

# **Residential Intensification and the Wellington Urban Development Strategy**

**Creating the right conditions for intensive residential  
development along the growth spine**

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# 1. Summary

Wellington City Council is seeking to improve its understanding of the commercial and market drivers of residential intensification, and how the city can promote medium and higher density forms of development along the 'growth spine'.

Wellington's *Urban Development Strategy (UDS)* calls for at least 60% of all new housing built from 2001-2051 to be within the central area and around suburban centres like Kilbirnie, Johnsonville and Adelaide Road.

Medium and higher density housing means large scale townhouse and apartment-style housing. Wellington City has long accepted lesser forms of intensification like infill, but has only recently begun to experience widespread demand for higher density housing. This has been driven by:

- Population growth, both natural and economic growth-related migration
- Changing household composition, particularly older non-family households (baby boomers) and younger households who have deferred family formation
- Changing tenure patterns, and rental investor preferences for multi-unit housing
- Lifestyle preferences, including a greater willingness to trade off personal space for the right location and increased public amenity values

On the supply side, Wellington's development community is responding to increased demand, but probably not quickly enough to achieve UDS targets for 2001-26. There are also questions about:

- Whether developers will ignore areas identified for growth in favour of the outer suburbs, where land is cheaper
- Whether there are enough developers capable of delivering larger, high density housing projects
- Whether higher density housing is commercially feasible in places like Johnsonville, and whether Council should play a more active role to reduce developer risk in such areas, and stimulate demand for higher density housing products

These issues are explored in more detailed studies of Adelaide Road and Johnsonville Town Centre, each of which is targeted for significant residential expansion under current UDS assumptions:

- For Adelaide Road, we conclude that there is not enough land to build a new community based mostly on medium density housing. Council will need to promote an urban form that more closely resembles the CBD, and control future commercial activity in the 'Adelaide Precinct'
- In the Johnsonville Town Centre, there is enough land to meet future housing growth. Council's challenge in this area is to channel new housing growth towards

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the proposed new town centre, so that higher residential densities can support better public facilities and transport systems

The paper concludes with a discussion on the mechanisms and interventions that could be used by Council to promote residential intensification in areas targeted by the UDS. The main conclusion is that Council is unlikely to achieve its objectives via traditional planning and regulatory methods. Council needs to take a more active leadership role:

- *As a vision leader* – through master planning and rezoning areas targeted for residential intensification. This would provide a solid platform for future development and create certainty around future land uses and public investment
- *As a project leader* – by retaining management responsibility throughout the development process. This requires an entity with a wide range of skills and (above all) a solid mandate from Council
- *As a regulator* – by introducing new planning powers that emphasise the block or precinct as principal planning unit, instead of single lots. This should lead to developers taking a more collective approach to development planning and promote amalgamation of smaller lots into sites more suitable for higher density housing. Council should also be willing to constrain sub-optimal development in key areas in the short term.
- *As an investor* - council needs to ensure that new public investment (both local and central government funded) will create a the type of amenity values needed for higher density housing to be a quality living environment.
- *As a developer* – Council can use its existing holdings, and new strategic land acquisitions, as a basis for demonstration projects. There are also opportunities for joint venture partnerships with public agencies like HNZC, and commercial developers

Finally, our analysis points to the need for an entity within Council that can ‘own’ the Wellington Urban Development Strategy and take responsibility for achieving its objectives. There is an emerging body of knowledge about how such ‘city development corporation’s’ can add value to the urban transformation process.

## 2. Introduction

This paper has been commissioned by the Urban Strategy Group of Wellington City Council. The paper's main purpose is to explore the conditions required to promote comprehensive residential development along lines envisaged in Wellington City's *Urban Development Strategy (UDS)*.

### 2.1 Background

Wellington City Council is considering a more targeted approach to residential infill – potentially leading to policies that constrain infill in some areas, while encouraging comprehensive redevelopment in others.

Such policies are consistent with local government's strategic urban planning role - one of a number of levers at Council's disposal to help influence the pattern of residential development. Recent experience however (especially in Auckland) suggests that long-term planning outcomes are unlikely to be achieved without a high degree of alignment with other development drivers largely outside of Council control, including:

- *Market demand* - does Council's preferred housing location/typology mix resonate with housing consumers?
- *Commercial imperatives* – is the scale of urban development envisaged within the capacity of Wellington's development community? Is it profitable enough to meet developer expectations?

*The problem:*

The local government sector has (at best) a rudimentary grasp of the commercial conditions required to unlock intensive residential development on a large scale. This is because:

- The use of housing intensification as a planning tool is relatively new to New Zealand
- Commercial sensitivities mean that developers' intellectual property is generally closely guarded.

Wellington City is seeking to improve its understanding of the commercial and market drivers of development. What barriers need to be overcome in order to deliver more visionary development outcomes? In particular, what 'development levers' are needed to encourage developers to pursue higher risk development strategies needed to achieve UDS growth targets?

### 2.2 Approach taken in this paper

This divided into four main sections:

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- Comment on base growth assumptions underpinning Wellington's Urban Development Strategy
- An overview of what residential intensification means in the Wellington context
- Discussion on some of the key demand and supply drivers for intensification
- Analysis of two case study areas earmarked for comprehensive redevelopment (Johnsonville and Adelaide Road), with a particular focus on:
  - *Feasibility* – is council's current vision for these areas realistic given market trends?
  - *Deliverability* – is development along lines proposed by the UDS commercially feasible?
  - *Mechanisms and interventions* – what can council do to create a context for successful development along such visionary lines?

The paper concludes with a summary assessment of *mechanisms and interventions* that, if adopted, could close the gap between Council and its urban development partners.

### *Methodology:*

The findings of this paper are primarily based on a desktop review of Council planning documents and databases, and recent New Zealand research into residential intensification. This has been augmented with a range of public domain information (for instance real estate data and media reports) and discussions with members of the development community.

