always certain.

25 To answer the Council's question, the report from Market Economics shows that a contribution greater than 10% could be obtained. However considerable

caution should be exercised as the Market Economics modelling is necessarily based on assumptions that can be challenged.

- 26 The review from MacDonald Consultancy / CBRE Valuations, while noting the benefits and risks associated with any increased contribution also felt that a contribution of 10% would be reasonable but they noted that any increase above 10% carries increased risk for QLDC and levels at circa 20% are considered unacceptable. There is also significant risk associated with being a developer, and the Council could create a real disincentive to utilise the SHA mechanism if it sets the contribution too high. This would be counter to the purpose of the HASHAA.
- 27 For example developers may simply not develop the land, and either wait to have the land re-zoned through the Proposed District Plan, or to initiate a private plan change. Under these scenarios Council could try and negotiate a stakeholder deed but the developer is under no real obligation to enter into one. To date, initiators of private plan changes have been willing to enter into Stakeholder Deeds, but that may not always be the case.
- 28 The Council is also unlikely to be able to negotiate a high contribution and will lose a significant amount of control over the development compared to what could be achieved through the SHA process.
- 29 While there are certainly benefits from the SHA process for a developer, these could be outweighed by an overly burdensome requirement to provide land or money towards community and affordable housing. This would not achieve the purpose of the HASHAA:

To enhance housing affordability by facilitating an increase in land and housing supply in certain regions or districts, listed in Schedule 1, identified as having housing supply and affordability issues.

- 30 There are also considerable benefits from a fairness perspective in having a consistent 10% threshold across the district.

What protections can be employed to prevent speculation in sections and how would they work?

- 31 A variety of legal and non-legal mechanisms / approaches can be employed to try and reduce or prevent speculation on vacant sections. A brief report from Lane Neave is appended as **Attachment E**, and summarised below.
- 32 The Council could require that the Stakeholder Deed entered into with the developer to perform some or all of the three options described below.

1. Means Tested Eligibility Criteria

- 33 Through a Stakeholder Deed, the Council could require developers to sell an agreed percentage of properties in the development to a category of persons who meet certain eligibility criteria such as being a New Zealand citizen, a first home buyer, having a gross household income that does not exceed [X]% of the Queenstown Lakes District median; and that they intend to own and occupy the

property exclusively as their residence for no less than [X] years following purchase. The Lane Neave report (**Attachment E**) also considers legal mechanisms to ensure the above.

2. Restricting on-sale of bare sections

- 34 A slightly more limited mechanism would be to require SHA developers (through the Stakeholder Deed) to restrict the on-sale of bare sections within the development. This would require the developer to register an instrument against the title (such as a covenant, encumbrance, or caveat) which would prevent the on-sale of a section until a residential dwelling has been constructed on the land and code compliance certificate issued for that dwelling. An example of this mechanism being used locally is at Hanley's Farm.

3. Vetting process

- 35 Council could require developers to put in place a process / policy that prospective purchasers would have to go through before being given the opportunity to submit an offer for a property. The vetting criteria / policy / process could be subject to the prior approval of Council and would be aimed at ensuring that speculators were not given the opportunity to purchase sections.
- 36 This process would however be implemented by the developer and so Council would have to trust that the developer stuck to the policy and would have limited ability to enforce compliance. This is a similar, but more limited obligation than the means tested eligibility criteria noted above.
- 37 Officers understand that a vetting process is used by the developers of Shotover Country. The developer has a series of questions that seek to understand the motivations of the purchaser, as to whether it will be an owner occupier situation or otherwise. Anecdotally it appears relatively few houses have come on the market for sale at Shotover Country and a vetting approach has reduced turnover in sections at Shotover Country.

Enforcement of legal mechanisms

- 38 A Stakeholder Deed would require the developer to implement those mechanisms recorded in the Deed. However the ability to enforce the above mechanisms is somewhat limited. In the event that a developer did not comply with its obligations under the stakeholder deed, Council would also have an action against the developer for breach of contract.

