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 Proposed Plan Change 12 – Enabling Housings Supply ('PC12') to the Operative Hamilton City District Plan ('ODP')**

Hearing Topic: **Hearing 2 – PC12 Provisions**

STATEMENT OF PRIMARY EVIDENCE OF PHILIP MARK OSBORNE ON BEHALF OF KĀINGA ORA – HOMES AND COMMUNITIES (SUBMITTER 160)

(ECONOMICS)

24 JULY 2024

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INTRODUCTION

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

Experience

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.

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.

4. Property Economics has been involved in understanding economically efficient housing provision as well as assessing commercially feasible and realisable residential development for a wide range of local governments, central government as well as private clients over a large number of local, territorial and regional economic environments.

Involvement in the Submission

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 the Kāinga Ora submissions to Hamilton City District Proposed Plan Change 12 ("**PC12**"). The Hamilton City District Plan Change seeks to implement the National Policy Statement on Urban Development ("**NPS UD**").

Code of Conduct

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

7. My evidence will address the following:

   a) The PC12 provisions and the current Kāinga Ora relief sought.

   b) The fundamental differences between PC12 and the Kāinga Ora position.

   c) The potential impacts on social housing provision and the appropriateness of the Kāinga Ora position.

   d) The potential economic benefits of the relief sought by Kāinga Ora.

8. In preparing my evidence, I have read Hamilton City's PC12, the s32 RMA evaluation supporting the plan change, and the supporting evidence for Hamilton City Council on the Residential Zones.

9. This evidence addresses the relief sought by Kāinga Ora on proposed Plan Change 12 to the Hamilton City District Plan relating to several different performance standards within the General Residential Zone **(GRZ)** and Medium Density Residential Zones (**MDRZ**).

10. Almost three-quarters of the Kāinga Ora housing stock lies within the GRZ while most of the remaining housing stock lies within the MDRZ. Consequently, the enablement of residential development in these zones is fundamental to the ability of Kāinga Ora to efficiently provide social housing in Hamilton.

11. The Kāinga Ora relief seeks:

   e) The removal of the density standards in the General and Medium Density Residential Zones and replace these with assessment criteria for an RDA status to consider infrastructure capacity.

   f) A change to the Height in Relation to Boundary (HIRB) standards in the MDRZ to enable a practical 18m height limit.

   g) Removal of the Urban Tree and Deep Soil areas in the GRZ and MDRZ.

   h) Removal of Yard requirements for balconies but retaining the outlook and HIRB controls to manage effects.

i) Removal of the Universal Access standards

j) Removal of the Building Form standard in GRZ limiting development to 6 attached dwellings.

k) Objective 4.2.2.2- 'comprising 1-2 storeys' - remove reference to storeys and reference the permitted height (10m). It is worth noting that the above objective was introduced through PC12 and referenced 1-3 storeys. The ODP does not have an objective or policy that references heights of buildings, let alone the number of storeys anticipated.

l) Three waters (replace density triggers for capacity assessment with assessment criteria) (Retention via Reuse).

12. The aspects of the Kāinga Ora submission considered in this evidence comprise:

a) The removal of the density standards (1:200) in the GRZ and (1:150) MDRZ and their replacement with assessment criteria for RDA activity to consider infrastructure capacity.

b) Removal of the Urban Tree and Deep Soil areas in the GRZ and MDRZ.

13. From an economic perspective I support the overall direction of the PC12 which represents a significant zoning uplift in key areas in and around some centres, as well as the provision of sufficient residential capacity to support and efficiently facilitate growth in the city.

14. The key point of difference between the submission position of Kāinga Ora and that of the Hamilton City Council, are the constraints imposed on the GRZ and MDRZ which I consider unnecessary and / or to impose undue costs on land development. In my opinion, the provisions proposed by Council have adverse implications for the efficient delivery of housing in the city. The advice of Kāinga Ora is that the provisions will impact adversely on its ability to feasibly deliver social housing.

15. I am advised that almost three-quarters of the Kāinga Ora housing stock within Hamilton City lies within the GRZ while most of the remaining housing stock lies within the MDRZ.