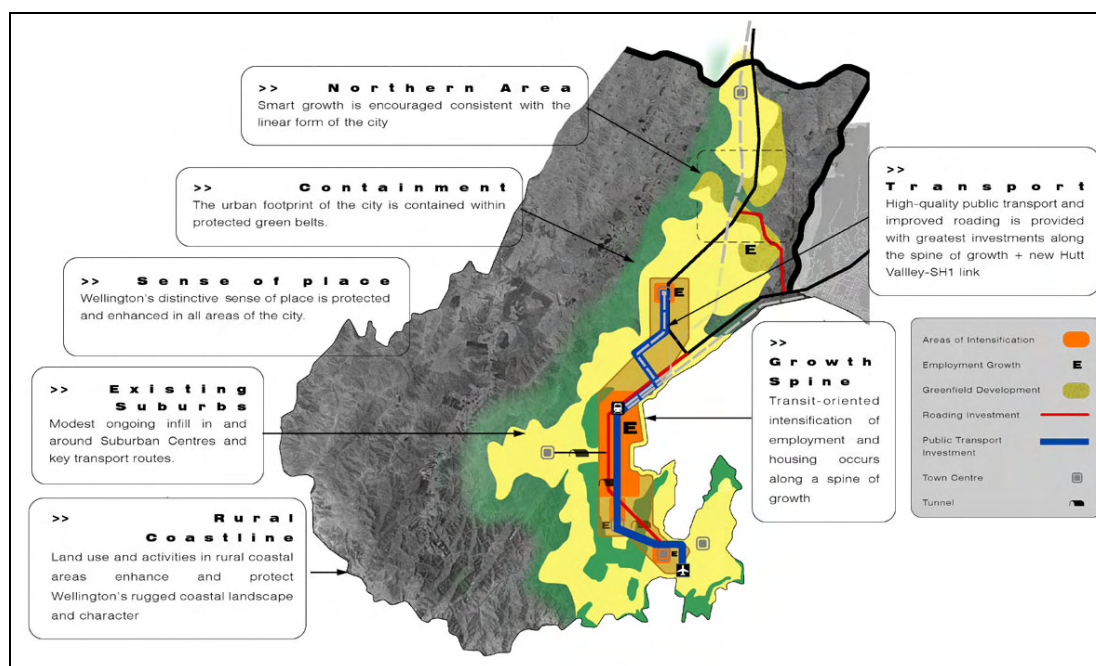
### *Limits on liability*

Views expressed in this paper are those of the author, and should not be taken to represent the policies or position of Wellington City Council, council staff, or other parties consulted during its preparation.

Estimates of quantity, yield etc are based on historical information and the author's own research. They are included in this document is for illustrative purposes only, and should not be relied upon solely for future development planning. The author is not responsible for any future uses of this report on the information contained herein.

### 3. Wellington's Urban Development Strategy

In this section, we provide a background summary of the UDS, and comment on some of its core assumptions.



Urban Development Strategy – 50 year growth concept

#### 3.1 Strategic Considerations

In July 2006, Wellington City Council finalised its *Urban Development Strategy (UDS)*. The strategy is a spatial response to urban growth-related issues over the next 25-50 years, in particular:

- Wellington's population is expected to grow by 33,000 in the 25 years to 2026 (53,000 by 2051)
- Households are getting smaller, the population is ageing, and the city is becoming more ethnically diverse
- There is growing demand for higher density housing<sup>1</sup>.

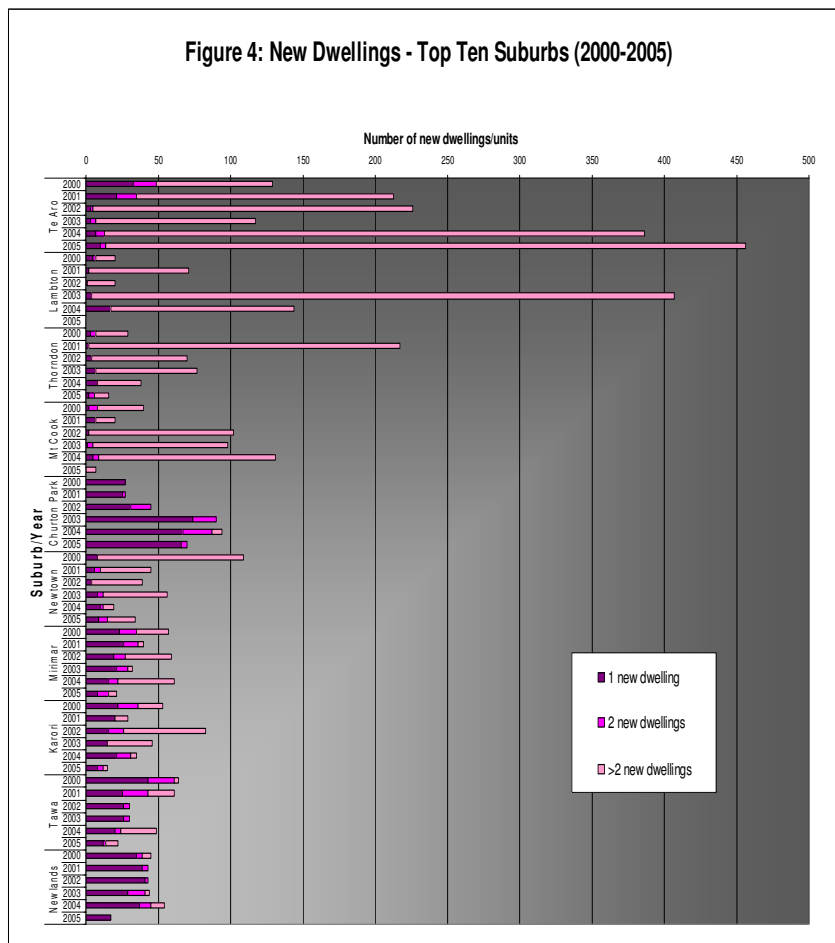
The UDS estimates that 30,000 new dwellings will be needed over the next 40-50 years to house the growing/changing population. For Wellington City Council, the challenge is to provide for this level of urban growth without compromising the physical and spatial characteristics that make the City so distinctive.

<sup>1</sup> Urban Development Strategy – directing growth and delivering quality, Wellington City Council July 2006, p3

To achieve this, Wellington requires ‘...a growth management strategy that directs growth to areas that are already well-connected, offer high levels of amenity, and have some (or all) of the supporting infrastructure needed. The UDS posits the idea of a ‘growth spine’ between Johnsonville and the airport, along which more intensive urban development will be encouraged. The growth spine concept envisages nodal intensification in Johnsonville, the Central Area, Adelaide Road and Kilbirnie, supported by improved public transport and roading solutions.

### 3.2 Quantifying the Urban Development Strategy

The growth spine concept calls for a shift in emphasis from outer suburban *greenfields* development and infill housing, to more comprehensive *brownfields* redevelopment within the growth spine. Recent consents data suggests that this trend is already well established, with about two-thirds of all new residential development between 2000-06 being multi-unit housing (townhouse or apartment). The key task from a UDS perspective is to capture a large proportion of multi-unit development within the growth spine.



