

BEFORE THE HEARINGS COMMISSIONERS FOR THE WAIKATO DISTRICT COUNCIL

UNDER the Resource Management Act 1991

AND

IN THE MATTER of hearing submissions and further submissions on the
Proposed Waikato District Plan

Hearing 10 – Residential

PARTIES REPRESENTED **ANNIE CHEN SHIU (97)**

CSL TRUST AND TOP END PROPERTIES (89)

Submitters

**STATEMENT OF ECONOMIC AND PROPERTY MARKET REBUTTAL EVIDENCE FROM
ADAM JEFFREY THOMPSON FOR CHEN, CSL TRUST AND TOP END PROPERTIES**

10 February 2020

Counsel Instructed:

Peter Fuller
LLB, MPlan, DipEnvMgt, BHortSc.
Barrister
Quay Chambers
Level 7, 2 Commerce Street
PO Box 106215
Auckland 1143
021 635 682
Email: peter.fuller@quaychambers.co.nz

MAY IT PLEASE THE HEARINGS PANEL

1. INTRODUCTION

- 1.1. My full name is Adam Jeffrey Thompson. For the past 19 years I have provided consulting services in the fields of urban economics, property market analysis and property development advisory. For the past 16 years I have owned and managed two consulting firms that have provided services in these fields. I am presently the director of Urban Economics Limited.
- 1.2. I hold a Bachelor of Resource Studies from Lincoln University (1998), a Master of Planning from Auckland University (2000) and a Dissertation in Urban Economics from the London School of Economics (2014). I have studied urban economics at Auckland University and environmental economics at Lincoln University.
- 1.3. I have undertaken over 600 economic and property market assessments for a range of private and public sector clients.
- 1.4. I have read the Environment Court's Code of Conduct and agree to comply with it. My qualifications as an expert are set out above. I confirm that the issues addressed in this statement of evidence are within my area of expertise.
- 1.5. The data, information, facts and assumptions I have considered in forming my opinions are set out in the part of the evidence in which I express my opinions. I have not omitted to consider material facts known to me that might alter or detract from the opinions I have expressed

2. CODE OF CONDUCT

- 2.1. I confirm that I have read the Environment Court's Code of Conduct for Expert Witnesses and I agree to comply with it. I confirm that I have considered all of 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 upon the evidence of another person.

3. SCOPE OF EVIDENCE

- 3.1. My evidence provides a response to evidence provided by Phillip Mark Osborne on behalf of Kāinga Ora-Homes and Communities, dated 3rd of February 2020.

4. KĀINGA ORA'S PROPOSED MEDIUM DENSITY RESIDENTIAL ZONE

- 4.1. Mr Osborne's evidence provides a high level summary of the economic benefits of enabling more intensive housing around town centres. In particular, infrastructure efficiencies, centre vibrancy and vitality, lower housing prices, greater employment opportunities, increased housing choice and improved land efficiencies.

5. PWDP DWELLING CAPACITY ESTIMATES

- 5.1. The most significant economic issue facing the District is the provision of affordable housing. The District requires 7,100 additional dwellings by 2026. Of these, 5,000 (71%) need to be below \$440,000 and 6,200 (86%) need to be below \$580,000 to meet market demand.
- 5.2. The Council has an estimated potential supply of 200 dwellings under \$440,000 and 710 dwellings under \$580,000 under the Operative District Plan. This falls short of the demand for 5,000 and 6,200 dwellings respectively. This shortage is confirmed by Council's economists as follows:

"However, all three supply scenarios show shortfalls of capacity within the lower price brackets (up to \$580,000; and the cheapest dwelling scenario up to \$440,000). Net sufficiency within these price brackets is projected to be at between 75 per cent to 90 per cent in the medium-term. (page 110, Housing Development Capacity Assessment 2017, Market Economics Consulting, emphasis added). Net surpluses in capacity are projected to occur in the mid to higher price brackets across all three supply scenarios in the medium-term.

The largest surpluses are projected for the \$1.02m to \$1.17m price bracket in the Maximum Profit and Maximum Dwellings supply scenarios. However, it is unlikely that surpluses within this price bracket will be able to play any significant role in meeting demand elsewhere in the price spectrum. With the largest deficits projected to occur in the much lower price brackets.” (page 110, Housing Development Capacity Assessment 2017, Market Economics Consulting, emphasis added)

- 5.3. Mr Osborne’s evidence states that the proposed Medium Density Zone “...is likely to improve development feasibility through greater site coverage provisions” (paragraph 2.7). However, there has been no analysis of the likely dwelling yields from the Medium Residential Zone by Mr Osborne or the WDC economist. Without this analysis there is no basis to understand the extent to which the zone may address the District’s forecast housing affordability issue.