HAMILTON ECONOMIC BACKGROUND

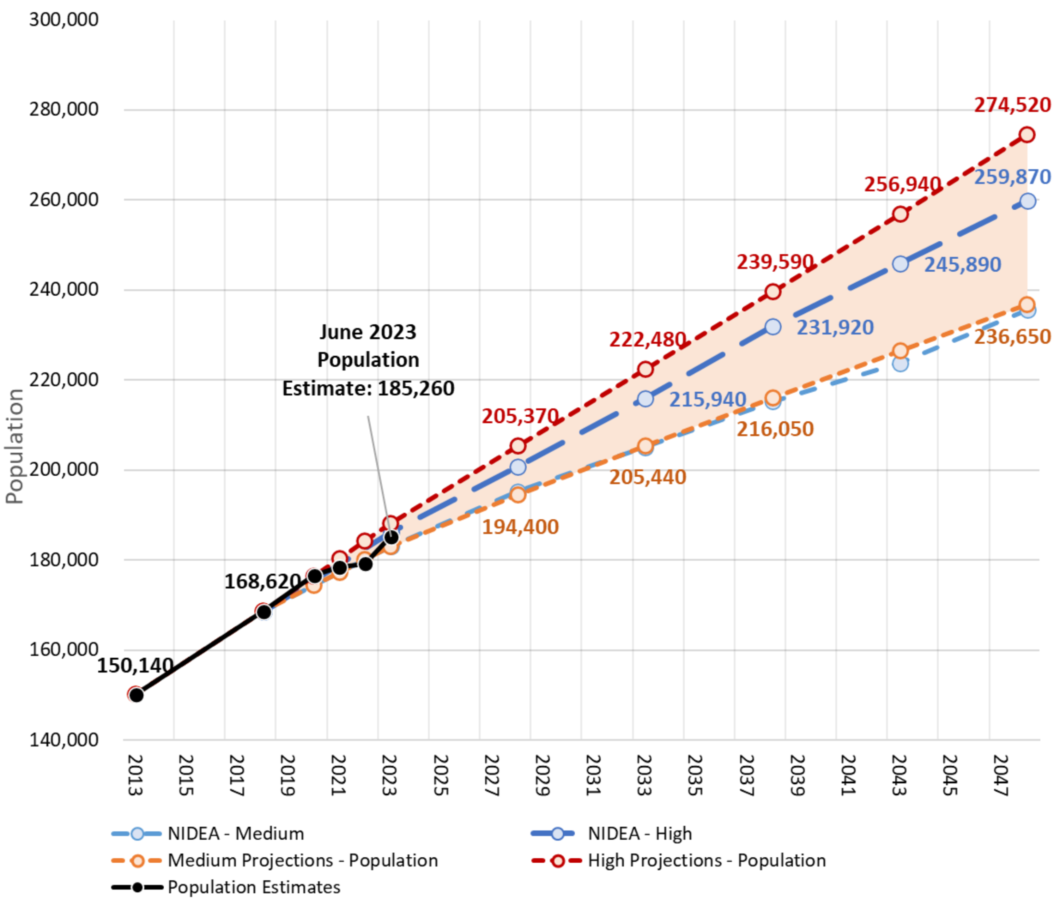
16. Hamilton City is one of the fastest-growing cities in the country on a proportional level, having grown by. 2.1% p.a. (compounding) over the past decade.

17. Figure 1 displays the population growth projections for Hamilton City. This includes growth from 2012-2023, and projected growth over the next 25 years to 2048. Figure 1 shows two different sets of projections for comparison, the most recent Medium and High Statistics New Zealand population projection series and those produced by the NIDEA (University of Waikato) for Council as part of Future Proof.

18. Figure 1 below highlights that current growth trends fall along the NIDEA High Growth projection. Importantly, however, Hamilton was growing along the higher StatsNZ High Growth scenario for the first couple of years until 2020 and COVID-19 curtailed international migration. Now that international migration has reached an all-time high, we can see Hamilton's population growth has started to surge again.

19. Consequently, based on the current population trends it would appear likely that Hamilton will meet or even exceed NIDEA's High Growth projections. The Government's proposed new (housing) rules are also directing Council's to plan for a high growth scenario.

