

**BEFORE THE INDEPENDENT HEARINGS PANEL
AT WELLINGTON CITY**

**I MUA NGĀ KAIKŌMIHANA WHAKAWĀ MOTUHAKE
NGĀMOTU**

UNDER THE

Resource Management
Act 1991

IN THE MATTER OF

the hearing of submissions
on the Proposed
Wellington City Plan

(Hearing 1)

**STATEMENT OF EVIDENCE OF PHILIP MARK OSBORNE ON BEHALF OF THE
WELLINGTON CITY COUNCIL**

1. Introduction

1.1 My full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland.

Experience

1.2 My qualifications include Bachelor of Arts (History/Economics) (1994), Masters in Commerce (1997), a Masters in Planning Practice (2002) from the University of Auckland and I have provisionally completed my doctoral thesis in developmental economics.

1.3 I have 19 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning. I also provide consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.

- 1.4 Property Economics has been involved in assessing commercially feasible residential development for a wide range of government ministries, local governments and private clients over a large number of local, territorial and regional economic environments.

Involvement in the Proposed Plan

- 1.1 In late-2021, Property Economics and Urban Edge (UE) were engaged by Wellington City Council (WCC) to undertake an assessment of the commercially feasible residential capacity (supply) of Wellington City. This model was run across the Proposed District Plan and has also been utilised to assess the development impacts associated with the identified Qualifying Matters set out by WCC.

Code of Conduct

- 1.5 I confirm that I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2023. I have complied with the Code of Conduct in preparing this evidence and agree to comply with it while giving evidence. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

Scope of Evidence

- 1.6 My evidence will outline the following:
- A summary of the approach and methodology applied to the capacity modelling;
 - The results of the feasibility modelling and associated measures;
 - The reconciliation of assessed capacity with projected demand;
 - The individual and cumulative QFM impacts;
 - Comments on submissions related to economics or capacity;

