

**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 the **Waikato
IPIs - Hamilton CC PC12, Waipā DC PC26 and
Waikato DC Variation 3.**

HEARING TOPIC: Hearing 1 - Strategic Planning Approaches

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

(ECONOMICS)

1 FEBRUARY 2023

Instructing solicitor:
C E Kirman
Special Counsel
Kāinga Ora - Homes and Communities
PO Box 14594
Central Auckland 1051
E: claire.kirman@kaingaora.govt.nz

Counsel Instructed:
D A Allan / A K Devine
Ellis Gould Lawyers
PO Box 1509
Auckland 1140
E: dallan@ellisgould.co.nz /
adevine@ellisgould.co.nz

1. EXECUTIVE SUMMARY

1.1 My full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland. I have been engaged by Kāinga Ora-Homes and Communities (“**Kāinga Ora**”) to provide economic evidence in support of its primary and further submissions on the three Waikato Intensification Planning Instruments (“**the Waikato Region IPI’s**”).

1.2 The key points addressed in my evidence are:

- (a) While the approaches adopted in each of the Waikato Region IPI’s recognise the value associated with intensified land use, and the importance of the spatial distribution of residential development opportunities, I consider there is a real risk that the market outcomes from these approaches will not result in an economically efficient outcome. Aspects of the residential provisions, zone extents and overlays adopted in the Waikato Region IPI’s are likely to limit the extent to which they provide for a range of housing densities in economically efficient locations.
- (b) Historically, Hamilton’s urban environment has exhibited a residential distribution and density that has not been coupled with significant economic costs, such as congestion and reduced accessibility. However, the city’s location within a high growth area has generated population growth to an extent that now requires a strategic planning response (i.e.: greater density) to avoid such economic inefficiencies arising and to maintain the region’s competitiveness and standard of living.
- (c) From an economic viewpoint, residential zoning (and the intensity of land use enabled by the provisions) 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

enabled by zoning also impacts upon housing fundamentals such as choice and affordability.

- (d) The distribution of residential capacity has implications for the way in which councils should address infrastructure capacity matters. When determining whether there is sufficient trunk infrastructure capacity, regard should be had to the likely level of construction, particularly in the lower priority areas (e.g.: on the periphery of the city) so as to maximise the extent to which intensification is enabled in the centres and along the corridors where it is most desirable.
- (e) The Kāinga Ora submissions are likely to result in a greater increase in residential capacity and development in and around efficient locations within Waikato than is enabled through the notified Waikato Region IPIs. This will improve the ability of the Waikato Region IPI's to meet the NPS UD objectives of a more efficient, consolidated and intensified urban form around higher amenity and service areas, while providing greater certainty within the residential market and reducing the pressure for less efficient development.

2. INTRODUCTION

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

Experience

2.2 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.

2.3 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.

- 2.4 Property Economics has been involved in assessing commercially feasible 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.

Involvement in the Submission

- 2.5 I have been commissioned by Kāinga Ora-Homes and Communities (“**Kāinga Ora**”) to prepare this statement of evidence to address economic matters raised in relation to the relief sought in Kāinga Ora’s submissions to Hamilton City (PC12), Waikato District (Variation 3 to the Proposed Waikato District Plan) and Waipā District (PC26) (collectively, “**the Waikato Region IPI’s**”). The Waikato Region IPI’s seek to implement the National Policy Statement on Urban Development (“**NPS UD**”) as well as the Medium Density Residential Standards (“**MDRS**”).

Code of Conduct

- 2.6 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

- 2.7 This is a brief introductory statement, prepared for the Independent Hearing Panel's ("IHP") Hearing 1 - Strategic Planning Approaches on the Waikato Region IPI's. My substantive analysis will be provided through the subsequent hearings on each of the Waikato Region IPI's.
- 2.8 I have prepared this statement on the basis that others will have addressed the relevant provisions of the Resource Management Act 1991 ("RMA") as amended by the Resource Management (Enabling Housing Supply and Other Matters) Amendment Act 2021 ("HSAA"), the NPS UD and the MDRS.
- 2.9 My evidence will address the following:
- (a) The extent to which the Waikato Region IPI's recognise and enable the benefits of intensification.
 - (b) Plan enabled vs commercially feasible development.
 - (c) Locational issues regarding high density development.
 - (d) The benefits of Kāinga Ora's relief.
- 2.10 In preparing my evidence, I have read each of the Waikato Region IPI's, the respective s32 RMA evaluations supporting the plan changes, the joint s42A RMA "Themes and Issues" report, and the evidence of Mark Davey for Hamilton City, Tony Quickfall for Waipā District and Jim Ebenhoh for Waikato District.
- 3. THE EXTENT TO WHICH THE WAIKATO REGION IPI'S RECOGNISE AND ENABLE BENEFITS OF INTENSIFICATION**
- 3.1 The approaches adopted in each of the Waikato Region IPI's recognise the value associated with intensified land use, and the importance of the spatial distribution of residential development opportunities. However, there is a real risk that the market outcomes from these approaches will not result in an economically efficient outcome. With the exception of the central city, there is a lack of recognition in the

application of zones and overlays of the benefits associated with intensified residential activity in and around other centres and key transport routes. In addition, the Waikato Region IPI Plan Changes do not appropriately distinguish these other locations from the more general residential up-zoning.