6. MEDIUM DENSITY RESIDENTIAL ZONE DWELLING YIELD (PRICE & QUANTITY)

- 6.1. A case study approach has been used to evaluate the commercial feasibility and likely dwelling yield from the proposed Medium Density Residential Zone. The case study has the following methodology:

- Indicative development sites of 1,000m² – 1,200m² that fall within the Medium Density Residential zone have been selected for seven locations across the District.
- A five unit development scenario has been tested. The dwellings are 90m² three bedroom town houses on a 200m² site. This is a conventional town house development.
- Dwelling sale prices have been estimated based on a review of recent sales in each location.

- 6.2. Figures 1 shows the results of the medium density infill commercial feasibility analysis. All locations are estimated to be have an insufficient profit (less than 20%) to be commercially feasible. There would however be some sites and locations that

are feasible, however the majority of sites are likely to be infeasible. The underlying reason is buyers expect a significant discount for a small lot (of 200m²) and in locations where the price of a larger lot is relatively affordable, this means there is insufficient profit for a developer.

- 6.3. Figure 2 shows the results of the medium density greenfield commercial feasibility analysis. Greenfield land costs less as a development site, as it reflects the underlying rural value rather than an existing dwelling. Greenfield land has a slightly higher civil works price, reflecting the cost of new roading and services. Consequently, the commercial feasibility is higher for greenfield development in each location. Based on this analysis, only two of the seven locations are commercially feasible for the town house development, namely Horotiu and Raglan.
- 6.4. While this analysis is indicative due to the methodology, it provides a sufficient basis to conclude that the Medium Density Residential zone would only result in a small number of additional infill dwellings. The main implication for the District Plan is that the majority of new housing will be in greenfield locations, and more importantly, that the greenfield areas are better placed to provide affordable housing.

Figure 1: Infill Medium Density Residential Commercial Feasibility Analysis

Town	New House		Development Site	Town House Development Scenario		
	Price	Floor (m ²)		Price	Price	Profit Margin
Horotiu	\$790,000	190	\$400,000	\$510,000	9%	✗
Ngaruawahia	\$680,000	170	\$410,000	\$440,000	-4%	✗
Pokeno	\$730,000	190	\$480,000	\$470,000	-1%	✗
Raglan	\$880,000	180	\$630,000	\$570,000	10%	✗
Taupiri	\$690,000	170	\$350,000	\$450,000	0%	✗
Te Kauwhata	\$750,000	200	\$490,000	\$490,000	2%	✗
Tuakau	\$610,000	150	\$560,000	\$400,000	-16%	✗
Total	\$720,000	180	-	\$470,000	-	-

Source: Trademe, Core Logic, Urban Economics

Figure 2: Greenfield Medium Density Residential Commercial Feasibility Analysis

Town	New House		Development Site	Town House Development Scenario		
	Price	Floor (m ²)		Price	Price	Profit Margin
Horotiu	\$790,000	190	\$100,000	\$510,000	21%	✓
Ngaruawahia	\$680,000	170	\$100,000	\$440,000	7%	✗
Pokeno	\$730,000	190	\$100,000	\$470,000	13%	✗
Raglan	\$880,000	180	\$100,000	\$570,000	34%	✓
Taupiri	\$690,000	170	\$100,000	\$450,000	9%	✗
Te Kauwhata	\$750,000	200	\$100,000	\$490,000	17%	✗
Tuakau	\$610,000	150	\$100,000	\$400,000	-1%	✗
Total	\$720,000	\$180	-	\$470,000	-	-

Source: Trademe, Core Logic, Urban Economics

7. CONCLUSION

- 7.1. Mr Osborne's evidence outlines the generally agreed economic benefits of more intensive housing in existing suburbs. However, it does not quantify the likely rate or price of housing that would occur, or whether it would address the District's affordable housing issue.
- 7.2. I have evaluated the commercial feasibility of infill and greenfield development of small town houses. The main finding is that there would be a low number in the infill locations and a greater number in the greenfield locations.
- 7.3. I support the proposed Medium Density Residential zone, however consider greenfield residential land is a better policy response for the provision of affordable housing.

