

PROPERTY ECONOMICS



WELLINGTON PDP HEARING

PANEL MINUTE 11

RESPONSE

Client: Wellington City Council

Project No: 52144

Date: March 2023

23 March 2023

ECONOMIC MEMORANDUM

To: Wellington PDP Panel

RE: Response to Economic Questions in Minute 11

Minute 11 Questions

(a) What are the implications of the drop in property values commencing March/April 2022 for the cost benefit evaluation around further intensification, and for the predicted surplus of realisable enabled supply to meet demand over the short, medium and long term time horizons In relation to the former, is there potential (as suggested by 1 [2017] NZCA 24 Wellington Proposed District Plan Minute 11 Page 3 Mr Spargo) for the enablement for intensification in the PDP to cause property values to drop further than would otherwise be the case, and for consequential adverse social and economic effects that have not to date been considered?

Property prices play a fundamental role in the feasibility of residential development. Additionally, a property market in flux (downward) has the potential to increase the perceived and actual risk accepted by the market, with developers having to consider further falls in advancing development opportunities.

At the time of the Property Economics modelling it was considered prudent to run (and subsequently accept) a scenario that allowed for a 10% fall in property prices and a 10% rise in construction costs. As outlined in the Wellington City HBA this scenario resulted in a material drop in feasibility and consequently in the quantum of realisable capacity. As such it is expected that further drops in the market are likely to impacted upon feasibility (although at a rate that is non-linear).

Further assessments by Property Economics would suggest that for the (QFM adjusted) realisable capacity to fall below the longterm (30 year) demand prices would need to fall by a further 25%. In my view this extent of correction lies at a statistically unlikely range.

A key economic outcome sought, regarding the enablement of intensified residential development within an urban area, is the market's ability to provide a sustainable product at a more affordable price. The process of intensification typically increases underlying land values reflecting the increased development potential, while this increases the value of land per square metre, the resulting higher density product characteristically utilises less land per site (or developed unit) overall this results in a lower cost product but generally a higher value-built product.

Hence the enablement of intensified development potential will increase the existing property values while producing a more affordable product through development. Generally, this results in limited economic costs (based on suitable planning and built form standards) with a resulting net economic benefit, due to more affordable housing as well as materially greater lands use and infrastructure efficiencies.

(b) Mr Cullen's evidence (for Kāinga Ora), that Tawa, Miramar and Newtown Centres exhibit a significantly greater level of retail and commercial activity and employ significantly more people than do the other local centres that have been identified in the PDP.

Property Economic have not been involved or provided commentary on the Wellington City centre network.

(c) Mr Cullen's evidence (at paragraph 8.5) derived a current dwelling shortfall in Wellington City of 10,222: could Mr Osborne comment on that calculation and discuss the implications of such a shortfall should that view be substantially correct.

Mr Cullen identifies what he believes is the signalling of a current shortfall in housing capacity within WC, and points to the regional HBA as a source of this latent demand. Table 1 below identifies the source of these figures as a 25,000 regional shortfall and a 10,222-city shortfall. These figures, however, relate to the sufficiency of the Wellington TAs to meet future demand through their City Plans.

Firstly, this figure relates to capacity numbers pre-HSAA (MDRS) and more importantly these figures relate to the ability for district plans to meet future, not current, demand. Essentially, the 10,222 dwelling shortfall is an estimate of future (30 year) sufficiency within Wellington City under the PDP, this is not a current shortfall or existing latent demand. This potential misinterpretation ultimately pervades Mr Cullen's remaining issues.

TABLE 1: GREATER WELLINGTON HBA SUFFICIENCY

Table 1.2: Housing sufficiency in the Greater Wellington urban environment

	Demand	Capacity	Difference	Sufficient?
Kāpiti Coast District	16,185	7,818	-8,367	No
Porirua City	13,978	16,511	2,533	Yes
Upper Hutt City	12,223	11,361	-862	No
Lower Hutt City	24,773	16,847	-7,926	No
Wellington City	36,621	26,399	-10,222	No
Region-wide	103,780	78,318	-25,462	No

(d) Across the city as a whole, what proportion of predicted realisable capacity is dependent on access to the additional capacity provided by the HDZ over and above MDRS? As a subset of that question, can Mr Osborne please advise what additional realisable capacity the walkable catchments around the Johnsonville line stations other than Johnsonville itself provide compared to that provided by the MDRS (refer the evidence of Dr Helm on the latter point)?

Table 2 outlines these 2 scenarios. The capacity numbers here are based on realisable capacity and have not been reconciled with demand. This shows that the proposed HDZ enables an additional 8,780 dwellings, 1,430 of which are realisable.

Table 2 also illustrates the additional realisable dwelling capacity provided through the HDRZ (walkable catchment) around the Johnsonville line. This assessment indicates that the catchment would enable an additional (to the MDRS) 6,900 dwellings with a realisable level of 435 dwellings.

TABLE 2: IMPACT OF HDRZ ON THE CITY AND JOHNSONVILLE LINE

Capacity Overview	Theoretical	Feasible (Max Profit)	Realisable
With Johnsonville Line HDRZ	215,286	66,046	51,502
Without Johnsonville Line HDRZ	208,399	64,889	51,067
Removal of Johnsonville Line HDRZ	-6,887	-1,157	-435
Removal of High Density Residential	199,617	61,881	49,635
Removal of HDRZ	-8,782	-3,008	-1,432

Kind Regards

Philp Osborne

Signed:

