Building Affordable Elderly Housing: How New Zealand's planning system influences market outcomes

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Abstract

New Zealand's population is aging and is living longer. Since 1980, the number of people aged 65 years and over has doubled. Baby boomers are now reaching retirement age and are likely to fuel further substantial growth in this age demographic over the next 20 years. As a result, there has been a boom in the development of retirement villages to cater for retirees with capital. But what are the options for the ever increasing number of retirees who have been life-long renters or cannot afford the lifestyle that many new retirement developments offer?

The elderly are one of New Zealand's most vulnerable groups in society and often require a certain type and style of housing to accommodate typical age associated ailments. However, the current market conditions and the planning rules imposed by many district and city plans work against supplying affordable homes for these people. This is particularly the case in main urban centres, where there is strong demand for one bedroom homes, yet land and other development costs, as well as planning rules make this outcome unfeasible.

This paper explores the changing demographics of New Zealand's elderly, the influence of the current planning system, and how planning has hindered the market's ability to provide affordable elderly housing in areas of highest demand. It will then consider how the recently introduced Resource Legislation Amendment Bill 2015, through its recognition of the importance of affordable housing supply, and the streamlining of the planning process, could potentially influence the future supply of affordable elderly housing and provide the elderly with a range of housing options that are compatible with their lifestyle and income.

Introduction

Over the past one hundred years, New Zealand has shifted from having a predominantly younger population to one which now has an increasing number of older citizens. We have an aging population and we are living longer.

Much of New Zealand's existing housing stock is typically three bedroom standalone housing on larger properties. The changing demographic necessitates the need to consider the different housing requirements of the older population. These people will often require specific housing typologies that cater for their needs in locations that provide good access to services, amenities and community. However, current market conditions and planning rules imposed through district and city plans make it difficult to develop affordable homes for this group of people.

This paper considers, in the context of this changing demographic, how the Resource Management Act (RMA) has influenced the development of affordable elderly housing and how the proposed RMA reforms may assist into the future in ensuring this housing supply.

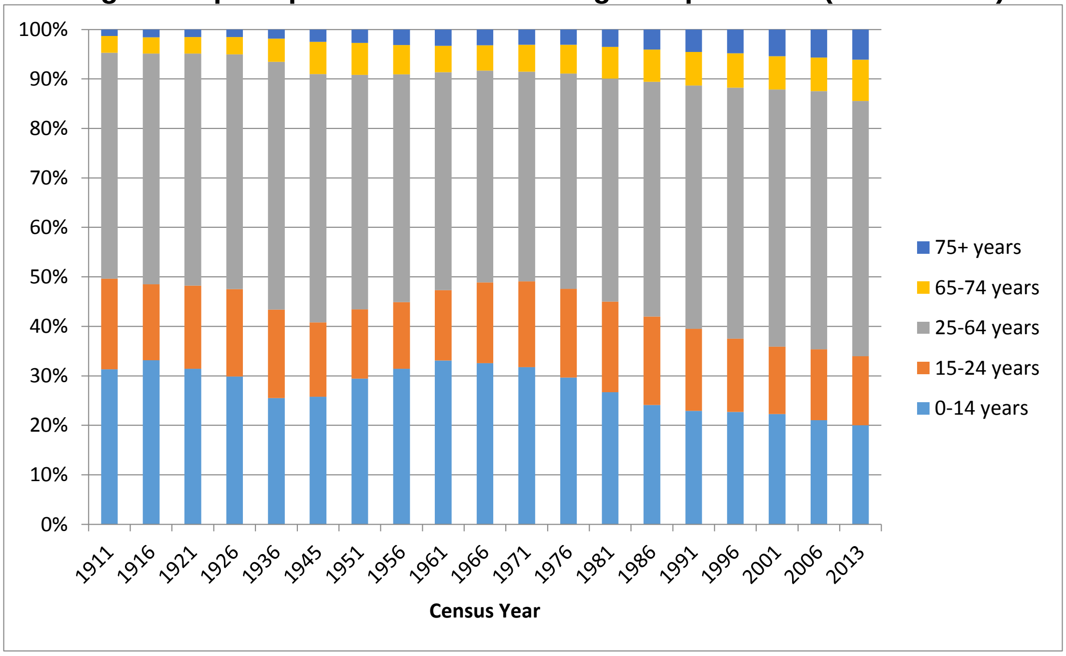
Changing Demographics

Since the early 1980's the number of people aged 65 years or older in New Zealand has doubled in size. This changing demographic has influenced and will continue to influence different facets of society, including supporting ongoing growth in sectors which support the elderly. The following provides an overview of the population changes New Zealand has experienced and the influence of these changes on the rise of retirement village living.

Population

In 1911, approximately 50 percent of the population was aged 24 years or younger, compared with those 65 years or older who comprised approximately four percent of the population. However, since this time there has been a consistent trend towards an aging population with fewer children being born, while older people are living longer. By contrast, in 2013, 34 percent of the population at census night was aged 24 years or younger, with 20 percent of those being aged 14 years or younger (compared with 31 percent in 1911), while those aged 65 years or more accounted for 14 percent of the population, with almost half of these individuals being aged 75 years or more. Since 1996, more than half of the population has been aged between 25 and 64 years[1].