Figure 1: Hamilton City Population Projections



Source: Property Economics, University of Waikato, StatsNZ

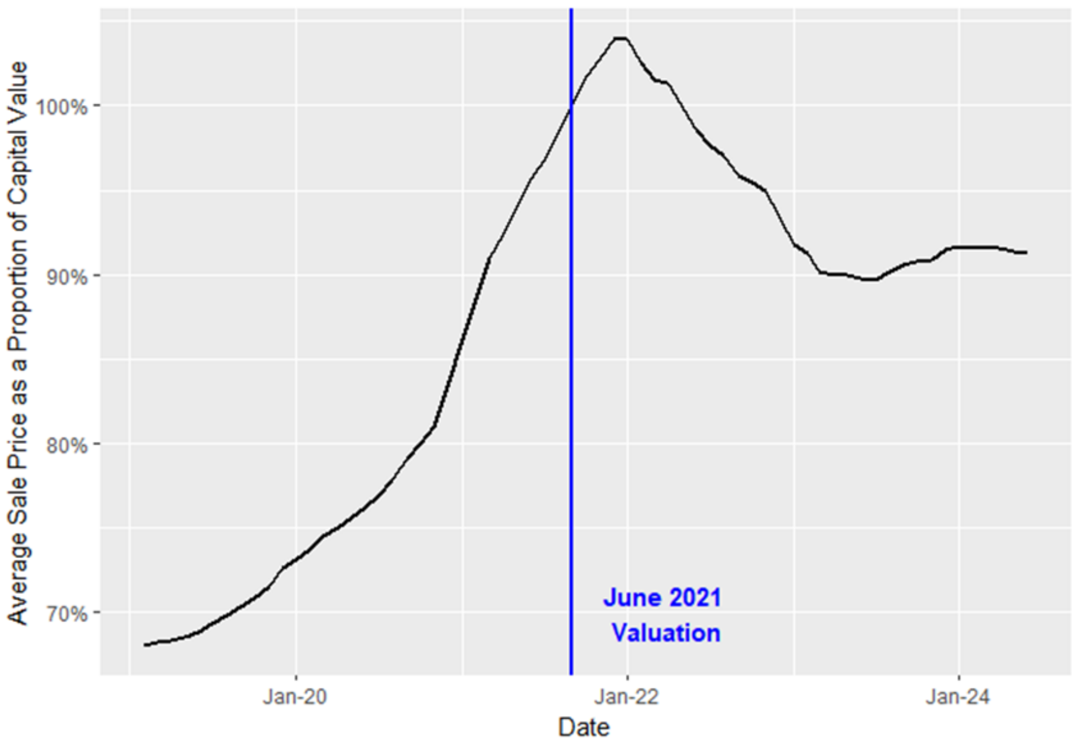
20. Under the Future Proof High Projection, the population of the city is anticipated to grow by almost 75,000 residents over the next 25 years to just under 260,000 residents. This equates to a growth rate of 1.4% per annum or a total increase of 40%.

21. It should be noted that even under this High Projection series, growth on a proportional level is anticipated to be slower than the growth exhibited over the past decade which exceeded 2% per annum. This is to say that Hamilton has a history of exceeding its growth projections and a strong potential to continue to do so.

22. Figure 2 shows how Hamilton's house prices have changed over the past few years relative to the June 2021 Valuation.

23. Between 2019 and the summer of 2021/22, House Prices in Hamilton increased by over 50%. At its peak at the start of 2022, properties in Hamilton were selling for about 4% higher than their current valuations on average and have since dropped by almost 15% to sell for 90% of their valuation during 2023. The market has improved slightly since then, increasing by about 2% in 2024.

