Before Queenstown Lakes District Council Independent Hearings Panel

In the Matter	of the Resource Management Act 1991 (**RMA**)
And	
In the Matter	of an application for the Te Pūtahi Ladies Mile Variation by Queenstown Lakes District Council to amend the Proposed District Plan in accordance with section 80B and Part 5 of Schedule 1 of the Resource Management Act 1991.

Evidence of Tamba Mary Carleton on behalf of Ladies Mile Property Syndicate Limited Partnership

(Primary Submission 77 and Further Submission 139)

(Economics)

Dated 20 October 2023

Jeremy Brabant

Barrister

Foundry Chambers

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Introduction

1. My name is Tamba Mary Carleton.

2. I am an Associate Director at CBRE, specialising in high density residential property market research and consultancy. I have been employed in the research department at CBRE's Auckland office for 12 years.

3. I have been asked to provide evidence on market demand by Ladies Mile Property Syndicate.

4. I have not previously been involved in the Te Putahi Ladies Mile Masterplan (TPLM Masterplan) or Te Putahi Ladies Mile Plan Variation (TPLM Variation).

Qualifications and experience

5. I hold the qualifications of Bachelor of Property and Bachelor of Science in psychology, from the University of Auckland.

6. I am a member of the Property Council of New Zealand and serve as a member of the Property Council's BTR Taskforce.

7. I have over ten years of experience in residential property market research. My areas of expertise include apartment development market trends, quantifying dwelling demand at different price points, and build to rent. I am familiar with the area having undertaken residential property market research for offshore entities with interests in Jacks Point and broader Queenstown.

Code of Conduct

8. I confirm that I have read the Code of Conduct for expert witnesses contained in the Environment Court Practice Note 2023. Accordingly, I have complied with the Code in the preparation of this evidence and will follow it when presenting evidence at the hearing. Unless I state otherwise, this assessment is within my area of expertise, and I have not omitted to consider material facts known to me that might alter or detract from the opinions I express.

Scope of Evidence

9. My evidence addresses the following:

   a. Market demand for intensive residential housing at Te Putahi Ladies Mile.

   b. The impact of Policy 49.2.5.5 (visitor accommodation restriction) and associated rules on market demand.

10. In preparing my evidence, I have reviewed the following documents:

    a. TPLM Variation (and associated documents);

    b. Section 42A Hearing Report prepared by Jeffrey Brown for Queenstown Lakes District Council (QDLC);

    c. Housing Development Capacity Assessment 2021 (and associated documents) prepared by Market Economics Ltd (HBA);

    d. The statement of evidence of Susan Fairgray dated 29 September 2023;

    e. The submissions that are relevant to my area of expertise.

Executive Summary

11. The Te Putahi Ladies Mile Zone (TPLMZ) isn't appropriate for intensive apartment development because it is remote from amenity. Market directed apartment supply is typically located in urban centres where there is a concentration of amenities, services, and employment opportunities.

12. From an apartment development perspective, in my opinion low rise (2-3 level) walk ups are likely to be the only market feasible apartment typology. High build costs leading to high sell down price points relative to the amenity offered by the area, and its distance from amenity, mean that higher rise apartments are unlikely to attract owner occupier purchasers.

13. Strong rental demand in the QDLC area means that market demand probably exists from investor purchasers for compact housing. However, the short stay accommodation restriction makes these dwellings unattractive compared to other

investor aimed dwellings in the district where this rental option is allowed.

14. This means that the presales that are required to access construction funding for intensive apartment development will not eventuate.

15. Market demand exists from owner occupier households for liveable family type terrace housing with sufficient carparking.

16. My assessment is that the most market feasible medium/higher density development option for the subject site is a combination of larger family type terrace housing and low-rise walk-up apartment typologies.

17. The current proposed dwelling density requirements seems to preclude this development outcome. To create densities required by liveable family type terrace housing, trade-offs require the remainder of the site to be higher rise apartments.

18. The combination of a high-density minima of 60-72 dwellings per hectare plus a short stay accommodation restriction reduces the total volume of supply that can be feasibly developed by market-oriented developers (as opposed to not-for-profit social housing providers) in the area.

19. I have reviewed the alternative density minima proposed by Hamish Anderson and from a market demand perspective I consider it to be better than the current proposal as it allows development that is more likely to be market attractive and feasible.

20. I have also reviewed the amendment to Rule 49.5.16.2 proposed by Hannah Hoogeveen and from a market demand perspective I consider it to be better than the current proposal as it allows development that is more likely to be market attractive and feasible.

