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Developers' decision-making: a case study of development in Special Housing Areas

Dr Bev James
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Executive Summary

This research focuses on the role of the developer and development practices, without which residential development through a Special Housing Area (SHA) would not happen. Ten interviews with developers, builders and planners involved in SHAs were conducted in the Western Bay of Plenty sub-region. This study contributes to both understanding the critical role of the developer's decision-making and practices in the production of housing, and the growing literature about the nature, impacts and implications of SHAs. It is part of a wider research programme in the Building Better Homes Towns and Cities National Science Challenge.

The establishment of SHAs was intended to increase land and housing supply, and as a result, to enhance housing affordability. In that context, this study asked three questions:

- How do developers decide whether to undertake a residential development?
- How do developers make development decisions in relation to SHAs?
- What is the extent to which developers are concerned with the production of affordable housing in SHAs?

Key themes emerging from the interviews suggest that development is a highly complex, high risk process; that profit and financial viability are central to decision-making; and that developers influence the nature and extent of housing supply, working with both opportunities and constraints within local social and institutional contexts. Main findings from the interviews are:

- The key triggers for development are: securing finance, infrastructure considerations, land and location factors, and the ability to build a particular product in response to perceived demand. The triggers for development were the same, regardless of whether or not the site was a SHA.
- The SHA designation is one of many factors developers take into account when assessing whether to undertake development, and whether a particular project is feasible. In line with other New Zealand research, participants in this study viewed the development potential of SHAs both positively and negatively. They perceived that SHAs carry risks around affordability criteria and profitability. However, they also considered SHAs to be a tool to manage risk.
- Participants used a SHA where it could make development less complex, less risky, and provided opportunities not otherwise available, e.g., enabled re-zoning, facilitated infrastructure development or was in a desired location.
- A major influence on development decision-making is networks and relationships and the benefits they confer. Those benefits are not specific to development in a SHA, although there is some suggestion from this study that the establishment of a SHA may

facilitate councils in working with developers and bring different parties together in new ways that generate opportunities for development.

- This study questions whether the SHA model has been critical for the production of affordable housing. Where participants were interested in affordable housing, they saw its production as contingent on their ability to balance risk with profitability, and on securing a collective approach. For them, the production of affordable housing was not determined by the existence of a SHA.

1 Introduction

This paper explores developers' decision-making in relation to Special Housing Areas (SHAs) in the Western Bay of Plenty sub-region. The term 'developer' is used in this study to encompass developers, developer/builders and builders that have been involved in SHAs established in the sub-region between 2014-2017. The developer role is particularly critical for the establishment of a SHA and the production of housing within a SHA.

SHAs are a key mechanism for implementing the Housing Accords and Special Housing Areas Act 2013 (HASHAA). That Act was established to facilitate an increase in land and housing supply, and by doing so, it was intended to enhance housing affordability (James, 2018a; James 2017). The legislation had a short life, with the cessation of HASHAA in September 2019.

This study contributes to understanding the central role of the developer's decision-making and practices in the residential development process (Gore and Nicholson, 1991). Development from the viewpoint of those undertaking developments is an aspect which has been little studied, compared to the role of planning in housing supply (Murphy, 2017), and economic perspectives on the production of housing (Knight, 2011). This study is concerned with development as a social and cultural phenomenon, involving networks, relationships, common understandings and practices that shape housing provision (Drane, 2013; Murphy, 2019a). It is concerned with the structural and locational contexts in which developers make decisions about development, within particular legal, regulatory, planning, financial, institutional, and organisational frameworks (Gehner et al., 2006; Gore and Nicholson, 1991; Pacione, 2013). This study also contributes to understanding the role SHAs have played in housing production, particularly informing debates about housing affordability that hinge upon questions of land supply as well as regulatory and planning impediments to development.

This is the third of three research papers examining the development of SHAs in the Western Bay of Plenty sub-region, which comprises the territorial authorities of Tauranga City and Western Bay of Plenty District. The sub-region is one of the fastest growing urban areas in New Zealand and faces severe housing affordability issues. The first paper presented a detailed review of the SHA legislation, councils' documentation around the sub-region SHAs, implementation processes and housing outcomes (James, 2017). The second paper examined public consultation associated with the establishment of SHAs in the sub-region, how it affected decision-making about SHA developments, and more broadly, what public submissions tell us about people's views of our homes, towns and cities (James, 2018b). The study is one component of the research programme of the Architecture of Decision-Making, in the Building Better Homes Towns and Cities National Science Challenge.

2 Key Focus and Research Method

This study focuses on the role of developer and the practice of development, without which the production of housing through a SHA would not happen. The impetus for proposing a SHA is supplied and driven by the market. For a SHA to be approved, the legislation requires that private sector capacity and willingness to construct housing must be demonstrated. Accordingly, an expectation underpinned the legislation that developers, not local councils, would start the process required to create a SHA (James, 2017). Because of their pivotal role in bringing housing to the market, developers' perceptions, actions and practices can shed light on the effectiveness of the SHA model as an intervention intended to increase the supply of housing. In particular, this study is interested in three questions:

- How do developers decide whether to undertake a residential development?
- How do developers make development decisions in relation to SHAs?
- What is the extent to which developers are concerned with the production of affordable housing in SHAs?

2.1 Research themes

This study has been guided by important themes in the literature on the practice of residential development. Those are:

- Development is highly complex.
- Development is a high risk process.
- Profit is central to developers' decision-making.
- Developers are actors, not reactors.

This research brings together these themes in order to examine the role of the developer in SHAs.