Figure 2: ROLLING AVERAGE SALES RATIO VALUE BETWEEN 2019 AND 2024

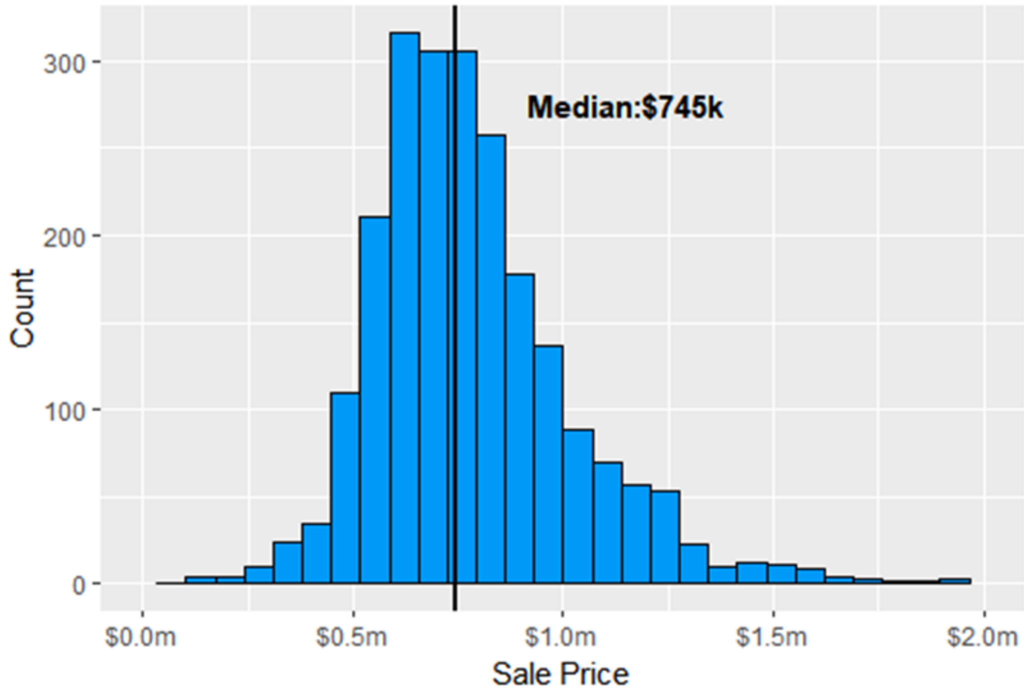


Source: Property Economics, Core Logic,

24. This drop in house price is not unique to Hamilton and in fact is lower than the house price drop in other major cities. Wellington City for example dropped by almost 25% in the same period and Auckland City dropped by approximately 20%[1].

25. Figure 3 below further breaks down the distribution of residential sales within Hamilton over the last year (Y.E. 31 May 2024). The median sales price is $745,000 and approximately 16% of total residential sales were for properties over $1m. Figure 3 shows that most of the properties fall within this central band between 500k and $1m.

Figure 3: DISTRIBUTION OF HAMILTON RESIDENTIAL SALES OVER THE YEAR ENDING JUNE 2024.



Source: Property Economics, Core Logic,

26. Increasing property prices have not only placed substantial strain on general market affordability (and mortgage serviceability with increased interest rates), but have also increased social housing pressures. Hamilton City currently has an affordability index of approximately 6.6[2], however average mortgage repayments have peaked at over 46% of average income. The lower socioeconomic group is expected to continue to experience pressures over the short to medium terms with

[1] Core logic 2024
[2] https://rep.infometrics.co.nz/hamilton-city/living-standards/housing-affordability

increased job losses and a contracted economy, thus putting increased demands on social housing providers.

27. In relation to this social housing market, a key indicator includes changes in rents. In 2004 the average weekly rent in Hamilton was $213, increasing over 100% to $482[3] in 2024. This puts increased pressure not only on the demand for social housing but on its supply.

DENSITY STANDARDS AND BUILT FORM

28. PC12 proposes an extensive Infrastructure Constraint Overlay to require a Three Waters Infrastructure Capacity Assessment to be undertaken where a net site area per residential unit is less than 200m2 in the General Residential Zone or a net site area per residential unit is less than 150m2 in the Medium Density Zone.

29. A primary concern relating to these standards is the capacity of three waters infrastructure through the GRZ and MDRZ areas and the ability to sustain increased levels of development. A key economic consideration, in facilitating an efficient residential development market, is the extent to which standards that constrain development density might generate flow-on costs and inefficiencies for the wider market (e.g.: by pushing new development onto land on the periphery of the city, with the additional costs that this entails).