Figure 1: Age Group Proportions of Census Night Populations (1911 – 2013)



As can be seen from Figure 1 above, there is a clear proportional increase of children aged 14 years or younger between 1951 and 1976. This increase is driven by the birth of Baby Boomers, so called because of the noticeable increased birth rates during the post-World War Two era, who were born approximately between the years 1946 to 1964. In 2011, the oldest of the Baby Boomers began to reach what is typically referred to as retirement age in New Zealand (65 years). By 2029, all Baby Boomers will have reached retirement age (based on an age of 65 years). By 2048, approximately 1.7 million (24 percent) of New Zealanders will be aged 65 years or older, compared to 16 percent who

[1] Statistics New Zealand, *A Century of Censuses - Population* http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/century-censuses-population/age-group.aspx, Downloaded 1/3/2016

will be aged 14 years or younger[2]. This declining younger cohort illustrates a shift where New Zealanders are getting older and living longer.

This shift has wider societal and economic implications with one of the more problematic perhaps being the resulting labour scarcity. Over time, this has the potential to influence the Crown's income as a result of a declining taxpayer base.

Incomes sources for elderly[3]

Changing population demographics and the resulting aging population will have significant impacts on the ability of the country to financially sustain and support our elderly into the future. There is a growing proportion of the population who are not wholly financially independent, or are dependent on government assistance to support them once they leave employment, specifically through the New Zealand Superannuation payment.

Many elderly have multiple sources of income to varying degrees, however for a lot Superannuation is the primary income source. At census night 2013, there were 628,638 people aged 65 years or older in New Zealand. Eighty-two percent (512,688) of these people received a superannuation payment or veteran's pension. In addition to superannuation, 87,801 over 65's earnt a wage or salary of some description, while 11,847 received other government benefits, payments or pensions (not including unemployment, sickness, invalids or domestic purposes benefits, of which 16,857 received one of these payments). Forty percent of people also received interest, dividends, rent or other investment income. Of those 65 years and older, 6210 did not have any source of income.

Over the period 2001 to 2013, most categories of personal income have experienced growth, particularly wages or salary and self-employment or business. There has also been an 88 percent increase in the number of people with no source of income.

While personal sources of income for elderly can be relatively diverse, particularly for those who have managed to accumulate capital throughout their lives; there are two primary sources of income available to those 65 years and older in New Zealand.

New Zealand Superannuation

In New Zealand, there is no specific retirement age; however, people in New Zealand (subject to specific criteria) become eligible to receive superannuation payments when they turn 65 years old. Superannuation is means tested and does not inhibit recipients from taking on additional employment; instead the income generated from additional work affects the overall total payment received. Between 1992 and 2001, the age of eligibility raised incrementally from 60 to 65 years to help sustain the costs of retirement. To support these ongoing costs into the future, revised eligibility criteria may be introduced.

Current policy set by the Ministry of Social Development outlines that New Zealand Superannuation for couples will be set at between 65% and 72% of the average wage, with superannuation for singles living alone and singles living with others set at 65% and 60% respectively of the payment received by couples. As at April 2015, superannuation

[2] Statistics New Zealand, *National Population Projections (2014 base year) – Median Projections* http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationProjections_HOTP2014.aspx, Downloaded 21/03/2016

[3] Statistics New Zealand, *Census of Population and Dwellings Dataset*, 2013

was set at 66% of the average net wage[4]. Before tax, this equates to $652.60 per week for a couple with both spouses qualifying for superannuation, $431.10 per week for singles living alone and $396.17 per week for singles living with others[5].

Accommodation Supplement

To assist those with limited income and cash assets in meeting their accommodation needs, whether this be to help pay rent board or the costs of owning their own home, the Ministry of Social Development makes the Accommodation Supplement available[6]. The supplement is means tested and will cover a portion of accommodation-related costs over an entry threshold. The maximum payment a person is eligible for is dependent on region and household size. There are no age related criteria to receive this supplementary benefit.

The Aged Care Residential Services Sector[7]

The rising number of elderly in New Zealand has begun to influence growth in services and sectors which provide for the needs of this demographic. The following provides an overview of the Aged Care Residential Services sector. This sector accounts for retirement villages in the New Zealand Business Demographic dataset.

In the past 15 years, the Aged Care Residential Services has declined in the number of Geographic Units[8] by -5.1 percent nationally. However, the sector has grown by 28 percent in terms of overall Employee Count[9]. In real numbers, this is a decline of 45 businesses, but an increase of 7250 employees.

Table 1 illustrates that the most significant growth in the Aged Care Residential Services sector in terms of the overall numbers of employees, has been experienced in regions with the largest urban centres, namely Auckland, Wellington Christchurch and Hamilton. This has been coupled with an overall contraction of the industry across the country in terms of total business numbers.

[4]Ministry of Social Development, *New Zealand Superannuation*, https://msd.govt.nz/what-we-can-do/seniorcitizens/entitlements/nz-superannuation/index.html, Downloaded 5/03/2016

[5] Ministry of Social Development, *Benefit Rates April 2015*, http://www.workandincome.govt.nz/individuals/brochures/benefit-rates-april-2015.html, Downloaded 5/03/2016

[6] Ministry of Social Development, *Accommodation Supplement*, http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/statistical-report/statistical-report-2008/supplementary-benefits/accommodation-supplement.html, Downloaded 5/03/2016

[7]Sector data within this section has been sourced from Statistics New Zealand, *New Zealand Business Demographic Dataset*, 2000-2015

[8]The **Geographic Unit** represents a business location engaged in one, or predominantly one, kind of economic activity at a single physical site or base. They are unique to enterprises which can have one or many geographic units (business locations). Typically, an enterprise only has a single geographic unit, unless the business has paid employees who permanently work at more than one location. Note, an **Enterprise Unit** (enterprise) represents the legal business entity.

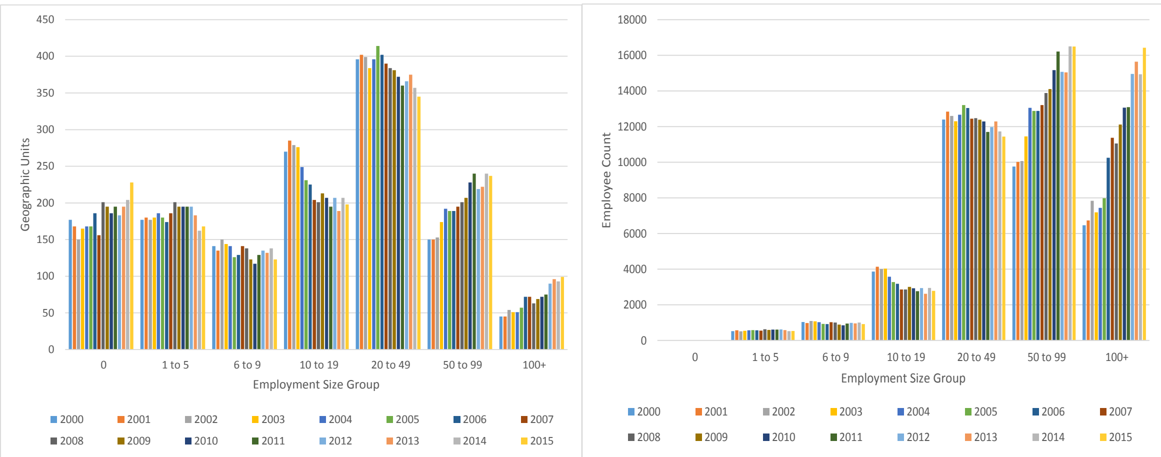
[9]**Employee Count** includes all employees who are paid. This is irrespective of the number of hours or days they work. Where individuals have multiple jobs with different employers, each of these jobs will be included in the business demographic dataset.

Table 1: Total Growth of the Aged Care Residential Services Industry 2000 – 2015

Region	Employee Count				Geographic Units			
	2000	2015	Total Change	Total Percentage Change	2000	2015	Total Change	Total Percentage Change
Northland	670	1200	530	79.10%	36	30	-6	-16.67%
Auckland	6200	7740	1540	24.84%	219	219	0	0.00%
Waikato	1720	2550	830	48.26%	69	69	0	0.00%
Bay of Plenty	1990	2530	540	27.14%	51	63	12	23.53%
Gisborne	150	360	210	140.00%	6	9	3	50.00%
Hawkes Bay	1030	1460	430	41.75%	36	33	-3	-8.33%
Taranaki	1270	1290	20	1.57%	45	36	-9	-20.00%
Manawatu-Wanganui	2030	2640	610	30.05%	69	60	-9	-13.04%
Wellington	2830	3910	1080	38.16%	87	75	-12	-13.79%
Nelson	230	560	330	143.48%	6	15	9	150.00%
Tasman	190	310	120	63.16%	6	12	6	100.00%
Marlborough	370	460	90	24.32%	12	12	0	0.00%
West Coast	180	280	100	55.56%	3	6	3	100.00%
Canterbury	4340	5130	790	18.20%	150	126	-24	-16.00%
Otago	1970	1690	-280	-14.21%	54	45	-9	-16.67%
Southland	690	1020	330	47.83%	27	21	-6	-22.22%
New Zealand	**25860**	**33100**	**7240**	**28.00%**	**876**	**831**	**-45**	**-5.14%**

Figures 2 and 3 illustrate the growth experienced in overall business and employee numbers nationally between 2000 and 2015, by overall business size.

Figures 2 and 3: Growth in Businesses and Employees 2000 to 2015



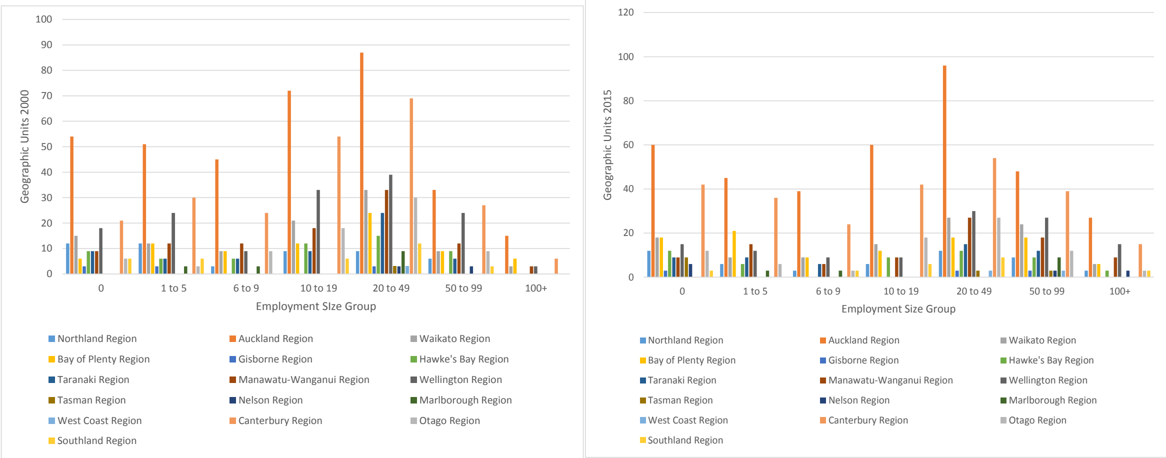
As can be seen in Figure 2, during this period there has been a trend towards businesses in the aged care residential services increasing in size, particularly in the number of businesses employing 50 or more people.