Development is highly complex

Decision-making about residential development is concerned with managing a large number of often complex and potentially contradictory components. Development requires decisions about land acquisition, financing, planning and regulatory matters, current and future market demand, as well as site-specific technical issues related to engineering, building typology, natural hazards and infrastructure (Boffa Miskell, 2009; Carnoske et al., 2010; Gehner et al., 2006; Myers, 2016; Pacione, 2013). These components may include tensions as well as synergies, all of which can change over time. Complexity involves risks and constraints that influence decisions, for example around land costs, build costs and finance costs. But complexity, where there are a variety of actors and stakeholders, can also open up opportunities through the potential for aligned interests and interconnections.

To manage the complexity of development, decision-makers commonly use a 'decision moment', 'gate' (Gehner et al., 2006) or 'node' (Gore and Nicholson, 1991). These are points in time at which critical decisions are made to proceed or not to proceed with a development. Such points can be multiple and occur at any moment, for example at the change of planning status for a piece of land, the acquisition of finance, the purchase of a site, the granting of permission to develop, and the start of construction.

A high risk process

The complexity of development involving a wide range of activities and components inherently carries risk, which must be managed. Prominent risks identified by developers include financial risks (acquiring finance and servicing debt), planning costs and processes (particularly uncertainty and delay, which in turn carry financial risk), public opposition to development, uncertainties around infrastructure provision, construction risks and marketing risks (Boffa Miskell, 2009; Gehner et al., 2006; Gurran et al., 2015; Jowsey, 2011).

Timing and sequencing risks are critical to manage, since time is money. Some activities depend on or are contingent on others, and any delay can have significant consequential effects (Gehner et al., 2006; Grimes and Mitchell, 2014). Holding costs resulting from delays are a significant risk to development (Gurran et al., 2015). If the process is deemed to be unpredictable and the expected timeframe unachievable, then these critical factors can result in a decision not to proceed with development.

The central role of profit

Decision-making is not only mindful of risk, but above all, it is mindful of the need to secure a profit, despite risk. No development will go ahead unless risk can be compensated for by a reasonable rate of return on investment (Boffa Miskell 2009; Myers, 2016; Pacione, 2013; Tookey, 2017). This expectation of profit is not the developer's alone, but is also the expectation of the funder: "the acceptable developer profit ... is a required benchmark for financial interests ... first tier financiers (banks) expect developers to demonstrate acceptable returns in their feasibility analysis" (Murphy 2019b:10).

The balancing of risk with return on investment is similar for not-for-profit residential developers such as community housing providers (CHPs). Even though profit is not the primary driving factor, there are nevertheless imperatives to ensure development is financially viable, prudent and value-for-money (Milligan et al., 2015; Saville-Smith et al., 2016).

Risk must be balanced with the ability to secure profit (Gehner 2008). To manage this balance, there is a tendency to focus on sites that are easy to develop, because of their cost, location, size, or shape (Myers 2016). Generally, greenfields are preferred over brownfields because they are less costly to develop and are regarded by developers as more marketable (Carnoske et al., 2010; Jowsey, 2011; Pacione, 2013). The ability to hold land and to phase development is also advantageous, because this can increase profit and deal with demand uncertainty (Hughen and Read 2014; Pacione, 2013).

Developers are actors

The developer is an actor whose professional practices, along with those of others (such as landowners and financiers), operate in a social context where social capital¹ is as important as financial capital to achieve desired outcomes. The network of actors and their relationships construct how housing is provided and priced (Murphy 2019a, 2019b). The development process is “... a myriad of negotiating and bargaining activities between interested parties” (Gore and Nicholson 1991:713).

Both personal and professional relationships influence whether or not the developer decides to go ahead with a development. Social networks are crucial in development practice, not only for the communication of information and knowledge critical to the success of a project, but also in determining how problems are solved (Knight 2011). Complex interactions between the developer and other parties, such as funders, legal advisors, technical experts, landowners, council planners, product and service suppliers and local residents, influence both the process and content of decision-making. Social networks not only include, but also exclude actors from development in a particular place. Those developers without local ties may fail to identify opportunities or to be offered opportunities. For example, historical connections to an area can enable developers to “... act collectively over time to influence transition of the land parcel within their own city plans and visions” (Drane 2013:12).

2.2 Research method

This study used in-depth, semi-structured interviews to gain detailed information and insights about residential development decision-making that cannot be gained through other methods. A guided conversation facilitates understanding and interpretation, by enabling actors to describe and reflect on ‘real life’ activities and events through establishing a narrative of their experiences (Gehner et al., 2006; Knight, 2011; Levy 2006).

Purposive sampling was used to select interview participants, to ensure that developers involved in SHAs were included. ‘Developers’ is used as a generic term to encompass various roles. Definitions of those roles are as follows:

- Developers: those undertaking land subdivision and development of infrastructure in order to produce residential sections.
- Developer/builders: those undertaking both residential subdivision and house building. In a SHA they may have been either a developer, a builder, or both developer and builder.
- Builders: those purchasing sections from developers for the purpose of building housing for sale.

The first step was to identify potential participants. This was done through searches of:

- Applications for the establishment of SHAs (applications are made by developers).
- Tauranga and Western Bay of Plenty councils’ documentation for the establishment of SHAs.
- News media reporting of SHA developments.
- Developer and builder company websites.

¹ Social capital is used here in the sense defined by the OECD, of ‘bonds’, ‘bridges’ and ‘linkages’ that enable people to interact, cooperate and to work together. See B. Keeley (2007). *Human Capital*. OECD Insights.

- The author’s personal networks.

Through those sources, it was estimated that a total of 15 companies had been involved in SHAs in the sub-region during the timeframe.² These comprised 10 developers and developer/builders and five large building companies.