Other considerations

- 39 Council will need to be careful that insisting on these mechanisms does not dissuade developers from proceeding under the Special Housing Area process. If developers decide to proceed with their developments under the ordinary resource consenting process then Council has no ability to insist on such mechanisms being included as part of that process unless a developer has volunteered a condition. Council only has the leverage to insist on inclusion of such mechanisms through the negotiation of the stakeholder deed as part of the Special Housing Area process.

Council's Lead Policy with regard to Speculation in Sections

40 Council's Lead Policy currently puts the onus on applicants to show how they will reduce speculation in vacant sections, and that can be assessed by Council at the EOI stage:

4. Affordability

Housing affordability is a key issue for the Queenstown Lakes District. The Council is committed to ensuring that as development takes place across the District, the provision of affordable housing is incorporated as part of each development. The Council is particularly interested in ensuring that affordability is retained overtime.

The Council expects landowners and developers to identify appropriate mechanisms to ensure that housing developed in a special housing area addresses the district's housing affordability issues. The Council considers that an appropriate mix of housing is necessary in the district, including housing for owner-occupiers, first home buyers, and accommodation for workers.

Examples of mechanisms to achieve affordability may include:

- a range of appropriately sized sections (including smaller sized sections of 240-400m²);
- a mixture of housing typologies and sizes is also desirable;
- the nature of any covenants (or similar restrictions) imposed on sections;
- **methods to reduce property speculation of vacant sections;** and
- methods to retain affordability in the medium to long term.

Housing developed in special housing areas will be expected not to be used solely for visitor accommodation and landowners and developers should identify an appropriate legal mechanism for securing this outcome.

41 While none of the mechanism identified above are perfect, there are tools available and these can be included in a Stakeholder Deed with a developer on the Ladies Mile to ensure they occur.

42 The Council has two real options:

- a. retain its current approach set out in the Lead Policy that puts the onus on applicants to come up with the methods to reduce speculation, or
- b. be more directive through its Lead Policy and require certain mechanisms to be employed, recognising the limitations of each.

What other large tracts of land may be available to provide affordable housing at suitable cost in the district?

43 To address the Council's question about other areas, Officers have only considered unzoned land in the vicinity of Queenstown with significant capacity for residential development, recognising that the Ladies Mile could initially

provide 1100 homes. This is because the Lead Policy and HASHAA are designed for areas that are unzoned.

- 44 Consideration has been given to the following attributes of the land (noting the assessment is high level and no detailed studies have been undertaken as part of this agenda item):

Table 3: Criteria used for assessing other large unzoned areas of land with potential for affordable housing

Operative & Proposed Plan Zonings	The existing and proposed zoning is identified.
Approximate Area and Yield / Land use efficiency	Comment is provided on the number of potential dwellings relative to gross area of land in a realistic development scenario. This describes how suitable the land is for urban development.
Landscape and environment sensitivity	Comment on existing landscape character, landscape classification including Wakatipu Basin Land Use Study (WBLUS). Comment on any other issues with the sensitivity of the environment.
Landowner(s) / Developer interest	Comment on level of developer interest. Calculate capital value per hectare.
Infrastructure efficiency	Comment on ability to connect to existing available capacity for key enabling infrastructure including planned infrastructure. Comment on the extent of any major new infrastructure needed including any issues with feasibility and timing,
Accessibility / Public Transport workability	Comment on how easily public transport could service the route
Distance to employment	Comment on distance to employment areas.
Natural Hazards	Comment on known instability, liquefaction, flooding and other natural hazards
Overall comment	Officers comment on the overall suitability of an area.

- 45 A high level assessment was undertaken of six other broad areas that officers felt could be considered for residential development. The six areas are shown in **Attachment F**:

- i. To the north of the Hanley Downs area, and south of the Kawarau River ("**North Hanley Downs**")
- ii. To the north of Malaghans Road, between Arthurs Point and Arrowtown ("**Malaghans Road**")
- iii. To the south of Arrowtown (between Arrowtown and the Arrowtown Retirement Village) ("**Arrowtown South**")

- iv. Land along, and at the end of, Tucker Beach Road ("**Tucker Beach Road**").
- v. Land adjoining Arthurs Point, off Littles Road ("**Littles Road**").
- vi. Land adjoining Sunshine bay ("**Sunshine Bay**").