Figure 3 reflects this change in business sizes illustrating that there has been significant growth in the number of employees located in larger businesses. This growth has been particularly marked in businesses employing 100 or more people.

Figures 4 and 5 below illustrate the changing composition of business size in 2000 and 2015. As can be seen, there are some clear regional trends reflective of the changes experienced in overall numbers of businesses in the sector. Within Auckland, while there has been no overall change in the number of businesses there has been growth in the number of businesses falling within the 50 or more employment size groups, particularly those in the 100+ group.

Conversely, Wellington has experienced an overall reduction in the number of businesses but the sector has reconfigured itself with growth in the number of businesses within the 20 to 49 employment size group. Christchurch experienced the greatest decrease in businesses overall within the sector. This perhaps can largely be attributed to the earthquakes, but as a result and possibly due to necessity, the sector has seen growth in the number of larger businesses in terms of employee size.

Figure 4 and 5: Regional Business Growth 2000 and 2015



Within Auckland employee numbers have increased between 2000 and 2015, with a particular concentration of employees within the 50+ employment group sizes, and particularly within the 100+ employment size group where the number of employees has almost doubled. This is reflective of changes to the employment size profiles of businesses throughout the region. This trend is similar in Wellington and Christchurch, where while each region contracted in business number, employee growth was significant in the larger business size categories. This is particularly the case Christchurch, where the number of people working within a business of 100+ employees has almost tripled in size from 2000, and the 50 to 99 size group has increased by over 50 percent during the same period.

Figure 6 and 7: Regional Employee Growth 2000 and 2015

While nationally there has been a sector-wide contraction in the number of businesses present, this is counterbalanced by a significant rise in the number of businesses with large employee bases. This suggests that aged care facilities are gearing towards providing large scale retirement living, resulting in individual providers either growing capacity across individual sites, amalgamating facilities across multiple sites into one provider or a combination of these. This has enabled providers to grow overall capacity to provide whole of life facilities ranging from full service retirement complexes, catering for independent living through to semi-independent living and hospitalisation.

As the above section shows, there is an increasing proportion of elderly within New Zealand. In response to this, there has been corresponding growth within the Aged Care Residential Services sector to cater for these people. In addition, there is also an increasing proportion of older people within New Zealand of retirement age, who have a lower income or few capital assets. As such, there is an overall growing need for additional supply of smaller housing to cater for this demographic, and specifically for smaller affordable housing for those with low incomes and limited capital.

Housing Elderly in New Zealand

The elderly are one of New Zealand's most vulnerable groups in society and often as they get older, require a certain type and style of housing to cater to their specific needs and requirements. However, what remains constant regardless of age, mobility or other impairment, is a need to ensure a good level of amenity derived through access to community, services and facilities which enable the individual to age in place and remain as self-sufficient as they chose or are able to be. For each individual this will result in different outcomes and desires whether this be to:

- Continue living in the community where they have spent their lives,
- Stay within close proximity to family and friends who will provide them with the greatest support and companionship,
- Have good access to local services and facilities that act as informal networks, or;
- Seek out new locations that provide a lifestyle change or the opportunity to experience something different.

Across much of New Zealand, typical housing stock is a standard three bedroom standalone house on property which provides a good degree of outdoor area. The upkeep and maintenance of these types of properties can be significant. In addition, the configuration of the house itself may not be modifiable to enable ongoing use by an elderly person as they age and factors such as mobility and accessibility become a determinant in accommodation arrangements. As a result, the individual may have little option but to downsize. However, anecdotally it seems within the market, that there are very few genuine opportunities for elderly to relocate in housing which provides best for their requirements. This is particularly in the case of new build developments, where much of the smaller housing available appears to be terraced housing, developed in order to take advantage of zoning and density rules. However, this housing typology is unsuitable for older people due to their multiple storey design and the resultant internal stairs. In addition, it appears that much of the new housing supply is targeted towards demographics which will realise greater value uplift rather than providing affordable housing appropriate for older people.

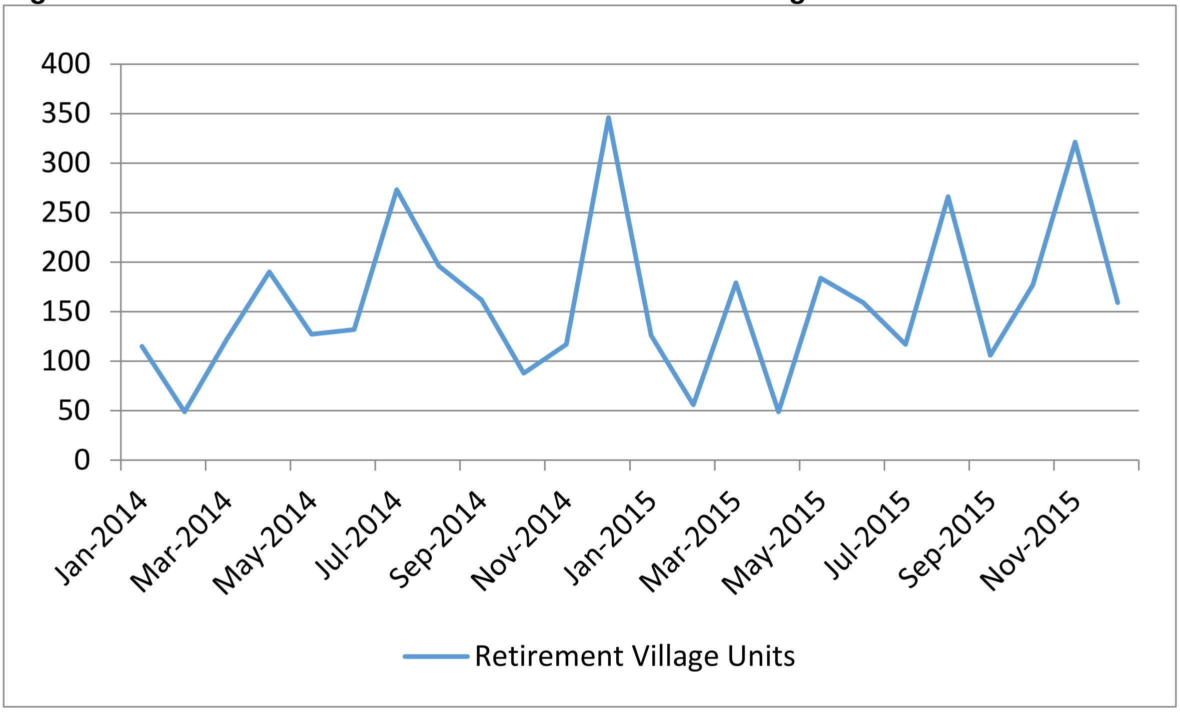
Growth in the Aged Care Residential Services sector has assisted to provide new housing supply for the aging population. It has done this by providing new units enabling those with the capital means to live in retirement villages. However, there is a growing proportion of people who do not have the means to live in a retirement village, nor do they qualify for social housing. It is this group of individuals which require affordable housing.

