

**Before Independent Hearings Commissioners  
Rotorua Lakes Council**

**In the matter of      13 applications for resource consent for  
contracted emergency housing by Te Tūāpapa  
Kura Kāinga Ministry of Housing and Urban  
Development**

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**Statement of evidence by Shamubeel  
Eaqub**

**5 October 2022**

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# Statement of evidence by Shamubeel Eaqub

## 1 Qualifications and Experience

- 1.1 My full name is Shamubeel Eaqub. I reside in Auckland and I am an economist.
- 1.2 I hold a BCom with Honours in Economics from Lincoln University and I am a Chartered Financial Analyst (CFA).
- 1.3 I have worked as a macro-economist at the ANZ Bank in Wellington and Melbourne, as a macro-economist and financial analyst at Goldman Sachs JBWere in Auckland, as an economic consultant at the New Zealand Institute of Economic Research, in my own practice, and now at Sense Partners.
- 1.4 Sense Partners is a boutique consultancy. We are experienced economists with backgrounds in modelling, public policy, regulatory affairs and economic assessments. My areas of work tend to focus on housing, construction, economic development, economic measurement and evaluation, and cost benefit analysis. My role as an economic consultant has included giving expert economic evidence in court cases and arbitrations.
- 1.5 Relevant to this case, I have worked on housing, related equity and construction issues in depth over the course of the last decade and my expertise is called upon by industry and policymakers. I have been a member of the Auckland Mayoral Housing Taskforce (2017), the Housing Stocktake for the Minister of Housing and Urban Development (2018), and the Ministerial Housing Taskforce (from 2018). I have conducted consultancy projects for industry, central government and local government on housing, considering urban development and construction issues, and co-authored a layman's book on housing in 2015: "Generation Rent: Rethinking New Zealand's Priorities".
- 1.6 Although this is a Council hearing, I have read the Environment Court's Code of Conduct for Expert Witnesses and agree to be bound by it. The matters I address in this brief of evidence are within my expertise.

## 2 What I have been asked to do

- 2.1 The Ministry of Housing and Urban Development asked me for an independent economist's perspective in respect of its 13 applications to the Rotorua Lakes Council for resource consent to operate motels as contracted emergency housing. Specifically, they wanted to understand:
  - (a) the causes of the increase in demand for emergency housing in Rotorua;
  - (b) economic implications, including for tourism;
  - (c) whether 5 years for contracted motel use is a reasonable timeframe.

- 2.2 My evidence answers these questions. I discuss the problem context, counterfactuals for housing, crime, and tourism, and possible mitigations. In summary, I found that:
- (a) The underlying cause of the increase in emergency housing demand is that house building did not keep pace with housing demand. This led to housing costs, particularly rents to increase rapidly (rents rose by an average of 7% a year in the seven years to June 2022, compared to 2% a year in the previous 7 years). Very few rentals are available in Rotorua. This combination of sustained low housing availability and high housing cost have led to massive housing stress in Rotorua, which is the driver of the increase in emergency housing demand.
  - (b) The counterfactual for any analysis of economic effects thus should begin from a position of sustained housing shortage and resulting housing deprivation. If contracted motels are not used, housing deprivation and its consequences will not go away. Rather, current welfare policy would qualify those in intense housing need for Emergency Housing Special Needs Grants (EHSNG), which includes vouchers to use motels (usually mixed use with tourism accommodation), or if enough motel accommodation is not available, then homelessness with attended personal and social costs.
  - (c) So, economic and tourism effects should not be considered in terms of if there were no emergency housing clients in motels, rather in the absence of contracted emergency housing, there is greater use of EHSNG and/or more homelessness.
  - (d) Use of motels is feared to reduce tourism accommodation supply. I found no evidence that there is a significant shortfall of motel accommodation, or that tourism demand is driven by the availability of these rooms. During the pandemic this was even less of an issue, when international tourism was virtually nil. The opening of borders has removed the need for MIQ facilities, which has increased available accommodation. Given relatively low occupancy rates over the past two years (less than 50% across all accommodation), accommodation providers will be looking to increase occupancy rates.
  - (e) Tourism demand recovery may be also slow. Domestic tourism is likely to be diverted to international travel, due to pent up demand. Growing global uncertainty could also slow the recovery of international tourism. With China still pursuing zero-Covid policies, it is unlikely Chinese tourists will return soon, who were key consumers of cheaper motels in Rotorua as part of package tours. I am not convinced that the tourism outlook is so strong that the loss of 296 units to contracted motels would have a meaningful impact on the sector.
  - (f) There is a question of local concentration, that if those in severe housing need were not in one locality, there would be less crime and fewer problems. However, there is no quantitative evidence of outsized increase in crime in Rotorua relative to New Zealand, nor a particular outsized concentration of victimisation in the

neighbourhood of Fenton Street, where most of the planned contracted motels are located.