Contact details were sought for those companies. No contact details could be located for three companies and they were excluded from the list of potential interviewees. In all 12 companies were identified to be interviewed.

Given the small number of potential interview participants identified, it was important to ensure that developers, developer-builders and building companies were all included in interviews. In all, nine companies were contacted within the project timeframe and invited to be involved in the research. One of those refused to be interviewed and one company that was approached several times did not respond.

To extend the understanding of the decision-making environment, the study also included interviews with three private sector planners who had worked on SHA developments for developers. Through the preparation of proposals for a SHA and consents applications, they had a key role in the production of housing. The total number of participants was 10. They included one developer, four developer/builders, two builders (one of which is a CHP) and three private sector planners. The number of SHAs that participants were involved in are set out in Table 1 below.

Interviewees	Role	Number of sub-region SHAs involved in	Involvement in SHAs elsewhere
A	Developer, Builder	2	Yes
B	Builder	3	No
C	Developer	2	No
D	Developer, Builder	0 ³	Yes
E	Developer, Builder	1	No
F	Builder	1	Yes
G	Planner	2	No
H	Planner	2	Yes
I	Planner	4	Yes
J	Developer, Builder	2	No

Table 1: Participants’ involvement in SHAs

² Fifteen SHAs were established between 2014-2017. In October 2018 Tauranga City Council recommended to the Minister of Housing and Urban Development another SHA for establishment. That SHA is not included in this paper.

³ While this participant had not been involved in housing in a SHA in the study area, they had done a business case for building in one SHA in the study area and decided against going ahead. They had been involved in other SHAs outside the study area.

Collectively, the participants had experience in 10 of 15 SHAs in the sub-region. Those SHAs included both greenfields and brownfields and ranged in size of proposed housing units from 31 to over 600. Five participants had been involved in SHAs outside of the sub-region, in Auckland and Hamilton.

In-depth, semi-structured interviews covered a core group of questions, along with additional questions depending on the situation and experiences of each interviewee. Participants were encouraged to comment on other areas not covered by the questions, which they considered to be relevant to their experience. The questions focused on the following broad areas:

- Reasons why a decision is made to proceed or not proceed with residential development. Participants were asked about issues or considerations they gave priority to in their decision-making, and the key triggers for development to take place.
- Reasons why the participant decided to be involved, or not be involved in a SHA, and whether decisions about developing in a SHA are different to decisions about undertaking development in other sites.
- What they saw as advantages and disadvantages of involvement in a SHA, and what worked or didn't work for them.
- Views about specific components of the SHA model intended to bring housing to market faster, including 'fast tracking' of development consenting processes and reduced notification.
- Whether the participant could have done the type of development or housing in the SHA, outside of a SHA.
- Involvement in affordable housing, either within or outside of a SHA.

3 Findings

This section presents key findings from the interviews, focused around the following themes:

- The key triggers for development and whether those change if the proposed development is in a SHA.
- The advantages and disadvantages of undertaking development in a SHA.
- The production of affordable housing.
- Profitability, complexity and risk management.

Finally, this section explores whether participants could have undertaken residential development without doing it in a SHA.

3.1 Key triggers for development to take place

Participants were asked to identify the key triggers that prompted development of a site. They were asked to focus on development decisions generally, not specifically in relation to development in a SHA. Participants' views on the triggers are summarised in Table 2.

Trigger	Number of interviewees
Infrastructure factors	6
Land factors	5
Able to build a particular product	5
Securing finance	4
Housing demand	3
Proximity of land to amenities	3
Relationship with developer	1

Table 2: Triggers for development

*multiple responses

All participants identified more than one trigger for development, and those triggers hinged around project feasibility and managing risks. Securing finance underpins all development and is fundamental to participants' decision-making. Without finance, development will not proceed. Those who specifically identified the availability of finance as a trigger to development commented on the importance of developing a long-term relationship with a financier:

We have a long history with a bank ... therefore able to build up confidence, cash flow and collateral (F, builder).

A strong relationship with a financier is central to financing the development but is not a guarantee for funding as this participant observed, indicating that the financier is often cautious and mindful of risk to themselves:

We have a relationship with the bank but they will only fund to a certain level (B, builder).

On the other hand, one large developer noted that a long-term relationship with a bank does not preclude shopping around, so as to manage risks around the cost of finance. Specifically in reference to undertaking a SHA development this developer noted:

With [the SHA] we went to our usual funder ... This was because the project was a short term one, which would lower interest costs. In the past we have gone to multiple banks to get the best deal (C, developer).

Accessing finance can be a problem, as this relatively new entrant into the local housing market observed:

If these factors line up [demand and ease of build], then that leads us to do the business case and seek finance. That is difficult because we don't have a long track record with the bank in this place yet (D, developer/builder).

Finance was not the only, or the first, development trigger emphasised in interviews. Some participants did not mention finance at all, because it is taken for granted that nothing will happen without finance. Participants chose to focus on factors other than financing that are critical to making the decision whether or not to proceed with development. Instead, they commented on key factors necessary in making the decision to do a business case for financing. In this instance participants agreed with developers in other studies who have emphasised that a proposed development will be abandoned prior to seeking finance, if the assumed risks are too high compared to the rewards (Grimes and Mitchell 2014).

Six participants mentioned the critical importance of physical infrastructure⁴ factors in their decision as these can cause significant uncertainties, delays and costs. In particular, participants investigated whether infrastructure already exists on the site, is near the site, or must be built, and the viability of infrastructure development costs. Developers expressed concern about sites with inadequate, ageing or no infrastructure and the associated development costs. Typical comments included:

It's a game stopper. It's a problem right across the country, infrastructure is just not there. Council is never ahead of the game. It's part of getting plenty of [housing] supply. The big costs are roading, stormwater, sewerage, it's all quite expensive here (C, developer).

