BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES PROPOSED DISTRICT PLAN

IN THE MATTER	of the Resource Management Act 1991
AND	
IN THE MATTER	of Hearing Stream 13 – Queenstown Mapping Annotations and Rezoning Requests

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SECOND STATEMENT OF EVIDENCE OF PHILIP MARK OSBORNE ON BEHALF OF QUEENSTOWN LAKES DISTRICT COUNCIL

DWELLING CAPACITY

19 June 2017

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1. INTRODUCTION

1.1 My name is Philip Mark Osborne. I am an Economic Consultant for the company Property Economics Ltd, based in Auckland. My qualifications include – Bachelor of Arts (History/Economics), Masters in Commerce, a Masters in Planning Practice, and have provisionally completed my doctoral thesis in developmental economics.

1.2 For the past thirteen years I have been an economic property consultant for Property Economics. Previous to this I have been a business analyst to several large firms both here and in Europe. I also taught economics at both the secondary and tertiary level.

1.3 I have recently advised, and currently advise, central government organisations such as the Ministry for the Environment and the Ministry for Business Innovation and Employment as well as local authorities including Christchurch City, Napier City, Auckland Council, Wellington City and Wellington Regional Councils, Waikato Regional Council, and Far North Councils in relation to forward planning and resource valuation issues. I also provide consultancy services to a number of large private sector clients in regard to a wide range of property issues, including economic impact assessments, forecasting market growth, determining future land demand for the residential and business sectors, and economic cost-benefit analysis.

1.4 My evidence is provided on behalf of Queenstown Lakes District Council (**Council**) and relates to the on-going work stream that Property Economics is producing for the Council, in updating the Council's Dwelling Capacity Model (**DCM**) and to provide evidence specifically in relation to the Queenstown Ward (which includes both the Queenstown and Wakatipu Basin areas as defined for the purposes of the PDP hearings). I wish to reiterate that, when land that has not been notified in Stage 1 is notified in a subsequent Stage, that the DCM will need to be revisited.

1.5 This evidence draws on the evidence and highlights summary I presented at the Upper Clutha Hearing Stream 12. As further work

has been completed for the Queenstown Ward, the overall figures relating to residential capacity enabled by the PDP, are updated.

1.6 Although this is a Council hearing I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2014 and that I agree to comply with it. I confirm that I have considered all the material facts that I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise, except where I state that I am relying on the evidence of another person.

2. EXECUTIVE SUMMARY

2.1 The Queenstown Lakes District's property market has experienced significant changes over the past 15 years both from real changes in the market and as a result of substantial levels of speculation. As such there is pressure on all forms of land use activities with residential affordability levels at a national low.

2.2 The Proposed District Plan (**PDP**) seeks to address this issue, in part, with changes to provisions allowing greater degrees of development and redevelopment for the purposes of increasing the quantum, choice and consolidation of residential activity in appropriate locations.

2.3 The District is recognised as one of New Zealand's high growth areas and is expected to see doubling of usually resident[1] population over the next 30 years. This, coupled with the demand for residential visitor accommodation, will see demand for nearly 14,000 additional dwellings over this period.

2.4 The 'Queenstown Ward' area (which includes both the Queenstown and Wakatipu Basin areas as defined for the purposes of the PDP hearings) is expected to see substantial growth with nearly 4,800 new dwellings required by 2028 and 9,500 by 2048.[2]

1 Based on Rationale Projections outlined later in the evidence and set out in Mr Walter Clarke's evidence.
2 Including a latent demand of 800 dwellings within this ward.

2.5 The residential capacity enabled for the District under the PDP provisions has been estimated at 41,200 dwellings[3] with 27,000 of these within the Queenstown catchment. It is however important to filter this capacity through market factors that will provide a greater understanding of whether the market is actually likely to 'realise' this capacity.

2.6 Having undertaken such an assessment the feasible capacity, understandably, represents a reduced component of the plan enabled capacity. For the District it is expected that the market could provide as many as 20,300 dwellings (when considering the "Special Development" capacity (see paragraph 7.3)) with current conditions providing 15,100 of these to the Queenstown market (representing considerably more dwellings than the 9500 estimated to be required at 2048). In relation to the current market there are 18,500 dwellings currently occupied and unoccupied in the District with 11,500 of these located within the Queenstown Ward area. Therefore the capacity enabled by the PDP is more than double the existing residential housing stock.

2.7 Given the estimates are made over a 30 year period and the level of development potential provided within the PDP, there is more than sufficient capacity for the market to meet expected future demand.