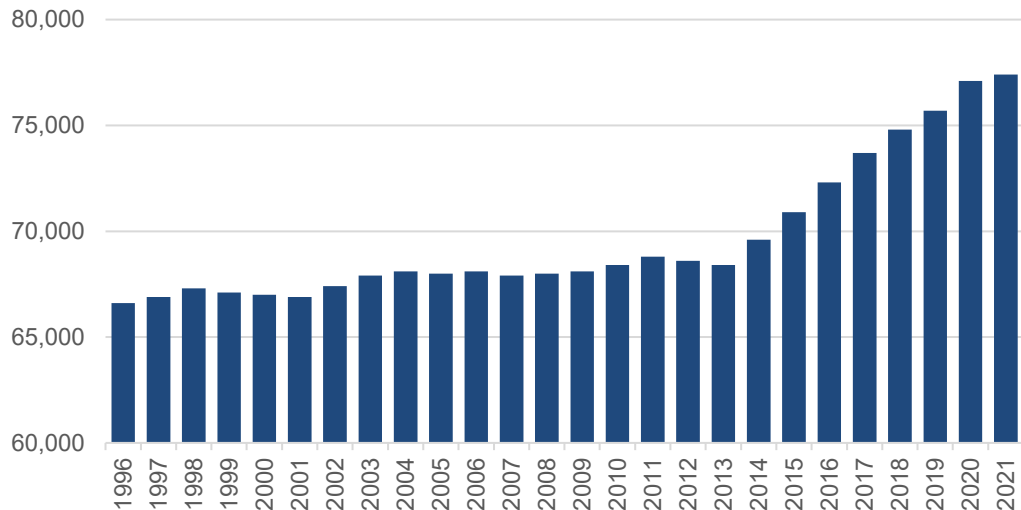
- (g) There is, however, literature evidence that concentration of poverty compounds social externalities unless mitigations are put in place. In this case, this strengthens the case to provide wrap around social services, which are done in contracted facilities, but not necessarily in other accommodation or in homelessness.
- (f) Finally, there is a question of tourism reputational impact of motels used for emergency housing use. The counterfactual to the application for contracted motels is mixed use, which is likely to be worse, or increased homelessness, which is difficult to quantify but will also have a negative reputational effect,
- (h) I conclude that emergency housing demand has increased because of a near decade long failure to build enough homes, particularly rentals, affordable and public housing. Doing nothing will intensify housing deprivation. Contracted motels will attempt to mitigate the worst effects of housing deprivation and the effects of concentrating poverty
- (i) The alternative is to rely on EHSNG, which may increase mixed motel use, and/or increase homeless. Both of which would impact negatively on Rotorua's reputation. Because housing supply is so slow, application for a 5-year period is consistent with the ability to build sufficient homes to create a long term solution.

## **Problem context**

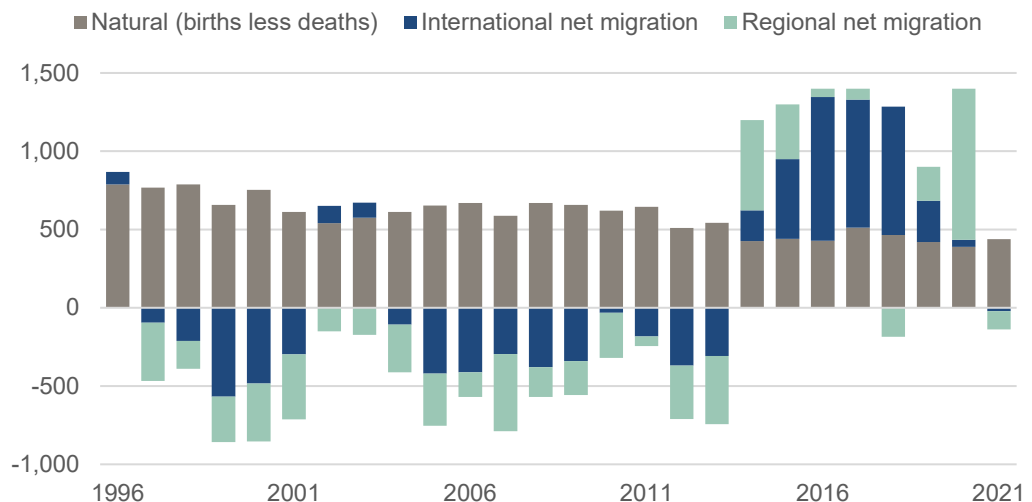
### **3 Homelessness problem building over decades**

- 3.1 The housing crisis has been building in Rotorua. The fundamental cause is strong population growth since 2014, but housing supply failed to keep pace.
- 3.2 The figures below show that Rotorua's population grew very slowly until 2013. But the population grew rapidly since. The second figure shows that much of that stronger population growth was due largely to international net migration. Regional net migration was also strong in 2020, mainly when the pandemic first hit. Rotorua's population grew by 9,000 people between 2013 and 2021. Around 3,500 was from natural population growth (births less death), around 3,500 from international migration and 2,000 from regional migration.