46 All of the sites have their various advantages and disadvantages.

47 The key constraint for Littles Road (**Site 5**) and Sunshine Bay (**Site 6**) is that they are located within what has been identified as an Outstanding Natural Landscape (ONL). Residential development of this land is limited by its classification as an ONL. Obtaining resource consent even under a HASHAA regime would be problematic given the ONL classification, when considering dwellings in the ONL were declined as part of both the Bridesdale and Queenstown Country Club HASHAA consents.

48 The key issue with Arrowtown South (**Site 3**) is the Council's urban growth boundary and the firm policy of the Council now over many years to contain Arrowtown and not let it grow. This approach was tested in the Environment Court as part of the appeals on Plan Change 29 and 39 and the Court accepted that under the Resource Management Act, it was acceptable to 'protect' Arrowtown provided the district was providing for growth elsewhere (which is the case with regard to the zoned capacity under the PDP).

49 With regard to Malaghans Road (**Site 2**), this area is not an ONL but has very strong rural character. There is no real infrastructure available.

50 This effectively leaves North Hanley Downs (**Site 1**) and Tucker Beach Road (**Site 4**) remaining. The yield for North Hanley Downs (**Site 1**) is estimated at 2000+ residential units, significantly larger than Tucker Beach Road (**Site 4**) which is estimated at 1300+ residential units. Both estimates are high level made using standard formula and are somewhat coarse.

51 Both sites are near to existing infrastructure although both would require substantial upgrades and investment. No specific planning has been done or infrastructure costings or feasibility studies undertaken, and if it was to be developed, it would likely be a number of years before any development would be enabled.

52 The area north of Hanley Downs (**Site 1**) is about to have a pipeline constructed through it capable of accommodating wastewater from 2800 residential units, however this will be fully taken up by Hanley Downs and Jacks Point. The pipeline will cross the new Kawarau Bridge, and will occupy the hangers that are being built as part of that new bridge. It is not currently known whether further hangers could be added to the bridge for additional pipelines, or whether an alternative bridge crossing would be required.

53 The land at the end of Tucker Beach Road (**Site 4**) has access problems where it adjoins the State Highway. NZTA are currently investigating upgrades to this intersection. A new road to service the area linking through to Hansen Road and

potentially the Hawthorne Drive roundabout could be constructed, however that is a significant project in its own right.

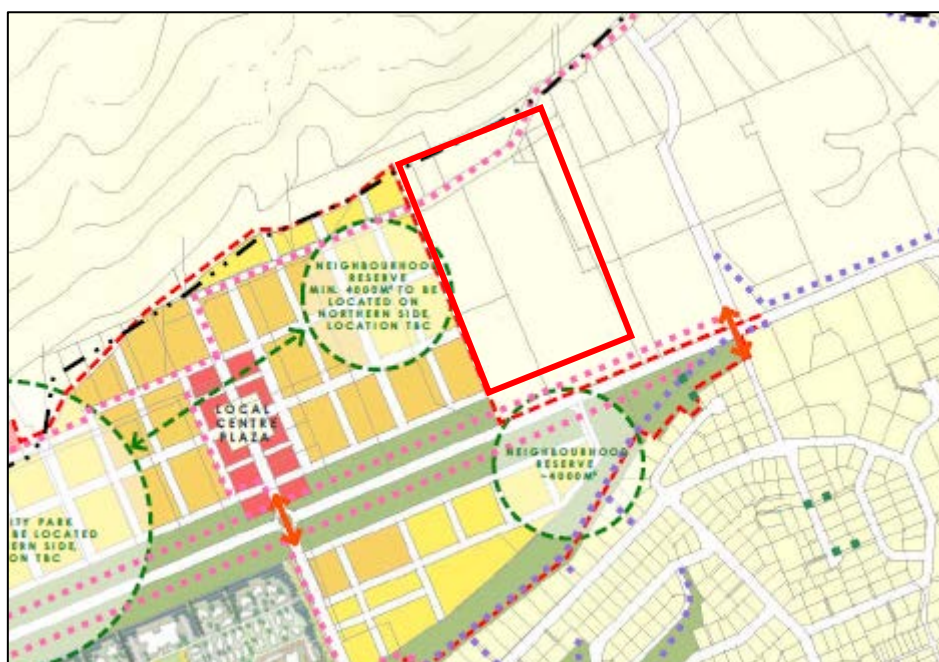
- 54 A large part of Tucker Beach Road (**Site 4**) is rural and undeveloped, however the majority of the area is already occupied by rural residential style development (1 dwelling per 4000m²). Once land is developed for rural residential it is very difficult to then try and fully urbanise the land in a comprehensive manner. The owners of such land have typically purchased a lifestyle block to avoid a more urban setting, and have invested significantly in a large house and landscaping. The ratio of capital to land value makes it less attractive to undertake further subdivision.

Summary with regard to alternative sites

- 55 Six high level alternatives have been identified that would provide a significant yield with regard to residential units. Of the six, land to the North of Hanley Downs was identified as having the most potential in terms of the assessment criteria.
- 56 Vacant land at the end of Tucker Beach Road was also a potential option, but overall both are less 'ready to go' when compared to the Ladies Mile.

Amendment to the Indicative Master Plan

- 57 Since the last Council meeting on 18 August, Officers have further considered the public feedback and the value placed on the rural character currently experienced when passing Lake Hayes and climbing the hill onto the Ladies Mile. As a result of the feedback and after considering the visual impact on the area closest to Lake Hayes, a change is proposed to the Indicative Master Plan to pull development on the northern side of the Ladies Mile back from Threepwood, towards the Shotover River. The reduction in area is shown in the image below within a red rectangle:



58 The change would see the area of development pulled to the west some 305 metres, to line up with an existing hedgerow. The reduction would reduce the overall yield from approximately 2185 to 1957.

59 The hedgerow could be retained through consent conditions and while it is comprised of deciduous trees, it would soften and screen urban development to a large degree at the eastern end of the Ladies Mile. The initial view of the Ladies Mile when heading towards Queenstown would remain predominantly rural. The hedgerow is shown in the image below, as viewed from McDowell Drive (the entrance to Threepwood):



Options

60 High level options for the Ladies Mile were set out in the 23 June agenda item and an options assessment was also included as part of the 17 August 2017 agenda item. As this report is for noting purposes only and is in response to questions arising at the last Full Council meeting, no specific options are identified.

Significance and Engagement

61 Significance and engagement has been considered under the 23 June and 17 August 2017 agenda items. This matter is of high significance.

Risk

62 This matter relates to the strategic risk SR1 'Current and future development needs of the community (including environmental protection)', as documented in the Council's risk register. The risk is classed as high.

63 This matter relates to this risk because the supply of housing is central to the current and future development needs of the community.

Financial Implications

64 Financial implications have been considered under the 23 June and 17 August 2017 agenda items.

Council Policies, Strategies and Bylaws

65 Council policies, strategies and bylaws were considered under the 23 June and 17 August 2017 agenda items. This matter is not included in the 10-Year Plan/Annual Plan.

Local Government Act 2002 Purpose Provisions

66 The proposal to amend the Lead Policy to include the Ladies Mile was assessed against the Local Government Act 2002 purpose provisions in the 23 June and 17 August 2017 agenda item.

Consultation

67 Results of public consultation were considered under the 17 August 2017 agenda item which remains lying on the table.

Attachments

- A 17 August 2017 agenda item (excluding attachments)
- B Amended Lead Policy, including Indicative Master Plan
- C Market Economics report on potential contributions to the QLCHT
- D MacDonald Consultancy Services & CBRE Valuation report
- E Lane Neave advice on legal mechanisms to prevent speculation
- F Location of 6 unzoned alternative sites considered