Retirement Villages

The rise of retirement villages has largely been driven by the increasing numbers of 'baby boomers' now reaching retirement age. On retirement, these people will typically own their own homes, be mortgage free, have accumulated investments and savings and are looking to downsize their homes. Retirement villages are attractive to this cohort because of the level of amenity and lifestyle that is offered in the way of community, activities and facilities that provide a whole of life experience. In recent years, growth in this sector has typically seen larger providers undertake expansion which has in turn enabled a greater service offering. This has meant that people living within a village have the choice of living autonomously, in semi-independence with some degree of assisted living, through to fully-assisted, hospital and end of life living environments. This means that people are able to age in place and maintain strong social networks as they move through their various life phases.

Illustrating the growing popularity of retirement villages, Figure 8 below shows that in the two years ending December 2015, resource consents were issued for 3,816 retirement village units nationally, averaging 159 units per month[10].

Figure 8: Resource Consents Issued for Retirement Village Units



However, while retirement villages are popular, entry to these villages is capital intensive and as such is generally only a viable option to those with the surplus capital when they reach retirement age.

In New Zealand, retirement villages are typically structured in a way that provides an individual or couple with a license to occupy a residence within the village. This provides the person with the right to occupy the residence without ownership rights. To do this, there is a requirement to pay a capital sum. This is generally the value of the property a person will occupy, of which up to 30 percent is typically spent over the following three to five years to cover costs such as the use of communal facilities, management or long-term

[10] Statistics New Zealand, Resource Consents Data, For the year ending December 2015

maintenance. This charge is typically deducted at the end of the occupation right agreement. This structure effectively means a person will lose approximately one-third of their capital when they enter a retirement village, regardless of length of tenure. Residents also have an ongoing requirement to make regular ‘body corporate’ payments which contribute to operational costs and services such as security, maintenance and general upkeep of the facility. In addition, when exiting a unit, residents will typically not capture the capital gains on their properties; instead any uplift in value realised through the sale of the residential unit will be captured by the retirement village, who will still only pay residents approximately two-thirds of what was originally paid for the unit. Conversely, some occupation agreements will include a capital loss clause. This means that if the property is sold below the value that an occupier purchased it at, the occupier may be liable for the operator’s costs[11].

This structuring means that for some people, retirement villages are an unrealistic housing option. Across the country, and in particular, Auckland, house prices are increasing. This has made it difficult for first home buyers to enter the market, particularly those on middle to lower incomes. As a result, it is becoming more common for older generations to assist their children into home ownership using their own capital. This creates a need to preserve capital rather than utilise it for discretionary spending. The capital intensive entry and exit requirements for retirement village living make it difficult to do this and therefore create a tangible barrier to entry. Additionally, for some people, their home is their only asset. While the sale of the property may provide the means to enter a retirement village, the person may not have sufficient funds to be able to afford the ongoing body corporate fees and the like once they enter a village. Lastly, there is a growing proportion of the aging population who have been lifelong or long-term renters and do not have the capital to facilitate entry into a village environment.

Affordable Elderly Housing

A growing proportion of the population are renters and this trend is likely to continue as the cost of entry into the housing market increases, particularly in larger urban centres. Some of these existing renters are now retired or heading towards retirement and do not have access to capital that would enable them to enter into retirement villages. At the same time, the market does not provide opportunities for this group of people to downsize (whether as homeowners or renters) into appropriately designed and located smaller properties. This would allow this group to reduce their costs of living so that it is proportionate to their likely income provided through New Zealand Superannuation while enabling them to meet their accommodation needs, from the perspective of providing for age appropriate housing and access to services, facilities and existing community networks.

Social housing providers, such as community housing groups and Housing New Zealand, as well as local councils with elderly housing, contribute to the overall supply of affordable elderly housing rental accommodation. However, the number of existing units available is finite and entry requirements can disadvantage those with some existing capital base. To overcome this shortfall, there is a need for a market driven response through the provision of affordable housing to cater for this growing demographic.

[11] Commission for Financial Capability, *Thinking of living in a retirement village?* April 2015 http://www.cffc.org.nz/retirement/retirement-villages/, Downloaded 15/02/2016

The Influence of the Resource Management Act

The Resource Management Act (RMA) has influenced the building of affordable elderly housing in two key ways. The first is through the District Plan process which result in policy and zoning outcomes including the densities allowed under operative plans. The second in through land supply restrictions which result from mechanisms such as land use zoning and the setting of urban limits which can create over-inflated demand for land to supply new housing.

