

**BEFORE INDEPENDENT HEARING COMMISSIONERS
IN THE WAIKATO REGION**

**I MUA NGĀ KAIKŌMIHANA WHAKAWĀ MOTUHAKE
WAIKATO**

IN THE MATTER **of the Resource Management Act 1991**

AND

IN THE MATTER **of the hearing of submissions on Variation 3
Enabling Housing Supply ('V3') to the Proposed
Waikato District Plan ('PWDP')**

**STATEMENT OF PRIMARY EVIDENCE OF PHILIP MARK OSBORNE
ON BEHALF OF KĀINGA ORA - HOMES AND COMMUNITIES**

(ECONOMICS)

4 JULY 2023

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EXECUTIVE SUMMARY

1. My name is Philip Mark Osborne. I am providing economic evidence on behalf of Kāinga Ora-Homes and Communities (“Kāinga Ora”) in relation to its submission on Variation 3 (“Variation 3”) of the Waikato Proposed District Plan (“PDP”).
2. This primarily focus of this evidence is the relief sought by Kāinga Ora with regard to Variation 3 relating to the proposed residential building heights within the Huntly Town Centre as well as the Commercial Zone that lies adjacent to this centre.
3. The development of compact residential is not only directed by the National Policy Statement on Urban Development 2020 (“NPS UD”) but is a fundamental aspect of urban form relating to economic efficiency, affordability, improved amenity and affordable infrastructure provision.
4. The Kainga Ora relief seeks:
 - a) An increase in permitted height base in the Huntly Town Centre zone from 12m to 24.5m
 - b) An increase in permitted height base in the Huntly Commercial zone from 12m to 22m.
5. Assessment of the Variation 3 height provisions proposed by the Waikato Council, within Huntly, illustrates the low propensity for high density residential development to occur. The heights enabled in the relief sought by Kāinga Ora are likely to result in a material improvement to these feasibilities that have the potential to result in higher density residential development in and around the Huntly Town Centre within the medium to longterm timeframe.
6. Overall, the relief sought by Kāinga Ora, in relation to these heights in and around Huntly, represent an improve economic outcome and a greater propensity for the realisation of high density residential within the district and the Huntly Town Centre.

INTRODUCTION

7. My full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland.

Experience

8. My qualifications include Bachelor of Arts (History/Economics) (1994), Masters in Commerce (1997), a Masters in Planning Practice (2002) from the University of Auckland, and I have provisionally completed my doctoral thesis in developmental economics.
9. I have 20 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning. I also provide consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.
10. Property Economics has been involved in assessing commercially feasible and realisable residential development for a wide range of local governments (Auckland, Wellington Region, New Plymouth), central government (Kāinga Ora, MBIE, MHUDS) and private clients over a large number of local, territorial and regional economic environments.
11. I have been commissioned by Kāinga Ora to prepare this statement of evidence to address economic matters raised in relation to the relief sought in the Kāinga Ora submission, relating to Variation 3 to the PDP. This variation seeks to implement the NPS UD as well as the and The Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 .

Code of Conduct

12. I confirm that I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2023. I have complied with the Code of Conduct in preparing this evidence and agree to comply with it while giving

evidence. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

Scope of evidence

13. My evidence will address the following:
 - a) Outline the current Kāinga Ora relief sought.
 - b) Identify the fundamental differences between Council's Variation 3 and the Kāinga Ora position higher density housing
 - c) Identify the potential market response and the appropriateness of the Kāinga Ora position.
 - d) The benefits of Kāinga Ora's relief.
 - e) Respond to Councils s42a and relevant evidence\

14. In preparing my evidence, I have read Variation 3, the s32 RMA evaluation supporting the plan change, the s42a findings and the economic evidence of Susan Fairgray for Waikato District.

THE KAINGA ORA SUBMISSION

15. The aspects of the original Kāinga Ora submission considered in this evidence include:
 - a) The extension of the Huntly and Ngaaruawaahia Town Centres permitted building height from 12m to 24.5m via a Height Variation Control ("HVC");
 - b) The extension of Huntly Commercial Zone permitted building height to 24.5m via a HVC;
 - c) The establishment of a High-Density Residential Zone ("HDRZ") around Cambridge and Ngaaruawaahia Town Centres at 22m

16. In relation to the Kāinga Ora submission it is my understanding that Kāinga Ora is no longer seeking a HDRZ around Ngaaruawaahia and Huntly town

centres, and is no longer seeking the 24.5m height overlay within the Ngaaruawaahia Town Centre and Commercial zones. In Huntly it seeks a reduced HVC of 22m over the Commercial Zone, and continues to seek a 24.5m HVC over the Town Centre Zone.