You look at what are the fish hooks in development, like the need for infrastructure works (I, planner).

The developer must be able to afford infrastructure development (A, developer/builder).

The timing of infrastructure development has been found to be an impediment to development (Boffa Miskell 2009; Grimes and Mitchell 2014), and this was also mentioned as a hurdle by participants:

⁴ Infrastructure here refers to the provision of utilities such as storm water system, reticulated water supply, sewerage system, power, telecommunications and roading. Provision of other infrastructure such as shopping facilities, parks and schools is considered in developers' comments about amenities.

The timing of infrastructure, particularly roads. The construction of additional roads not aligned with lot development (G, planner).

Infrastructure requirements can increase the complexity of development, if they result in significant changes to development design and determine what is able to be developed on the site. For example, stormwater management or geotechnical issues can impact on infrastructure requirements. Five participants identified land suitability, as well as availability and price, as key considerations in their decision regarding development. Comments about these three important and interrelated land factors included:

If you can't afford the land price you can't afford to do the development (A, developer/builder).

It's got to be easy to build infrastructure and houses ... You can make more money. Focus on greenfields, not brownfield (D, developer/builder).

As participant D above noted, developing greenfield sites was preferred, because re-development of a brownfields site could be complicated by the need to demolish existing buildings, or address site contamination resulting from previous uses. Those factors raised risks of unanticipated costs and delays. On the other hand, greenfields sites were not without costs, as the above comments about the need for infrastructure in greenfield sites reveal.

The new entrant struggled to find land for development, as did two other participants with longer operating experience in the area. Their comments suggested that a lack of historical connection to the area, or limited interactions with key land holders required considerable efforts to “break in” to the local housing market. Two participants commented on the difficulty of accessing land, which they believe is controlled by a small group of land owners and developers who regulate the supply and consequently the price of land:

SHA land has never been offered to us. You can only get what you hear about through the market ... it's an old boys club, back room deals ... we found it very hard to get any land because most of it is tied up by a couple of developers. It's taken a long time to get into the market. Established developers are land banking ... they are greedy in wanting high land prices (E, developer/builder).

Securing a block of land is not easy. Developers have land banked or stitched it up (B, builder).

Five participants were interested in developing in locations where they were able to build a particular housing product. For them, location is a key trigger in the decision to develop. Two participants talked about using SHA sections to avoid potential constraints of section size and subdivision restrictions so that they could expand their interest in building smaller units:

Demand is through the roof for higher density housing. We did our market research on higher density by looking at appropriate price points and talking to council ...The [public] interest in higher density is exciting and encouraging for us. But a lot of building has been restricted by developer requirements on the land e.g., a limit on the number of sub-divided sections in one subdivision (E, developer/builder).

Townhouse developments aimed at retirees and first-home buyers ... they're wanting smaller units ... it's about affordability ... families can't afford to live here anymore ... there's definite interest in these types of developments (J, developer/builder).

Three other participants, interested in providing social housing, were seeking sites where they could offer affordable rentals within a diverse neighbourhood. Two talked about their intentions:

We are interested in how would we tackle the issues of housing typologies, density and social mix in redevelopment (D, developer/builder).

Duplexes ... in an existing subdivision, a small number of affordable/social and pepper potting them. We will be developing housing that fits in with the character of the subdivision and the neighbours, so tenants will fit in (B, builder).

Three participants commented on the importance of establishing sufficient demand before deciding to proceed with a development. As one participant said:

We check out the demand in various ways, stats, market commentary, use a research company, we use various sources of information to make a call (C, developer).

Location is a critical factor influencing demand. Three participants emphasised the importance of the site's proximity to amenities in their decision-making:

Location, near good public transport and close to amenities and services, schools and health facilities. We are not interested in periphery sites unless we see potential and future needs for our type of housing (F, builder).

We focus on areas with good market demand, and good amenity – important amenities are close to schools, right through from primary to secondary. Also close to shops, supermarket (B, builder).

Developers were asked whether the triggers they had identified were also critical when they were considering development in a SHA. Essentially, the triggers for development were the same, regardless of whether the site was a SHA or another site. The imperative to secure development finance was an overriding factor in decision-making. Other critical decision-making factors were physical infrastructure requirements, land factors and the ability to build a particular product to meet identified demand. The specific circumstances in which participants considered that a SHA site could confer an advantage for development over a non-SHA site are discussed in the next section.

3.2 Advantages and disadvantages of development through a SHA

Participants identified both positive and negative aspects of undertaking development through a SHA. The positive aspects were the provision of infrastructure associated with a SHA, and improved coordination among parties to the development. Participants' views about whether a SHA sped up development, or provided more development opportunities were mixed (Table 3).

Issue	Does SHA address this?	Number of participants commenting
Speed of development	Mixed	5
Notification requirements	Mixed	5
Development opportunity	Mixed	4
Infrastructure	Yes	3
Coordination	Yes	2

Table 3: Participants' views on SHAs

*multiple responses

Provision of infrastructure

The HASHAA legislation requires that, in proposing a SHA, a council must demonstrate that there is existing or planned infrastructure to support the development. Participants singled out this requirement as benefitting residential subdivision, because it reduced uncertainty about the provision of infrastructure to a site. In the view of one participant:

This is really positive. SHA gives priority to this [infrastructure] at the scheduling stage and consent stage. The requirement for infrastructure is a really good part of the legislation (H, planner).