District Plan Provisions

While a number of councils have strategies pertaining to the provision of elderly housing in their area, Christchurch City Council is the only main urban area that makes specific reference to this in their current operative city plan. Other councils such as Auckland Wellington and Hamilton instead make reference to the need for to enable medium to high density residential development of varying housing typologies, around main centres to encourage diversity within the community and ensure ready access for those that require it.

Christchurch City Plan[12]

The Christchurch City Plan includes policy pertaining to the development of Elderly Persons Housing (EPH). This is housing defined as single level accommodation for people aged 60 years and older or invalids and has unique planning rules which enable the construction of EPH units at a higher density in suburban and medium density environments. The policy acknowledges the limited potential adverse effects of this demographic on these locations. These rules make it viable to construct smaller housing typologies in suburban environments. This enables the elderly to age in place, remain within their communities and have easy access to services, facilities and amenities they require. It should be noted that it appears that this policy has not been included in the current proposed District Plan for the city.

Medium Density Zoning

Across New Zealand, medium density zoning of varying descriptions is becoming more common within urban areas. It is seen as a means to accommodate future population growth and the need for additional housing supply without the necessity to extend urban limits which can affect infrastructure and service delivery by local and regional councils. Providing for medium density housing in areas with existing metropolitan and town centre environments gives residents the opportunity to live in a housing typology geared towards small to medium sized units with easy access to core services, amenities, public transport, retail and employment opportunities. Proximity between residents also enables the development of community and social cohesion through formal and informal interactions in a number of different settings.

For the elderly, ease of access to services, amenity and community is a critical locational factor in determining appropriate places for housing targeted towards this demographic. However, more often than not, developing affordable housing geared towards this cohort in well-established urban environments is unfeasible. This is due to land values and the potential uplift in value that could be achieved by targeting the higher end of the residential market.

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[12] Christchurch City Council, *Christchurch City Plan*, 11.2.2 Policy : Elderly persons housing, November 2005

Medium density housing typologies and apartment living is still a new and developing market, particularly in well-established urban centres. The growth and success of this market and the potential future ability to deliver affordable housing outcomes for the elderly and wider population will require a step change and ideological shift which sees these housing typologies become mainstream and a common occurrence in devising and implementing planning outcomes.

Land Supply

The land supply available for residential development and differing typologies is determined through local and regional council mechanisms. At a local level, councils have the ability to constrain or increase the supply of land through the zoning they apply to land within the Territorial Local Authority area (TLA). In addition to this, the zoning applied to the land will directly influence its future value and uplift potential, thereby affecting the ability to develop affordable housing in an area.

Regional councils through the setting of policy and plans are able to set limits on the extent of urban areas to support future population and business growth. The Auckland Metropolitan Urban Limit (MUL) is a well-known example of this zoning restriction which was defined by the Regional Growth Forum in 1999 as "the boundary of the urban area with the rural part of the region"[13]. This concept was further explored as part of the Auckland Regional Growth Strategy which sought to ensure that the majority of future growth would be accommodated in existing metropolitan areas and specific Greenfield locations in the north and south of the region[14]. The implementation of the urban limit circa 2001 has been a contributing factor in the significant rises in residential land prices. Analysis by the Productivity Commission's inquiry into housing affordability in 2012 highlighted that the price differentials between land located 2km within the MUL compared with 2km outside the MUL had increased from 6.29 in 1998 to 8.65 in 2010[15]. This is demonstrated in land values across the region where Greenfield land located on the urban side of the limit will typically be much higher than those properties located on the rural side. This occurs because of the limited potential of the land to be used to increase the land supply for residential housing in the city and potentially suggests that the compact city approach for the region undermines the ability to achieve affordable housing[16].

Special Housing Areas

In September 2013, the Housing Accord and Special Housing Areas Act was enacted "to enhance housing affordability by facilitating an increase in land and housing supply in certain regions or districts … identified as having housing supply and affordability issues."[17]. The Act aims to enable fast-tracked development in areas of high housing demand by bypassing some existing Resource Management Act (RMA) processes and

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[13] Zheng, G., *The New Zealand Productivity Commission: The Effect of Auckland's Metropolitan Urban Limit on Land Prices*, March 2013

[14] Auckland Regional Forum, *Auckland Regional Growth Strategy: 2050*, November 1999

[15] The New Zealand Productivity Commission, *Housing affordability inquiry: Summary version of final report,* March 2012

[16] The New Zealand Productivity Commission, *Housing affordability inquiry: Summary version of final report,* March 2012

[17] Housing Accord and Special Housing Areas Act 2013, Purpose, http://www.legislation.govt.nz/act/public/2013/0072/latest/DLM5204729.html, Downloaded 21/03/2016

assist to streamline plan changes and resource consenting processes[18]. While the legislation identifies a number of areas across the country where it can be applied, the most visible of these areas is Auckland where there has been an identified housing crisis and has led to the development of substantial number of Special Housing Areas throughout the region.

Developing Affordable Elderly Housing

A significant barrier to developing affordable elderly housing is demand. Mechanisms exist to facilitate higher density development. This can enable delivery to the market of affordable smaller homes which cater for elderly who seek to down size their property as they age but are unable to enter into a retirement village. However, while there is an increasing proportion of the population who are beginning to experience issues of housing affordability as they head towards retirement, the issue is not sufficient enough to generate a market led response which would see development of this specific housing typology. This is primarily due to the cost of inputs into the development of residential housing and realised value uplift of the final product delivered to the market. This is explored below through the use of a hypothetical example of a site available for development in a suburb which generally typifies values experienced across much of Auckland.