Feasible Locations of Market Directed High Density Supply

21. High density residential housing is typically located in urban centres where there is a concentration of existing amenities and services that attract and support a high population density. The most attractive and, for apartment development, viable urban centres are those that combine a high degree of amenity for consumption with employment. Market attractive locations can also be situated outside of urban

centres if the location has special attributes such as coastal amenity and the high level of consumption and employment related amenities and character neighbourhoods that can be found in CBD fringe areas.

22. In my opinion the experience of Auckland provides a useful, and applicable, context and guide to the effective residential demand and feasible supply parameters of the Queenstown urban environment for different dwelling typologies and densities and the suitability of TPLMZ for high density residential typologies.

23. The Auckland Unitary Plan was notified in August 2016. The Plan identified a hierarchy of zones for intensification. Key growth zones are City Centre (x1), Metropolitan Centres (x10), and Town Centres (x35). Below town centres, the hierarchy includes smaller centre typologies being Local Centres and Neighbourhood Centres.

24. There have been 206 market apartment projects completed since the Unitary Plan was notified. 142 projects or 69% are in the key zones being City Centre, Metropolitan Centres, and Town Centres. A further 57 projects or 28% are in locations of high amenity such as having a city fringe, or coastal attribute. In total 199 of the 206 projects (97%) have been directed at urban centres or locations with special attributes.

	Areas/suburbs	Number of projects	Proportion of total	Number of units
City centre	**1**	**31**	**15%**	**3,572**
Metropolitan centre	**10**	**28**	**14%**	**1,773**
Town centre	**35**	**83**	**40%**	**3,214**
Outside of group	**28**	**64**	**31%**	**2,628**
High amenity (retail)	*6*	*12*	*6%*	*814*
City fringe	*7*	*28*	*14%*	*1,235*
Coastal	*8*	*17*	*8%*	*339*
Other outside of group	*7*	*7*	*3%*	*240*
Total	**74**	**206**	**100%**	**11,187**
				Source: CBRE

25. Private developer led supply is a function of planning rules as well as end user/buyer market demand. Despite the Metropolitan and Town Centre zones being spread across the entire Auckland region, supply is not evenly distributed, rather it is concentrated in and around the urban core and some key highly amenitised suburban centres (Appendix map 1). There are multiple examples of far-flung Metropolitan Centres that are still not seeing apartment supply because they are the wrong location for apartments and cannot compete with alternative locations

of higher amenity. This demonstrates that zoning for intensification does not create end user market demand, nor does it redirect it away from areas with higher existing amenity.

26. TPLMZ will have a small commercial area to provide urban amenity. Based on my understanding this will fall short of what a typical town centre provides (which is more akin with the Frankton area from a retail, services, and employment perspective) and will be more comparable to a Local Centre or Neighbourhood Centre, primarily providing for the local everyday convenience needs of the surrounding residential areas. The TPLMZ will have a distinct lack of employment and retail/services amenity compared to Queenstown Central and Frankton.

27. The TPLMZ will also lack the special attributes of what are coastal and city fringe locations being an outlying dormitory suburb in the Queenstown context.

28. Auckland data shows that almost all market apartment supply has been directed at urban centres of a town centre or higher order, or in locations with special attributes. Given that the TPLMZ will not have either of these, it is not attractive for intensive apartment development.

How Local Developers See Demand and Feasible Supply

29. A survey of local developers was undertaken for the HBA. Question 26 asked who the developers primarily target with their new builds. 10 of the 12 respondents (83%) identified family households as the primary target. 1 developer identified singles and couples as their primary target, specifically retirees. This indicates that effective demand for new build housing in Queenstown-Lakes is higher for family households than for other households. That is, families are the market sector that developers can feasibly build for the most.

30. The TPLMZ has provisions for two new schools. This will attract family households to the area.

31. Building consent data shows that many households accept terrace housing as an alternative to stand alone housing. In the year to August 2023, there were 547 dwelling consents for standalone housing in the QLDC area, and a further 521 for terrace housing. Apartments comprised 2% of dwelling consents at 27 for the year

to August 2023, highlighting their relative unattractiveness compared to other typologies in the market.

32. We expect that developers will view the primary demand base in the TPLMZ to be family households. Recent building consent data shows that there is flexibility to redirect this demand away from the standalone house typology toward the terrace typology if the dwelling is an appropriate minimum size, however there is no evidence that family household demand can be successfully captured with denser apartment typologies.