17. From an economic perspective I support the overall direction of the Variation 3 which at a general level would consolidate land use activities within a compact urban form, focussed in and around centres, as well as the provision of sufficient residential capacity to support and efficiently facilitate growth in the district.
18. The key point of difference between the submission position of Kāinga Ora and that of the WDC is the extent to which this intensified development is enabled within and around centres. From an economic viewpoint this relates to the point at which a balance should be struck between the potential economic costs associated with intensification within centres and the economic benefits generated by it. That balance has implications for the locations in which intensification should be focused and the extent of the zones themselves. It is also important to note that the Medium Density Residential Standards (“**MDRS**”) has inherently altered this relative position and the competitive differential required to direct residential development efficiently (i.e.: into and around centres) rather than simply to provide for sufficient residential development capacity.
19. The MDRS and the higher density residential sought through the NPS UD seeks to enable development capacity that, in turn, allows the market to offer greater choice in terms of the typology and locations for intensified residential development.
20. There are key aspects of the notified residential provisions, zone extents and overlays in Variation 3 that are likely to limit the extent to which they provide for a range of housing densities within the district and particularly economically efficient locations such as Huntly. For the purposes of this evidential assessment they include:
 - a) The Huntly Town Centre zone provides for a maximum built height of 12m.

- b) The Huntly Commercial zone provides for a maximum built height of 12m.¹

NPS UD, RMA POLICIES

21. While local authorities have been tasked with managing land use activities, the extent and responsibility has, more recently, been targeted through central government directives. Both the introduction of the NPS UD and the recent amendments to the RMA have provided Councils with the assignment of providing sufficient residential capacity and facilitating the Medium Density Residential Standards (“MRDS”) while managing the potential effects or Qualifying Matters (“QFM”).

22. The NPS UD requires that:

“Policy 3: In relation to tier 1 urban environments, regional policy statements and district plans enable:

- (a) in city centre zones, building heights and density of urban form to realise as much development capacity as possible, to maximise benefits of intensification; and*
- (b) in metropolitan centre zones, building heights and density of urban form to reflect demand for housing and business use in those locations, and in all cases building heights of at least 6 storeys; and*
- (c) building heights of at least 6 storeys within at least a walkable catchment of the following:*
 - (i) existing and planned rapid transit stops*
 - (ii) the edge of city centre zones*
 - (iii) the edge of metropolitan centre zones; and*

¹ Both these zones allow for residential activities above grade (ground floor)

(d) *in all other locations in the tier 1 urban environment, building heights and density of urban form commensurate with the greater of:*

(i) *the level of accessibility by existing or planned active or public transport to a range of commercial activities and community services; or*

(ii) *relative demand for housing and business use in that location.*

23. From an economic perspective I strongly support the overall direction of the NPS UD, including the consolidation of land use activities within a compact urban form, focussed within and around centres (and, ideally, also along key transport routes), as well as the provision of sufficient capacity to support and efficiently facilitate growth in each district. This approach has a number of economic advantages:

- a) A compact urban form reduces the marginal cost of construction in terms of infrastructure such as urban roading and wastewater and water supply networks.
- b) A compact urban form reduces the need for and cost of travel for residents to access employment, education, healthcare and services. That is likely to generate savings in resource use (e.g.: fuel or electricity) for trips that use private vehicles but also increases the likelihood of active transport modes (e.g.: walking or cycling).
- c) Intensification within and around centres and along key transport routes reinforces travel efficiency. It increases the accessibility of employment and services and further improves the efficiency of the public transport network.
- d) Intensification improves land use efficiencies with regard to the extent of land required to meet demand, reducing the average site cost. This is more likely to result in lower priced residential options.

- e) Intensification increases the diversity, viability, and comparative advantage of commercial centres.
 - f) In summary, intensification encourages and enables the sharing of infrastructure, services and facilities, which represents a more efficient use of resources.
24. The MDRS and the provision of higher density zoning within and adjacent to centres and transport nodes sought through the NPS UD seek to enable residential development capacity that, in turn, allows the market to offer greater choice in terms of the typology and locations for intensified residential development.