Adam Thompson

10.02.2020

Appendix 1: Infill Medium Density Residential Commercial Feasibility Analysis

Costs	Horotiu	Ngaruawahia	Pokeno	Raglan	Taupiri	Te Kauwhata	Tuakau
Property Cost	\$400,000	\$410,000	\$480,000	\$630,000	\$350,000	\$490,000	\$560,000
Build Costs	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
Civil Construction	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Development Contributions*							
-Reserves and Facilities	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600
-Roads & Transport	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790
-Stormwater	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160
-Wastewater	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370
-Water	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990
Council Fees							
-Building Consent	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900
-Land Use Consent	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800
-Subdivision	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500
Finance (6% p.a. for 18months)	\$92,500	\$92,900	\$95,900	\$102,400	\$90,300	\$96,400	\$99,400
Architecture	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Lawyer	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Accountant	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
LINZ	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470
Marketing	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Estate Agent (3% Gross Sales)	\$76,500	\$66,000	\$70,500	\$85,500	\$67,500	\$73,500	\$60,000
Surveyor	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500
Site Clearance	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Landscaping	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
Total	\$2,306,080	\$2,305,980	\$2,383,480	\$2,554,980	\$2,244,880	\$2,396,980	\$2,456,480
Sales							
Sales Price per Dwelling	\$510,000	\$440,000	\$470,000	\$570,000	\$450,000	\$490,000	\$400,000
Number of Dwellings Created	5	5	5	5	5	5	5
Revenue	\$2,550,000	\$2,200,000	\$2,350,000	\$2,850,000	\$2,250,000	\$2,450,000	\$2,000,000
Profit exc. GST	\$243,920	-\$105,980	-\$33,480	\$295,020	\$5,120	\$53,020	-\$456,480
GST	\$31,820	-\$13,820	-\$4,370	\$38,480	\$670	\$6,920	-\$59,540
Profit	\$212,100	-\$92,160	-\$29,110	\$256,540	\$4,450	\$46,100	-\$396,940
Profit %	9%	-4%	-1%	10%	0%	2%	-16%

Source: Trademe, Core Logic, Urban Economics

Appendix 2: Greenfield Medium Density Residential Commercial Feasibility Analysis

Costs	Horotiu	Ngaruawahia	Pokeno	Raglan	Taupiri	Te Kauwhata	Tuakau
Property Cost	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Build Costs	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000	\$1,400,000
Civil Construction	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Development Contributions*							
-Reserves and Facilities	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600	\$22,600
-Roads & Transport	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790	\$48,790
-Stormwater	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160	\$19,160
-Wastewater	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370	\$8,370
-Water	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990	\$22,990
Council Fees							
-Building Consent	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900	\$15,900
-Land Use Consent	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800	\$3,800
-Subdivision	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500	\$14,500
Finance (6% p.a. for 18months)	\$81,700	\$81,700	\$81,700	\$81,700	\$81,700	\$81,700	\$81,700
Architecture	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Lawyer	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Accountant	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
LINZ	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470	\$3,470
Marketing	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Estate Agent (3% Gross Sales)	\$76,500	\$66,000	\$70,500	\$85,500	\$67,500	\$73,500	\$60,000
Surveyor	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500	\$12,500
Site Clearance	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Landscaping	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
Total	\$2,045,280	\$2,034,780	\$2,039,280	\$2,054,280	\$2,036,280	\$2,042,280	\$2,028,780
Sales							
Sales Price per Dwelling	\$510,000	\$440,000	\$470,000	\$570,000	\$450,000	\$490,000	\$400,000
Number of Dwellings Created	5	5	5	5	5	5	5
Revenue	\$2,550,000	\$2,200,000	\$2,350,000	\$2,850,000	\$2,250,000	\$2,450,000	\$2,000,000
Profit exc. GST	\$504,720	\$165,220	\$310,720	\$795,720	\$213,720	\$407,720	-\$28,780
GST	\$65,830	\$21,550	\$40,530	\$103,790	\$27,880	\$53,180	-\$3,750
Profit	\$438,890	\$143,670	\$270,190	\$691,930	\$185,840	\$354,540	-\$25,030
Profit %	21%	7%	13%	34%	9%	17%	-1%

Source: Trademe, Core Logic, Urban Economics