3. SCOPE OF THIS EVIDENCE

3.1 The purpose of this evidence is to:

(a) outline the process undertaken to assess the 'feasible' capacity, through the DCM, for residential development facilitated through the Proposed District Plan (**PDP**) provisions;

(b) provide the outputs of the updated dwelling capacity model; and

(c) assess whether the PDP provisions are sufficient to provide the market with sufficient impetus to meet the projected

3 This is an update from the enabled residential capacity of 43,000 estimated in my evidence for the Upper Clutha Hearing Stream.

residential dwelling demand for the Queenstown Ward, from an economic perspective.

3.2 My evidence also seeks to contextualise the enabled capacity facilitated through the PDP in the current market faced by the District, with a particular focus on the Queenstown Ward (I wish to clarify that the diagrams in my evidence use the term Wakatipu Ward and this covers the land covered by both the Queenstown and Wakatipu Basin hearing streams, but is referred to as '**Queenstown Ward**' in this evidence). With the exception of Arrowtown, the extent of land included within the geographic area covered by the Wakatipu Basin Hearing Stream 14 is largely zoned Rural Residential and Rural Lifestyle, and has been included in this evidence, rather than separating out and leaving to the Wakatipu Basin hearing.

3.3 This evidence attempts to address the potential market response to increased opportunities provided under the PDP.

4. THE MODEL PURPOSE, SCOPE AND GUIDING ASSUMPTIONS

4.1 As identified above the purpose of this facet[4] of the DCM update (to date) is to assess whether the zoning under the PDP enables the market to deliver the quantum of commercially feasible housing product necessary to meet identified future demand.

4.2 The model has been updated across the District, using the Stage 1 notified chapters, and for land that has not been notified in Stage 1, the operative provisions applying to that land have been incorporated into the model.

4.3 The following Queenstown Ward zones are relevant (I note that my evidence as to the Upper Clutha Ward (for Hearing Stream 12), is relevant in coming to the overall figures for the District):

4 The base for this assessment includes the data utilised to assess the enabled capacity provided by QLDC.

PDP:

a) Low Density Residential;
b) Medium Density Residential;
c) High Density Residential;
d) Arrowtown Residential Historic Management Zone;
e) Queenstown Town Centre;
f) Arrowtown Town Centre;
g) Local Shopping Centres;
h) Business Mixed Use;
i) Rural;
j) Rural Residential and Lifestyle;
k) Gibbston Character;
l) Special Zones:
    (i) Millbrook Resort;
    (ii) Jacks Point; and
    (iii) Waterfall Park;

ODP

a) High Density Residential (Gorge Road);
b) Township Zones;
c) PC50 (including High Density Residential);
d) Rural Visitor (Arthurs Point)
e) Special Zones:
    i) Remarkables Park;
    ii) Shotover Country;
    iii) Quail Rise;
    iv) Bendemeer;
    v) Meadow Park;
    vi) Kingston Village;
    vii) Arrowtown South; and
    viii) Frankton Flats B.

4.4 There are several zones for which enabled capacity has not been assessed and as such is included as zero, including:

(a) Rural Visitor Zones at Arcadia Bay, Blanket Bay, Cecil Peak and Walter Peak (with the exception of the projected capacity at Arthurs Point Rural Visitor Zone of approx. 200);
(b) Industrial; and
(c) Airport Mixed Use Zone.

4.5 The model is based on a number of high level assumptions including:

(a) the model is based on the notified PDP, and where the zone chapter has not been notified in Stage 1 of the plan review, it has been based on the operative zone for that land (consistent with paragraphs 4.3 and 4.4 above);
(b) the planning regime remains unchanged over the assessed period of time (ie, through to 2048);
(c) although the model assesses development potential on a site by site basis, it does not assume individual's behaviour but utilises averages to understand the typical outcome within the market. It is important to note that these 'averages' represent a market characterised in the District as one that has displayed lower realisation rates of development, and as has been previously identified has a proportionately higher likelihood of speculative land trading;
(d) the interaction between demand and supply has been assumed to be constant. Demand has been fixed through the Rationale population projections (as set out in Mr Clarke's evidence) and has not been altered for the range of possible supply outcomes. It is acknowledged that these factors are interactive and in turn influence market indicators such as price and affordability;
(e) in addition to this there is interaction between demand and supply in terms of its geo-spatial distribution. The identified distribution of demand is, to a degree, reliant on the provision, through the market, of housing supply at a level to at least meet this demand;
(f) the model assumes that there is sufficient infrastructure capacity to meet supply needs and so the availability of infrastructure does not influence the feasible outcome (I note