ECONOMIC CONSIDERATIONS REGARDING INTENSIFIED RESIDENTIAL ACTIVITY IN EFFICIENT LOCATIONS

25. From an economic viewpoint, residential zoning (and the intensity of land use enabled by the provisions) is a crucial tool in directing residential growth and development to achieve greater degrees of efficiency and certainty in terms of public and private investment. The level of flexibility and capacity indicated by zoning also impacts upon housing fundamentals such as choice and affordability.
26. While residential zoning is necessary to achieve these levels of certainty it does not in itself generate the level of development that the provisions would suggest. The market is also driven by social and economic factors including:
- a) tenure;
 - b) demand;
 - c) acceptance of risk;
 - d) knowledge of 'Best' fit;
 - e) capital to improvement ratios;
 - f) construction costs;
 - g) construction restraints;

- h) fragmented ownership;
 - i) inaccessibility to capital funds;
 - j) least path of resistance: the development of least risk may not result in the greatest level of capacity realisation; and
 - k) future market expectations.
27. While these market factors determine the market response to zoning, zoning itself (and the associated provisions) plays a significant role in the efficient and effective geospatial distribution of residential activity, as well as a well-functioning residential housing market. This is a fact that is crucial to the objectives of the NPS UD, and in particular, the extent of which, is a key objective of the relief sought by Kainga Ora.
28. A key consideration in the objectives for residential development, and identified in NPS UD policy, is the utilisation of appropriate land in centres to provide efficient access to services (and opportunities) while providing choice in Waikato's housing supply. In considering these objectives, it is important to understand what, if any, impact Variation 3 will have on them. As identified above, this goes beyond the act of applying a zone to an area of land and must consider the potential market response and therefore the practical outcome of applying higher density zones.
29. As identified above there are several factors that influence the potential market response to residential zoning. While the 'plan enabled' capacity is the level of development that is essentially provided for in the plan, considering all provisions and constraints, there are clear financial constraints that will play a significant role in the extent, location and typology that results within the market. Typically, feasible residential capacity addresses these constraints and illustrates the level of capacity that exhibit a viable profit margin.
30. This feasible capacity is typically significantly lower than the capacity enabled through a district plan. The last two decades have seen a rise in the proportion of feasible capacity as land prices have escalated, driven by increasingly displaced demand from areas such as Auckland (due to the relative price difference). More recently however, the market has seen a

market adjustment driven by decreasing land values and increasing construction costs.

31. Following on from feasible development is the motivation of landowners and developers that may not choose to develop sites that are deemed feasible. For example the market exhibits a willingness to accept a private economic cost associated with retaining larger sites, while other sites may not be developed to their capacity given developers' lack of willingness (or indeed that of financial institutions in terms of lending) to accept the greater financial risk posed by larger developments. These factors are often considered in a further reduction to 'realisable' capacity. Each of these factors are likely to play a significant role in lowering capacity numbers and materially impacting upon the distribution of that capacity and its efficiency.
32. While acknowledging that there are inevitably constraints on applying residential zones, as a whole, such limitations should not be applied in isolation to the corresponding locational efficiencies. The ability for Variation 3 to accommodate future residential growth in the existing urban areas hinges on its ability to function as a catalyst for residential development of greater density.
33. In order for the market to accept this product (residential development of greater density) there needs to be several overt factors in play. The driving force behind the market's acceptance is clarity over future demand and the certainty of development potential. In order to achieve this clarity it is important that the intensified product attains a competitive advantage in the market through high quality product and associated amenity. Accompanied by this potential change in dwelling preference must be financial viability and a manageable risk for development of the product itself.
34. The economic benefits associated with higher density development within urban centres are implicit in the direction of the NPS UD. Objective 3 sets out the requirement to access these efficiencies:

Objective 3: Regional policy statements and district plans enable more people to live in, and more businesses and community services

to be located in, areas of an urban environment in which one or more of the following apply:

(a) the area is in or near a centre zone or other area with many employment opportunities;

(b) the area is well-serviced by existing or planned public transport;

(c) there is high demand for housing or for business land in the area, relative to other areas within the urban environment.

35. Spreading the potential demand of residential growth throughout the urban area means any one centre is unlikely to experience a significant population boost to a level where it would provide a material economic benefit to the centre. Even when considering the provision for high density development within the urban centres, the resulting uncertainties identified above mean that Variation 3 has the potential to be materially less likely to result in appropriate levels of development. This in my opinion represents a missed market opportunity within the PDP.
36. The relief by Kāinga Ora seeks to prioritise enablement that is not limited to simple sufficiency (in relation to estimated demand) but seeks to provide for an efficient residential housing development environment. This is coupled with a focus on Huntly Town Centre at a level that is likely to provide greater economic benefits to the balance of the district as well as improving the economic and social wellbeing of the community the centre services. In my opinion, enabling intensive development in the Huntly centre will assist to increase demand for services, increase sales performance, encourage a larger population base to develop in the centre and in the surrounding locale, increase employment opportunities, increase the viability of public transport infrastructure, increase market efficiencies, increase return on investment on public expenditure (particularly upcoming public transport initiatives), and so on.
37. In terms of the level and extent of development capacity provided for under the Waikato PDP, the NPS UD requires that this be feasible over the short, medium and long term. This is important to maintain balance and certainty in the market, not only regarding where capacity may occur but that the identified capacity does not place undue pressure on the market, in terms of supply or affordability.