Source: Wellington City Council Building Consent data 2000-2005



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UDS Working Paper 9<sup>2</sup> sets out some base growth assumptions for the next 50 years. These assumptions are fundamental to the quantification and staging of development along the growth spine and include:

- Estimates of consumer demand and potential yields - within and outside the growth spine
- A nominal allocation of future demand by housing type and location

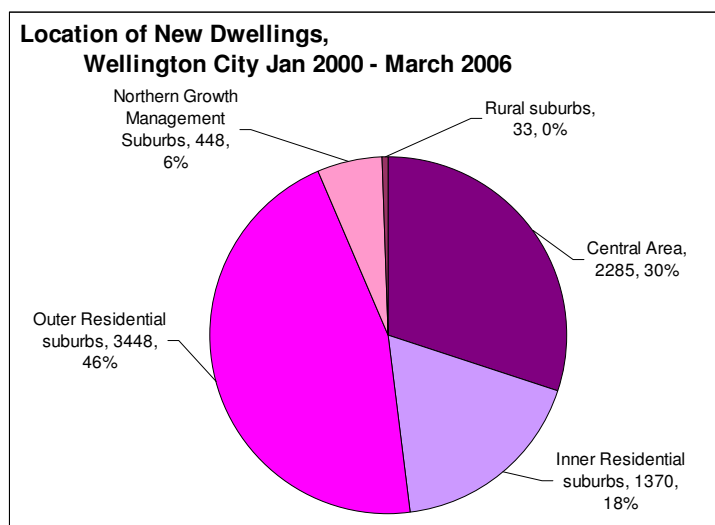
The table below is a broad brush summary of the UDS Working Paper's main points, and expected housing numbers by location:

**Table 1: Urban Development Strategy – Growth Location Assumptions 2001-51**

Location of development	Assumptions	Potential development land	Est new dwellings 2001-51	% of all new dwellings
Rural	Continued low growth. No proposal to change rules in favour of intensive lifestyle development	n/s	300	1%
Greenfields	Est. Significant development of areas adjoining northern suburbs (Johnsonville, Karori). Smaller pockets of development on the fringes of other residential areas (Brooklyn etc)	n/s	5600	18.5%
Outer residential areas	Mostly infill? Future demand tempered by limited access to public transport. Active policies to limit large-scale infill/preserve sense of place?	1200	4100	13.5%
Outer residential suburban centres	Active policies to discourage residential development adjacent to outer suburban centres to preserve supply of business land?	n/s	2500	8.5%
			12500	41.5%
Inner residential Areas	Strong demand for redevelopment limited by active policies to protect existing character? Assume ongoing infill also	65	2000	6.5%
Potential new 'inner residential' intensive housing areas/ suburban centres	Build up residential densities within walkable distance of suburban centres along growth spine	n/s	6800	23%
The Central Area	Majority of high density apartment style residences located in the central area	34	8700	29%
			17500	58.5%

In brief, the UDS calls for about 60% of all new housing development to occur within growth spine – 85% of which will be in the Central Area or within 600m walking distance of inner suburban centres. New dwelling data for 2000-06 suggests the City is largely on track to achieve its inner/outer split at this early stage of the UDS.

<sup>2</sup> Urban Development Strategy Working Paper 9 – Quantifying the 'growth spine' – supply, demand and capacity for residential development in Wellington City, Wellington City Council September 2006



Source: Wellington City Council Building Consent data 2000-2005

### 3.3 Comment

The assumptions used in UDS Working paper 9 are based on both objective analysis (population projections, new building data) and subjective inputs (consumer preferences, expected policy settings).

#### *Inner vs. outer residential growth drivers*

A core assumption is that consumer demand will *accelerate residential intensification along the growth spine*. As a safeguard, it is further assumed that regulatory controls in outer residential areas will *channel unexpected demand back into the growth spine*.

In our view, a more robust analysis is required before committing to a strategy (and future regulatory regime) that relies on primarily on an ‘*inner good/outer bad*’ argument. Some key variables not yet factored in include:

- Affordability – what proportion of new households will be able to afford to buy or rent along the growth spine?
- Commerciality – will the growth strategy prove unattractive to developers compared to more profitable development opportunities outside the growth spine?
- Work profile – what proportion of new households will work in the CBD as opposed to (say) the region’s northern cities?
- Amenity profile – what amenities are available in outer residential areas that cannot be replicated in the inner city?
- Aging in place – how does the strategy square with core lifestyle principles such as being a member of the same community throughout a person’s life-cycle?

Some of these issues will be explored in more depth below. We note in particular that experience in other cities suggests that there is a strong market for intensive housing in outer residential areas, especially those with locational advantages like a coastal outlook

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or availability of development land without the complication of existing improvements or multiple ownership.

On a more fundamental level, we note that Wellington is a compact city, relatively free of the ‘big city sprawl’ issues associated with outer suburbs of larger cities (for instance high cost of private transport, distance from retail centres). This, combined with declining relative costs of development land, could maintain demand for housing in outer residential areas at high levels.

Also, Wellington’s regulatory environment is not (on balance) overly-prescriptive when it comes to directing the market towards particular locations – nor for that matter is the RMA. Can the political will to ‘put the brakes’ on outer residential redevelopment be sustained over 50 years?

### *Resilience of commercial uses*

Although not made explicit in the working paper, another core assumption is that *residential land uses will displace sub-optimal commercial/industrial uses as a ‘highest and best use’* – at least in the Central Area and inner residential suburban centres. The timing and extent of such displacement will have a significant bearing on residential redevelopment in the Central Area and suburban centres within the growth spine. UDS working papers have yet to consider displacement in any depth, but we suggest that commercial land users may be harder to shift, for such reasons as:

- The opportunity cost of moving low productivity businesses (measured on, say, a turnover per m<sup>2</sup> basis) to new locations
- The ability of higher productivity businesses to absorb property-related cost increases
- The commercial imperative for some businesses to remain close to the Central Area
- Business clusters that leverage off proximity to (for instance) tertiary institutions or Government.

In addition, significant population growth brings with it demand for new land-hungry commercial activity, such as supermarkets, service stations and other big ‘footprint’ business activity. For example, we understand that significant parcels of land at both ends of the Adelaide Road Precinct (ref. case study below) are already earmarked for future supermarket development.

### *A case for protecting the supply of business land?*

On a more general level, the UDS is silent on how residential intensification will affect Wellington’s long term commercial competitiveness. How much business land, for instance, is needed to deliver an expanding supply of business and employment opportunities for Wellington’s growing population?

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This issue is beyond the scope of this paper, but does highlight the prospect that core UDS assumptions may need to be revisited as the property-related implications of the City's parallel 50 year Economic Development Strategy are considered in detail.

### *Reverse sensitivity issues*

Another implicit assumption of the working paper is that *intensive residential and commercial uses can co-exist* in the Central Area and inner suburban centres. By implication, noisy or otherwise noxious commercial/industrial uses will be displaced, whether or not they are profitable enough support higher property-related costs. Experience in other cities seems to support the view that small scale industry will make way for higher-order uses. Other 'insensitivities', however, are likely to remain part of the Wellington urban landscape, including high volume road networks and high noise entertainment areas:

### **3.4 Summary of the main points**

Although recent data suggests that Wellington is on track to meet its UDS targets, assumptions about supply, demand and capacity for residential development need further scrutiny.

## 4. Residential Intensification: An Overview

In this section, we discuss the characteristics of residential intensification in Wellington, and look in more detail at some key supply and demand-side drivers

### 4.1 What is residential intensification?

For the purpose of this paper, residential intensification is defined as *a planned increase in housing unit and/or population densities within targeted urban or suburban areas*.