Ms Banks addresses infrastructure in her supplementary evidence);

(g) development feasibility occurs when a specified return is met within the market (in this case 20%). While this is a market driven return, development can still occur as owner occupiers develop not on returns, but based on individual requirements and potential equilibrium with the projected value;

(h) the nature of rezoning for greater levels of density has the effect of changing land values. This value is generally proportionate with the level of rezoning but is also present in the market, generally to a lesser degree, as a result of the expected changes as well as the actual changes to land value. As such the DCM expects some degree of 'windfall gain' for the property owners that must be considered in terms of the purchase price of development potential;

(i) at this stage, the model has not considered the changes over time as they relate to the relative value of improvements (built form) to land values. It is expected that over time the value of these improvements will fall, increasing the potential for redevelopment;

(j) at this stage, no assessment has been made with regard to the amalgamation of sites (as per the enabled capacity component of the DCM);

(k) the development model excludes GST;

(l) the model filters development options by the highest return in response to an efficient and effective market; and

(m) the model assumes that the potential development will undertake a 'capacity' development unless it is not feasible. It does not consider the possibility of underdevelopment occurring that may also be feasible but may not reach maximum capacity (this may result as a lower risk option for development). This is especially the case in relation to medium to higher density product, which is likely to result in a lower overall capacity even in the longer term.

5. THE DISTRICT'S RESIDENTIAL MARKET AND POPULATION PROJECTIONS

5.1 The District's residential market has seen substantial growth over the past 15 years with new household formation at over 5,000 additional dwellings since 2001.

5.2 From 2001 to 2016 it is estimated that demand for residential housing and residential visitor housing rose by nearly 7,000 homes across the District. While new building consents have been buoyant it is estimated that for the 13 year period to 2013 there was a shortfall of approximately 800 homes built in the District.

5.3 As with the national market the District's housing price and sales rate have steadily increased throughout the period with a slight correct following the 2008 Global Financial Crisis. Within 5 years the average house price in the District had achieved pre-2008 prices and has continued to rise at an increasing rate to an average of over $1,000,000 currently.

5.4 A key statistic in the District's property market is the high level of site sales. Although this would be expected in a District with high growth the sales levels are materially higher. This would suggest a highly speculative vacant site market that is directing zoned residential land into a tradable commodity. This in itself impacts upon the tools available to the Council in addressing affordability in the District.

5.5 There is a dearth of properties in the lower price quartile entering the market, and the overall affordability for the District's housing stock is one of the lowest in the country. With only 35% of the resident population owning their own home (and only 8% of the population under 40), finance on an average home is expected to consume over 50% of household income annually (and this figure is rising).

5.6 These factors have led to a market that is increasingly unaffordable and currently struggles to meet the housing needs of its growing resident population as well as the growing visitor demand.

5.7 The PDP notified by Council in Stage 1 seeks to address these housing issues through increasing the enabled residential development capacity both in terms of overall quantum and in terms of typology / choice.

5.8 While the District's current housing market has exhibited strong levels of growth that have resulted in potential shortfalls, rising house prices and falling affordability, the expected rates of growth in the District are not expected to diminish.

5.9 **Table 1** below summarises the District's and Queenstown's[5] demand projections for the next 32 years, with continued growth expected throughout this period. While this table and the projections contained within are the same as those utilised for the Upper Clutha evidence, the following figures referenced in the text of this evidence have been updated for the period from the end of 2016 (rather than 2015, which was the case in my Upper Clutha statement of evidence). As such the projected number of households and associated population are marginally reduced. This has been undertaken to most accurately represent the current environment in Queenstown. This shows District growth of over 32,000 people over the next 32 years, requiring an additional 13,500 houses. The Queenstown growth is expected to see an additional 20,000 residents over the next 32 years accommodated within 8,700 new homes. New dwelling consents in the District would suggest current building provision per annum would meet these needs with between 800 and 1,000 new homes per annum.[6]

5.10 Included in these projections is the relatively higher number of unoccupied dwellings that make up both the existing and projected demand for dwellings in the District and the Queenstown Ward. While these units do not make up part of the usually resident population they do present a clear demand within the market for holiday homes and residential forms of visitor accommodation.

5 Illustrated as the 'Wakatipu Ward' in Table 1.
6 Statistics NZ new dwelling consents Feb 2016 to Feb 2017.

5.11 Across the District these unoccupied homes are expected to continue to increase (as a nominal value) with the advent of more efficient holiday facilities (i.e. AirBnB) maintaining a greater degree of financial sustainability for these properties as explained in Mr Clarke's evidence. These homes are expected to grow by approximately 25 dwellings per annum to 2048.