30. The evidence of Council outlines the justification for setting the density and built form standards. In paragraph 63 of his evidence, Mr Mark Roberts[4] states that the intent of the built form standards is to limit the impact on the GRZ and encourage large scale terrace housing development to locate in the MDRZ or HDRZ.

31. Similarly, in paragraph 34, he indicates that the density standards for sites in the Infrastructure Overlay are in place to "encourage residential intensification in areas well serviced by public infrastructure, which ensures the efficient utilisation of that infrastructure capacity".

32. From an economic viewpoint, zoning rules (and the intensity of land use enabled by the provisions) is the main tool in directing 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.

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[3] https://rep.infometrics.co.nz/hamilton-city/living-standards/housing-affordability

[4] Statement of Evidence of Mark Hector Roberts (Residential Zones), June 2024

33. While appropriate 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:

- tenure (e.g.: freehold vs leasehold);
- dwelling demand;
- developers/owners' appetite for risk ;
- knowledge of 'Best' fit[5];
- capital to improvement ratios;[6]
- construction costs;
- construction restraints;
- fragmented ownership;
- accessibility to capital funds;
- least path of resistance[7];
- future market expectations.

34. 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 provision of residential housing, as well as a well-functioning market. This is a fact that is crucial to the objectives of the NPS UD, and a key objective of the relief sought by Kāinga Ora to PC12.

35. There are several factors that influence the potential market response to zoning provisions. 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 capacity addresses these constraints and includes only the level of capacity that is financially viable.

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[5] Knowledge of 'Best' fit: potential disjoint between the optimal development and developers' intentions;

[6] Capital to Improvement Ratios: high existing improvement values relative to land reduces development feasibilities;

[7] Least Path of Resistance: e.g. developments of four or more dwellings in the MDRZ require an RD consent. Even on properties where such development would be appropriate, the developer may opt to build three or less to minimise consenting risk.

36. 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.

37. Relevant to the feasibility of 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.

38. While acknowledging that there are inevitably constraints on planning rules, as a whole, such limitations should not be applied in isolation to the corresponding efficiencies. Restricting built density based on infrastructure constraints inevitably comes at a cost, including not only overall residential capacity but the likely efficient nature of any alternative development. These outcomes can also provide additional communal inefficiencies and costs (e.g.: reduced access to public transport; increased traffic congestion; less access to the services, amenity and employment). Accordingly, when considering whether and to what extent to impose planning constraints, Council should have regard not only to the benefits that the constraints are intended to realise but also any adverse consequences that may be generated.

39. The ability for Kāinga Ora to accommodate future housing needs in the existing urban areas hinges on the ability for PC12 to function as a catalyst for development.

40. In order for the market to accept this product, (residential development of greater density) there needs to be several 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 flexibility

and choice. Accompanied by this potential change in dwelling preference must be financial viability and a manageable risk for development of the product itself.

41. My concern is that method by which these objectives are being sought is a ‘catch all’ that is likely to have wider reaching impacts on the development potential of the GRZ and MDRZ to enable appropriate densities and, particularly, for Kāinga Ora to achieve efficient development options, including appropriate typologies, for social housing. It is important when considering the method to employ to assess whether the proposed provisions are the most appropriate way to achieve the objectives, this includes the potential economic risks and costs.

42. The economic costs that arise from unnecessarily high level, and blunt, restrictions on residential density can include increased financial risks for the development, reduced development realisation, adverse impacts on choice and residential typology diversity, upwards pressure on development costs and residential property prices, and reductions in market competitiveness. Additionally, increased costs and risks may result in an increase in greenfield development which generally exhibits lower risk.

43. These concerns are exacerbated in the case of PC12 by the extent of the Infrastructure Capacity Overlay (“ICO”) proposed and its impact on the ability to develop or redevelop comprehensively within the GRZ and MDRZ. Kāinga Ora’s advice is that the provision will adversely affect provision of sufficient, varied and socially cohesive housing to those sections of the market that have housing needs.

44. While the Council identifies these standards as ‘guidance’[8] for the market, effectively this is likely to translate to inflexible and inefficient market outcomes.

