

Reference: 20160055

26 April 2016



Thank you for your Official Information Act request, received on 26 February 2016. You requested:

1. Paper written by the Ministry of Business innovation & Employment to the Ministers of Finance and Housing dated 13 July 2012 entitled "Hobsonville Divestment Plan: Options for Supporting Affordable Housing." Ministry reference 020 12-13.

On 23 March 2016 I sought an extension of 20 working days. A response to your request is due by 27 April 2016.

Information Being Released

Please find enclosed the following document:

Item	Date	Document Description	Decision
1.	13 July 2012	Hobsonville Divestment Paper: Options for Supporting Affordable Housing	Release in part

I have decided to release the document listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- under section 9(2)(h) – to maintain legal professional privilege, and
- under section 9(2)(i) – to enable a Minister of the Crown or any department or organisations holding the information to carry out, without prejudice or disadvantage, commercial activities.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Dominic Milicich
Principal Advisor, Transactions Unit – Social Housing



OTH12-771-AC
RECEIVED
20 JUL 2012
MB

Minister of Finance
Minister of Housing

RECEIVED
Office of the
16 JUL 2012
Hon. Phil Heatley

Date 13 July 2012
Ministry reference 020 12-13


Hobsonville Divestment Plan: Options for Supporting Affordable Housing

RECEIVED
Office of the
31 JUL 2012
Hon. Phil Heatley

Purpose

This report briefs you on the Hobsonville Land Company's (HLC's) detailed divestment plan¹ and on the lessons and opportunities the divestment strategy provides for the creation of affordable housing.


Key Points

- 1 The detailed divestment plan has been verified by PricewaterhouseCoopers as being commercially robust (with normal commercial risks).
- 2  s9(2)(h)
- 3 In particular the development, in addition to establishing a general scheme of development and supporting infrastructure, targets 20% of the 2500+ houses to be built at Hobsonville to be affordable houses (in an Auckland context).
- 4 To achieve such a high percentage of affordable housing on a high value land site the HLC is seeking to change development expectations and push planning boundaries. The HLC is working with Auckland Council to gain the necessary planning approvals.
- 5 HLC considers that the 20% affordable housing target can be delivered without direct subsidies. As HLC is pioneering new (for New Zealand) models for delivering large scale affordable housing, it will absorb some modest design costs.
- 6 Given the size and prominence of the development for Auckland, it will provide lessons for the delivery of affordable housing and should become an exemplar, demonstrating possibilities for affordable housing.
- 7 In addition to the normal commercial risks, the Crown's specific requirements (i.e. divestment within a five year timeframe and disposal for State housing purposes) present additional risks. These additional risks include a failure to gain Auckland Council planning approvals for more affordable typologies. The Ministry is developing a monitoring strategy to manage these risks in conjunction with HLC and Housing New Zealand Corporation (HNZC).

¹ "The Hobsonville Point Accelerated Development Business Plan to achieve Cabinet's Managed Divestment Plan"

Recommendations

I recommend that you:

- 1 **Note** that the Hobsonville detailed divestment plan has been verified as being commercially robust ^{s9(2)(h)}  _{s9(2)(h)}
- 2 **Note** that there are normal commercial risks associated with the divestment as well as specific risks arising from specific Crown objectives to dispose of the land within a 5 year time frame and for State housing purposes (including a risk of a failure to gain planning approval for more affordable housing typologies).
- 3 **Note** the Ministry is devising a monitoring plan and will report back on options to manage any risks that crystallize.
- 4 **Approve** the Hobsonville detailed divestment plan.
- 5 **Note** that the disposal of land at Hobsonville will provide an opportunity to pioneer a new (for New Zealand) approach to encourage the provision of affordable housing.
- 6 **Note** that this new approach does not require direct subsidies (HLC will absorb the approximately \$0.5 million initial cost of developing this approach).
- 7 **Agree** that the Ministry of Business, Innovation and Employment work with the HLC to support the development and encouragement of more affordable housing typologies.

Timeframe

Please consider the recommendations of this report by 25 July 2012.

Relevant Deputy Chief Executive

Brendan Nevin, Director Social Housing Reform Programme, 027 705 3954

Principal author

Bruce Arnold, Manager HNZC Performance and Monitoring Team, 022 658 6762

Hobsonville Divestment Plan: Options for Supporting Affordable Housing

Background

- 1 The Hobsonville development is located on the site of the former Hobsonville air force base. This site comprises approximately 147 hectares of Crown-owned land adjacent to the Waitemata Harbour in north-west Auckland.
- 2 The Government's development plan for Hobsonville balances the disposal of this land for State housing purposes with commercial return and less Crown participation.
- 3 To implement these objectives the HLC developed a high level divestment plan that was considered by Joint Ministers and subsequently by Cabinet. This plan was endorsed on 5 October 2011 when the Government agreed [EGI Min (11) 22/1 refers] to a general scheme of development for Hobsonville that provides for the sale of land to:
 - 1.1 contribute to urban land supply for a growing Auckland and to increase the supply of housing in Auckland (including social and affordable housing)
 - 1.2 assist meet the demand for residential housing across a range of prices, including social and affordable housing options
 - 1.3 ensure that New Zealanders have access to housing that meets their needs and is affordable
 - 1.4 to achieve an integrated urban community providing access to excellent facilities and services, including schools, neighbourhood shops, meeting spaces, parks and reserves, and public transport services
- 4 In response to Cabinet's direction HLC has developed "The Hobsonville Point Accelerated Development Business Plan to achieve Cabinet's Managed Divestment Plan" (the detailed divestment plan). You requested the Ministry provide advice on the robustness of this plan.

Review of Commercial Feasibility

- 5 The Hobsonville development has an estimated net present value of around [REDACTED] with a range of potential returns ranging from [REDACTED] million. This range is not unusual given the volatile nature of the property market.
- 6 The Ministry commissioned PricewaterhouseCoopers (PWC) to review the financial viability and robustness of the divestment plan. PWC noted that the project has normal commercial risks for a development of this type. PWC also noted that the conflicting Crown objectives of an ambitious divestment

timeframe and the policy objective of using the land for State housing purposes, constrain the Crown from achieving maximum value for the site.

- 7 PWC's overall assessment is that "HLC has balanced competing objectives in a pragmatic way to deliver within" shareholders requirements. PWC also noted that a relaxation in the timeframe would allow the Crown to consider a wider range of options to share risks and rewards and possibly reduce value leakage.
- 8 A proportion of the proceeds from land sales could be made available for reinvestment in housing priorities. This would help fund other social housing initiatives across New Zealand.

Consistency with State housing purposes

- 9 The Crown retained ownership of Hobsonville to further 'State housing purposes' after the end of the land's usage as an air-force base. While the Housing Act (1955) and Public Works Act (1981) provides for land to be retained for 'State housing purposes' the term is not defined by either Act.

10 [REDACTED]

1.1 [REDACTED]

1.2 [REDACTED]

1.3 [REDACTED]

11 [REDACTED]

- 12 [REDACTED] HLC has rewritten their business case to make at least 20% affordable housing (defined as houses priced between \$200,000 and \$500,000) an integral part of the plan. Of that 20% at least half of the houses will be priced below \$400,000. This affordable housing will initially be built under the direct auspices of HLC. Following the Crown's sale of super lots and exit from Hobsonville the requirement to maintain the provision of affordable housing will be achieved by positive covenants in sales agreements.

- 13 While the Auckland plan defines affordable housing as housing below \$375,000 the higher land prices on the North Shore (average 3 bedroom house cost was \$580,000 between 2010 to September 2011) and Waitakere (\$396,000) suggest that the local context justifies a higher definition of affordable housing. Given recent movements in the Auckland housing market we consider that for

Hobsonville an upper limit of \$450,000 – with the majority of affordable housing provided below \$400,000 is not unreasonable

- 14 The divestment plan provides for essential infrastructure within a general scheme of development and positive obligations on developers. As part of this the development also provides for at least 15% of housing to fall within a reasonable definition of affordable housing in the local context – i.e. \$200,000 - \$400,000 (and at least 50% of the affordable housing to fall within an absolute definition of affordable housing). We therefore consider that the divestment plan is consistent with State housing purposes.

Affordable Housing - Risks and Opportunities

- 15 The redevelopment of HLC's business model includes an aggressive plan to promote more affordable typologies. This is a deliberate break away from the normal New Zealand sub-division model of a "village" of similarly styled and priced housing towards a deliberate mixture of types and prices.
- 16 This is proposed to be achieved by adopting a different approach to housing that introduces concepts that are either new to New Zealand (but are common overseas) or that have fallen out of vogue in New Zealand (or been effectively outlawed by changes in planning requirements). HLC's proposals include a raft of new housing typologies. These cover a range of size from 50m² to 130m², a range of configurations from 1 to 3 bedrooms and prices from under \$200,000 to \$500,000 (examples of the typologies are included in annex 1).
- 17 While the top end of the more affordable housing is compliant with existing Auckland Council planning requirements the more innovative smaller designs stretch current Auckland Council planning limits. Given that approximately half of all Auckland households only require a single bedroom, HLC considers that there is a potential large demand for the smaller and more innovative house types. Therefore HLC is seeking changes to certain planning limits, such as on minimum lot sizes, to allow "Alley housing" (houses built above garages) and other designs.
- 18 While the divestment plan requires planning approval from Auckland Council, we note that the outcome of changes sought by the divestment plan directly support all four of the housing priorities included in the Auckland Plan. These include increasing housing choice to meet diverse preferences and needs and improving the supply of affordable housing. We understand that the Auckland Council is in discussions with HLC and as the Hobsonville development is regarded as a strategic project of importance to the Auckland Plans its proposals are being seriously considered.
- 19 While these design concepts are new to New Zealand they are not new. HLC is working off overseas designs and adapting them for New Zealand and Hobsonville's specific Comprehensive Design Plan. Therefore while a new 60-70m² house is unusual in New Zealand, such configurations are common

internationally. While not directly comparable, similar sized terrace houses in Sydney trade hands for multiples of the Hobsonville planned price.

- 20 Critically this more affordable housing will be provided without a direct subsidy (including no hidden subsidies such as reducing land prices or deferred payment). The need to create a market for new housing typologies does require HLC to incur some loss leading costs in creating and making available new plans, however, these costs are estimated to be in the region of \$500,000. In other words HLC expects to achieve around 500 affordable houses for around the cost of 10 Gateway homes.

Lessons from Hobsonville

- 21 While it is too early to evaluate if there will be sustained demand for the affordable housing that HLC is proposing, there are a number of factors that have been essential to making this approach possible. While Hobsonville may provide a clear demonstration of demand for new types of affordable housing, some or all of these factors may also be important to generate future supply (at least in the short term) of affordable housing. Factors that have allowed Hobsonville to take the approach to affordable housing that it has have included the:

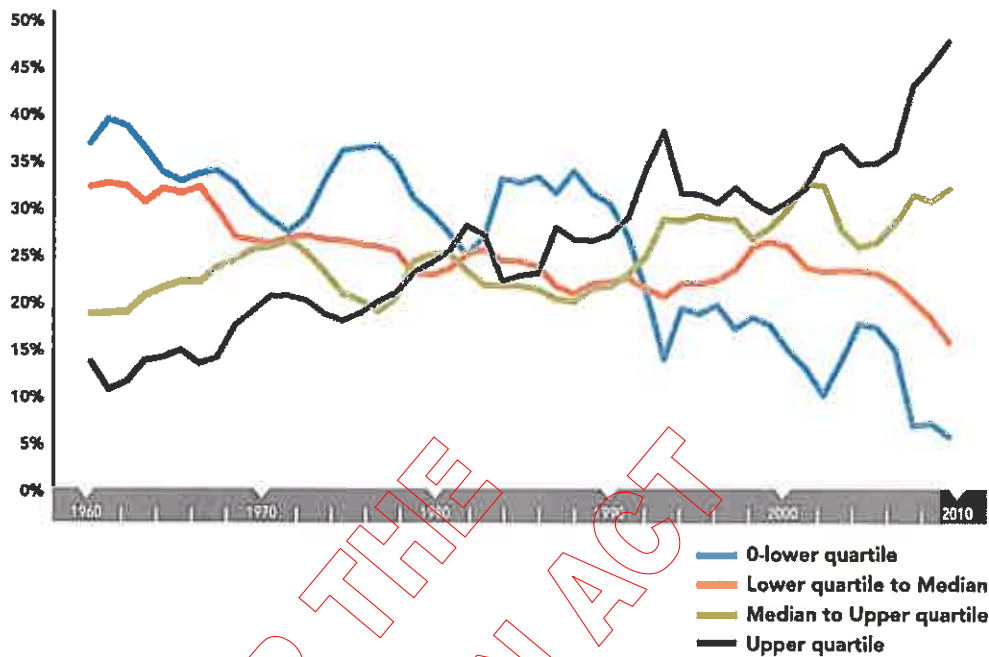
- 21.1 Size of the project that has provided the scope and resources to experiment with innovative designs
- 21.2 One developer having overall control, and so being able to shape the market and implement a consistent approach to affordable housing
- 21.3 Importance of this project to Auckland meaning that HLC has a greater opportunity to talk to Auckland Council planners and decision makers
- 21.4 Relevance of the proposed designs to the Auckland Plan's priorities (this may lead to a less favourable reception to some of the designs in other centres that are less pressured by demand and land availability constraints)
- 21.5 Active support and encouragement from central Government, including the provision of seed funding that has allowed the development of infrastructure and consistent planning.

- 22 Officials will continue to monitor Hobsonville developments and will report on lessons learnt.

Implications for Affordable Housing Elsewhere

- 23 The construction of affordable housing across New Zealand has fallen dramatically as a share of all housing construction since 1989. As illustrated below, the national trend is evident in Auckland where construction of new lower quartile housing fell from a historic average prior to 1989 of around 35% of all new builds to around only 5% by 2010.

Figure 1: Value Distribution of New Housing Stock for the Auckland Region



24 The Hobsonville divestment plan represents a serious attempt to reverse the trend away from the construction of new affordable housing, by showing that mixed developments can be commercially viable and sustainable communities.

25 If affordable housing at Hobsonville is a highly demanded part of a successful community, this will send a strong signal to other developers to start including building such housing typology. Because of its size and influence, the trialling of a new development approach in Hobsonville may therefore have a disproportionate influence beyond the 500 affordable houses that it will directly provide.

26 In addition to encouraging the building part of the supply side of housing success in Hobsonville will also assist Council planners and architects develop their thinking as to what affordable housing is viable. This may help change standards and create a more appropriate level of design and regulation as changes in Council planning standards is often cited as a reason for the dramatic shift in new build activity from the lower quartile to the upper quartile

Critical issues

27 The Ministry is comfortable that the divestment plan represents a pragmatic and comprehensive approach to developing housing for State housing purposes at Hobsonville. This development has great potential to signal the commercial viability of building affordable housing and so increase supply of good quality affordable housing.