## Rotorua District Population



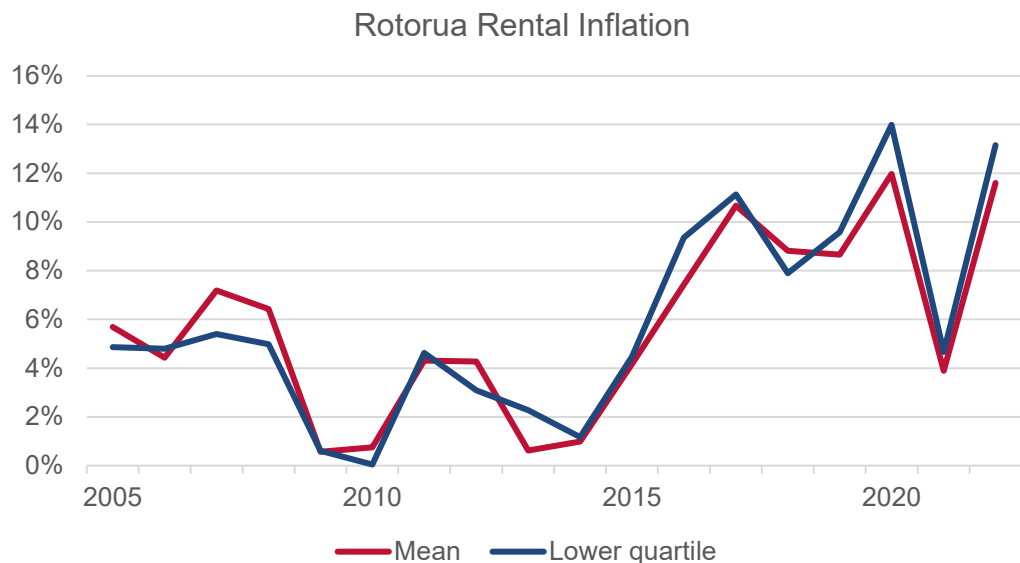
## Drivers of Rotorua population growth



- 3.3 The 9,000 increase in population in the 8 years to 2021 equates to demand for around 3,333 additional homes, assuming the average 2.7 per household size in Rotorua. Over the same period the number of homes with electricity metres, a good proxy for occupied homes, rose by 1,100. Over 1,400 homes were consented over the same period, meaning there are still consented homes yet to be completed. Nevertheless, even when all consents are supplied, the supply of homes was less than the half required by the strong population growth since 2013.
- 3.4 This also suggests that even if consents continued at the current high rate (392 in the year to June 2022) and population growth is slow as it is currently (300 in 2021), it will take five years to deal with the accumulated housing deficit. There are many uncertainties in projections, but this is consistent with the application to use contracted motels for a period of 5 years. A shorter period will mean that this source of emergency housing will disappear before the housing shortage can be dealt with.
- 3.5 This is consistent with paragraph 77 of Natalie Hampson’s Statement of Evidence, who concludes: “even with a faster rate of supply across the

market, it will take many years before material progress can be made on the existing shortfall of housing in Rotorua”.

- 3.6 The housing shortage is severe. New supply has not been distributed uniformly across the housing continuum. The supply of social, affordable and rental housing is much slower than the supply of more expensive and owner-occupier homes, demand for which comes from those with higher incomes and wealth. The impact of slow housing supply is disproportionately worse for those on the sharper end of the housing continuum.
- 3.7 Thus, when new housing is supplied, it will satiate demand but will take time to cascade down from those who have the least affordability constraints over time (e.g., those with familial wealth, high incomes, etc). If house building exceeds demand over a sustained period, it will eventually lead to sufficient stock of housing that demand is met across the continuum. But unless new housing stock is specifically targeted for rental and affordable housing, it will take even longer to deal with current housing deprivation.
- 3.8 This is visible in the data. First, rental costs have increased rapidly reflecting severe shortages. Rental inflation since 2014 has averaged 7% a year, compared to 2% year over a comparable period before 2014. Rents have far outstripped incomes, that is, rents have become less affordable.



- 3.9 Second, the Housing Register, or the waitlist for social housing for those who qualify for public housing when there are none available, has increased from less than 40 in 2014, to over 1000 in mid 2022. Despite local rumours that this increase in emergency housing demand is external, MSD analysis<sup>1</sup> showed that 88% came from Rotorua or neighbouring districts, which are also experiencing housing crisis and do not have emergency housing. Of the 12% that came from other locations, 6% had family and whanau support in Rotorua.

<sup>1</sup> <https://www.msd.govt.nz/documents/about-msd-and-our-work/publications-resources/information-releases/rotorua-emergency-housing-analysis-redacted.pdf>

## Rotorua Housing Register



3.10 This increase in housing stress and homelessness has been well documented in Rotorua for many years. In 2021, the government acknowledged “housing supply did not respond [to population increases] and building consents did not increase proportionate to the needs of the population”. In March 2018, 48 rough sleepers were counted by a community group operating in the city.<sup>2</sup>

3.11 This supports the fact that poverty has been intensifying in Rotorua for some years and is not a new phenomenon, aligned with trends in the housing shortage. This makes the counterfactual important. How poverty is organised spatially only has some responsibility for the effects of poverty in Rotorua.