In developing houses there are two primary inputs, the cost to build a property and the cost of land. Build costs will typically incorporate components such as professional fees, development contributions, consenting fees, remediation requirements, demolition of existing buildings on the site, construction materials and labour. The cost of land consists of the land value or the cost to acquire land, with this being primarily driven by the supply of land available for development. Where all build components are equal, the cost to build a house of the same design should be the same across locations, with the only true variance in the overall cost being the value of the underlying land.

In Auckland and Christchurch, the key driver for increasing house prices has been the demand created by the limited supply of housing and the underlying land values this undersupply has generated. In Auckland in particular, this has led the market at large to maximise the value uplift achieved through new developments by maximising allowable density, and gaming bedroom typologies to provide houses to the market which are easily sellable and realise substantial value uplift at completion of the build. Under current zoning rules this will typically result in larger, multi-storied houses rather than smaller, affordable, well designed and configured housing typologies best suited for elderly in accessible locations.

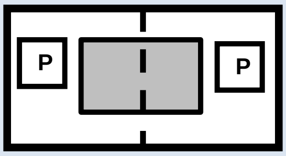
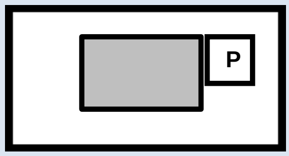
This occurs because from a planning perspective medium density zoning is placed in high amenity and generally, high value suburbs. This essentially provides the market with incentive to maximise the value realised through development. At the moment, this generally seems to result in multi-storied terraced housing or apartments geared towards the higher end of the market. By contrast, in suburban areas, zoning generally provides for lower allowable densities. This encourages the building of larger homes which maximises the value realised in these zones. In low density areas there tends to be no acknowledgement by planning rules that for instance, a one four bedroom property, probably occupied by a larger family would likely have a similar level of effect in the suburb as a development with multiple elderly units on the same site. As such, there is little opportunity or incentive for developers to explore this housing outcome.

[18] Ministry for the Environment, *The Second Phase of Resource Management Act Reform,* November 2015

In addition, much of the current large scale new build supply is occurring in one of two locations. These are Brownfield sites in high value areas, or Greenfield developments on the edge of urban environments which have no established local services or amenities, poor public transport and safe walking connections, or community that enables formal and informal social connections. In this instance, even if the market were to make the conscious decision to provide affordable elderly housing in a Greenfield development, these people would generally be required to relocate away from their existing community and potentially their family and friends.

An example of the effects of value uplift on a developer's decision to build a particular housing typology is illustrated in Table 2 below. In this hypothetical example, the site available for development is 400m^2, and is located in the Auckland suburb of New Lynn, which has been identified as a Metropolitan Centre in the Auckland Plan. For the purposes of this example, zoning in the area provides for a maximum allowable density of 1:200.

Table 2: Redevelopment Scenarios

Cost	Two Bedroom Development	Four Bedroom Development
Configuration	 2 Bedroom Single Storey Onsite parking GFA - 75m2	 4 Bedroom Single Storey Garage - internal access GFA - 150m2
Site size	2 x 200m^2 = 400m^2	400m^2
Gross Floor Area	2 x 75m^2 = 150m^2	150m^2
Build cost / sqm	$2550m^2	$2250m^2
Total Construction Costs	**$382,500**	**$337,500**
Land Costs	**$350,000**	**$350,000**
Professional Fees[1]	$38,250	$33,750
Resource and Building Consent fees[2]	$7,650	$6,750
Development Contributions[3]	2 x 30,000 = $60,000	1 x $30,000
Watercare Fees[4]	2 x $10,500 = $21,000	1 x 10,500
Total Charges	$126,900	$81,000
Contingency[5]	$19,125	$16,875
Total Cost	**$878,525**	**$785,375**
Sale Price[6]	$540,000 X 2 = 1,080,000	$995,000
Profit	**$201,475**	**$209,625**

[1] *Assumed as 10% of construction costs*

[2] *Assumed a 2% of construction costs*

[3] *Assumed fixed per unit contribution*

[4] *Assumed fixed per unit contribution*

[4] *Assumed fixed per unit contribution*

[6] *Based on listed sale prices of comparable new build developments in New Lynn and immediate surrounding suburbs as at 26/03/2016, www.realestate.co.nz*

As can be seen, a single four storey house in this scenario will generate a greater profit for a developer than building two smaller units on the same site. In addition, this profit can be achieved by expending the minimal amount of effort required in terms of design, consenting and construction for the property when compared with the two unit design.

When faced with development scenarios such as the above, developers are likely to consider three factors in determining the final site use, these are:

- Site location and suburb,
- Highest and best use of the site in order to maximise value uplift, and;
- The demographics of those likely to purchase at the expected price point.

When considered from this perspective, it is unlikely that affordable elderly housing will factor as a preferred development option on a site because there are other higher value outcomes that will achieve greater returns for a developer.

Influencing the Future Development of Affordable Elderly Housing

Much of New Zealand's current planning system preferences increasing residential densities, imposing zoning outcomes and restrictions through policies and objectives relating to minimum lot sizes, height restrictions, densities and land uses. As previously mentioned, this typically results in medium density development in high amenity, high value urban areas, and low density development in suburban locations, with the market seeking to undertake development which maximises the realised value uplift. This outcome suggests that current planning rules are not working to influence the market and encourage the development of affordable housing, particularly for the elderly.