Table 1: Estimated Population and Dwelling Demand (2048 – Rationale)

Wakatipu Ward	**2015**	**2018**	**2028**	**2048**	**2053**	**2058**	**Growth# 2015 - 2028**	**Growth% 2015 - 2028**	**Growth# 2015 - 2048**	**Growth% 2015 - 2048**
Usually Resident Population	22,070	25,557	32,627	43,846	46,610	49,374	10,557	48%	21,776	99%
Occupied Dwellings	8,529	9,825	12,575	17,250	18,465	19,708	4,046	47%	8,720	102%
Unoccupied Dwellings	2,102	2,303	2,679	3,011	3,061	3,105	577	27%	910	43%
Total Dwellings	**10,631**	**12,128**	**15,254**	**20,261**	**21,526**	**22,813**	**4,623**	**43%**	**9,630**	**91%**

Wanaka Ward	**2015**	**2018**	**2028**	**2048**	**2053**	**2058**	**Growth# 2015 - 2028**	**Growth% 2015 - 2028**	**Growth# 2015 - 2048**	**Growth% 2015 - 2048**
Usually Resident Population	10,340	12,491	16,650	22,509	23,933	25,357	6,310	61%	12,169	118%
Occupied Dwellings	4,279	5,181	6,949	9,517	10,154	10,796	2,669	62%	5,237	122%
Unoccupied Dwellings	2,133	2,409	2,471	1,817	1,620	1,421	339	16%	-315	-15%
Total Dwellings	**6,412**	**7,590**	**9,420**	**11,334**	**11,774**	**12,217**	**3,008**	**47%**	**4,922**	**77%**

Queenstown Lakes Distric	**2015**	**2018**	**2028**	**2048**	**2053**	**2058**	**Growth# 2015 - 2028**	**Growth% 2015 - 2028**	**Growth# 2015 - 2048**	**Growth% 2015 - 2048**
Usually Resident Population	32,410	38,048	49,277	66,355	70,543	74,731	16,867	52%	33,945	105%
Occupied Dwellings	12,809	15,006	19,524	26,767	28,619	30,504	6,715	52%	13,958	109%
Unoccupied Dwellings	4,234	4,712	5,150	4,828	4,681	4,526	916	22%	594	14%
Total Dwellings	**17,043**	**19,718**	**24,674**	**31,595**	**33,300**	**35,030**	**7,631**	**45%**	**14,552**	**85%**

Source: Rationale February 2017

5.12 **Table 2** expands these demand forecasts into specific areas within the Queenstown Ward from 2018 to 2048 (excluding an additional 567 in 2017 which is included in the total figures above). It is important to note that this demand excludes factors that relate to the PDP capacity provisions, as such increased supply provision in certain areas will result in relocated demand.

5.13 As outlined in the preceding paragraphs, consent and growth trends would suggest a total latent demand for between 600 and 1,200[7] new dwellings currently in the District market.

Table 2: Estimated Dwelling Demand Wakatipu Ward by Area (2048 – Rationale)

Queenstown Sub-Area	2018	2023	2028	2033	2038	2043	2048	Total Change
Queenstown Bay	1,057	1,111	1,125	1,136	1,139	1,144	1,146	89
Queenstown Hill	2,549	2,865	3,153	3,440	3,734	4,039	4,154	1,605
Sunshine Bay	1,206	1,318	1,417	1,507	1,593	1,682	1,716	510
Arthurs Point	424	482	528	575	620	664	708	284
Frankton	975	1,055	1,114	1,174	1,228	1,281	1,336	361
Frankton East	401	507	618	734	854	978	1,105	704
Kelvin Heights	734	821	866	901	931	957	983	249
Lake Hayes	211	252	286	318	351	378	409	198
Lake Hayes South	920	1,166	1,298	1,431	1,557	1,652	1,652	732
Jacks Point	465	740	920	1,097	1,258	1,411	1,565	1,100
Arrowtown	1,504	1,574	1,574	1,574	1,574	1,574	1,574	70
Glenorchy	277	326	359	390	419	447	476	199
Kingston South	215	240	248	253	253	253	253	38
Wakatipu Basin	747	926	1,066	1,209	1,283	1,283	1,283	536
Outer Wakatipu	443	504	541	574	594	610	626	183
Inland Water-Lake Wakatipu	0	0	0	0	0	0	0	0
Wakatipu Overflow	0	49	141	239	396	657	1,275	1,275
Total	**12,128**	**13,936**	**15,254**	**16,552**	**17,784**	**19,011**	**20,261**	**8,133**

Source: Rationale February 2017

5.14 Given this level of expected growth the District would require development to continue at least at the rate of 550 homes per annum[8] for this period. Since the release of the Upper Clutha evidence, this figure has been updated to the end of 2016 and adjusted for new consents as part of the ongoing development of the DCM. I had previously stated this to be 600, but it now has been adjusted to 550. In the Queenstown area, this would equate to approximately 350 new homes per annum. This level of realisable capacity would necessitate much higher plan enabled and feasible capacity to meet this level of development. I explain what I mean by the 'enabled' and 'feasible' capacity in the section below.