3.12 In two detailed economic cases made to and granted by the Provincial Growth Fund between 2018-19, Rotorua Lakes District Council wrote:

“Rotorua’s social situation means we can’t deliver this [revitalisation] vision on our own. While we are a bold city, we are not a rich city and we are doing our utmost best to increase our debt to fund our transformational projects while still delivering value to our ratepayers. There is a troubling paradox in Rotorua that Māori, as the major cultural drawcard for our region for over 130 years, are overly-represented in all social deprivation indices”.<sup>3</sup>

## 4 Investment case for accommodation supply built around high-end accommodation and disrupted by the COVID pandemic

4.1 The applications made by Rotorua Lakes District Council to the Provincial Growth Fund for investment in various strategic projects acknowledged an oversupply of budget accommodation in the city with a simultaneous shortage of high-end hotel units.

<sup>2</sup> Reported by Rotorua Daily Post, 2018. Retrieved from <https://www.nzherald.co.nz/rotorua-daily-post/news/homeless-head-count-finds-48-people-sleeping-rough-in-rotorua/XTAFEQTXM6SQIRBVUFGT72EEMQ/>

<sup>3</sup> RLDC, 2018. “Unlocking the Potential of Rotorua: Rotorua Lakefront Development”; “Unlocking the Potential of Rotorua: Whakarewarewa Forest Park Development”

- 4.2 These issues with tourism capacity were well documented prior to the pandemic and cannot be meaningfully linked to the current emergency housing programme. For instance:
- (a) The Rotorua Lakes Council's Destination Management Plan 2021 quotes a 2019 report by Colliers International, saying: "Rotorua is comparatively over-represented in group travel and under-represented in Australian and US guest sectors, which are the highest yielding average daily room rate segments in 4.5- and 5-star hotels throughout New Zealand."<sup>4</sup>
  - (b) It also notes: "the motel stock is largely based on Fenton Street, much of which is considered to be tired and run down."
  - (c) The Executive Summary for the Lakefront development Provincial Growth Fund application headlines: "New accommodation will also give much needed relief from the capacity crunch that is looming as more and more people come to Rotorua on the back of New Zealand's tourism success." The application also spotlights data to show that while Rotorua is the 4<sup>th</sup> most visited destination by international tourists, average spend is 60<sup>th</sup> relative to other destinations, reflecting the high-volume, low cost operating model of tour companies to the region.
  - (d) The provincial growth fund application also references a 2017 Colliers report that estimates a "shortfall of 354 hotel rooms in Rotorua by 2025. With 600 new hotel rooms required by 2025 to meet demand expectations". Again, these are implying higher quality accommodation units.<sup>5</sup>
- 4.3 Media has echoed similar narratives on the tourism accommodation problem in Rotorua:
- (a) A news article from 2016 describes the issue of ageing accommodation assets: "the mayor has called for government help in attracting investment in a new five-star hotel, room rates are expected to trend upwards but less than other main tourism regions because of the large tour and group visitors it attracts and an ageing hotel inventory."<sup>6</sup>
  - (b) Another article from 2016 said: "Rotorua needs a 200-room plus five-star hotel. This is a clear niche missing in our accommodation offering and will enable Rotorua to capitalise and get value from the growing demand for high-end accommodation and services."<sup>7</sup>

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<sup>4</sup> RLDC, 2021. "The Rotorua Destination Management Plan". Retrieved from <https://www.rotorualakescouncil.nz/repository/libraries/id:2e3idno3317q9sihrv36/hierarchy/Meetings/Strategy%2C%20Policy%20%26%20Finance%20Committee/2021-11-11/Rotorua%20Destination%20Management%20Plan%20Nov%202021.pdf>

<sup>5</sup> Referred to in RLDC, 2018. "Unlocking the Potential of Rotorua: Rotorua Lakefront Development".

<sup>6</sup> Business Desk, 2016. "New report forecasts a shortfall of 26 hotels in next decade above what's already being built". Retrieved from <https://businessdesk.co.nz/article/new-report-forecasts-a-shortfall-of-26-hotels-in-next-decade-above-whats-already-being-built>

<sup>7</sup> <https://www.stuff.co.nz/travel/news/80935700/rotorua-the-two-sides-of-the-tourism-boom>



- 4.4 In summary, much of the investment strategy put to the Provincial Growth Fund was based on catalysing investment in higher-yield accommodation, to be supplied around the Rotorua Lakefront and Whakarewarewa Forest area, located 1-3km and 3-6km from Fenton Street respectively.
- 4.5 This sought to achieve: "improved accommodation capacity at the higher yield end of the tourist market, creating an environment to support a range of improved food and beverage options, better attractions and events, and improved social value and civic pride for local residents."<sup>8</sup>
- 4.6 The "new hotels on the lakefront" were "to be at the higher yield (4.5\* plus) end of the market where capacity is currently being squeezed"<sup>9</sup>
- 4.7 The complete outflow of international tourists throughout the pandemic had material effects for this revitalisation and many intended benefits have not been realised.
- 4.8 While emergency housing is taking up traditionally budget accommodation capacity in the city, it is unlikely that this has materially compounded a slow tourism recovery or affected Rotorua's destination management strategy, or that the alternative (i.e., more homelessness) would have contributed to better tourist experiences and reputational outcomes for the city.
- 4.9 Notably, non-utilisation of accommodation is expensive. Accommodation products that are not consumed cannot be stored for use at a future date. The reduction of international tourists in the budget accommodation market could have increased insolvencies. EHSNG vouchers have been a relatively high-value and stable revenue stream for moteliors during lockdowns and so the consequences for tourism should consider this stabilisation/subsidy effect.<sup>10</sup>
- 4.10 The exception for negative impact is tourists who have been co-located with emergency housing accommodation in mixed-use models, whose interactions with emergency housing tenants have been direct.

### **Counterfactual**

- 4.11 Any analysis should make clear that there are few good options immediately available to the housing crisis in Rotorua. The current context places people in Rotorua in unfit housing situations for non-trivial lengths of time. Inadequate physical quality, stigma, and the clustering of communities with highly complex and heterogeneous needs in a conspicuous area of the CBD, while meeting basic sheltering needs, sometimes unmatched resources also contribute to poor outcomes at an individual level.
- 4.12 With the scale of the need, solutions in the short-term cannot be perfect. Balancing trade-offs with the need to provide emergency shelter and protect vulnerable communities from exposure and rough sleeping is required.
- 4.13 I focus my analysis of counterfactuals on which aspects of the current problem and operating model are avoidable, predominantly programme

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<sup>8</sup> RLDC, 2018. "Unlocking the Potential of Rotorua: Rotorua Lakefront Development"

<sup>9</sup> Ibid.

<sup>10</sup> [https://link.springer.com/chapter/10.1007/978-1-349-24074-6\\_4](https://link.springer.com/chapter/10.1007/978-1-349-24074-6_4)

design/support intensity. This is to reflect that although there are choices to be made around the spatial expression of poverty, the fact that it is occurring at the current scale reflects choices at a systemic level.

- 4.14 The CRESA report concludes that “social mix interventions can be used to reduce spatial expressions of inequality.” But “that does not mean, however, that life chances for individuals and families are improved. Deconcentration interventions can lead to the ‘covering-up’ of the needs of vulnerable people and make the provision of needed services more complex and encouraging take-up more difficult.”<sup>11</sup> Any benefits must be considered on balance with the costs to properly assess this risk. CRESA summarise: “anxieties around concentrations of social housing and the associated harmful impact generated by negative neighbourhood effects have been overstated and, consequently, so too have the benefits of reducing concentrations.”
- 4.15 For housing, a no support case is likely to include worse outcomes for family violence and rough sleeping, and an increase in either homelessness or EHSNG voucher use. A high support scenario might include the same number of emergency housing contracts, but with higher levels of support contact types or duration (and higher operational cost related to this).
- 4.16 For tourism, accommodation effects can be assessed against the most likely counterfactual. That if 296 contracted units motels are not available, would there be increased use of EHSNG (motel owners are attracted to the higher tariffs paid by EHSNG) and/or homelessness? And what would the outcome be on the reputation and tourism demand? The answers are necessarily speculative because the increase in housing stress and its potential consequences would be unprecedented. For tourism I focus on the potential impact of reduced supply. There are two legs: (1) how quickly demand will recover and (2) how much other accommodation supply will be available. My assessment is that demand will be slow to recover and that there is no pressing shortage of accommodation.

## **5 Emergency housing is an essential function in the housing continuum, but duration and physical design matters.**

- 5.1 Emergency housing serves those at the sharp end of the housing crisis, who are either moving away from violent or dysfunctional living situations, are already homeless, and who are waiting for more permanent public housing options on the housing register.
- 5.2 Those who are in emergency housing have an immediate emergency housing need, meaning on the date they apply they cannot remain in their usual place of residence (if any) and will not have access to other adequate accommodation for their own and family needs. They must be in a situation where not making the grant would worsen their position, increase or create any risk to the life or welfare of the applicant or their immediate family, or cause serious hardship.<sup>12</sup>

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<sup>11</sup> Centre of Research, Evaluation and Assessment (CRESA). November 2015. Neighbourhood Social Mix and Outcomes for Social Housing Tenants: Rapid Review. p. 34.

<sup>12</sup> These are subject to an income and cash asset test and there are also residency/ordinary resident requirements.

- 5.3 In New Zealand, emergency housing is an interim function for triaging people with complex needs in a supportive living environment and to deliver wraparound support. A fundamental lack of public housing stock to meet demand means the duration of people's stay in emergency housing is almost always materially longer than is fit-for-purpose.
- 5.4 This can have serious consequences for individuals and families, if rooms do not meet their needs, are low quality or physically dangerous, chattels are damaged, or neighbours are disorderly/violent, or supervision systems threatening, etcetera.
- 5.5 Thus, emergency housing needs to cater for widely heterogenous and complex needs, with varying degrees of supervision. A trade-off for tenants is that these buildings typically offer considerably less private space than permanent housing, which is rarely appropriate over more than a short-term period.
- 5.6 Ideally emergency stays should be temporary and progress tenants into stable housing situations with continuous (gender and culturally appropriate) wrap-around support and aims to avoid re-entry into emergency housing (which requires matching of employment opportunities and public housing locations/transit and schools, etc.). The location of the Rotorua motels near the CBD is beneficial in this sense for location near employment opportunities.

## **6 Contracted motels are better**

- 6.1 In 2021, the volume of EHSNGs in Rotorua was the highest in the country by population (before contracted emergency housing was introduced and dispersed some of this demand across the two housing models). Motel rooms supplied under the EHSNG model then were provided at a much higher ratio to emergency housing units than in other regions (at a rate of 5:1 versus 1:1 nationally).
- 6.2 Units used by those reliant on EHSNGs have less wrap-around support and so risk not mitigating effects of spatial poverty concentration and protecting tenants properly, especially throughout extended stays (an issue for both EHSNGs and contracted emergency housing). By March 2021, 30 percent of households in emergency housing in Rotorua had been in houses for six months or longer, and 7.5 percent for over a year.
- 6.3 There have been recent and highly publicised problems with the emergency housing motels. Issues relate to unprofessional delivery of support services like security at the contracted motel sites, the physical conditions of the motel stock in general, and the mixing of tourists and emergency housing tenants in dual-purpose accommodation.
- 6.4 However, issues with emergency housing units are not Rotorua-specific, but in Rotorua there is an especially high-concentration of these units near the CBD, along Fenton Street. This increases the public's visibility of the units and potentially has contributed to worse stigma and publicity than if these motels were dispersed throughout the city.
- 6.5 There are also other locations in New Zealand with high rates of EHSNG use and concentration of EHSNG motels around city centres, and others

where EHSNG units have also been associated with social harm and community concern.<sup>13</sup>

- 6.6 Changes have been made at a contracting level to move towards single-purpose contracting of entire motels rather than units. These contracts have a greater focus on wrap-around services. Under contracted delivery, there is no direct interactions between tourists and emergency housing tenants
- 6.7 The purpose of this consent is to bed in this model as it allows greater delivery of wraparound services, on site security to reduce negative effects on neighbours, and removes the potential risks from mixing emergency and tourism accommodation.
- 6.8 My reading of the literature (discussed in the section below titled Mitigations) supports these models as it allows public sector agencies to develop and implement mitigation strategies, as they are responsible for and have resources to mitigate negative outcomes. There is no comparable ownership or ability to act in an organised way in uncontracted motels or homelessness. I agree with Natalie Hampson's reasoning in paragraph 147 of her Statement of Evidence where she states that a contracted model should lead to better outcomes relative to uncoordinated and less supported options, and that consenting conditions could be used to ensure mitigations are appropriate.

## **7 Crime**

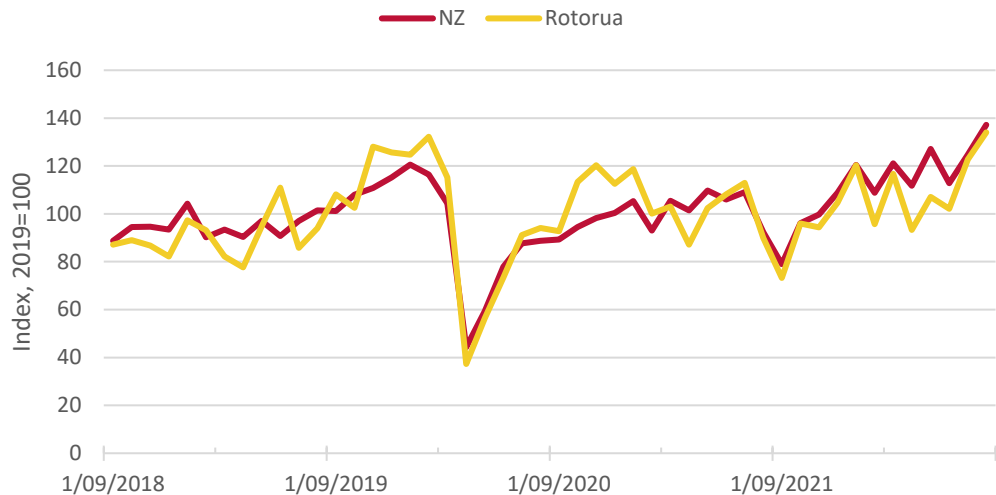
- 7.1 There is fear and a perception of rising crime associated with emergency housing in Rotorua. However, were that perception accurate, I would expect to see greater rates of victimisation in Police data in Rotorua relative to national trends, and a greater concentration of victimisation in the Fenton Street neighbourhood.
- 7.2 Police data shows<sup>14</sup> that the rate of reported victimisation in Rotorua rose through 2019, fell sharply during the pandemic related lockdowns in 2020 and increased thereafter. The figure below shows reported victimisation trends in Rotorua and New Zealand follows similar trends.