- 28 The Ministry is aware of two specific project risks. The main commercial risk facing the Hobsonville development is the speed of uptake. While many factors including economic conditions, supply and demand for Auckland housing and location preferences will influence potential buyers decisions, the Ministry is particularly concerned about the risk of low absorption rates (low house sales) arising due to Hobsonville's combination of high density and high price.
- 29 The Ministry's commercial advisors, PWC, are of the view that higher priced developments are not inconsistent with high density. Despite this the Ministry considers that most high density/high price developments are considerably closer to the Central Business District than Hobsonville and so high density could possibly act as a constraint on demand for the new development.
- 30 The second specific project risk related to the project is the timeframe for divestment. Currently HLC is due to divest all Hobsonville land within five years. It is not proposed to change this timeframe, however, the timeframe was initially set with the provision of being dependent on market conditions. To prevent the risk of a fire sale, the Ministry's advice will therefore include advice on the impact of market conditions closer to the date of the planned final divestment.
- 31 Given the commercial, Public Works Act risks and the importance of Hobsonville as an exemplar of affordable housing, the Ministry will maintain an active monitoring role, in conjunction with HLC's owners HNZC. This monitoring focus will change in line with the stage of development of the project and according to what specific risks have crystallized. The exact monitoring interests of MBIE and HNZC are yet to be agreed, however, any monitoring regime will be designed so that it allows all risks to be managed and where possible it uses existing HLC reporting so that it does not incur excessive compliance costs.
- 32 While the current Cabinet minute provides for Hobsonville to include social and affordable housing the business case does not envisage any social housing. The Ministry considers that this is appropriate and consistent with social housing purposes. Our basis for this are:
- The peripheral location of Hobsonville and the lack of local work opportunities would not support the Government's objective of supporting beneficiaries back to work; and
 - There is not high demand for social housing in that part of Auckland. Hobsonville is a green fields site. Social housing customers would have to be imported rather than new housing meeting an existing local need;
 - The high land value and subsequent high cost of providing social housing would divert funds from higher priority areas in the Auckland sub-region.

33 A final unresolved issue is whether the affordable housing that is provided as part of the Hobsonville development should be ring fenced to eligible buyers (and if so what should be the eligibility criteria). If the affordable housing is provided at market prices (i.e. without any public subsidy) then it would appear that there is no prima facie case for having any ring fencing criteria. This is further supported by the fact that if Hobsonville is to serve as an exemplar of the possibilities of providing affordable housing to encourage other developers to do the same, then it is undesirable to take any actions that would restrict demand. The full policy implications, including whether or not restricting access to affordable housing would be inconsistent with State housing purposes have not yet been resolved however, so officials will do further work on this issue.

Supporting material

34 The HLC Detailed Divestment Plan is attached.

35 Also attached are typologies for the affordable housing that HLC will be making available for developers to use.

Recommendations


I recommend that you:

- 1 **Note** that the Hobsonville detailed divestment plan has been verified as being commercially robust and the [REDACTED]
- 2 **Note** that there are normal commercial risks associated with the divestment as well as specific risks arising from specific Crown objectives to dispose of the land within a 5 year time frame and for State housing purposes (including a risk of a failure to gain planning approval for more affordable housing typologies).
- 3 **Note** the Ministry is devising a monitoring plan and will report back on options to manage any risks that crystallize.
- 4 **Approve** the Hobsonville detailed divestment plan.

Approved/Not Approved
Approved

Minister of Finance

Approved/Not


Minister of Housing

- 5 **Note** that the disposal of land at Hobsonville will provide an opportunity to pioneer a new (for New Zealand) approach to encourage the provision of affordable housing.

- 6 **Note** that this new approach does not require direct subsidies (HLC will absorb the approximately \$0.5 million initial cost of developing this approach).
- 7 **Agree** that the Ministry of Business, Innovation and Employment work with the HLC to support the development and encouragement of more affordable housing typologies to help reverse the trend away from the construction of new affordable housing.

Approved/Not Approved

Minister of Finance


Brendan Nevin
Director, Social Housing Reform Programme

Hon Bill English
Minister of Finance

Date:

Minister's feedback

~~Approved/Not Approved~~


Minister of Housing


Hon Phil Heatley
Minister of Housing

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