Two other participants commented that the availability of infrastructure was the main deciding factor in them undertaking development through a SHA:

[the proposed SHA site] was ideal for residential, the infrastructure was right to the boundary ... the site was also adjacent to the link road. Storm water was a bit of an issue but it had been sorted out earlier. It was a unique site (C, developer).

[one SHA site] had infrastructure that had been in the ground for years ... [another SHA] was brownfields already with sufficient infrastructure that allowed intensification (I, planner).

Speeding up development

Developers face the critical problem of delay, which compromises their ability to manage the sequencing and interdependence of diverse activities and processes, and as a consequence raises financial risks (Jowsey, 2011; Myers, 2016). Participants continually commented on how development takes time, and that a development timeframe must be specified in detail and tested early on in the process of deciding whether or not to proceed with a project.

Two participants considered that the SHA model sped up development time considerably, due to a combination of features, specifically the reduction in public notification requirements, expediting consents processes through council and enabling zoning changes to be done quickly. One developer spoke very positively about the experience, reporting that the use of a SHA had reduced development time by "possibly years". This participant commented:

The speed that consents were issued ... Consultation with neighbours was done very quickly. We had the earthworks done within six months ... Time is important, all the costs that go into the end product – hearings, paying consultants, time. That was the big benefit. It was

quite amazing to get it done [earthworks] within six months ... Any zoning problems or anomalies with the district plan are sorted out therefore reducing risks and hold ups. It has enabled residential development of a site that would have required rezoning ... Overall the SHA was a good process for us, it worked very well. ... speeds up the process and therefore lowers risk and costs (C, developer).

Another participant considered that the SHA had sped up development by between one and 1.5 years, also noting that a SHA was cost-effective when a zone change was needed and concluded: “The compressed timeframe results in massive cost savings” (I, planner).

Two other participants were less certain about time savings but did emphasise that the speed of development depended on the nature of the site, including whether it needed to be re-zoned. If re-zoning was required, then it was considered that the SHA status would help save time.

Reduced notification requirements

Community opposition to residential development proposals are of major concern to developers and often regarded by them as an inevitable part of the development process to be managed (Boffa Miskell, 2009; Gurran et al., 2015; James, 2018b; Pacione 2013). As noted above, the potential for reducing time spent on applying for and acquiring consents was an attraction of the SHA model. No public notification is required for the establishment of a SHA, although both Tauranga and Western Bay of Plenty councils sought public feedback on SHA proposals (James, 2018b). The consenting processes for residential development after a SHA is established do not require public notification, although there may be limited notification at the council’s discretion. Public appeal rights are very limited.

Three participants commented favourably on the lack of requirements for public notification. As one participant explained:

I have seen significant fast tracking The SHA process took six plus months and a subsequent plan change as a tidy up took another six months ... It reduces risks to the developer because the only requirement is to consult with adjoining neighbours and there are minimal appeal rights. This all reduces risks and delays and therefore saves money (H, planner).

The benefits of reduced notification were not the deciding factor for one participant, who commented:

It’s not a biggie. We would much rather do a lot of work with the council anyway. We would try and do a development with limited notification anyway in a standard development. Focus on design to get it over the line (D, developer/builder).

Development opportunities

Participants identified two aspects of SHAs that they considered had positively affected opportunities to undertake residential development: firstly, that SHAs brought more sections to market; and secondly that the SHA enabled different types of housing to be built, due to relaxation

of planning constraints around density. Both aspects had been important in deciding to develop through a SHA for two participants, who described their experiences:

They [SHAs] have made us aware of available sites over the overheated market period. In the last 2-3 years we were able to stay on top of the demand by using SHA sites. If they hadn't of been there it would've been harder (B, builder).

Also we wanted to increase density, so that suited it being a SHA ... There is that flexibility to increase density ... The section size went from the usual 450-500 square metres down to 300-350 square metres. Typical house sizes are 130-170 square metres (C, developer).

One participant, a planner, added their perspective on how SHAs opened up development opportunities while enabling risk management, due to more flexibility in planning requirements:

SHAs could offer opportunities for developers and builders to try alternatives – different typologies, accessible and sustainable features, affordable, at lower risk to themselves. It allows you to do more than the district plan allows, e.g. higher density, which contributes to affordability. This can be done without appeal ... you can increase the density and therefore yield (I, planner).

Another planner considered that SHAs indeed brought opportunities, but it was also apparent that opportunities were closing, since:

All the easy ones have been done. What's left are the difficult pieces of land ... This means a lot more information up front is required from developers. Potentially a lot more engineering is required to deal with things like liquefaction, difficult topography. Can the development be done cost effectively, not just a really expensive engineering solution (G, planner).

Coordination

Two participants considered that the SHA process facilitated better coordination between the council, developer, and other parties. Improved coordination in turn reduced risks and uncertainty for the developer. One participant noted this in relation to a SHA in the sub-region, where:

The SHA enabled there to be a more direct dialogue with council to nut out the issues. If they had to go down the RMA [Resource Management Act] route of notifying affected parties then this would have broadened out the number of potential submitters (G, planner).

Another participant, who had been involved in development in an Auckland SHA, recounted that they “were able to get all the key players around the table”. This advantage of SHAs has also been identified in studies about the Auckland experience. One study described how the Auckland council conducted a collaborative pre-application process with the developer, infrastructure providers, government agencies and other key stakeholders. This collaborative process was considered to increase certainty and manage risk for developers and other parties (Wells, 2015). Another study reported that developers considered the main benefit of SHAs to be the Auckland Council’s Housing Project Office, which was established to accelerate and streamline consenting processes, through

reducing the need for developers to deal with several council officers across different departments (Fergusson et al., 2016).