Trade-Offs Required to Meet Density Minima

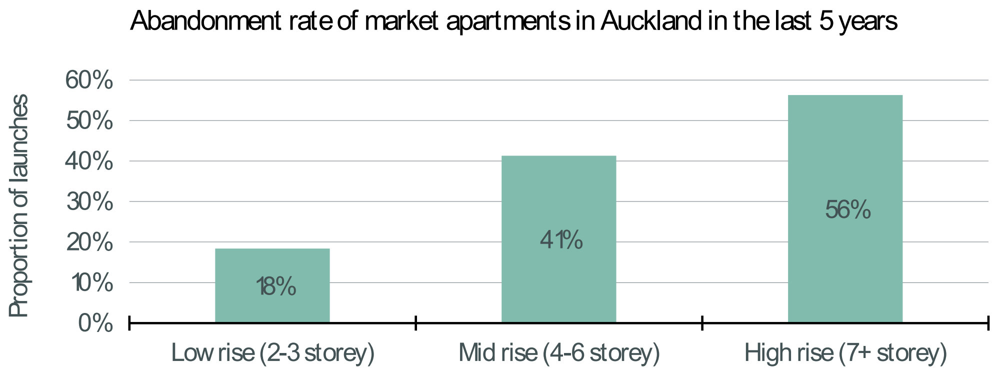
33. The TPLMZ has a proposed density minima of 60-72 dwellings per hectare gross. We have been provided with illustrative bulk massing examples by Barker & Associates. For sites in the High Density Residential (HDR) precinct to meet the density minima and be entirely terrace housing, dwellings will need to have small land lots and narrow widths. While this is an efficient use of land, it lends to a sameness of product that has limited functionality, particularly for family households.

34. High quality terraces are typically 3 bedrooms over 2 levels, or 4 bedrooms over 2-3 levels. They are wider to have better functionality, are more liveable than narrow terraces, and provide a product that meets family needs.

35. Rule 49.5.16.2 indicates that the density minima apply on a per site basis which means that wider terraces for families are allowed in the HDR precinct however they require the inclusion of 6-7 storey high rise apartments elsewhere on the site.

The Impact of Scale on Apartment Feasibility

36. Apartment development, especially high-rise apartment development, is risky. To illustrate, in the Auckland urban area over the last five years, 18% of low-rise launches have been abandoned compared to 56% of high rise launches.



37. There are two main reasons for the greater ability of the market to deliver low-rise walk-up apartments compared to higher rise ones. First, construction costs are smaller for low rise compared to mid and high rise. This results in lower price points and more competitive dwelling prices. Second, low rise apartment projects tend to be smaller scale (contain fewer dwellings). Apart from (but aided by) the lower price points, this means that it is faster and easier for them to achieve sell down levels that enables a project to proceed to construction rather than being abandoned.

38. Over the past five years the number of Auckland walk up apartment projects has been 3x the number of high-rise projects. Prevalence of this walk-up typology is because lower cost and scale means lower risk.

39. There are also more developers and builders with the capability and resources to undertake low-rise walk-up projects because the typology is less specialised and relates more to terrace and standalone dwelling construction than mid- and high-rise apartments. Mid/high rise apartment construction is a much more specialised and higher expertise area which limits the number of builders and developers that can participate in this market.

40. Paragraph 117 of Susan Fairgray's evidence states "an examination of the construction costs per unit of vertically attached apartment dwellings indicates that these are highest for three to four storey buildings. This is due to the higher construction costs between horizontally attached two to three level walk up apartments and vertically attached typologies". This statement does not reflect market reality where walk ups are favoured by developers as a low-cost typology. Low rise walk ups are also heavily favoured by Kainga Ora, for whom 53 of their 64 apartment project completions in the last five years have been three storeys.

41. We note that the average $/sqm for abandoned projects has been 13%-22% higher than the average $/sqm of successful projects and that walk ups are 30%-35% cheaper than high rise. This highlights the price differential between walk up and high-rise apartment products and shows the price sensitivity of successful apartment development, emphasising the importance of cost on development feasibility.

	Average $/sqm of projects completed or underway	Average $/sqm of abandoned projects	Difference
Walk ups (2-3 storey)	$10,883	$12,260	13%
High rise (7+ storey)	$15,262	$18,605	22%
			Source: CBRE

Carparking

42. I comment on carparking from a development cost and buyer demand perspective, as opposed to urban design or transport considerations which are not within my expertise.

43. Owner occupiers of apartments typically own at least one car, regardless of proximity to amenities and services. Developers respond accordingly by providing sufficient carparking to attract these buyers.