The mechanisms for achieving this are well documented, and include:

- Reducing average lot sizes while retaining the basic form of housing
- Changing the type of housing from predominantly single unit to multi-unit
- Replacing underutilised non-residential improvements with residential property
- Making more intensive use of existing dwellings by splitting into flats

Although the distinction between intensification and residential expansion (i.e. greenfields residential development) is self-evident, it is worth noting that not all intensification is planned. *Non-targeted* intensification occurs when population growth and/or socioeconomic conditions are not anticipated or catered for. For instance, when multiple households share a single dwelling (because of affordability or transitional supply issues), or where non-residential buildings are used as dwellings because of a shortage of housing or disjunct between residential and commercial property prices (supply issue).

In the New Zealand context, definitions used and preferred mechanisms for residential intensification vary considerably, depending on the subject area.

- *Suburban* intensification generally refers to increases in residential density beyond 15 units per hectare gross (including road networks and public spaces). Common mechanisms are infill housing and pockets of townhouse-style redevelopment on single lots, which typically bring densities up to about 1:30 in areas subject to significant single lot infill redevelopment.
- More recently, the focus has been on residential intensification along transport corridors and 'growth nodes'. Auckland TLA's, Christchurch and Tauranga, for instance, are pursuing similar urban growth strategies to Wellington's UDS. The aim is to achieve gross densities or at least 50 units per hectare - significantly more in town centres. To achieve this, the housing focus shifts to multi-unit developments.

### 4.2 Intensive housing typologies

The table below presents a menu of urban and suburban housing types that can be used to promote intensification - all currently being pursued in Wellington. These typologies will be used in our later comparative analysis.

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### Table 2: Residential Intensification – Wellington Housing Typologies

Category	Type	Description	Avg footprint per level*	Avg unit size	Density per ha (net)	Comment
Multi-unit high density	7+ residential levels plus internal parking and street-level retail	<ul style="list-style-type: none"> <li>1-3 bdr apartments 50-125 m2.</li> <li>100% coverage at ground level. 75% upper levels</li> <li>Common/access areas avge 15% of total built area</li> </ul>	80% of total site area	80 m2 internal plus 8 m2 deck	500+	Emerging Central Area model (eg Trinity apartments)  Single block or 'twin tower'  55+ units on 1000m2 site
	5-6 residential levels plus internal parking and street-level retail	<ul style="list-style-type: none"> <li>As above</li> </ul>	80%	80 m2 internal plus 8 m2 deck	400-500	Scaled down Central Area model emerging on periphery (Te Aro, Mt Cook). Potential benchmark for inner residential suburban centres? 40-500 units on 1000 m2 site
	4 residential levels plus ground level car parking	<ul style="list-style-type: none"> <li>As above</li> </ul>	80%	80 m2 internal plus 8 m2 deck	350	Traditional high density form generally adjacent to lower density housing. Screened/open parking at ground level 35 units on 1000 m2 site
	3 residential levels walk up Car parking at ground level underneath	<ul style="list-style-type: none"> <li>1-3 bdr apartments 60-110 m2</li> <li>1 park per unit.</li> <li>Common/access areas no more than 15% of total built area</li> </ul>	80%	80 m2 internal 8 m2 deck	300	Traditional low cost suburban high density form  Stair/walkway access only to dwelling levels  30 units on 1000 m2 site
Multi-unit medium density	Intensive townhouse development	<ul style="list-style-type: none"> <li>Maximised no of 3-4 level townhouses on single large site</li> <li>Internal garages</li> <li>Decks overhang access lanes</li> <li>No private yards</li> </ul>	65%	100-120m2 internal incl single garage 8-10m2 deck	200	Eg: Pipitea Mews, 183 Tasman St 3-4 level terrace townhouses built to street frontage (no front yards) Assumes shared drive on access, minimal pvte open space at ground level 20 units on 1000 m2 site
	Single lot townhouse redevelopment	<ul style="list-style-type: none"> <li>2-4 level, generally 3 bdr townhouses w/internal garage in row formation</li> <li>Shared accessway along one side of site</li> <li>Minimum pvte yards</li> </ul>	50%	120 m2 incl single garage 10m2 deck	150	3-6 units on 500 m2 site Assumes shared drive-on access and WCC multi-unit guide standard for pvte open space at ground level
Lower density options	Infill around existing dwelling	<ul style="list-style-type: none"> <li>2+ units on subdivided site sharing access with retained existing dwelling</li> </ul>	40%	120 m2 incl single garage 10m2 deck	100	2-3 units on 2-300 m2 subdivided lot Assumes shared drive-on access and WCC multi-unit guide standard for pvte open space at ground level
	Stand-alone infill unit	<ul style="list-style-type: none"> <li>Stand-alone 2-3 bdr townhouse</li> <li>Shared or separate access</li> </ul>	30%	120 m2 incl single garage 10m2 deck	50	1 unit on rear lot. Assumes separate or shared drive-on access

\*Site coverage for high density is avge gross floor area *per level* as a percentage of site size. Medium and lower density is footprint as a percentage of site s

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The table illustrates the spatial benefits of multi-unit housing, which (in its highest density form) can deliver residential yields ten times higher than Wellington’s traditional infill housing approach. Higher density, however, also means higher risk. This can be measured in both *commercial* terms, and from the perspective of intensification’s potential to erode *amenity values*..

### *Commercial risk*

From a commercial developer’s perspective, upping the ante on density means accepting greater levels of commercial risk. The table below summarises some of the key risk areas for Wellington housing projects along the scale outlined the *typologies* table:

**Table 3: Residential Development Risk Profile**

	Multi-unit high density	Multi-unit medium density	Lower density intensification incl. infill
Typical project scale	30-50+ units	5-20 units	1-4 units
Typical project cost	\$20 million plus	\$1-10 million	\$150,000-\$1 million
Land-related	Large footprint required – need to amalgamate several land parcels  High site prep costs  Generally brown- fields – reqs. write- down of existing improvement value	Can be delivered on standard res. site  Variable site prep costs Replace on-site infrastructure  Requires removal of existing improvement	Relatively low land cost  Existing improvements generally retained
Construction costs (1)	\$2,000 plus psm  Steel or reinforced concrete frame incl basement parking  Saleable area can be less than 75% of total built area	\$1500-2,000 psm  Tilt slab or wooden frame on slab  Net saleable area 100%	\$1200-1600 psm  Wooden frame on concrete slab  Net saleable area 100%
Complexity	High – Significant design/engineering inputs and professional project management required  Needs large construction company with established supply channels	Moderate – Few design/engineering issues  Within scope of most established house construction companies	Low – Standard design/build packages  Builder/developer plus sub-trades
Planning risks	High	Moderate	Low as generally non-notified
Market absorption risks	High, especially if 'leading the market' in respect of price/location  Developer risk generally mitigated by off-plan sales to speculators	Low-moderate – generally supported by pre-sales or established market demand	Low – generally supported by established market demand
Development timeframe	2-4 years	1-2 years	6-12 months

(1) Base construction cost estimates derived from public domain data. Use here is for illustrative purposes only