3.2 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 residential 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 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) Improvement of 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) Increasing the diversity, viability, and comparative advantage of commercial centres.

In summary, intensification encourages and enables the sharing of infrastructure, services and facilities, which represents a more efficient use of resources.

- 3.3 The key point of difference between my preferred approach, as outlined in paragraph 3.2 above, and that adopted in the Waikato Region IPI's, economically, relates to the point at which the balance should be struck between the potential costs associated with residential intensification 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.
- 3.4 Historically, cities such as Hamilton have experienced an urban environment that allows for a residential distribution and density that has not been coupled with significant economic costs, such as congestion and reduced accessibility. However, the positioning of these areas within a geospatially high growth area is likely to represent significant change (as Hamilton City grows towards 250,000¹ residents) with a critical mass requiring accommodation and strategic avoidance of these inefficiencies becoming crucial to the area's competitiveness and standard of living. In terms of significance the 2021 Future Proof HBA indicated² that nearly 60% of the three councils' long-term demand would be accommodated within Hamilton City.
- 3.5 The MDRS and the intensification 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.
- 3.6 There are several aspects of the residential provisions, zone extents and overlays adopted in the Waikato Region IPI's that are likely to limit the extent to which they provide for a range of housing densities within economically efficient locations:

¹ <https://www.stats.govt.nz/information-releases/subnational-population-projections-2018base2048>

² <https://futureproof.org.nz/assets/FutureProof/HousingDevelopmentCapacityAssessment2021.pdf>

- (a) The Waikato Region IPI's all apply the MDRS across only a limited extent of the urban environments as defined in the (amended) RMA.
- (b) The Waikato Region IPI's each propose a very limited application of medium and high-density zonings around commercial centres and transport networks.
- (c) PC12 to the Hamilton City District Plan correctly recognises that the central city is an efficient location for intensification. Conversely, however, intensification beyond the central city is severely limited through provisions such as the Infrastructure Capacity Overlay ("ICO"). The ICO, appropriately, provides the central city with a competitive advantage over other locations for development. In my opinion, however, the ICO wrongly constrains intensification in other areas such as secondary centres and major transport locations, that would also generate economic benefits. In these areas, intensification requires a restricted discretionary activity consent with reference primarily to infrastructure capacity. As such the comparative baseline for these secondary nodes and transport routes is similar to other less efficient locations (e.g.: areas on the periphery of the city).
- (d) PC26 to the Waipā District Plan makes no provision for a High-Density Zone within the Waipā District.
- (e) All three Waikato Region IPI's include Qualifying Matters that significantly constrain the extent to which intensification may occur.
- (f) Some of the medium density zones proposed in the Waikato Region IPI's are less enabling than the MDRS.

4. PLAN ENABLED VS COMMERCIALLY FEASIBLE DEVELOPMENT

- 4.1 From an economic viewpoint, residential zoning (and the intensity of land use enabled by the provisions) 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.
- 4.2 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.
- 4.3 While these market factors determine the market response to zoning, zoning itself plays a significant role in enabling the efficient and effective geospatial distribution of residential activity.

- 4.4 I understand that a key consideration in terms of the NPS UD is the utilisation of appropriate land around centres for intensified residential development to provide efficient access to services (and opportunities). In considering these objectives, it is important to understand what, if any, impact the Waikato Region IPI Plan Changes 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.
- 4.5 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.
- 4.6 This feasible capacity is typically significantly lower than the capacity enabled through a district plan. The last two decades has 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 (and is likely to continue to see) a market adjustment driven by decreasing land values and increasing construction costs. This change is likely to have material impacts on the level of feasible development³ over coming years.
- 4.7 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

³ A recent assessment by Property Economics for the Wellington City HBA found that a 10% decrease in land value and 10% increase in construction costs resulted in a 40% decrease in feasible capacity.

developers' lack of willingness (or indeed that of financial institutions in terms of lending) to accept greater risk with 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 the capacity numbers provided in Council evidence and materially impact upon the distribution of that capacity and its efficiency.

- 4.8 This overall residential capacity and its distribution have potential implications for the way in which the councils have addressed infrastructure capacity matters. When determining whether there is sufficient trunk infrastructure capacity, regard should be had to the likely level of construction, particularly in the lower priority areas (e.g.: on the periphery of the city) so as to maximise the extent to which intensification is enabled in the centres and along the corridors where it is most desirable.
- 4.9 As infrastructure represents one of the largest upfront costs associated with residential growth it is unsurprising that historical networks have been established based on relative low-density zoning. With growing populations and recognition of associated economic costs it is now vital, for infrastructure provision to be cost effective, to prioritise infrastructure investment to serve those areas where increased intensification capacity will produce the greatest benefits (i.e.: in centres and along key corridors).
- 4.10 It is therefore vital that the Waikato Region IPI Plan Changes seek to provide greater levels of commercially feasible capacity within these locations that are afforded a framework through which they are better able to compete with less centralised residential development potential.

5. LOCATIONAL ISSUES REGARDING HIGH DENSITY DEVELOPMENT

- 5.1 While acknowledging that there are inevitably constraints on applying residential zones of increased density, as a whole, such limitations should not be applied in isolation to the corresponding locational

efficiencies. The ability for the Waikato Region IPI Plan Changes 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. Within the market this catalyst must distinguish efficient locations and provide the impetus for appropriate levels of residential development. Intensification will generate the greatest economic benefits if it occurs within and around centres and along key corridors, for the reasons noted above. That reinforces the desirability of high density housing around those locations.

- 5.2 The zoning of these areas themselves requires appropriate levels of facilitation through the plan changes. Broader economic (and social) benefits will only arise from such new development in centres if those developments in practice occur at a sufficient density to act as a catalyst for the centre.
- 5.3 There is therefore a risk, if opportunities for high density development are spread widely through the urban areas, that there will be insufficient new development and population growth in each individual centre to generate material economic benefits to the centres.
- 5.4 Conversely, the market will work best (i.e.: will produce a number of competing projects that will provide a range of dwelling types, characteristics and price points) if sufficient land is upzoned to enable a competitive market to establish. That reinforces the desirability of providing a surplus of land capable of accommodating such activity.
- 5.5 The Kāinga Ora submissions seek to provide greater residential development opportunities close to areas with the highest levels of amenity, services and infrastructure so as to provide greater choice for prospective residents. As a consequence, they provide an opportunity for the market to deliver an increased volume of residential development in and around the centres and transport networks to a level where it is likely to provide greater economic benefits to the city's performance and the economic and social wellbeing of the communities it primarily services.

6. THE BENEFITS OF KĀINGA ORA'S RELIEF

- 6.1 The NPS UD and MDRS collectively encourage a range of residential densities within residential zones. The NPS UD provisions are focused on providing increased capacity in close proximity to an urban environment's employment, community and transport hub. However, the Waikato Region IPI Plan Changes have in several cases applied the enabling function of the Plan, for residential development, that treats the baseline impacts of limiting factors in a similar fashion regardless of the corresponding locational benefits.
- 6.2 The Kāinga Ora submissions seek to provide greater opportunities and certainty for the market within these zones through less onerous provisions and a larger geospatial zone extent.
- 6.3 Subject to the constraints imposed by the district plans, the market will experience demand for a range of housing typologies in a range of locations and at a range of price points. It is desirable from an economic perspective to provide flexibility to landowners and prospective purchasers. In that regard:
- (a) It is not reasonable to assume that all demand for high-density developments will be focused on or catered for in the Hamilton city centre. The Kāinga Ora submission would extend the high-density opportunities to a wider range of locations, most notably in centres and on key connections.
 - (b) It is desirable that the Waikato Region IPI's be as enabling as possible within the bounds created by the matters discussed above and by application of qualifying factors. The Kāinga Ora submission seeks relief to that effect.
 - (c) From an economic perspective, it is preferable to put in place now zoning that enables the densities that are sought in the long term, even if short- or medium-term constraints will delay the realisation of those densities. A failure to do so could result in sub-optimal development over the intervening period. That may take the form of lower density housing than

would ideally occur or the installation of infrastructure that has less capacity than would ultimately be needed. The Kāinga Ora submission seeks relief to that effect.

6.4 There are a variety of economic benefits that relate to the NPS UD and MDRS objectives that are likely to result from Kāinga Ora submission including but not restricted to:

- (a) Increasing land use efficiencies;
- (b) Improving access to amenities and servicing;
- (c) Improving the ability for Kāinga Ora and other landowners to produce an integrated diverse range of housing including a higher density product in the Waikato region;
- (d) Efficiency gains for Kāinga Ora as a highly motivated landowner with agglomerated sites;
- (e) The potential positive impacts on the provision of social housing;
- (f) The long-term perspective of landowners increasing marginal densities thereby meeting capacity rather than being motivated by 'quick' market turnover;
- (g) The potential to increase underlying land values in appropriate locations catalysing redevelopment rather than more remote options;
- (h) Greater levels of locational choice; and
- (i) Providing more diverse lower cost housing options.

6.5 The Kāinga Ora submission is likely to result in an increase of a greater level of residential capacity in and around efficient locations within Waikato than anticipated and adopted in the notified Waikato Region IPIs. This increase will improve the ability of the Waikato Region IPI's to meet the NPS UD objectives of a more efficient, consolidated and intensified urban form around higher amenity and service areas, while

providing greater certainty within the residential market and reducing the pressure for less efficient development.

1 February 2023

Philip Osborne