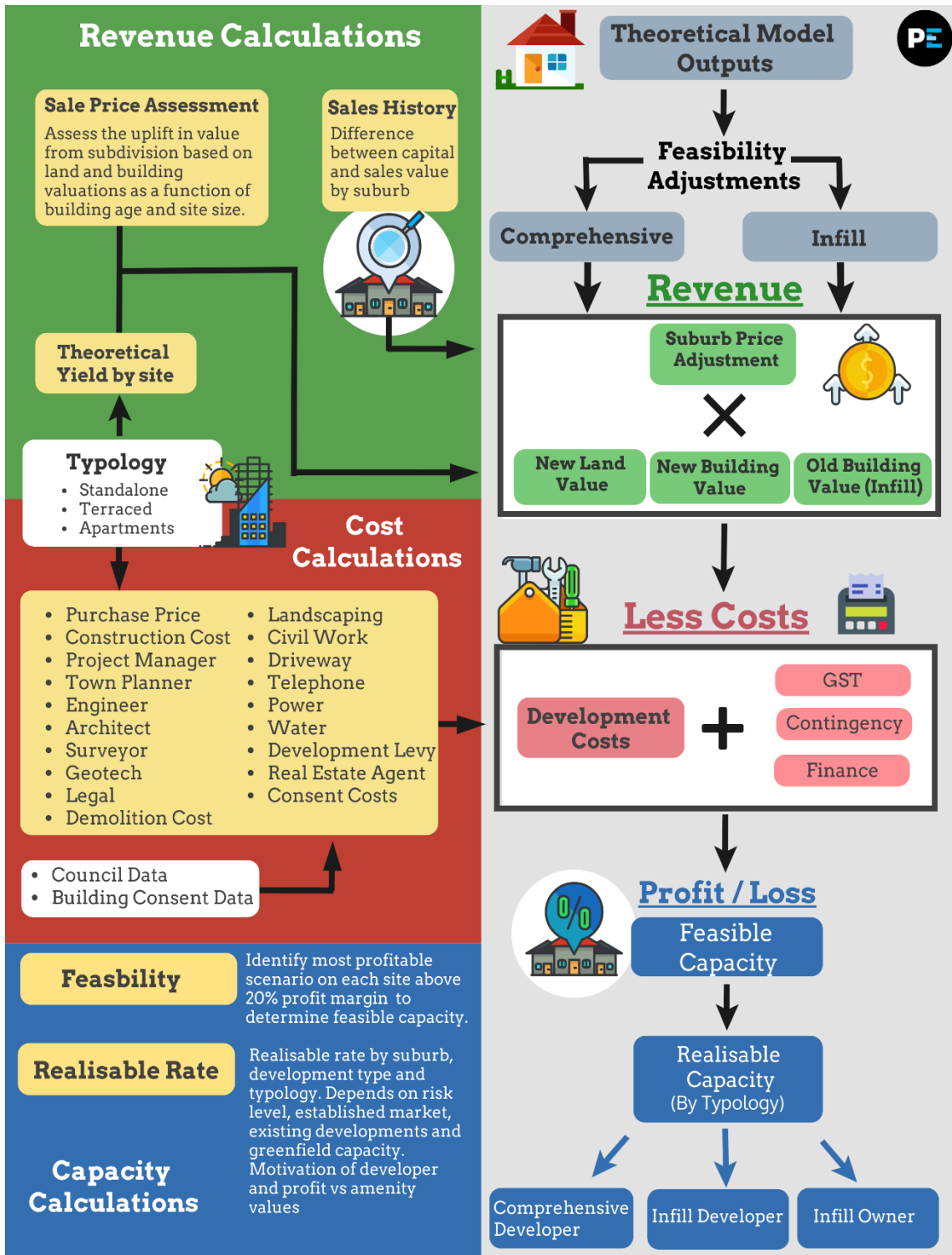
2. Housing Capacity Assessment 2021

- 2.1 As part of the assessment for WCC Property Economics has undertaken residential capacity modelling. Included in this modelling is the extent of dwellings that are commercially feasible under the WCCPDP. Four levels of capacity have been assessed through the modelling including theoretical (plan

enabled), feasible (commercially viable at 20% profit), realisable (risk and market adjustment), demand reconciled (based on typology preferences).

- 2.2 The methodology and assumptions for each of these modelling stages are outlined in the full report provided in the Council section 42a report. This is summarised in Figure 1 below.

Figure 1: Wellington Site Specific Capacity Modelling Approach



2.3 The capacity assessment is based on the geospatial, valuation and development specifications at an individual site basis. This assessment considers numerous site-specific variables as well as suburb level sales data (such as differences in construction cost averages), proportional changes in land values through subdivision, and exogeneous factors such as interest rates.

- 2.4 For each of the 40,000 plus theoretically developable residential sites a series of scenarios are assessed including 'comprehensive redevelopment' and 'infill' options, 3 development mechanisms, 3 typologies (where appropriate standalone, terraced and apartment) as well as 3 dwelling sizes. While house prices in late 2021 still exhibited strong growth it was Property Economics position that the modelling was sensitive to both sales prices and construction costs, as such it was considered pertinent that a scenario should be run illustrating the impact of a 10% fall in sales prices and a 10% rise in construction costs¹. Given the subsequent experiences in the national housing market this scenario proved to be a better representation of the market at the end of 2022.
- 2.5 It is important to note that the sensitivities to market changes, such as those modelled, have a material impact on the overall model results. There was a 40% difference in feasible capacity between the existing market conditions and the higher cost lower value scenario assessed for WCC. This is a poignant indication of the need for the PDP to provide development potential that can still meet the require demand levels while facing exogeneous changes in market conditions.
- 2.6 This topical example is currently being played out in the market with rising interest rates and pressures on overall production leading to substantial changes in both house prices and construction costs. While the corresponding fall in land values may result in more affordable housing it will also put considerable pressure on the market to meet housing growth pressures through feasible developments. As such it is important that the WC PDP is still able to meet these demand levels under 'harsher' development conditions.

Feasible and Realisable Capacity

- 2.7 Table 1 summarises the projected dwelling growth (demand) in relation to the dwelling capacity under the Proposed District Plan². This shows that Wellington City has a projected dwelling growth over the long term (30-years) of 31,242³. Under the National Policy Statement on Urban Development, Councils are required to provide a buffer to capacity (NPS UD Margin). This raises the total demand requirements for the Wellington City to 35,928 dwellings over the long term (to 2051).

¹ It is important to note that the Property Economics modelling is based on static sales prices and does not include a trended price increase over the 30-year timeframe. This is due to the fact that Property Economics does not believe that it is appropriate that sufficient feasible capacity should only be achieved with a necessary real price rise.

² Based on realisable capacity with a 10% decrease in sales price and a 10% increase in construction costs

³ It is of interest to note that subsequent projections have reduced this to 27,640.

Table 1: Scenario 2 Residential Dwelling Capacity and Sufficiency (30 Year)

Capacity Overview	Theoretical	Feasible (Max Profit)	Realisable
PDP Capacity	239,025	77,478	62,979
Demand (plus NPS Buffer)			35,928
Sufficiency			27,051