In summary, *an urban growth strategy that relies on multi-unit housing must be supported by a more sophisticated development environment, with sufficient large scale industry players to deliver required volumes. This is further discussed under Supply below.*

### *Residential intensification and amenity*

In this paper, we use the term ‘amenity values’ as shorthand for the *qualities and characteristics of an area that contribute to its sense of place, the wellbeing of its*

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*residents, and make it a pleasant place to live.*<sup>3</sup> The concept encompasses a number of elements including:

- *Physical elements* such as the scale of the built form, the relationship of buildings to the streetscape and to one another, road and pedestrian linkages, provision of open spaces and preservation of heritage features
- *Environmental elements* both natural (wind speed, sunlight and outlook) and man-made (noise levels, vibration and odour)
- *Community/ lifestyle elements* including recreation and personal safety

Each community along the growth spine has a unique set of amenity values that distinguishes it from neighbouring communities, and contributes its sense of identity. As communities expand over time, the weighting between different values may shift, but core amenity values are generally retained – unless growth is so rapid that the community itself feels threatened by both the pace of change and the emerging urban form.

The danger of promoting rapid intensification, without regard to its impact on amenity values, has long been recognised<sup>4</sup>. A key thesis is that, as densities increase, there will be an inevitable decline in quality of life because:

- *Intensification places greater pressure on the 'systems' that affect amenity*, for instance demographic systems like the mix of residents (long term vs. short term, age and household profile, ethnicity), transport systems and road networks, infrastructure such as water and sewerage, open space networks and vegetation.
- *Intensification brings with it a lesser ability for individual households to exercise control over their own space*. Amenity values like privacy, access to sunlight and open space, become public rather than private issues. As a general rule, unit sizes become smaller and involve a greater degree of collective management.

The remedy proposed by intensification advocates is that quality of life can be maintained (and indeed enhanced) by actively managing amenity values at the neighbourhood, community and city level. The table below illustrates how some key amenity values are played out in the public and private domain.

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<sup>3</sup> This summary definition is derived in part from S2 of the Resource Management Act 1991

<sup>4</sup> Ref, the Parliamentary Commissioner for the Environment's report *The Management of Suburban Amenity Values*, March 1997



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**Table 4: Residential Intensification and Amenity – Key amenity values for intensive housing areas**

	Public amenity values (off site)		Private amenity values (on site)	
	Citywide	Neighbourhood	Block or complex	Household
<b>Physical</b>				
Open space	Provision of public parks and gardens for active and passive recreation	'Openness' of streets (front yards, berms and footpaths etc) Use of parks and gardens etc to separate buildings	Useable open space  Separation from adjoining buildings	Private open spaces like decks or open areas on ground
Vehicle space	Impact of motor vehicle on other land uses - Spatial (roading hierachy, parking) - Connectedness (role of local roads in city traffic system) - Congestion (flow of vehicle traffic)	Provision for resident and visitor parking  Impact of non-resident vehicles on neighbourhood access	Provision of off street parking, street access	Private parking
Infrastructure	Capacity of citywide infrastructure systems	Capacity of neighbourhood systems Quality of connections	Availability and quality of connections	Reliability of connections
Network connections	Road and pedestrian connections  Public transport networks	Walkable catchments	Proximity to retail /recreation / public transport	Walkable access to local shops/services  Ease of access to employment/ recreation
Urban design	Scale and character of area  Consistency with citywide objectives	Scale and dominance of buildings to neighbourhood, architectural style Streetscape- how public and private amenity values combine at neighbourhood level	Building scale Built form and quality	Unit size and functionality
Cultural and heritage	Preservation of and public access to sites and buildings of significance	Neighbourhood identity anch character	Consistency with neighbourhood character	
<b>Environmental</b>				
Landscape	Significant natural features (ridgelines, views, vegetation etc)	View shafts  Neighbourhood landscape features	On-site landscaping	Private views and landscaping
Air and light	Wind flows and sunlight in public spaces	Wind flows and light access at street level	Extent to which built form allows for natural light and air access	Quality air flows and sunlight/shade
Noise, odour and vibration	Commercial/industrial mix Traffic and noise levels	Extent of reverse sensitivity issues due to incompatible land uses	Effectiveness of building systems in controlling noise, odour etc	Containment of users own impacts  Insulation from neighbourhood impacts
<b>Community</b>				
Identity	Distinctiveness of area within city context	Distinctiveness of neighbourhood environment ('street appeal')	Contribution to neighbourhood distinctiveness	'cachet' or status of living in area or neighbourhood
Resources	Public facilities such as swimming pools, libraries	Local retail and recreational facilities, local employment opportunities	Provision of	
Participation	Public access to/use of community resources in area	Neighbourhood access to retail & other services		
Safety	Public safety features incl. CEPTED and active policing of public realm	Active and passive safety features at neighbourhood level	Building security and access control	Personal safety and wellbeing

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It is beyond the scope of this paper to discuss amenity values in greater detail, although it is worth considering the lessons learned in other New Zealand Cities<sup>5</sup>, and their implications for the UDS:

- Existing communities along the growth spine all have an existing set of amenity values that need to be understood
- The rate of change to existing amenity values is a key factor in whether a community will accept or reject housing intensification and redevelopment
- Initially, intensification may have little initial impact on a community's core amenity values. However, after a threshold is reached, each additional development will have compounding effects on community wellbeing.
- The emphasis between different amenity values will change. This can have both positive (eg benefits of scale bring shops and better transport systems) or negative (eg loss of open space, crowding) effects
- As much as physical redevelopment, the proper management of (and setting parallel targets for) amenity values is required if sustainable communities are to emerge out of the intensification process.

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<sup>5</sup> The Parliamentary Commissioner for the Environment's 1997 report (op cit) included case studies from Auckland City, Waitakere and Christchurch..

## 5. Demand and Supply Drivers

This section explores two core ingredients of the intensive housing equation, namely:

- *Demand* - who are the likely customers for intensive housing products?
- *Supply* – what factors impact on the development industry’s willingness and capacity to deliver intensive housing?

### 5.1 Demand

It is well-accepted that *residential intensification will not occur at the levels proposed in the UDS without a corresponding increase in customer demand*. The drivers of residential demand, however, are not well understood because existing research into New Zealand housing preferences<sup>6</sup> has tended to focus on past trends or home ownership aspirations - neither of which is adequate to explain the pace of multi-unit housing development in New Zealand in recent years. In particular, very little is known about property investor preferences. This is a significant omission, as we believe a significant proportion of Wellington’s new multi-unit new housing will be targeted at burgeoning rental demand in the city.

What is known is that, over the last 10 years, a wider spectrum of households has chosen to live in multi-unit housing than first thought. Recent Auckland housing preference studies note that family and non-family households have similar preferences for living in higher density housing - especially in sought-after locations where stand-alone housing is either too expensive or in short supply.

**Table 5a: Preferences for living in higher density housing – recent Auckland studies<sup>7</sup>**

Life stage	North shore	Auckland City
Pre-family	15%	35%
Early-family	20%	40%
Late-family	30%	30%
Post-family	25%	50%

This is reflected in consumer statistics. Between 1991-2001, for instance, most growth in attached housing in Auckland was associated with families and multi-family groups<sup>8</sup>

**Table 5b: Auckland – Change in number of households in attached dwellings 1991-2001**

Family type	Net change (no)	Proportion of change (%)
Single	1422	12%
Couples	2952	24%
Single/two parent family	5649	46%
Multi-family/other	2262	18%

The table below summarises our current thinking on the drivers of intensive housing demand in Wellington. There are some overlaps, but the table serves to illustrate how complex the blend of social, economic and demographic forces that (along with lifestyle preferences) make up housing choice can be.

<sup>6</sup> *Regional Intensification: Intensive housing demand and supply issues*, report prepared for the Auckland Regional Council by Hill Young Cooper (David Mead and Allan McGregor) August 2004, pp 16-22.

<sup>7</sup> Table reproduced from Mead and McGregor (ibid p20) is indicative only. Derived from 1996 research

<sup>8</sup> Ibid pp29-30. It should be noted that ‘multi-family includes group singles housing.

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**Table 6: Forces shaping demand for intensive housing in Wellington**

	Description	Demand considerations
<b>Demographic forces</b>		
Population growth	Natural population growth in area Net migration gains	Growth in overall housing market greater than capacity of traditional supply chain
Household formation patterns	Smaller non-family households now make up bulk of unmet housing demand.  Deferred family formation	Changing functional requirements of smaller households stimulate demand for alternative housing types Reduced emphasis on traditional suburban amenity values (schools, family-focused recreational activity)
Ageing population	Market responding to post-family needs of baby boomer generation	Preference for lower volume/lower maintenance housing with higher amenity value Baby boomers keen to free up capital for inter-generational wealth transfer or lifestyle
Household mobility	Households move more often, both within and to/from the City	Higher housing turnover Sell/buy decisions tailored to current needs and preferences rather than anticipating longer-term requirements (family formation, capital gain etc)
<b>Housing forces</b>		
Housing style preferences	Shift away from stand alone housing as first choice housing	High proportion of housing consumers have positive experience of higher density housing (OE, indirect thru media) Less time/inclination for housing and grounds maintenance,
Locational preferences	Increased popularity of urban locations Greater suburban polarisation between 'have' and 'have not' suburbs	Growing preference for co-location with work, education or lifestyle Greater willingness to trade off stand-alone houses for access to schools and cachet of living in a particular area
Tenure	Increasing proportion of all households are renting	High demand for rental housing focuses growth on areas of high rental supply Higher rental return potential of Central Area (multi income households etc) an incentive for investors
<b>Economic Forces</b>		
Business type and location	High value business clusters (eg CBD) support parallel economic activity	
Income and employment growth	High-paid employment growth in Central Area	Demand fuelled by younger, high income beneficiaries of the 'new' economy
Affordability	Growing polarisation on household income grounds	Rental market shift towards meeting needs of high end housing consumers What happens to lower-income households?
Housing Investment factors	Favourable conditions for housing investment compared to other investment opportunities	Cost benefit of multi-unit housing over stand alone portfolios for investors? Tax policy settings Capital gain potential?
<b>Lifestyle and amenity</b>		
Growth in urban amenity	Improved quality of public spaces, urban landscape, retail/recreational activity	Stimulates interest in 'urban behaviours'
Decline in suburban amenity	Perceived decline in suburban quality of life Lower social participation levels	Congestion, 'crowding' thru infill, loss of neighbourhood retail Decline in club, formal sport,
Transport issues	Higher time/cost of private motor vehicle Quality of alternative transport	Less tolerance for commuting tradeoffs
'Community'	'Blurring' of neighbourhood identities?	Neighbourhood identity less important than city issues/icons
Personal safety	Perception of intensive housing as safer	Demand for more active/passive safety features. Awareness of personal safety issues

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The discussion below explores some of the key demand drivers from a Wellington perspective.

### 5.1.1 Demographic forces

UDS Working paper 9 includes a brief analysis of demographic trends expected to drive higher densities over the next 50 years<sup>9</sup>. The table below summarises forecast annual household growth by household type:

**Table 7: Forecast yearly household growth 2001-51 – by household type<sup>10</sup>**

Period	Couple without children	Two parent family	One parent family	Adult share	Single person	Total
2006	240	155	142	65	248	860
2011	318	-26	84	22	266	664
2016	429	-130	91	46	298	734
2021	477	-175	70	0	397	770
2031	419	-153	62	0	349	676
2041	297	-109	44	0	247	479
2051	180	-66	27	0	150	291
Tot h/hols	16500	-4200	3300	900	13500	30,000
Tot pop	33,000	-15,000	10,000	7500	13,500	50,000

Based on current estimates, about 30,000 new households will be formed between 2001 and 2051, at an average household size of 1.8 persons. *This is an almost 50% increase over the 2001 Wellington base of 62,320 households (2.7 persons per household).* Some other key points:

- At least 60% of all household growth will occur in the first half of the UDS 50-year planning period (2001-26)
- Zealand's ageing 'baby boomer' population will have a significant impact on new housing demand in the next 15-20 years – 40-50% of all 'new' housing demand is projected to come from the 50-65 year age group.
- The 'echo' of the baby boom (18-35 year olds) is an important, but lesser feature, accounting for 20% of new household growth.
- As the baby boom bubble passes into later stages of life, demand for supported living environments will also increase

It follows that WCC's success in achieving UDS objectives will largely depend on choices made by 50+ households. Upwards of 50% of all demand for non-family housing over the next 25 years will come from this group. *It remains to be seen, however, whether enough of this demand can be channelled into the growth spine to achieve the UDS targets.* We note that:

<sup>9</sup> Based on Statistics NZ population and household projections, and a 2005 survey report by Property Economics Ltd, prepared as part of the Wellington Regional Strategy.

<sup>10</sup> Extrapolated from UDS Working Paper 9, 2006, p13

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- Recent research<sup>11</sup> suggests that older people prefer to ‘age in place’, and are more likely to remain in their existing home or seek lower maintenance housing close to home.
- In most cases, a new apartment or townhouse appears to cost as much if not more than the family home. This disparity could be further compounded if (as the table above suggests) falling demand for family housing in less desirable suburbs is translated into a decline in property values.
- If the media is to be believed, many of New Zealand’s baby boomers are financially ill-prepared for their later years. Disposable incomes will be affected by the adequacy of government superannuation and personal savings. The ability to sustain a city lifestyle may be beyond many older households.

### 5.1.2 Housing Forces

Recent research (and media coverage) has also made much of declining New Zealand home ownership rates, and how living in cities is no longer affordable for ‘middle income’ households (especially families). These issues will have as much influence on Wellington’s property landscape as more prosaic housing style-related preferences.