Disadvantages of SHAs

Several disadvantages of SHAs were identified by participants. Those were identified in relation to any SHA that participants had been involved in, not only SHAs in the sub-region. Disadvantages identified particularly by developers and builders were:

- An increase in land prices, both in potential SHA land, and in SHA section prices.
- Frustration with how the process worked.
- Affordability criteria.
- Undesirable SHA location.
- Land-banking of lots in SHAs.

One participant, who had used SHAs, was not convinced of their usefulness, and commented in particular about the potential for a SHA to increase land prices. This could happen if the SHA enables a change in land use, which in turn increases land value and ultimately the value of development:

Land costs increase ... SHAs have been used to try to open up land quicker but it's not at the right price ... It didn't speed things up that much (A, developer/builder).

Two other participants who had considered residential development in a specific SHA site decided against going ahead, although both had been involved in other SHAs. One participant was concerned about the impacts of affordable housing criteria on profitability, as well as perceived disadvantages of the site:

SHAs are not necessarily in areas where we want to develop (D, developer/builder).

The other participant was concerned about the financial risks around providing detailed plans in the initial stage without any certainty of development:

Council expects a high degree of design plans, proposal – to get to that stage is a high barrier ... we don't have capital to burn (F, builder).

Participants who were planners identified the following issues with SHAs:

- Lack of consistency across the country in qualifying development criteria and in affordability criteria.
- The lack of flexibility in the types of housing requirements that can be specified, which is limited to height and density criteria. Other requirements that may contribute to affordability or to improved dwelling performance or design cannot be specified.
- Potentially negative cumulative effects of multiple SHAs in a location, on transport, water and wastewater infrastructure and social infrastructure.
- The 'cherry picking' of land that would have been developed for housing in any case, without designation as a SHA.

3.3 Producing affordable housing

The HASHAA does not require SHA housing to be affordable, however a council may prescribe an affordable housing percentage in a SHA. The Orders in Council for Tauranga SHAs do not prescribe affordability criteria for SHAs. Associated council policy does not set an affordable housing percentage, but states that affordable housing outcomes will be negotiated for each SHA on an individual basis. The Western Bay of Plenty SHA carries affordability requirements set out in council policy.

Participants were very aware that, as developers and builders, they have key roles in increasing housing supply, but they varied in the extent to which they considered they have a role in producing affordable housing. Three participants regarded themselves as having an interest in and involvement in affordable housing; one of those is a community housing provider, whose primary focus is on the provision of social housing. The comments of two private company developers and builders showed a clear interest in building affordable housing. However, their comments also revealed some tension between actively creating housing, and a feeling of being a responder to the risks and constraints of the market:

I'm really interested in developing social housing and affordable housing. I'm a socially minded person, I really do want to ... [but] you would have to do something sub-standard or so far below what neighbours are living in, you couldn't meet an acceptable standard of quality and performance, I'm not interested in cutting corners (B, builder).

We would love to do more affordable housing for first home buyers, but it's just not the market reality. There's a lot more demand and more money at the high end. Where we can do it we do, but I'm restricted with regards to the land price ... I'm more than happy to step into that space [affordable housing] but it would have to be in certain circumstances. If we are one of the biggest building companies and we won't, why would you expect other companies to? (E, developer, builder).

None of the seven participants who commented on affordable housing saw the SHA as a strong mechanism for delivering affordable housing. Three comments were critical of SHAs in that respect:

There are examples of affordable housing in a SHA, and outside of a SHA ... all [the SHA] did was help bring sections to the market quicker, but it doesn't help affordability. In practice it doesn't happen. Only if there is a significant downturn in the market will the value of sites go down (B, builder).

I haven't seen any evidence [of increased affordability]. Most of the products being built are pretty standard, similar to other housing. The exception would be Waihi Road, one of the first SHAs where the properties are smaller (G, planner).

SHAs are an absolute waste of time. They inflate the price, once it's known land will be in a SHA, the owners win lotto. It's not a sensible way of trying to achieve affordable housing (A, developer/builder).

Two participants considered that a SHA development could assist affordability, but only if it enabled the developer to offer smaller lot sizes, smaller houses, increased density and alternative tenures such as leasehold or license-to-occupy. In one participant's experience:

It enabled us to do a more affordable product with a town house type development ... in the other [SHA] homes are larger but still targeting the medium price range (J, developer/builder).

Even so, SHA provisions facilitating more affordable housing would not guarantee that it would be retained, a point made by one developer/builder:

I disagree with the idea of cross-subsidising the affordable housing in a development because the affordable ones are sold on, there's no retention. Don't just give the first person \$100,000 windfall, but keep it [the affordable house] in the community for the future (D, developer/builder).

Participants wanted to convey why the provision of affordable housing is, or is not possible, and the conditions under which it may be viable. They thought that generating affordable housing is influenced by a wide range of factors, not by provisions relating to a SHA. Land price is a critical component in the decision whether or not to go ahead with a development that includes affordable housing. Three participants illustrated the use of residual land valuation⁵ underpinning this decision-making process:

Find the land opportunities. You've got to get hold of the land before it's rezoned. Once you signal it's going to be rezoned residential the price rises, two or three times the price ... if you can't get the land at the right price you can't achieve affordable outcomes (A, developer/builder).

We looked at section prices ... they were similar to Auckland prices and we thought that was too expensive ... We decided it was very difficult to make any profit on that, due to the price of the land plus we couldn't make it work for affordable housing (D, developer/builder).

You can't make a lot of money at the bottom end of the market. From a business point of view you make a greater margin at the top end ... The developers have to make their money on the land and you can't expect them not to make their margin. At the end of the day it's a business (E, developer/builder).