- 2.8 Under the Proposed WC District Plan, the additional Theoretical Capacity is assessed at 239,000 which would be more than sufficient to support projected household growth over the Short, Medium and Long Term (to 2051). As Table 1 illustrates this capacity figure is markedly reduced when considering the limiting factors for feasible and realisable capacity. The Feasible Capacity Model assesses the cost to develop on each site, the approximate sales price and the resulting net profit of the average development. An option is considered commercially feasible if the profit margin exceeds 20%. At approximately 102,000 dwellings feasible capacity (maximum profit) represents less than 38% of the plan enabled capacity.
- 2.9 It is considered inappropriate to assume that 100% of the commercial feasible capacity would be realised, even over the longterm, as individual sites face unique restrictions and non-profit driven motivations by individual landowners as well as the potential for development outcomes that do not maximise plan enabled capacity. In the case of Wellington City capacity this further reduces estimated capacity by approximately 20,000 dwellings. As identified in Table 1, at this stage, the realisable capacity still materially meets the City's expected demand over the longterm.
- 2.10 While the above sufficiency recognises that the total quantum for dwelling demand is met through the PDP this is based simply on the most profitable development outcome. As such the resulting typologies may not appropriately meet composition of the future demand profile (e.g., the estimated capacity may include a large proportion of small apartments). It is therefore necessary to reconcile this future demand structure with feasible capacity by typology.
- 2.11 Table 2 below outlines demand reconciled capacity across the City for attached and standalone residential product. The composition of demand is based on the Sense Partners residential household demand and indicates a proportionally higher demand for growth in attached (terraced and apartments) dwellings over the longterm. Following this representation of demand Property Economics have

reconciled the level of profitable realisable capacity. Of note is the fact that total demand reconciled capacity (at 62,578) is lower than the realisable capacity at max profit, this is due to the fact that typology demand means less attached dwellings are development in favour of the lower density standalone product.

2.12 Table 2 indicates that not only does the WC PDP provide for sufficient residential development capacity but that this commercially viable capacity can also meet growth preferences by typology.

Table 2 : Demand Reconciled City Capacity (Scenario 2 Longterm)

Catchment	Type	Demand (Buffer)	Demand Reconciled	Residual Capacity
City	Standalone	15,569	26,766	11,197
	Attached	20,360	35,812	15,452
Total		35,928	62,578	26,650

Qualifying Matters and Capacity Impacts

2.13 The Resource Management (Enabling Housing Supply and Other Matters) Amendment Act and NPS-UD identify a range of 'Qualifying Matters' (QFM). These are allowable limitations why a council can make District Plan provisions less enabling than otherwise required by the Act or the NPS-UD.

2.14 The QFMs proposed by WCC are as follows:

- Restricting Development in areas subject to Coastal and Natural Hazards including flood risks, coastal inundation, tsunami risks and fault lines.
- Significant Natural Area (SNA) Overlay. (A reduction in the extent of this overlay between the DDP and PDP means that this is no longer a QFM).
- Heritage buildings, structures and areas;
- Sites and Areas of significance to Māori (**SASM**);
- Airport Noise Overlay
- Viewshafts. (Found to have little to no impact on capacity and therefore not counted as a QFM.).
- Restricting Development within the City's Waterfront Zone.
- Notable Trees.
- Designations – (Protect areas for specific uses such as Infrastructure and Schools).

- Character precincts including the Mount Victoria North townscape precinct.

2.15 The process applied to the assessment of these limiting factors is similar to the that outlined above with Urban Edge having modelled each of these qualifying matters to identify their impacts on the plan-enabled capacity. Following this both the individual and combined impacts on feasible and realised capacity were assessed. The initial impacts of the QFM on feasibility can be broken into 3 categories:

- Direct Capacity: where the QFM directly limits the level or extent of a site or areas development potential.
- Increased Costs: where a QFM is likely to result in increased development costs thereby reducing overall feasibility or profitability.
- Increased Risk: where an activity status (as the result of a QFM) reduces the propensity for activity to occur due to the uncertainty associated with its approval.

Table 3: Qualifying Matters Individual Impacts (Scenario 2)

Feasible (Max Profit)	Impact Type	Theoretical	Apartment	Standalone	Terraced	Total
Hazards	Cost, Risk & Capacity	-12,714	-2,379	-574	-3,116	-6,069
Airport Noise	Cost and Dwelling	-2,737	-127	-205	-1,019	-1,351
Waterfront Zone	Capacity	-86	-10	-	-	-10
Character Areas	Capacity	-7,551	-761	-31	-845	-1,637
Designations	Capacity	-3,325	-690	-311	-419	-1,420
Heritage	Capacity	-5,488	-496	-327	-418	-1,241
SASM	Capacity	-2,068	-358	-344	-644	-1,346
TreeCanopy	Capacity	-20	-1	-	-14	-15
Fault	Dwelling Limit	-754	-105	-71	-371	-547

2.16 Table 3 above outlines the individual impacts on capacity resulting from each of the QFM. As several of these matters overlap geospatially the overall impacts are not cumulative. As such Table 4 illustrates the net impact of the implementation of all identified QFM on the residential capacity resulting from Wellington City's PDP.