KĀINGA ORA SUBMISSION IMPACTS

45. Kāinga Ora has approximately 3,272 properties currently within Hamilton City, with approximately 3,150 land parcels within the GRZ and 544 land parcels in the MDRZ areas[9]. Kāinga Ora has advised me that its ability to develop and redevelop these properties, to provide for a growing social housing need within the community, is significantly and adversely impacted by the provisions within each of these zones.

[8] Mark Hector Roberts Theme 12, page 129
[9] As zoned by PC12 Amendments dated 27 May 2024

46. Infrastructure funding to support current and future residential capacity, has become a critical component with regard to both efficiency and affordability in the housing market. The current market for housing in Hamilton requires motivated developers that seek to provide market choice in locations that exhibit locational advantages and attractiveness to accommodate growth. The provision of associated infrastructure should be considered in light of this (and the potential impact on the city's housing market).

47. The Kāinga Ora submission requests that the Infrastructure Capacity Overlay be deleted, and Council identifies an alternative means by which to evaluate infrastructure capacity constraints and effects, that is less likely to result in unnecessary impacts on the efficient provision of housing, and in the case of Kāinga Ora, social housing provision.

48. Pertinent to my evidence is that the absence of this relief will impact adversely on the ability of people and communities to provide for their social, economic and wellbeing. I consider it more appropriate to include infrastructure capacity as assessment criteria under the relevant Restricted Discretionary rule framework within the respective chapter provisions.

49. The relief sought by Kāinga Ora seeks to rationalise infrastructure considerations, as it relates to their residential holdings, so as to provide additional capacity to the city's housing capacity, and specifically to redevelop and meet the demands for social housing. The result of this relief would be to reduce unnecessary costs, reduce development risk and enable a more flexible and efficient housing market within these zones.

50. As identified by Mr Jaggard, the Infrastructure Capacity Overlay and proposed density limits are not the most efficient method for managing infrastructure capacity constraints. If, as Mr Jaggard sets out, these infrastructure concerns can be addressed through a more nuanced method, the potential impacts on housing market efficiencies are likely to be reduced resulting in a more appropriate economic outcome.

URBAN TREE CANOPY REQUIREMENTS

51. As explained in Dr Juliana Reu Junqueira's evidence, the proposed tree canopy cover contribution provisions seek to minimise the negative impacts of further intensification and development, as encouraged by much of PC12, on tree canopy cover. The Council is concerned that a reduction in canopy cover in Hamilton will

lead to various negative outcomes for the city including reduced biodiversity, increased stormwater runoff and increased heat island effects.

52. Council has proposed a mechanism that requires development to provide at least 20 per cent tree-canopy cover on a site, whether this includes existing and / or newly planted trees. I note that the rule does not reduce the amount of impermeable surface that is permitted on the site.

53. However, this does not mean that the provisions do not impose a cost on the city's housing market. Not only will sites be required to purchase and maintain their trees, I understand that retaining trees and / or being required to plant more trees imposes restrictions on site layout. This potentially reduces the development potential depending on the shape and dimensions of the site and where there is sufficient space to plant the trees where they will not endanger the house.

54. According to Dr Juliana's evidence: "While the PC12 tree planting requirement is not expected to significantly increase the existing tree canopy coverage, it can help prevent further loss." (paragraph 76). She also recommends "that these requirements be implemented to help maintain and enhance the urban environment"

55. In addition to these requirements enforcing a 20% tree canopy on every site, the Council is requesting a financial contribution for Residential Amenity. These contributions are designed to fund public open spaces,

> 77. Finally, as tree canopy on private lands diminishes, it is imperative to acknowledge the pivotal role played by the tree canopy on public lands in stormwater management and addressing negative effects of climate change and urbanisation. Strategic tree planting in urban areas can mitigate adverse effects of stormwater runoff, improve water quality, and reduce strain on drainage systems. Additionally, PC12 recognises the need for financial contributions to support initiatives that avoid, remedy, or mitigate adverse effects of intensification on the environment, ensuring long-term sustainability and success of stormwater management efforts. By linking the management of stormwater, financial contributions, and tree planting in berms, roads, parks, and reserves, a comprehensive and proactive approach can be created to address the challenges posed by stormwater runoff while enhancing the overall resilience and beauty of the urban environment.