7 Estimated for the purposes of this report at 1,000 units total across the District.
8 Based on Statistics New Zealand building consent numbers.

6. SUMMARY OF 'FEASIBILITY' FACTORS CONTRIBUTING TO THE UPDATED MODEL

6.1 Initial work undertaken by Council[9] assessed the residential dwelling capacity 'enabled' by the ODP. This illustrated the opportunity available, under the provisions of the ODP, to the market. As described in this evidence, this has been progressed significantly, and now applied to the PDP. Further, not all plan-enabled capacity is economically feasible to develop due to market conditions and other influencing factors. In developing the PDP to meet the community's housing needs it is important to consider the 'feasible' capacity that results from these provisions and market conditions.

6.2 The feasibility model attempts to replicate, at a desk top level, the decision-making process of a developer assuming the costs and prices associated with the 2016/17 year.

6.3 As a tool the model assesses the potential market responses to potential changes in zoning, rules, or other such provisions. A key assumption of the model as outlined above is that the development of residential dwellings is profit driven. While this is not the only motivation it provides an appropriate filter to consider the likely market response.

6.4 While the model itself includes some complexities, its premise is simple. If the cost of the enabled capacity is recovered through the sales value and a predetermined return is achieved then the development capacity is deemed feasible. While there are a variety of variables the model exhibits material sensitivities to only a few. These are outlined below and primarily include the impact of the expected return as well as the proportion of zoning 'uplift' in land value pre-empted by the market in the initial purchase price.

6.5 The key factors included in the model include:

(a) sales value and individual site value;
(b) existing sale value;

9 As described in Mr Barr's revised supplementary evidence in hearing stream 12 dated 2 May 2017.

(c) build cost (per sqm) and dwelling size;
(d) development costs;
(e) development fees/levies;
(f) holding/finance costs;
(g) design/servicing/contingency;
(h) profit margin;
(i) slope;
(j) trended site inefficiencies; and
(k) new dwelling premium.

6.6 While the model calculates the development feasibility at a site-by-site basis, it applies averages based on the wider District and specific identified areas to tens of thousands of properties throughout the District. The model draws on the opportunities identified within the enabled capacity and links site size, land values, zoning, and location to the potential development based on the size and quality of properties in the specific locations.

6.7 In terms of sales value several factors have been considered, which include:

(a) the existing average sales value for the area by product typology. If the area or zoning represents a new market in the area, then the model averages the sales from the areas in immediate proximity. The valuation for each site has been updated utilising the most up-to-date sales figures for each area. This has then been broken down in 'improvements' (built form) and land values utilising the value of consents to estimate the increased relative value of building replacement; and
(b) additionally, the division of sites into smaller land units typically increases the land value per sqm but (marginally in the case of the District) decreases the nominal value. Regression analysis has illustrated that dwellings built in the 2010 – 2016[10] period attract on average a 15% premium.

10 Range is based on REINZ scale utilised by Property IQ.

6.8 Based on these factors the value of enabled capacity by site can be assessed. Then:

(a) the existing sales value has been estimated through the updating of the 2014 valuations to 2017. This remaining value is also reassessed based on the remaining land area and improvement value. The value of the existing dwelling is considered lost if it is below a given value level;

(b) based on the zoning attributable to each site, detailed dwelling typologies are allocated, which is based on zoning and location. Each typology and location is assigned differing floor areas and costs based on the existing product (or in the case of new areas the model identifies averages from areas in close proximity). This allows for higher value areas to develop larger dwellings with higher quality finishes and reconciles with the higher average sale prices. These costs are made up by area specific costs such as construction, civil and landscaping costs;

(c) some costs applied were not area specific (although some were influenced by land value), including development contributions, holding costs (finance costs were assigned based on the typology and length of time for builds and sales, marketing and design etc);