Table 4: Qualifying Matters Cumulative Impacts (Scenario 2)

Catchment	Type	Demand (Buffer)	Demand Reconciled	Residual Capacity
City	Standalone	15,569	22,812	7,243
	Attached	20,360	27,064	6,704
Total		35,928	49,876	13,948

- 2.17 The final table (4) reconciles projected residential dwelling demand within Wellington City with the assessed capacity facilitated through the PDP, modelled market conditions, typology preferences and identified QFM.
- 2.18 This table indicates that the Wellington City PDP provides more than sufficient residential development capacity through to 2051, with a total demand of approximately 36,000 and a reconciled capacity of nearly 50,000.

3. PDP Submission

- 3.1 While there are a number of submissions that encompass economic concerns both directly and indirectly, there are three aspects that pervade the majority of these:
- The focus on underutilised sites (various) [349]
 - The ability to 'upzone' incrementally (various) [358]
 - Intensification and affordability (395.1, 395.2)
- 3.2 Various submissions have identified a need, within the Plan, to focus on the development potential for underutilised sites. While it is economically efficient for the Plan to facilitate
- 3.3 The full development potential of sites there are a number of other factors to consider. The motivation of existing site owners, acceptance of risk levels, financing, and general site feasibility can impact development timeframes. While there are targeted mechanisms that Council can implement the PDP as a whole most seek to enable appropriate levels of development citywide. An economic concern of not providing for such a level and extent of development options is that less efficient development occurs and continues the cycle of underutilised sites and the comprehensive redevelopment of lower density development becomes more costly.
- 3.4 The overall direction of the PDP in terms of development capacity is more likely to provide the wider market with the required impetus to redevelop with the opportunity of greater density.
- 3.5 This point also relates to the potential to upzoning areas over time. The issue here is that the potential feasibility of site redevelopment is materially impacted through directing the market to lower density options in the short term. Anecdotally, with a 'staged' zoning approach, the market may develop terraced

homes on a specific site, in the short term, this significant capital investment would materially impact the potential for the site to develop to higher density apartments over the medium to long term as the initial capital investment is lost. This approach would impact upon the Council's ability to efficiently plan for the city's growth.

- 3.6 Additionally, as outlined in paragraph 3.5 above, while the PDP provides for sufficient capacity under the present conditions, exogenous change can materially and quickly alter the level of feasible and realisable development capacity within the city.
- 3.7 Finally, Mr Minto (395.1), (395.2) has raised concern regarding the ability for intensification to result in affordable housing. There are a number of factors, outside of the simple supply of land and density that have driven the NZ housing market over the past 2 decades. Interest rates, speculation (tax policies) access to capital have all played a significant role in falling affordability. The significance of these factors is currently playing out in the market as these trends reverse due to market contractions. At the same time some factors are pushing against this correction. Primarily construction costs, both for homes and the infrastructure that services them. These continue to rise placing pressure on the market's ability to provide built form that is affordable and appropriate. While not necessarily the motivation of the Wellington City PDP the facilitation of intensified housing choice provides with it the potential to lower marginal infrastructure costs and provide smaller more affordable housing choices to the market.

4. Conclusion

- 4.1 An extensive economic assessment has been undertaken by Wellington City Council through Property Economic and Urban Edge to indicate the enabled and likely developable residential capacity, resulting from the PDP, to meet future housing demand within the City.
- 4.2 This assessment has found that:
- It was prudent at the time of assessment to consider a scenario that allowed for lower sales values (as a result of decreasing land values) and higher construction costs. This scenario (2) has been adopted in this evidence.
 - While the plan enabled (theoretical) capacity facilitated through the plan is significant (approximately 240,000 dwellings) this is substantially reduced

when considering site feasibility (77,500), realisation rates (63,000) and demand (typology) reconciliation (62,500).

- This level of capacity was still more than sufficient to meet the projected demand (31,242), both in total quantum and typology.
- Under the NPS UD the assessment of projected demand, in the evaluation of sufficiency, should consider a 15% buffer (longterm). This consideration increases the demand profile to just under 36,000 dwellings.
- The level of development impact varied markedly between QFM's. Flood hazards exhibited the largest individual impact on development potential (6,000 feasible dwellings) based its impact on costs, risk and direct capacity.
- With significant overlaps between QFM's the cumulative (demand reconciled) development loss was estimated at approximately 13,000 dwellings.
- When considering all development factors associated with both the market and planning restriction the Wellington City PDP is estimated to facilitate approximately 50,000 dwellings, more than sufficient to meet the requirement of 35,928 new homes, both in quantum and typology.

4.3 There are a number of submissions relating to development capacity under the PDP and economic outcomes. While these may hold some validity, in the context of the PDP and the requirements of Council under the NPS UD, they are not economically appropriate approaches to the efficient development outcomes sought by Council.

Philip Osborne
20 January 2023