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<sup>13</sup> HUD, 2020. "Improving the provision of emergency housing in Rotorua and potential expansion".

<sup>14</sup> <https://www.police.govt.nz/about-us/publications-statistics/data-and-statistics/policedatanz>

## Reported victimisation



- 7.3 Reported victimisation in Rotorua in the year to August 2022 was 2.4%, the same as the year to August 2019, the comparable period before the pandemic. It is difficult to see any real evidence of victimisation through crime in Rotorua that exceeds national patterns. That is, there are wider drivers of crime, and this should not be conflated with local *additional* causes.
- 7.4 I would expect fears of increased crime in any of the motels located in Fenton Street to be reflected in increasing concentration of reported victimisation in the Fenton and Glenholme East area units, which fall either side of Fenton Street.
- 7.5 Reported victimisation in Fenton and Glenholme East area units accounted for 4.7% of the total for Rotorua in the year to August 2022, similar to 4.8% in the year to August 2019. In the interim period the share fluctuated between 4.6% and 5.9%. The variation was within normal bounds observed in other small geographic areas in Rotorua. While this has been potentially attributed to the increase in emergency housing, causality is difficult to establish, and specifically to contracted motels which have additional measures in place, such as security. The current share of victimisation in the local areas is similar to before the pandemic. As such, the Police data does not show a sustained increase in the concentration of victimisation in the affected area alongside increased use of emergency accommodation in motels.
- 7.6 In assessing the impact on crime and thus wider economic effects, it is important to clearly delineate the cost of benefits of contracted motels against EHSNG and homelessness. My assessment is that contracted motels provide the best opportunity to reduce the potential negative effects, which the other options do not.

## 8 Tourism

- 8.1 The main effect of a contracting model is potentially on budget accommodation supply.
- 8.2 There are 296 contracted motel units being used for emergency housing that may otherwise be supplying tourist accommodation. I say may, as in

the absence of contracted motels, housing deprivation will not disappear. Housing deprived people will either be supported by EHSNGs in another motel, with motel owners attracted by higher tariffs than tourists, leading to mixed use and potential negative issues. Or those in housing stress will be homeless. The counterfactual cannot be empty wishful thinking that things will simply be better.

- 8.3 Rotorua's tourism revenue pre-pandemic was roughly 60% domestic and 40% international. If contracted motels reduce accommodation supply by 296 units (out of around 4400), it is unlikely to cause severe shortages. Over the last two years, which have been mainly domestic tourists, occupancy rates have been less than 50%. Given domestic tourism makes up 60% of visitor spend in Rotorua, even a return to pre-pandemic levels can be accommodated with higher occupancy rates.
- 8.4 In my view, the outlook for international tourism is for a slow return to pre-pandemic levels. There are fears of a global recession, evidenced by slumping stock prices, and lingering pandemic effects in our key market, China. China is still pursuing zero covid policy, which means that there is little travel out of China and could be a drag on recovery.
- 8.5 New Zealanders are also now able to travel overseas and less likely to travel domestically, after doing a lot of it during the pandemic years. Other challenges, like limited rental car stock, could also constrain tourism recovery across all regions.
- 8.6 There is flex in the AirBNB market as an alternative to motels, albeit this is not an appropriate substitute for those promoting tour bus packages. At its peak there were 1391 listings in Rotorua, contracting to a low of 1058 during the pandemic. AirBNBs are likely to increase in supply as demand returns, responding to an increase in average price per night (and occupancy levels in the region).
- 8.7 I agree with paragraph 21 of Natalie Hampson's Statement of Evidence, which explains that periods of capacity constraints are likely to be short in duration and infrequent. I agree that the potential loss of guest arrivals associated with any shortfalls in capacity in the next five years, particularly in this submarket of budget motels, is likely to be minor relative to total guest nights. I also agree that the permitted baseline and the existing tourism environment means it is not reasonable to conclude that consenting contracted motels will have significant adverse effects on tourism capacity.
- 8.8 Finally, it is impossible to confidently quantify the reputational effects of people with housing deprivation in contracted motels versus homeless or emergency housing in mixed use motels. My read of the literature shows that there are possible mitigations to concentrations of poverty (see next section). Contracted motels give the best opportunity to do so, with clear alignment of both responsibility and resources to reduce negative externalities. There is no such alignment or resourcing in EHSNG or homeless populations. On balance of probabilities, my assessment is that contracted motels will provide a superior reputational effect compared to mixed use accommodation in motels or homelessness.