Three participants saw the production of affordable housing as a collaborative enterprise, which could only be achieved through private sector developers and builders, CHPs, councils and government working together. They commented:

The only way to achieve affordable housing is cooperatively with developers, council and government. It's not brain surgery, it's quite simple. You need a JV [joint venture]. You've got to think outside the square (A, developer/builder).

There's challenges around affordability and housing shortfall in Tauranga. We're looking at two things: (1) tenancies that commercial landlords won't take on; (2) financially it doesn't work because the land costs are too high. We need to secure bigger chunks of land and do the development with CHPs (B, builder).

⁵ Residual land valuation is used to determine what the developer is prepared to pay for a piece of land, after taking into account the development value, development costs and acceptable profit. See Murphy 2019a, 2019b.

It's got to be a real partnership between council, government and us builders and developers. A whole subdivision with everyone building at a certain price point ... I'm sick of the expectations that it's the builders who will supply affordable housing (E, developer/builder).

Two participants commented on difficulties they had encountered when they wished to develop affordable housing. Those difficulties ranged from buying land “at the right price”, accessing capital, consents timeframes, government procurement practices and policy settings relating to CHPs. One builder, seeking to partner with a CHP, commented on a mix of confounding factors: land costs, consenting timeframes, accessing capital and policy regarding the operating supplement available to CHPs. In reference to some of those constraints he observed:

It takes a long time to get through the hoops – holding costs I want councils to work in a more streamlined way, to fast track consents for social housing ... trying to find socially-minded investors who will fund the property and lease it back to a CHP if the CHP can't buy it ... if we are getting people to invest and lease a property back to a CHP they want a return, not a huge return, but it's so far below the market it won't work (B, builder).

3.4 Profitability and risk management

A recurring narrative through discussions concerned the two imperatives of profitability and reduction of risk (Murphy, 2019a, 2019b). There was a common view among most participants that development through a SHA could reduce risk in certain circumstances. This was where the SHA could be used to avoid some of the complexity of development and reduce uncertainty, particularly with regard to the overall development timeframe, sequencing of development, planning and consenting procedures and infrastructure provision.

The critical problem of delay due to planning processes was raised by participants. Delay raises risk, since it can result in increases in finance costs or design costs and even lead to the abandonment of a project because it ceases to be financially viable (Gehner et al., 2006; Grimes and Mitchell, 2014). Two participants noted how costs can be increased, and profit decreased, due to uncertain processes:

Extra costs because councils are more risk averse, requiring more consultants' reports ... Increase in development contributions and other consenting costs (D, developer/builder).

[there's a] lot of talk amongst commercial builders about risk shifting, which causes the builder to lose out. ... timeframes are outside of the builder's control, e.g. council delays inspections. Margins are stripped away (B, builder).

One participant commented about delays relating to inconsistent council decision-making in relation to development in a SHA:

We had sites and we were doing duplexes on those. We had to get a resource consent for each one, and that created uncertainty, because you don't know if you are going to get the consent (B, builder).

One participant, who worked across different regions, suggested that in some councils, officers did not fully appreciate the business imperatives impacting on complex development decision-making. The comment echoed findings in another study where developers were critical of councils' lack of capacity to deal with the volume of developments and officers' lack of understanding of the commercial complexities of projects (Boffa Miskell 2009). This participant noted both the developer's profitability concerns and the impact of their decisions on house price:

Councils don't understand the development train – the developer buys land, pays a premium, then pays interest on development funding, the on-going costs tick over day by day. There can be frustrating, unnecessary process that doesn't benefit anybody. It gets added as a cost and it gets put on the key at the door (H, planner).

3.5 Could the development have been done without the SHA?

Participants were asked whether they could have done the same sort of development outside of a SHA that they had done within a SHA. Five noted that the developments they had done in a SHA could have been done elsewhere. Three who had built housing in a SHA commented:

There's no advantage to do a SHA in a market like this. We could develop anyway. The consents processing wasn't any quicker (A, developer/builder).

We have built the same sort of houses in SHAs as we would in any other site. There's no real difference in a SHA development and any other normal development (B, builder).

Whether the land is a SHA or not, is not important to us. The other factors we talked about are much more important, the product, what we can build, the build price and location (F, builder).

The builders in particular did not identify unique benefits in using a SHA. On the other hand, one participant solely involved in development, as well as planners, thought that the real advantage of a SHA was the ability to re-zone land for residential development relatively quickly. In that instance, the SHA did enable development that could not have been done previously. As noted above, when a SHA provided an opportunity that would have been otherwise unavailable, or significantly sped up the time through the consenting process and increased certainty, then it facilitated the decision to proceed with a development. This ability of the SHA designation to "cut through" consenting processes was discussed by two participants:

It has enabled rezoning and use of land. Some SHAs have been on land zoned for different uses, but the greater need has been for residential land. ... Or the SHA enabled existing infrastructure to be used (I, planner).

The site was also not suitable for industrial because it was too small to be an industrial hub, there was a greater need for residential than for industrial. The development costs [for industrial] would have been considerable – digging out soils, bringing in in-fill. The square metre development cost was too low if the land was retained for industrial ... It was ideal for residential ... The big benefit for us was the ability to change zoning without having to do a plan change (C, developer).

4 Discussion

This study used semi-structured interviews with developers, builders and planners involved in SHAs, to examine decision-making around residential development. It was concerned with the factors developers take into account when making decisions about residential development, with a focus on making those decisions in relation to SHAs. Decisions about residential development through a SHA can be understood in reference to the following key themes: development is a highly complex, high risk process; the profit objective and financial viability are central to decision-making; and developers are actors influencing the nature and extent of housing supply, working within local social and institutional contexts. The research has also considered whether, in the course of their deliberations, developers were concerned with the production of affordable housing, which SHAs were intended to facilitate.