38. This feasible (and realisable) capacity plays a fundamental role in the level of competition enabled in the district. While the NPS UD directs the need to provide for sufficient feasible capacity, there are potential affordability benefits that the district can realise through enabling the housing market to a greater extent.
39. Objective 2 of the NPS UD identifies that “*Planning decisions improve housing affordability by supporting competitive land and development markets*”. This competition is inherent, not only in providing for a level of development potential that meets expected demand in the short, medium and long terms, but provides capacity that materially impacts upon the market’s competitiveness.
40. The potential benefits associated with this supply position include:
- a) Improved competitiveness;
 - b) Improved quality of the built form;
 - c) Increased diversity and choice in housing product;
 - d) Improved affordability.
41. Additional to this is the increased market flexibility of the dwelling typologies that are likely to be developed, and increased opportunity and certainty for the market, to deliver higher residential densities.

HUNTLY TOWN CENTRE

42. The intensity of residential land use enabled within and immediately adjacent to centres is a crucial tool in enabling residential development to achieve greater degrees of efficiency and certainty in terms of public and private investment. The level of flexibility and capacity indicated by zoning also impacts upon housing fundamentals such as choice and affordability.
43. I understand that a key consideration in terms of the NPS UD is the utilisation of appropriate land within and around centres for intensified residential development to provide efficient access to services (and opportunities). In considering this, it is important to understand what, if any, impact the Variation 3 will have on them. As identified above, this goes beyond the act

of applying a zone to an area of land and must consider the potential market response and therefore the practical outcome of applying higher density zones.

44. The relief sought by Kāinga Ora allows for residential development (above ground floor) within the Huntly Town Centre to a 24.5m building height. This represents a fundamental difference from the Council's proposed 12m height standard. The potential impact of the two height standards on the development of the centre is materially different given the underlying market fundamentals. Huntly plays a major role in the economic wellbeing of the Waikato District community with the centre playing a high level role and function for the community as well as offering amenity and accessibility. The significance of the Huntly Town Centre is highlighted in the Council's s42A report appendix 4 ('level of commercial activity'). This illustrates not only the level of commercial and community services provided for in the centre but also its relatively higher degree of transport accessibility and public transport, referencing *'regular bus route to Hamilton, with connections to Ngaruaawahia, Taupiri, Te Kauwhata, Waikato University; train connections to Hamilton and Auckland via Te Huia'*.
45. These transport services are likely to contribute to future feasibilities of development in Huntly. In turn, that increased development will result in greater levels of utilisation of these amenities and improve their sustainability. As part of the assessment of the Kāinga Ora submission Property Economics has undertaken modelling of the impacts a differential in enabled height would make on likely feasible and realisable development capacity. While this modelling indicated limited current feasibility, it did illustrate a high degree of sensitivity to the enabled heights. Essentially, this indicated that the Kainga Ora position (24.5m and 22m height standards) had a much greater propensity to enable intensified residential development within the Huntly centre than the currently identified Variation 3 heights.
46. This impact on realisation is based on a number of factors. The first relates to the underlying land values and the need for the market to achieve a greater uplift in land value relative to the built form floorspace. As development height increases the relative cost of land falls and the return increases, in the case of Huntly a higher increase in relativity between these

factors is required to cover such costs as existing improvement (existing buildings) loss at a level that is competitive with other development options.

47. It is clear from this assessment that the proposed Kāinga Ora position will enable the market to provide greater levels of high-density residential development within Huntly Town Centre. This improvement is both necessary to realise the economic efficiencies of intensified development as well as providing for realistic choice and demand preferences both now and over the longterm. It is important to note that there is unlikely to be any material² high-density development under the 12m current identified in the Variation.
48. While the theoretical or 'enabled' capacity resulting from the proposed Kāinga Ora height is substantial (approximately 7,000 units within the Town Centre) the market reality is that a very small proportion of this is likely to be realised within the market. It is also important to note that recent changes (falling property values and rising construction costs) are likely to reduce this realisation rate further.
49. In assessing the economic appropriateness of the heights proposed in the Huntly Town Centre there are a number of other factors that require consideration. Firstly, the potential for economic costs. As identified above there are a number of economic benefits attributable to more intensified residential development, additionally, there is the potential for some economic costs. When considering locational options for high density residential development it is important that the appropriateness of the location is considered. With a finite level of demand high density development potential in inappropriate locations can increase competition redistributing demand to less efficient locations. In the case of Huntly this represent the most appropriate location within the district and therefore additional capacity will not result in his potential economic cost.
50. The second issue relates to a 'crowding out' of economic benefits associated with density. This is typically through congestion, where high levels of concentrated activity results in pressures on infrastructure which then

² When addressing issues relating to a market as a whole there are always anomalies that may result in some development occurring

constrain economic activity. In the case of Huntly this level of centralised activity is extremely unlikely.

51. For Huntly the heights proposed by Kāinga Ora are fundamental for the realisation of high density residential development within the Waikato District to occur at all, with lower heights significantly restricting the propensity for any such development.

WAIKATO DISTRICT COUNCIL EVIDENCE

52. The economic evidence provided by Council on Variation 3 has outlined a similar position to the one underpinning the relief sought by Kainga Ora, in relation to both the Huntly Town Centre and Commercial Zone heights.
53. The evidence of Susan Fairgray recognises the benefits of intensification around Waikato's commercial centres³ and the improvement Variation 3 provides in terms of urban form outcomes when contrasted to the ODP. I agree that the position notified by Council is likely to represent an improvement in terms of efficient residential and commercial outcomes. The key issue as it relates to the differences between Council position and the relief sought by Kainga Ora is the extent to which the Waikato District Plan encourages the concentration of growth in and around key centres (in this specific case Huntly).
54. In paragraph 67 Ms Fairgray identifies a key point in my evidence where a less differentiated zoning structure (such as that represented with similar permitted building heights) *'may encourage patterns of growth that are less likely to support centres and contribute to a well-functioning urban environment'*.
55. While discussing the concept of higher density within Waikato District Ms Fairgray sets out some considerations including its location, extent and the role, function and amenity associated with town centres.
56. When considering the submission of Kainga Ora specifically Ms Fairgray, in paragraph 91, points out concerns regarding the extent of the HDZ proposed in Ngaaruawaahia. I would agree that this level of provision raises the risk of the dilution of a potential critical mass of intensified residential

³ Fairgray, 20 June 2023, Paragraph 63

development over a wider geospatial area, thus diluting its potential impacts on efficiency and economic wellbeing.

57. The Council's economic evidence has, from paragraph 92, identified the appropriate nature of Huntly as a location for high density residential development, along with the potential for HDZ provision immediately adjacent to the Huntly Town Centre Zone. This section of evidence, paragraph 95, also concludes the extent of the HDZ in the Kainga Ora submission is likely to be too large. I would agree that extensive areas of HDZ even within a 'walkable' catchment has the potential to redirect development from more appropriate areas. While the exact extent of this zone requires some nuance, the associated transportation accessibility (through the existing train line) provides some degree of differentiation with the general residential zones. As such the relief now sought by Kainga Ora seeks to utilise the existing Huntly Commercial Zone as a location suitable to be enabled for more intensified residential activities and seeks to increase the permitted building height to 22m in this zone.

ECONOMIC CONCLUSION

58. The relief current sought by Kāinga Ora includes:
- a) Increase in permitted height base in the Huntly Town Centre from 12m to 24.5m
 - b) Increase in permitted height base in the Huntly Commercial Zone from 12m to 22m.
59. With the introduction of the MDRS these increases in height send a strong signal to the market encouraging development in efficient and economically effective locations.
60. Given the current property market conditions experienced in Waikato the Kāinga Ora relief has the potential to significantly improve the likelihood of residential development being undertaken within Huntly.
61. Although current market demand patterns within the Waikato District would suggest there is limited current or medium term high density residential demand, its enablement not only provides an opportunity for such

development to occur within this timeframe⁴ but also safeguards the potential for intensification to occur in the town centre over the longer term by providing clarity to the market as to the WDC's preferred location for intensification.

62. Overall, the current relief sought by Kāinga Ora, in relation to the Huntly Town Centre and Commercial Zone heights, represents an improved economic outcome and encourages the realisation of high density residential within the Huntly centre (and adjacent area) the district as a whole.

4th July 2023

Philip Osborne

⁴ Medium term relating to 10 years under the NPS UD