

Mr Philp Osborne for QLDC – Summary of Evidence, 17 May 2017

Dwelling Capacity, Upper Clutha – Hearing Stream 12

1. I have been engaged by Queenstown Lakes District Council (**QLDC**) to provide evidence in relation to the housing market and dwelling capacity in the Upper Clutha area of the Queenstown Lakes District (**District**).
2. The District's housing market has seen significant and rapid changes over the past 15 years. These changes have resulted in substantial shifts in the affordability of homes as well as important impacts on community well-being and the cost of living and working here.
3. Outside of Auckland the District has the highest nominal average house price in the country with a growth rate exceeding that experienced by any other area in New Zealand. While the residential housing growth rates in Auckland have subdued over the past 12 months, the District has not experienced the same tempering of growth. With an average price of over \$1,050,000 the level of affordability has resulted in home ownership levels across all households being only 35% and only 8% for those under 40 years old.
4. It is estimated that over the past 15 years residential housing demand rose by nearly 7,000 homes while the corresponding supply fell short by over 1,000 homes. This latent demand is currently playing its role in the ongoing pressure on house prices and affordability.
5. Since 2006 the District has experienced the largest fall in homeownership rates across the country with an average mortgage accounting for over 50% of the average after tax income.
6. A key component of the property market in the District is the number of vacant site transactions. These are not only high in terms of quantum but also in terms of the number of transactions per property. This would indicate a significant market in land speculation.
7. A further unique factor in relation to both the District and Upper Clutha ('Wanaka Ward') residential property markets is the level of private visitor residence that absorb considerable levels of residential land for temporary non-residents. This section of the market accounted for over 33% of the Wanaka Ward dwellings in 2015.

-
8. The Upper Clutha ('Wanaka Ward') makes up approximately 38% of the District's dwellings with 6,400 in 2015. This is expected to rise to over 11,300 by 2048, growth of over 90% (from the 2015 base approximately 5,000 new dwellings required). As indicated by the changing home ownership and affordability rates an increasing proportion of this demand will be required in the lower price and income brackets.
 9. It is essential in terms of economic well-being that the PDP consider the changing residential environment in the District. The District has the opportunity to contribute to addressing the issues of affordability and built supply through the provision of sufficient feasible capacity as well as medium and high density residential development in central locations.
 10. Property Economics have undertaken development of a feasibility model to advance the enabled capacity for residential dwellings provided by Council. This feasibility modelling has been developed to better understand if the District has sufficient enabled capacity for sites that the market is likely to develop at a given profit margin.
 11. Several assumptions and market variables were considered in this model including:

Key Assumptions

- (a) Consistent planning regime;
- (b) Assumes 'average' market behaviour, including geospatial averages;
- (c) Although interactive demand has been fixed based on the 2017 Rationale projections;
- (d) Sufficient infrastructure;
- (e) Profit margin 20%;
- (f) Fixed variables, no changes to improvement land ratio over time, which would essentially increase redevelopment potential;
- (g) No consideration of amalgamation, potential to increase capacity;
- (h) Feasible capacity is based on highest return;
- (i) No sub-optimal development options considered, potential to decrease capacity;

Key Variables

- (j) sales value and individual site value;
- (k) existing sale value;
- (l) build cost (per sqm) and dwelling size;
- (m) development costs;
- (n) development fees/levies;
- (o) holding/finance costs;
- (p) design/servicing/contingency;
- (q) profit margin;
- (r) slope (average);
- (s) trended site inefficiencies; and
- (t) new dwelling premium.

12. The model itself was run for the District (ie, the Queenstown and Upper Clutha areas).
13. In total the 'enabled' capacity resulted in 14,205 dwellings within the Upper Clutha area with 8,934¹ of these being deemed 'feasible'. It was important to reflect in the final numbers the potential for variances from the market 'averages' that were applied at a site-by-site basis given the 'development chance' that would factor into the realisation of built form from the feasible development potential. As indicated above the land market in which Upper Clutha operates has factors associated with it that would indicate a proportionately high level of land speculation. This factor coupled with the level of areas with identified capacity would alter this development chance, especially in the short to medium term, and so a high rate was applied of 50%² for the modelled capacity.
14. The final capacity resulting from the model parameters for Upper Clutha was 5,416.
15. As identified in my evidence this model is a 'work in progress' with additional layers to still be considered. After filing my evidence in chief, two areas within the model have been identified as being misallocated geographically. This update therefore removes Arthurs Point and includes Northlake into the Upper Clutha area. Correction of these two errors results in an additional 1,300 dwellings with the figures identified within the Council 'fixed' capacity areas. Feasible capacity of 301 has also been excluded from the Rural Lifestyle zone at Makarora for reasons

1 Prior to the 50% development chance on modelled capacity.

2 Note this factor is identified, in part, within the requirements of the NPS (PC1) which identifies 20% short to medium term and 15% long term 'buffers'.

outlined in the evidence of Mr Barr. Additionally, the table below includes higher density dwelling potential, identified by Council, within the Wanaka Town Centre zone of 50 dwellings.³

16. The material changes to the Upper Clutha zones result in the total capacity increasing from 5,416 (as per Table 2 EIC) to 6,615 dwellings. The table below identifies the areas in which this capacity lies.