56. While there are environmental, amenity and social benefits of appropriate tree cover, it is important to understand three key economic aspects of the proposed provisions:

(a) the potential economic costs associated with the provision;

(b) the corresponding economic benefits; and

(c) who is paying the cost and to what degree is it equitable.

57. The key economic costs associated with the provision are as follows:

(a) **Lack of flexibility and site efficiency**: The requirement to provide contiguous space for 20% tree canopy per site has the potential to materially constrain development options for residential housing.

(b) **Impact on affordability**: Overall the proposed urban tree provisions are likely to increase residential housing costs. Not only will this potentially impact on feasibility, but the resulting cost will invariably be passed onto the consumer including social housing costs. Although these homeowners will gain part of the benefit from the trees, it is also an 'asset' they will be required to maintain as a public good.

(c) **Distribution of Cost / Equity**: In assessing the potential economic costs of a policy it is important to understand the parties that are likely to bear the cost in relation to those that benefit. In relation to the urban tree canopy policy, the overall costs will primarily be borne by new home buyers (and, through competition, resales). It is therefore important that some degree of the 'extent' of the issues that the improvement of the tree canopy would solve be linked to the new residential development.

(d) **Other market impacts:** Certainty / saleability / duplicating open space cost: There are a number of more general issues may impact upon the suitability (economically) of the proposed policy, including the potential for increased uncertainty within the residential development market. The potential uncertainty could relate to when and whether conditions have been met for a site (which may affect 'on sale' value) as well as whether the inclusion of land for tree planting negates that land's value and has no inherent value and therefore is, in these cases, a potential doubling of open space reserve contributions.

58. As outlined above, there are likely to be both resulting economic benefits and factors of mitigation when considering the level and extent of these costs.

(a) **Long-term enhanced amenity of the urban environment:** Trees provide a number of benefits that are attributable to a more localised catchment. Increased amenity through shading improves fauna as well as provides an intrinsic increase to property value.

(b) **Environmental infrastructures:** There are also wider community benefits of trees such as carbon storage and sequestration, stormwater runoff attenuation, and urban heat island mitigation.

59. While the loss of tree canopy is obvious an issue, in economic terms the trees have a value that contributes to the community as a whole. As such all trees provide this value, including trees on existing sites. Given that new homes represent less than 3% per annum of existing sites, the value of these trees is far outweighed by those on potential development sites. Given that the value of tree provision is a public good, identifying a very small proportion of the holders of this asset and implementing an additional cost to safeguard this very small number of trees incurs a cost (which generates a benefit to all) to this small group that is inequitable.

60. Essentially, as a public good tree canopies should be valued and safeguarded and paid for by all those that receive their benefit.

ECONOMIC CONCLUSION

61. Kāinga Ora’s submission requests that the Infrastructure Capacity Overlay be deleted and identifies an alternative means by which to evaluate infrastructure capacity constraints and effects, that is less likely to result in unnecessary impacts on the efficient provision of housing, and in the case of Kāinga Ora, social housing provision. Additionally, Kāinga Ora seeks the removal of the Urban Tree and Deep Soil requirements in the GRZ and MRZ areas.

62. Crucial to the potential economic impacts of the ICO is the associate density standards set at 1:200sqm (GRZ) and 1:150 (MRZ). While seeking to manage infrastructure constraints, the approach taken through PC12 has a high probability of adverse impact upon the efficient development of housing within Hamilton City. This is in terms of quantum, price and typology, as well as impacting upon the competitive nature of development within GRZ and MRZ areas in comparison to less efficient residential areas and other districts.

63. The key concern of Kāinga Ora relates to the provision of social housing which, with increasing rents and a slowing economy, is likely to continue to grow and be a focus of economic and social wellbeing for the community.

64. The relief sought by Kāinga Ora recognises infrastructure constraints while providing more appropriate flexibility and choice within the housing market for Hamilton City. It is my economic opinion that this relief is appropriate and likely to result in a more efficient and responsive housing market for the community.

24th July 2024
Philip Osborne