#### *Housing affordability*

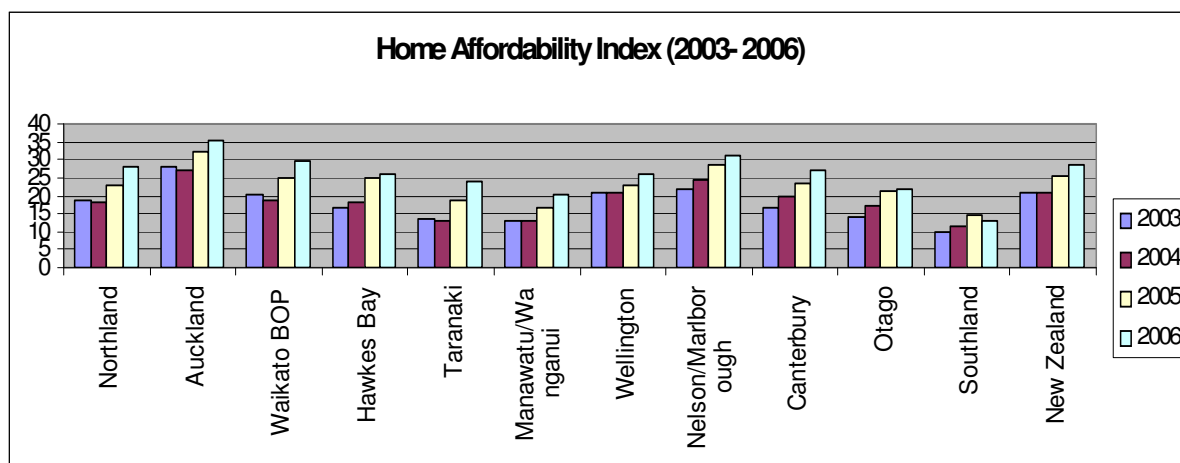
There is no doubt that housing in Wellington is becoming less affordable. The contentious *Demographia* study, for instance, puts Wellington in its ‘severely unaffordable’ category - although it is worth noting that the same survey found that Wellington was *the second most affordable city in Australasia* (behind Canberra, which has an unusually high median household income).

The NZ home affordability index takes into account a wider range of factors including mortgage interest rates<sup>12</sup>. Between 2001 and 2004 Wellington was consistently the 3<sup>rd</sup> least affordable region in NZ behind Auckland and Nelson/Marlborough. Significant house price increases in other regions during 2005 have improved Wellington’s standing on the ladder to the extent that it is now considered more affordable than Auckland, Nelson/Marlborough, Waikato, Northland and Canterbury. The city’s improved ranking, however, is cold comfort for households at on the bottom rungs of the affordability ladder.

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<sup>11</sup> Ref for instance *Melbourne’s Housing Past, Housing Future*, November 2000, Swinburne Institute for Social Research

<sup>12</sup> Massey University Real Estate Analysis Unit – incorporates national and regional average weekly earnings, regional median dwelling price and average mortgage interest rates for borrowers.



Source: Massey University Real Estate Analysis Unit, 2003 - 06

Affordability typically becomes a citywide issue when housing costs for the lowest 40% of households (measured on an income distribution basis) exceeds 30% of their gross income<sup>13</sup>. We believe this threshold has already been reached in most of Wellington's inner residential areas and new housing opportunities for lower decile households will mainly be outside or at the margins of the growth spine.

*Shifting tenure balance:*

Home ownership rates in Wellington have been in decline since 1991. By 2001 rates had dipped to 65% from a 1999 high of 71%. Rates are tipped to decline by a further 5% over the next 10 years. This translates into a considerable shift in emphasis for the housing market, which has hitherto been largely geared towards satisfying demand from owner-occupiers. The table below summarises recent projections for Wellington region as a whole.

**Table 8: Wellington Region – projected change in rental and owned housing 2001-06<sup>14</sup>**

	2001		2006		2010		2016	
	Owned	Rented	Owned	Rented	Owned	Rented	Owned	Rented
Total housing stock	116660	55240	115310	62360	117210	68540	118020	75140
Net change from 2001			-1350	7120	550	13300	1360	19900
Growth by tenure			-1.2%	12.9%	0.5%	24.1%	1.2%	36.0%

What does this mean for Wellington City and the UDS? Assuming Wellington City's tenure patterns follow the regional trend, we can expect the main thrust for new housing to come from either rental investors or (as discussed above) older households – many of whom will be selling their suburban family homes to rental investors. If Wellington City also follows overseas trends, we can also expect changes to the investment environment, in particular:

<sup>13</sup> CHRANZ summary of Affordable Housing in New Zealand, prepared for the National Summit on Affordable Housing 30 October 2006

<sup>14</sup> Source, DTZ 2005, from CHRANZ summary of housing affordability issues, op cit

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- A greater number of suburban family homes will be split into flats, or (in high demand/value areas) demolished for new housing projects
- The emergence of corporate investors with large portfolios.
- More specialist rental accommodation, targeted at specific market segments, for instance, complexes targeted at older people or childless working people, housing for students , specific provision of housing for essential workforce areas.

### *Housing investment parameters*

A key contributing factor in the swing towards rental demand is New Zealand's extremely liberal residential investment environment:

- New Zealand has no capital gains tax on property
- High-income investors are able to offset tax liability in other spheres against property losses
- The tax system allows for significant depreciation offsets

Westpac Economists have recently estimated that 40% of house price increases over the last five years can be attributed to either tax benefits or historically low interest rates<sup>15</sup>. The thesis advanced by economists is that urban housing markets have moved from a model based on personal choice and value generation (creating household wealth, providing security of place) towards an 'investment value' model. The table below looks at different housing scenarios along the growth spine, and uses the investment value model to compare a high-end investor with a new home owner in their first year of ownership.

**Table 9: Housing Investment parameters along the Wellington growth spine<sup>16</sup>**

Location	Inner residential	Inner residential	Central area	Johnsonville	Johnsonville
Housing type	Apartment	Apartment	Apartment	Apartment	Townhouse
Quality	Standard	Standard	Standard		
No bdr	1	2	3	2	3
Size (m2 incl decks etc)	50	80	110	80	120
Cost	\$ 300,000	\$ 400,000	\$ 600,000	\$ 250,000	\$ 350,000
Rental value p/wk rates	\$ 299	\$ 400	\$ 480	\$ 290	\$ 330
Insurance	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Other incl body corporate	\$ 2,000	\$ 2,500	\$ 3,000	\$ 1,000	\$ 1,000
Mortgage rate	9%	9%	9%	9%	9%
Debt/equity ratio	80%	80%	80%	80%	80%
<b>1. New Home Owner/Renter</b>					
Housing outgoings if owned	\$ 26,100	\$ 34,300	\$ 49,700	\$ 21,500	\$ 29,200
less capital gain @ 5%	\$ 15,000	\$ 20,000	\$ 30,000	\$ 12,500	\$ 17,500
Net investment position	\$ (11,100)	\$ (14,300)	\$ (19,700)	\$ (9,000)	\$ (11,700)