(d) additionally, further consideration is applied to the model, at an area level, with reference to the proportion of development capacity reduced by both slope and site inefficiencies. While planning provisions allow for minimum site sizes with reference to dwellings, the practicalities of development mean that the resulting 'average' site size is unlikely to meet this minimum level but (as Queenstown District trended data would suggest) will be materially higher. To a degree this considers some of the 'underdevelopment' resulting for developments that are 'sub-optimal' in terms of their development capacity; and

(e) finally, the level of return is considered. Typically, banks will lend 60-65% of a project's value or 80% of costs (the lower of the two). Therefore at least 20% of costs are met by the developer. The level of return required to catalyse

development is dependent on the level of risk, which is a function of variability within the market and other investment opportunities. The District's market has remained buoyant over the past 5 years and is seeing considerable levels of investment. Given this the model has been run on a benchmark of 20% return.

6.9 The feasible development capacity is the result of assessing the enabled capacity under the conditions and variables outlined above. The result of this assessment is to provide the number of potentially feasible dwellings (by zoning typology and area) under the current provisions and market inputs.

6.10 It is important to note that 'feasible' does not translate to 'realisable' due to the fact that when averages are considered there are a variety of differing motivations that will change this in terms of what the market actually produces. A relevant issue, with regard to this, for the District is the significant gains realised in the market through simply holding land and selling at a later date without any further development. This is likely to have a greater short-term impact on the market in Queenstown as development opportunities take some time to be realised. This fact is crucial in considering whether the feasible capacity actually meets the needs of the community and is likely to result in an efficient and effective market.

6.11 This point is often considered as 'development chance' in understanding the potential market response to feasible development. The issue was raised by both proponents and opponents of the feasibility model produced for Auckland Council.[11] In relation to this market consideration of this fact would effectively halve the total number of feasible opportunities within a given market. For this reason, the resulting 'feasible' development potential for the District are considered at 50% of the final model outputs at this stage.

6.12 The National Policy Statement on Urban Development Capacity 2016 (**NPS-UDC** or **UDC**) (Policy PC1) identifies this potential position and

11 This is highlighted in the Auckland Council evidence for Topic 013 of Mr Doug Fairgray and the 081 evidence presented for MBIE.

determines that consideration should be made at 20% (short to medium terms, up to 10 years) and 15% (long term) discount rates.

6.13 As stated earlier in my evidence the District currently exhibits higher than average levels of land speculation, and although this may be a short-term issue for the market it has played a role in the consideration of a discount rate higher, and more conservative than the figure identified in the NPS.

6.14 In considering the practical implications of discounting individual Special zones and the potential concerns of individual developers at representing significantly lower development rates, the Property Economics model considered the realisation rate as a whole. As such the 50% rate applied to the model represents a realisation rate of just over 20%[12] when considering the whole Queenstown market, more than the 15% required by the NPS over the long-term. It is therefore considered that, at a Ward level, the realisable capacity figures are conservatively represented by the final capacity numbers recorded in this evidence.

6.15 Some questions were raised regarding this in the Upper Clutha hearing. A point was raised that this approach would not remain robust for the Queenstown Ward[13] and would potentially over represent realisable capacity. As is outlined here the approach taken still maintains a level of sensitivity greater than that required by the NPS of 15% over the long-term (this projection period is to 2048, with long-term being defined in the NPS as over 10 years). The DCM did not arbitrarily utilise 50%. Rather, it was the result of understanding the final appropriate sensitivity level and applying this pragmatically. If the Council was obliged to apply a 15% margin, it would result in a realisable capacity of a further 1,400 dwellings (or nearly a 10% increase in overall capacity).

12 From the **Table 3** above this represents a total capacity of 20,500 with 4,500 discounted for development chance (22%).

13 Wakatipu Ward as used in the Figures.

7. SUMMARY OF UPDATED DEVELOPMENT CAPACITY MODEL OUTPUTS FOR QUEENSTOWN WARD

7.1 It is vital to ensure the District has a competitive well-functioning housing market and a competitive urban land market over the longer-term to provide the market with sufficient feasible development opportunities. Further to this a market that has confidence in the sufficiency of future capacity and supply is less likely to result in speculative activity, and will encourage development to occur sooner rather than waiting for values to continue to appreciate.

7.2 **Tables 3 and 4** summarise the enabled and realisable (feasible less estimated proportion of unimplemented development) capacity for residential development within the District and the Queenstown Ward. The enabled capacity results from the Council's assessment of zonings for given areas and the site sizes as well as existing structures. For the purposes of this evidence identified Special Housing Areas (**SHAs**) have been identified separately and form 'additional capacity' at this present time.