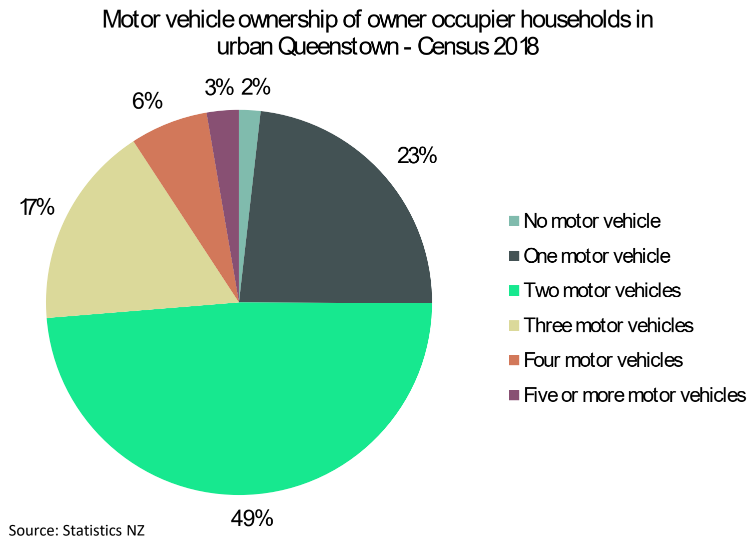
44. Even when urban amenity is walkable, carparking is still required. Owner occupier projects in Auckland City centre have an average ratio of 1.11 carparks per apartment unit. The ratio is slightly higher for suburbs outside of the urban centres at 1.31 carparks per apartment unit, showing that distance from urban centre increases the carparking required.

	Number of owner occupier projects	Average owner occupier project carpark ratio	Number of investor projects	Average investor project carpark ratio
City centre	16	1.11	14	0.37
Metropolitan centre	13	1.03	12	0.95
Town centre	63	1.13	17	0.74
Outside of group	56	1.31	8	0.69
	148	1.12	51	0.68
				Source: CBRE

45. Auckland market apartment projects aimed at investors have lower carparking

ratios of 0.68 carparks per unit. Outside of the CBD, in the suburban metropolitan and town centres typical ratios are at least 0.7 car parks per apartment. While there is an emerging tendency for lower car park ratios, for most projects outside of the central area, sufficient car parking is a general market demand even for investor aimed apartment product.

46. Census 2018 data on the 2,667 owner occupier households in urban Queenstown shows that the vast majority have at least one motor vehicle. 75% have two or more motor vehicles. As 15% of urban Queenstown households are single person households, it is probable that any household with more than one adult also has more than one car.



47. The TPLMZ is on the outskirts of the Queenstown urban area boundary. The closest commercial district is Five Mile Shopping Centre in Frankton 4km away, a one hour walk. The primary place of business and employment is even further away in Queenstown Central, 11km away. Distance from urban amenity means that carparking will be expected and required by residents. Based on the planning and urban design feedback I received in relation to TPLMZ, the density minima necessitate adequate car parking associated with apartments to be structured (multi-level above ground or basement) because there won't be sufficient spare land to provide it at grade.

48. Structured carparking is expensive to provide. For Auckland apartment projects generally, at grade carparking is around $30,000 to $40,000 each and structured

carparking is around $70,000 to $100,000 each.

49. For higher rise apartments this adds further costs to what is already a comparatively expensive construction/development typology. To enable profitable development, this will increase the required pricing of the resultant apartment dwellings to a level that will reduce effective buyer demand. I consider that effective buyer demand will be at such a low level that it will make mid/high rise apartments a non-market attractive typology at this location.

Queenstown Context to Challenges in Apartment Development

50. There have been several recent examples of proposed medium and high-density residential developments in Queenstown that have failed to proceed due to what I understand has been a lack of depth in buyer demand.

51. Remarkables Residences is located between Hawthorne Drive and Queenstown Central shopping centre. The development has consent for 225 dwellings. Stage 1 comprised 56 four level, mostly four-bedroom terraces which launched to market in 2017 and completed in 2020. Stage 2 was also meant to comprise four-bedroom terraces. It launched in mid-2018 however did not proceed. In December 2019, marketing commenced for a 91-unit apartment building called Reflections. This scheme comprised one- and two-bedroom dual key apartments however did not proceed. In November 2022 marketing recommenced for Stage 2, redesigned into 46 two level terraces. I understand that the presales threshold was not met and that this revised Stage 2 will not proceed. I note that restrictions on visitor accommodation apply to this development.