Zone Type	Wanaka Ward		Wanaka UGB Only	
	Enabled	Feasible	Enabled	Feasible
High Density Residential	427	281	427	281
Low Density Residential	7,519	3,976	7,519	3,976
Large Lot Residential	374	182	374	182
Mixed Use Business	895	582	895	582
Medium Density one	1,090	381	1,090	381
Rural Lifestyle Zone	41	19		
Rural Residential	312	195		
Township	1,178	720	90	50
DCM Total	11,836	6,336	10,395	5,452
Realised Capacity		3,168		2,726
<i>Local Shopping Centre</i>	53	53	53	53
Rural General	294	294		
Rural Visitor (Cardrona)	140	140		
Special Purpose	2,782	2,782	2,282	2,282
Albert Town Riverside Stage 6	128	128	128	128
Wanaka Town Centre	50	50	50	50
Capacity Total	15,283	6,615	12,908	5,239

17. In considering the sufficiency of this capacity it is appropriate to have regard for future residential dwelling demand within the Upper Clutha area beyond the period of the PDP. As identified the projected dwelling demand for Upper Clutha to 2048 is expected to be approximately 5,000 dwellings. When considering the 'modelled' areas and areas identified by Council it is expected that, even with a modelled development chance of 50%, that there is more than sufficient capacity at 6,615 dwellings.

Supplementary Statement of Natalie Hampson – Dwelling Capacity (for Michael Beresford)

18. Only one statement of evidence was filed by submitters, in response to my evidence on dwelling capacity. Because of the timeframes I understand this has

³ This changes to the Rural Lifestyle and Wanaka Town Centre figures, have been made subsequent to providing updated figures to the Beresford submitter and as copied into Ms Hampson's evidence.

not allowed for rebuttal evidence; however I wish to make the following comments on Ms Hampson's evidence.

19. In relation to my evidence and the results of the modelling undertaken by Property Economics Ms Hampson's evidence in her paragraph 7.1 is that, even with her demand adjustments, the position held in my evidence in chief that there is sufficient feasible residential capacity, is still relevant.
20. Ms Hampson then goes on to identify some issues that she believes may overestimate the potential capacity that will be provided by the market.
21. In paragraph 4.11 of her evidence Ms Hampson identifies a concern over the treatment of a realised capacity for what she calls Stage 1 and non-Stage 1 zones. As identified in my evidence in chief the realised component of the assessment relates to the development chance that is associated with the market actioning feasible capacity at either optimal or sub-optimal levels. The NPS (C1) identifies this potential position and determines that consideration should be made at 20% (short to medium terms) and 15% (long term) discount rates.
22. As stated 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 than that identified in the NPS.
23. 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 30%⁴ when considering the whole Upper Clutha market, significantly more than the 20% (or 15%) required by the NPS. I therefore consider that, at a Ward level, the realised capacity figures are conservatively represented by the final capacity numbers recorded in my evidence.
24. In paragraph 5.18 Ms Hampson identifies my previous discussions outlining the potential level of latent residential demand within the District. This position has been reiterated in this summary in which I estimate demand over the past 15 years at 7,000 dwellings with a shortfall of approximately of between 600 and

⁴ From the Table above this represents a total capacity of 9,733 with 3,168 discounted for development chance (32%)

1,200 dwellings over the same period. The Upper Clutha area currently accommodates 35% of the District's dwellings and is expected to remain⁵ at this composition rate through to 2048. Over the last 15 years Upper Clutha has housed over 40% of residential building consents. This would imply that the shortfall experienced by the District has not been as high in the Upper Clutha area. As such I would estimate the latent demand in the Upper Clutha area as no more than 150 dwellings. While this small figure has not been specifically included in the total demand figures, the number itself is relative to the demand figures utilised by Rationale beginning at 2015. This total demand includes a period of 2 years where over 600 residential building consent applications have been processed in the Upper Clutha area. As such I do not believe, when considering these two factors that their consideration would result in a lower net capacity for the area.

25. Finally, at paragraphs 5.6 to 5.9, Ms Hampson addresses the geospatial distribution of demand within the Upper Clutha area. While the DCM model has been applied at a site-by-site basis, the model itself is based on area⁶ and District averages and as such has not been reconciled with demand at a level beyond that of the Ward. This is due in part to the fact that realisation rates are not consistent across dwelling typology or location and can change significantly over time as perceived risk within the market alters. It is also important to note that, as identified in my evidence-in-chief, demand and supply are interactive, with areas with increased supply capacity often resulting in corresponding demand.
26. No information provided in Ms Hampson's rebuttal evidence would alter my economic position that the PDP provides sufficient residential development opportunities to meet future demand projections within the Upper Clutha area over the long-term (to 2048).

⁵ Based on the Rationale dwelling projections.

⁶ This level of assessment is geospatial relevant down to the average sales data at a suburb level.