7.3 The DCM has not determined the feasibility of the Arthurs Point Rural Visitor Subzone, Gibbston Character Zone, the Ferry Hill and Bobs Cove Rural Residential Subzones, the Airport Mixed Use Zone, the Rural Zone, the (operative) Town Centre portion of PC50, the (operative) Industrial Zone, and operative and proposed Special Purpose Zones[14] from its assessment, for the primary reason that they have been identified as development zones that have capacity estimates associated with them. For example, the consultant planner for Quail Rise confirmed with the Council that there was capacity for 13 additional residential units in Quail Rise. Collectively I refer to these as "Special Development" capacity.

7.4 **Table 3** below illustrates the level of dwelling capacity within the Queenstown area based on the culmination of the DCM and the identified special developments. Of the 41,400 enabled capacity within the District, 27,159 are located within the Wakatipu Ward. This includes a significant number of Special Development capacity at

11,600 units. Excluding these, Queenstown is likely to have a realisable capacity of 3,500[15] additional residential dwelling units.

7.5 **Table 1** above indicated the estimated growth in residential units in Queenstown at 8,700 by 2048. Additional research suggests that the Queenstown area has a latent demand of approximately 800 dwelling bringing the total demand over the 30 year period to 9,500 dwellings. Given the above assessment identifying the number of enabled units (27,159) in this catchment, and the number of units realisable under current conditions (15,100), I consider that the provisions of the PDP will provide sufficient capacity for growth in residential units.

7.6 When considering a buffer such as that identified by the National Policy Statement for Urban Development Capacity, even with the provision of an additional 20% (15% for the longer timeframe) included in demand, the current capacity would be sufficient to 2048.

15 Also excluded from this is a 30% margin within greenfield developments for infrastructure development.

Table 3: DCM ENABLED AND REALISABLE CAPACITY OUTPUTS

Zone Areas	Zone Name	Enabled	Feasible	Realisable*
Low Density Residential	Low Density Residential	9,500	5,700	3,040
Medium Density Residential	Medium Density Residential	1,565	689	310
High Density Residential	High Density Residential	2,395	1,090	491
Business Mixed Use	Business Mixed Use	747	556	278
Rural Residential	Rural Residential	267	164	74
Rural Lifestyle Zone	Rural Lifestyle Zone	359	215	97
Local Shopping Centre	Local Shopping Centre	162	162	73
Queenstown Town centre	Queenstown Town centre	196	146	66
Arrowtown Town Centre	Arrowtown Town Centre	32	21	9
Township	Township	293	157	70
Subtotal		**15,516**	**8,900**	**3,507**
Zone Areas	**Zone Name**	**Enabled**	**Feasible**	
R.G. Glenorchy	Rural General	37	37	
R.G. Wakatipu	Rural General	371	371	
Gibbston Character	Gibbston Character	160	160	
Ferry Hill RR Sub-Zone	Rural Residential	7	7	
Bobs Cove RR Sub-Zone	Rural Residential	32	32	
TC Queenstown (PC50)	Queenstown Town centre PC50	647	647	
SP Remarkables Park	Special Purpose	4,500	4,500	
Jacks Point	Urban Special	3,700	3,700	
Quail Rise	Quail Rise	13	13	
Bendemeer	Special	38	38	
Millbrook	Special	251	251	
Waterfall Creek	Special	98	49	
Meadow Park	Special	28	28	
Shotover Country	Special	248	248	
Kingston Village	Special	550	550	
Arrowtown South	Special	13	13	
Arthurs Point	Rural Visitor	200	200	
Frankton Flats B	Special	750	750	
Subtotal		**11,643**	**11,594**	**-**
Total		**27,159**	**20,494**	**15,101**
Special Housing Areas	**Zone Name**	**Enabled**	**Feasible**	
SHA Arrowtown Retirement Village	Arrowtown Retirement Village	195	195	
SHA Shotover Country	Shotover Country	101	101	
SHA Business Mixed Use Zone	Business Mixed Use Zone (Gorge Rd)	143	-	
SHA Queenstown Country Club	Queenstown Country Club	346	346	
SHA (Arthurs Point)	Arthurs Point	88	88	
SHA Onslow Road	Onslow Road	21	21	
SHA (Bridesdale)	Bridesdale	134	134	
Subtotal		**1,028**	**885**	
Total		**28,187**	**21,379**	**15,986**

***Including 30% reduction in Greenfield areas for development of infrastructure**

7.7 Additionally, **Table 4** breaks both demand and realisable capacity down into the sub-areas within the Queenstown Ward. It is important to note that, as identified in the assumptions of the DCM, that there is a distinct interaction between residential capacity and demand especially at such a refined level. **Table 4** shows that most of the areas (by volume) have more than sufficient capacity while for those that may not meet expected demand there is sufficient capacity in close proximity. A key driving feature of demand for the Queenstown

market (and a growing one) is dwelling price. Therefore, demand is likely to shift over time towards those areas with sufficient capacity, as the price levels are reflected in the market price.