## Mitigations

### 9 Managing poverty concentration and 'neighbourhood effects'

- 9.1 Although substandard property conditions principally affect those in the motel accommodation, there can be spillover effects for immediate neighbours and the wider city if accommodation isn't fit for purpose or well-managed. Evidence around the extent of 'neighbourhood effects', however, at least in economic terms, is much weaker and marred by significant research problems. Media reporting of stigma/fear is thus often overstated and not supported in real world data.
- 9.2 'Neighbourhood effects' literature itself is a highly problematic area, and so findings need to be made with careful consideration of the wider context and the alternatives. It has been described as "at best inconclusive and there are significant issues with the transferability of findings."<sup>15</sup>
- 9.3 This is because of widespread method issues, including poor research designs, which have contributed to a controversial evidence base on spatial poverty concentration.<sup>16</sup> By this, I mean there have been cases where data boundaries have been used selectively to prove negative effects. Darcy (2010) discusses some studies which assessed areas with a high concentration of social housing and used this to infer it was the existence of emergency or public housing that caused social disadvantage, rather than low-income households simply living in these places.<sup>17</sup>
- 9.4 There is a tendency for research to be substandard because of limited data for analysis, which lends itself to a disproportionate focus on demography as a driver of negative effects on an urban area (because this is more easily collected and scrutinised). Less easily captured causes, such as factors like pedestrian accessibility, street lighting, access to green spaces, or proximity to urban areas and transport, are overlooked.<sup>18</sup>
- 9.5 It is therefore important to take a mixed method approach, using qualitative and nuanced assessments, as findings cannot easily be transplanted between regions and credible 'rules of thumb' do not exist.
- 9.6 However, at a site level, literature is clearer that there are benefits from well managed mitigation strategies that improve quality of living experience for those in emergency and/or social housing. The CRESA review finds four factors can be associated with negative effects on a site irrespective of social mix strategies at a community level. These include:
- (a) Design of both dwellings and the surrounding environment
  - (b) Allocation and tenant management

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<sup>15</sup> M. Darcy, *De-concentration of Disadvantage and Mixed Income Housing: a Critical Discourse Approach*, Housing, Theory and Society, 27:1 (2010).

<sup>16</sup> Lupton (2003).

<sup>17</sup> Darcy (2010).

<sup>18</sup> R. Lupton, 'Neighbourhood Effects: Can we measure them and does it matter?' *Centre for Analysis of Social Exclusion* (2003); K. Saville-Smith, N. Saville-Smith, and B. James, *Neighbourhood Social Mix and Outcomes for Social Housing Tenants: Rapid Review*, CRESA & Superu (2015) (CRESA Review).

- (c) Neighbourhood services, amenities and policing
  - (d) Retention of housing and community opportunities for social housing and low income households.
- 9.7 They find: “the physical condition of houses and neighbourhoods are important and neighbourhood decline can exacerbate disengagement.”
- 9.8 And: “neighbourhood and tenant management are both important to ensure that vulnerable neighbourhoods do not become dominated by anti-social and criminal behaviours. The effective participation of social housing tenants and the management of social housing stock need to be accompanied by good neighbourhood policing and management. Private rental practices can undermine any benefits of re-development and improved social tenancy management for social housing tenants”.
- 9.9 This means responsible and resourced management practices are relevant and necessary. This supports my conclusion that contracted models of emergency housing delivery are likely to be better than greater homelessness or EH-SNG alternatives, given the benefits to operationalising and systemising support systems for tenants. Physical improvements to sites, such as the provision of secure carparking, better gating and lighting, child-friendly spaces, and more diverse security/support contractors to deliver services could improve outcomes at a site level, for instance.
- 9.10 In summary, the definition of “environment” in section 2 of the RMA includes reference to “economic conditions” which affect or are affected by ecosystems (including people and communities), natural and physical resources, and amenity values. So, in discussing economic effects, the economic benefits of relatively stable housing for people and communities must also be considered. For those who are homeless, emergency housing benefits are immense and immediate. Definitionally, there are no good alternatives. If mitigations can be pursued at a site-level, it is generally sensible these are considered ahead of more intensive deconcentrating alternatives, which will move those in already unstable housing circumstances further out of reach of support (e.g., an increased use of EH-SNG vouchers is likely to have counter-intuitive outcomes for support delivery).

## **10 Conclusion**

- 10.1 I found that Rotorua has a severe housing shortage, caused by rapid population growth since 2014, and insufficient housing supply. While the housing shortage affects all, the impacts are intensified for renters and those in public housing. The demand for emergency housing is linked to housing shortages locally and attendant lack of affordability. Even at current high rates of consents and low rate of population growth in 2021, it would take 5 years to clear the accumulated housing shortage.
- 10.2 I consider that there needs to be a patient plan to deal with housing shortages. I support the application period for contracted motels for 5 years.
- 10.3 As a tourism dependent region, Rotorua is right to consider the potential impact of contracted motels. But it must do so with a clear eye to the possible trade-offs. It is choosing between difficult options. In my



economic assessment, contracted motels provide the least bad option to deal with Rotorua's housing crisis, while wider programmes are put in place to accelerate housing supply, especially public, affordable and rental housing. The counterfactual is that housing deprivation will remain, and in the absence of contracted motels, there will still be either use of motels through EH-SNG (as moteliers are attracted by high EH-SNG tariffs) and/or homelessness. In my view, those options will be worse for reputation. I do not view the use of 296 contracted motel units as causing a shortage of accommodation compared to the alternative, or causing loss of economic opportunity compared to the counterfactual.

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