Through its inquiry into housing affordability, the Productivity Commission determined that the RMA was one of the key factors driving increasing house prices, primarily through the constraints it places on land supply, creating residential land scarcity, limiting housing choices and therefore increasing land prices[19]. The RMA does this by limiting the responsiveness of plans and processes to enable accelerated housing supply to meet the needs of rapidly growing cities and increased demand for housing; and perhaps more importantly, by limiting the availability of land for residential development through zoning and density constraints[20].

In order to address these issues, recent proposed changes to the RMA identify alterations that will assist with the development of affordable housing by:

- Recognising the importance of enabling affordable housing, whereby councils will need to be more forward thinking and proactively plan to have enough residential and business land for development. This will ensure a sufficient supply of land so as to limit future increases in land prices,
- Enable improved and efficient consenting to reduce development costs by making the process easier, more affordable and streamlined across New Zealand regardless of TLA, and;
- Allow subdivisions as a permitted activity unless the activity is restricted[21].

[19] The New Zealand Productivity Commission, *Housing affordability inquiry: Summary version of final report,* March 2012

[20] The New Zealand Productivity Commission, *Housing affordability inquiry: Summary version of final report,* March 2012

[21] Ministry for the Environment, *The Second Phase of Resource Management Act Reform,* November 2015

These reforms are supply side interventions that will if implemented correctly, should assist to increase land supply and as a result limit future increases in land values. However, bringing to market housing stock which is affordable, designed to meet the needs of elderly and located within existing communities which enables them to age in place, is largely demand or market driven. As such, these reforms will not necessarily solve the wider issues surrounding the development of affordable elderly housing.

Retirement villages and social housing providers essentially cover the two extremes of the housing continuum experienced by an aging population. At the moment it would appear that demand for affordable elderly housing is not sufficient enough to warrant a market response. As such, it will not be until this growing problem begins to gain critical mass and starts to impact the property market over the next 10 to 20 years as more people become retirees, that there is likely to be any tangible market response to this issue.

This being the case, the question becomes how can the proposed RMA reforms in the short term, support a future market led response to this issue without the need to incentivise or subsidise elderly housing? The most obvious answer is to ensure the development of coherent masterplans for new supplies of land. This means ensuring that future elderly have an opportunity to age in place, taking into account the whole of life perspective. To achieve this, there is a need to provide a range of housing outcomes and achieve densities which enable fluid, affordable movement between these typologies depending on circumstances and needs. A key component of this is ensuring accessibility to key services and amenities, while also having core community infrastructure in place, such as libraries, community halls and supporting programmes which provide elderly with the ability to create formal and informal social networks. Considering how elderly can be incorporated into new and existing town centre environments is critical to ensuring that this sector of society is not further marginalised by being located on the periphery.

To address the immediate issue of affordable housing options for elderly, greater innovation is perhaps a needed to explore and implement planning solutions which enable this outcome. An example of this is policies and rules on the provision of elderly persons housing that some cities, such as Christchurch, have previously included within their district plans to facilitate this housing outcome. It appears that these provisions have been dropped from current and proposed plan revisions, and the reason for this is unknown. However, from a planning perspective, these provisions could enable the supply of affordable elderly housing in low density environments by providing greater flexibility to the market in the type of housing and densities it delivers targeted towards this demographic.

In order for the proposed RMA reforms to be effective in influencing the development of affordable elderly housing, there is a need for councils to be proactive and innovative in how they plan for new land supply to incorporate elderly into new living and town centre environments and then ensure that the zoning and rules sufficiently provide for this housing outcome. In doing this, councils and the planning system at large, will be able to effectively support the market response when it comes to provide affordable elderly housing supply.

Conclusion

New Zealand’s changing demographic has meant that we are becoming an aging population and living longer. This growing proportion of older people require a specific type of housing which cater to their needs at this life stage. However, much of the country’s housing stock is for various reasons typically unsuitable for older people as they age. This has influenced the growth in retirement villages across the country, particularly, in our main urban centres. These villages have sought to offer older people access to a range of housing options that provide for independent, through to semi and fully assisted living in an environment that provides good access to services, facilities and community. Yet, retirement villages have a high capital requirement for entry and this makes retirement living an unaffordable housing solution for a number of elderly.

There is a growing need for the provision of affordable elderly housing, but the current planning system and market conditions have made it difficult to deliver new supply of suitable housing typologies for this demographic. The prevailing planning preference is to increase residential densities within urban areas while restricting the supply of Greenfield land for residential development. This has seen different zoning outcomes established which have encouraged the market to respond and deliver housing which maximises the realisable value uplift of development, rather than to provide a balanced range of housing typologies to cater to various demographics. In addition, the development choices made by a developer are largely demand based, and proportionally, the number of elderly requiring affordable housing, has not risen to a level that would actively encourage a market response. These two factors often mean that supplying affordable elderly housing in not a preferred development option.

The delivery of affordable elderly housing is predominantly demand driven. The proposed changes to the RMA provide supply side interventions to what is essentially a long-term demand issue. As such, there is a need to consider how these reforms can in the short term, support a future market led response which provides elderly with appropriate housing in locations that enable them to age in place while providing access to services, amenities and community. Achieving this outcome will require councils to proactively masterplan new land supplies to ensure a range of housing typologies which enable people to transition fluidly within the same community and between different housing options as they age. In addition, innovation in the policies and zoning outcomes applied through district and city plans will be required to enable appropriate elderly housing outcomes in low density, and typically more affordable locations. Undertaking these two planning components effectively will assist to deliver affordable elderly housing which meets this demographics needs in appropriate locations once sufficient demand occurs.

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