7.8 This factor is a key aspect with regard to affordability in the Queenstown Ward and the District. As outlined previously a contributing factor in the rise in prices in the District is land speculation and lack of built supply. As the market finds equilibrium with a greater potential capacity it is expected that these opportunities will become scarce, essentially reducing the returns (and increasing the risk) from 'land/site banking' and increasing the supply of realised residential capacity onto the market.

Table 4: QUEENSTOWN GEOSPATIAL DEMAND AND CAPACITY DISTRIBUTION (2048)

Queenstown Sub-Area	Estimated Demand	Estimated Realisable Capacity	Margin
Queenstown Bay	89	1,489	1,400
Queenstown Hill	1,605	1,138	467
Sunshine Bay	510	407	102
Arthurs Point	284	508	224
Frankton	361	79	282
Frankton East	704	3,626	2,922
Kelvin Heights	249	1,850	1,601
Lake Hayes	198	163	35
Lake Hayes South	732	928	196
Jacks Point	1,100	2,664	1,564
Arrowtown	70	343	273
Glenorchy	199	198	1
Kingston South	38	642	604
Wakatipu Basin	536	459	77
Outer Wakatipu	183	425	242
Inland Water-Lake Wakatipu	0	0	0
Wakatipu Overflow	1,275	0	1,275
Total	8,133	14,900	6,786

7.9 As highlighted above there are a number of contributing factors that may result in changes to these estimates. These include the impacts of underutilisation where sub-optimal development is undertaken (while still feasible), any infrastructure constraints and the impact of increased 'wind fall' gains. While part of the latter issue has been

included in the model decisions by participants in the market are not necessarily made based on the current environment. Expectation of greater levels of rezoning or increased prices can lead to inefficiencies in the market where feasible locations and sites are 'banked' in anticipation of greater future returns.

7.10 Alternatively, there are some factors that may increase the level of development occurring including; the amalgamation of sites, economies of scale reducing 'average' costs, and the dynamic nature of the housing market. As outlined above the factors that influence the model are those that currently exist in the market. However, over time such factors as land value to improvement value change. This gradual increase in the land component of an ageing property will mean that the properties become more attractive for re-development over time.

7.11 It is also important to note that the numbers represented here do not include identified SHAs which, from **Table 3**, add an additional 885 potential dwellings to the overall capacity within the Queenstown Ward.

7.12 Additionally, there are development options available to the market that do not require separating land titles. Such an option is the ability for site owners to develop 'flats' as second dwellings on a property. This has the potential, in a buoyant market, to increase the available (and realisable) capacity for residential dwellings within the District and the Queenstown Ward. As alluded to, this option is more common in an economic environment in which home ownership (or return on residential investments) are difficult (due to the reduced privacy and smaller land availability) and either require further income levels (to support home ownership or greater capitalisation.

7.13 A further consideration with regard to the model is the sensitivity of the outputs to changes to the inputs. In assessing the level of feasible residential units, each component was tested to see if a change in its value resulted in a greater than proportional change in the level of feasible units. One key factor in this was that of profit. As the percentage of profit required to meet a feasible threshold

dropped, the level of feasible units rose for profit between 20% and 10% with gains in additional units of 18%. Below this point the fall in required return had little impact on the level of feasibility as most additional units were not profitable.

7.14 In assessing the sufficiency of the feasible and realisable capacity there is economic justification for considering a longer period of time than that covered by the PDP reviews. A period of 10 years would suggest that a capacity of only 3,300 units would meet the estimated demand. However, it is considered that a well-functioning housing market requires a large number of potential development opportunities to be available, so that developers and prospective homeowners have a wide variety of choices, and the downward competitive pressure is applied to land prices across the District. If the market has confidence in the sufficiency of future development capacity and supply over the long term, then this will help reduce speculation-driven price increases, as well as encouraging landowners to develop their land sooner rather than hold out for higher prices later (i.e. land-bank).

7.15 The 15,100 dwellings, identified in **Table 4**, in my opinion is more than sufficient to accommodate projected growth over a period longer than the 30-year demand projection. Notwithstanding the additional opportunities that may arise over time, this would require less than half of the currently-feasible development opportunity to be taken up within 30 years to the maximum feasible capacity of each site.

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