52. LakeCrest at 9-13 Hallenstein Street was a proposed 5 level 22 apartment project. It was launched by Safari Group, an experienced developer who has successfully delivered several apartment projects in recent years. The consented development was mainly 2- and 3-bedroom apartments aimed at the owner occupier market although with a visitor accommodation option. The development was marketed through 2022 and we understand that only three sales were achieved (one to a related party) before it was abandoned.

53. 20 Suburb Street was a proposed 4 level 11-unit project. It was marketed through 2020-2022, was granted building consent in 2021 and we understand that after

being extended, the building consent has now lapsed, and the project appears abandoned.

54. Hylton Park residences at 2-4 Hylton Place, within walking distance of Queenstown's centre, was an apartment project marketed for presale in 2021 comprising 71 units across a mix of 1-, 2- and 3-bedroom typologies. Aimed at both owner occupiers and investors, the project also benefitted from the resource consent permitting short stay use. We understand it has now been abandoned in favour of hotel plans.

55. Like the development experience of Auckland, the above Queenstown examples highlight the challenges faced by projects even when they are well located relative to where high density has proven to work, benefit from exposure to multiple sources of buyer demand (owner occupiers, residential investors, plus the extra benefit of resource consents permitting short stay use) and are launched by credible developers. The high failure rate of such projects highlights the importance of meeting effective demand by developing the right product in the right location and reinforces my belief that the TPLMZ would struggle to achieve successful market led development of high-density apartment typologies as envisaged in the proposed plan change.

Queenstown Rental Accommodation Market and Investor Purchaser Demand

56. According to global short term rental accommodation data intelligence aggregator AirDNA, Queenstown had 1,792 residential properties available for short term stay across various channels for the year ended September 2023.

57. The range of dwelling sizes is wide with about a quarter each of the available properties being in the 1-, 2- and 3-bedroom typology respectively, with 23 percent of the properties being 4 bedrooms or larger. This shows that there is no dominant dwelling typology for short term holiday rentals.

58. The market has been performing well with occupancy averaging 77% for the past year pretty much level with the previous year (78%). Rental rates have been increasing, the $559 average daily rate for the past year being 4% above previous year. AirDNA reports that the resultant rental revenue for the year ended

September 2023 averaged circa $157,000 per unit across the market, 5% up over the previous year.

59. MBIE bond data indicates that the Queenstown residential rental market comprised around 2,700-2,800 dwellings in the past year. This indicates a 60/40 split between the total number of dwellings in the rental market allocated to long term vs short stay rental.

60. Median weekly rents for the Queenstown residential rental market varied between $700 and $800 in the year to July 2023. Annualising this indicates a circa $40,000 annual rental revenue.

61. While the comparisons are difficult to make exactly like for like between short term and long term rental returns, the comparison of $40,000 annual revenue for long term rental vs $157,000 annual revenue for short term rental indicates a significant incentive for short term rentals from an investors' point of view even if like for like (e.g. if the same property was rented for long vs short stay) the differential may be somewhat smaller. This would indicate that excluding a property from being available for the short-term accommodation market materially lessens its attractiveness to investors.

62. The proposed density minima of 60-72 dwellings per hectare gross creates a plethora of investment product, either through small terraces (if a 100% terrace scheme is built), or apartments (if some of the precinct has larger family terraces). Small terrace houses and apartments have lower price points that are more accessible to investors than larger standalone houses and are likely to have higher income investment yields than larger dwellings.

63. I consider that there would be demand for short stay accommodation at TPLMZ given the financial returns that short stay accommodation provides. Excluding this as an option for the area would have a material negative impact on demand from potential buyers looking to purchase an investment property. Investment product is unlikely to be attractive to investors if they cannot rent to the short-term market given that there are other investment options in the district that have flexibility to let as visitor accommodation.

64. We have engaged with sales agents on the sell down experience of high-density

residential projects. We understand that Stage 2 of Remarkables Residences had limited appeal to investors because of the restriction on visitor accommodation and that this was a major contributor to the presales threshold not being met. In comparison, Alpine Villas at Coronet Peak are a similar terraced product that have flexibility for year-round visitor accommodation and has achieved successful sell down.

65. Based on the above, I agree with Paragraph 21 of Susan Fairgray's evidence where she considers that feasibility of higher density developments could be increased through enabling a portion to be occupied by visitor accommodation.

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Tamba Mary Carleton

Dated 20 October 2023

Appendix map 1