Even though the SHA model was established to simplify planning and consenting processes and to eliminate perceived barriers to land supply, development using a SHA nevertheless still involves complex decision-making. Regardless of whether a proposed development involves a SHA or not, the same range of factors shape developers' decision-making. They must be able to access finance in order to undertake development, and their decision-making takes into account a range of critical considerations such as infrastructure requirements, site location and characteristics as well as current and future housing demand. This consistency in approach to decision-making, despite the planning status of the site, is no surprise since other studies across diverse planning jurisdictions and housing markets also note the variety of considerations and the dominance of financing, land, market and infrastructure factors in determining developer decisions (Gehner, 2008; Jowsey, 2011; Myers, 2016).

Does development in a SHA enable developers to effectively manage a complex process, and especially to reduce or better manage risk? This study shows that developers perceive that SHAs carry risks around affordability criteria and profitability. This may reflect common preoccupations about profitability in assessing development risks in relation to a site. However, there was some uncertainty about how the SHA process works, and whether any additional affordability requirement imposed further risk. Furthermore, even though some participants commented favourably on the way that councils used SHAs to speed up development, others noted that sometimes council officers do not fully appreciate the cost implications of delays that they had encountered in SHA processes.

Despite those risk factors, participants also regarded SHAs as a tool to manage risk, and as providing opportunities. For example, the SHA could:

- Offer a wider choice of land for development.
- Enable development generally in a shorter time period, thereby reducing costs and uncertainty.
- Open up opportunities for different types of residential development through smaller house and lot sizes, increased density or different building typology.
- Enable a zone change to be made more quickly than through the conventional Resource Management Act process.

The diversity of views about the risk management advantages of SHAs found in this study is consistent with other New Zealand research where SHAs have been both positively and negatively viewed by developers. They have noted that the SHA process has been helpful in the resolution of design issues, provided more certainty in consenting processes, enabled more flexibility in building design and has fostered good working relationships between council officers and developers (Coles and Taylor, 2015; Grimes and Mitchell, 2014; Wells, 2015). On the other hand, some developers have had problems progressing applications within a SHA, and in other instances, development density and affordable housing requirements have made it less attractive to proceed (Grimes and Mitchell, 2014). There has also been some reluctance to work with new planning processes and a preference for known processes, in which developers consider that risk and uncertainty can be better managed (Grimes and Mitchell, 2014).

Associated with the management of risk, the importance of profit and financial viability were key theme in participants' narratives. They spoke of a proposed development having to "work financially", the need to "contain costs" and to secure "reasonable returns". For some, the SHA designation on land made a project financially viable, but for others, there was no distinct financial advantage.

It is in relation to housing affordability that the themes of risk and profitably come into particular focus. Participants were not convinced that SHAs were an effective way of delivering affordable housing, or of supporting those who wanted to deliver such housing. The common view that developers would become involved in the production of affordable housing only if they were able to make a reasonable return, is echoed in other research (Gurran et al., 2015; Hughen and Read, 2014). Participants' comments about "working cooperatively, "JVs" and "partnerships" showed an understanding of the production of affordable housing as a complex business engaging across institutions, sectors and parties. Affordable housing is not to be achieved through one means such as a SHA, nor without appreciation of the financial imperatives that both companies and not-for-profit housing providers operate within.

This study supports other research showing the creative, dynamic and entrepreneurial nature of residential development, where developers actively seek to manage risk and secure reward within a societal and institutional framework (Drane, 2013; Gore and Nicholson, 1991; Murphy, 2019a, 2019b). As such, developers' decisions and subsequent actions are based in socio-cultural as well as economic processes that shape the production of housing.

5 Conclusions

This study contributes to understanding the dynamic role of developers as key actors in shaping the development process and the production of housing in a particular locality. It also provides insights for the growing literature about the nature, impacts and implications of SHAs.

My inquiry aimed to reveal the complexities of decision-making, and the factors influencing participants' decisions to proceed with a residential development project. Essentially, the key triggers for development were: securing finance, infrastructure considerations, land availability, the ability to build a particular product in response to perceived demand, and location. The desirability of a site in terms of its location and ease of development were critical considerations. These triggers operated in relation to all potential development sites, regardless of whether or not they were a SHA.

The SHA designation is one of the many factors developers take into account when assessing whether to undertake development, and whether a particular project is feasible. It appears that participants used a SHA where it could be advantageous, if it could make development less complex, less risky, and provide opportunities not otherwise available. SHAs were advantageous in specific circumstances, particularly where re-zoning could happen quickly, if there was infrastructure present or where other distinct benefits accrued, such as a desired location where housing for a target market could be built. All these factors show how development decision-making rationale does not substantially change if the proposal concerns a SHA. The fundamental preoccupations of developers – access to land, acquiring capital and the dynamics of the market – still come into play in decisions about a SHA.

A major influence on development decision-making are networks and relationships among developers, builders, landowners, planners, council officers, financiers and others with interests in the production of housing. These networks are bounded within a locality and evolve over time. The creation and maintenance of those networks benefits the development process in many ways, through sharing information, connecting up parties and leveraging resources. These benefits are not specific to development in a SHA, although there is some suggestion from this study that the establishment of a SHA may bring different parties together in new ways that generate opportunities for development.

Finally, developers' decision-making about SHAs does not suggest that this model has been critical for the production of affordable housing, either directly through selling at a lower price or indirectly through increasing housing supply. Where participants were interested in affordable housing, they saw its production as contingent on their ability to balance risk with profitability, and on securing a collective approach. Affordable housing production was not determined by the existence of a SHA.

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