<sup>15</sup> This has been reported widely in recent media reports. Our reference is drawn from the *Dominion Post* Saturday March 17 2007

<sup>16</sup> Information in the tables is derived from Department of Building and Housing rental database (Feb 07) and public domain. Overhead and capital gain estimates are nominal



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Return on investment		-19%	-18%	-16%	-18%	-17%
Gross income req if hsng @ 30%	\$	87,000	\$ 114,333	\$ 165,667	\$ 71,667	\$ 97,333
Housing costs as % of net income if owned		43%	45%	46%	42%	44%

### 2. Renting household

Housing outgoings if renting	\$	15,548	\$ 20,800	\$ 24,960	\$ 15,080	\$ 17,160
Variance over home ownership		-40%	-39%	-50%	-30%	-41%
Gross income req if hsng @ 30%	\$	51,827	\$ 69,333	\$ 83,200	\$ 50,267	\$ 57,200
Housing costs as % of net income if renting		26%	27%	23%	29%	26%

### 3. Rental investor

Housing outgoings	\$	26,100	\$ 34,300	\$ 49,700	\$ 21,500	\$ 29,200
Income from rents	\$	15,548	\$ 20,800	\$ 24,960	\$ 15,080	\$ 17,160
Tax claimed on depreciation	4%	\$ 4,680	\$ 6,240.00	\$ 9,360.00	\$ 3,900.00	\$ 5,460.00
Tax on operating losses	39%	\$ 4,115.28	\$ 5,265.00	\$ 9,648.60	\$ 2,503.80	\$ 4,695.60
Capital gain	@ 5%	\$ 15,000	\$ 20,000	\$ 30,000	\$ 12,500	\$ 17,500
		\$ 39,343	\$ 52,305	\$ 73,969	\$ 33,984	\$ 44,816
Net	\$	13,243	\$ 18,005	\$ 24,269	\$ 12,484	\$ 15,616
Gross return (rents as % of total cost)		5%	5%	4%	6%	5%
Net profit after benefits		4%	5%	4%	5%	4%
Return on capital incl. capital gain/tax benefits		22%	23%	20%	25%	22%
Return on capital excl. capital gain/tax benefits		-18%	-17%	-21%	-13%	-17%

As the table suggests, inner city housing markets are strong targets for investors, where they can generally outbid all but the highest income owner-occupiers. Multi-unit housing is preferred by rental investors because of its high improvement/land value ratio (depreciation benefits), lower maintenance cost and ease of management. In Auckland, most large inner city projects are sold off-plan to investors through specialist marketing channels, and there are several websites dedicated to explaining the benefits of residential investment in New Zealand to Australian investors.

The current balance is, however, heavily dependent on existing tax policy settings, and would shift significantly if policies aimed at curbing investor enthusiasm (for instance, 'ring fencing' rental losses or taxing capital gains) were introduced.

### 5.1.3 Wider economic forces

On a more technical note, recent econometric research has confirmed that, under standard resource pricing conditions, concentrated employment centres will support intensification at a faster rate than (say) low density, lower income industries like manufacturing and warehousing<sup>17</sup>: The thesis is that intensification will follow commercial agglomeration and growth because:

- Household income and employment opportunities are greater. The average GDP/FTE in the industry profile for inner Wellington, for instance, is 10% higher than the city as a whole

<sup>17</sup> Ref, for instance Sanderson, op cit.

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- Labour force participation is high, increasing the likelihood of multi-income households, and thus raising the ‘affordability bar’ above that normally associated with low-modest income households
- The cost of delivering base infrastructure is lower, because much of it is already in place to service the commercial environment

### 5.1.4 Lifestyle forces

Of equal importance, perhaps, is the fact that investment in public amenity values is not solely dependent upon increasing the residential base. Developers can leverage off existing civic investment and an existing core of retail and recreational facilities.

Wellington Central’s residential ‘renaissance’ certainly seems to have coincided with transformation of the city’s waterfront and growth in cultural status. By contrast, suburban centres (for instance Johnsonville, Tawa, Karori, Newtown and Kilbirnie) have changed little over the past 20 years – at least to the outside eye.

The city’s active orientation is not limited to culture. More than 50% of the city’s working population is able to walk, jog or cycle to work or leisure activities. For suburban areas, the average is below 10%.

## 5.2 Supply

Supply-side drivers of residential intensification are reasonably straightforward compared to the complexities of demand. In our view, expanding the supply of intensive housing along the growth spine will depend largely on:

- The supply of land for redevelopment
- The willingness and ability of the development community to focus on higher density housing in preference to low risk options like infill

### 5.2.1 Land supply

The fundamental requirement for new housing is land, either *greenfields* land, or *brownfields* land. In the Wellington context, Council has flagged its intentions to control urban sprawl, by limiting residential expansion to specific pockets (notably the Northern Growth Area). As the tables below illustrate, subdivision of bare land will play a diminishing role in the urban development process over the next 50 years. For instance, if proposed new urban land was to be subdivided along conventional lines, the yield would cater for only 30% of projected household growth to 2051.

**Table 10a: Expected increase in Urban Area**

Period	Land use explanation	Urban Area (ha)
2001-06	Zoned and in system	4,550
10 years	Notified changes	200
25 years	Notified changes & future	200
50 years	Future (estimate)	200

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	<b>13% increase to 2051</b>	5,150
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Source: WCC land use database & NGMF 2004

**Table 10b: Expected Increase in Population & Housing (based on medium series)**

Period	Estimated Population	Estimated households
2001	171,100	62,320
2026	204,500	80,840
2051	224,100	92,000
	<b>31% increase to 2051</b>	<b>47% increase to 2051</b>

Source: Statistics NZ, Property Economics 2005

The net effect of limiting new land inputs into the housing market, is that developers must look more closely at land within the existing urban area. In this context, we are already witnessing a progression from simple infill-type reconfiguration of developed sites, to more complex multi-unit subdivision. The extent to which this becomes the norm will depend largely on Developer willingness to accept the extra risks involved.

### **5.2.2 Developer Considerations**

As a general rule, developers closely guard their intellectual property, so what is known about the process *from a developer's point of view* tends to be highly generic. For a developer, the development process is about finding the right balance between risk and return – and the ability to control key inputs into the development process:

- Land
- Capital
- Knowledge
- Demand

Successful developers generally have a 'black or white' approach to development feasibility – a proposition either stacks up from the outset, or is discarded. Their commercial survival depends on accurate assessments of input cost and market demand, and the ability to manage shifts over the life of a project. This in part explains why *developers focus on the short term, and take little interest in longer-term strategic considerations.*

#### *Creating development margin*

When looking at returns from development, it is useful to view property development as a combination of different activities, each of which is capable of 'turning a dollar' for a developer. Most Wellington developers are generalists, who will carry a project from inception through to sale, and pick up margin along the way. Larger, more mature markets have room for specialist developers, who generate profit by applying their expertise to single steps in the process. For example:

- Some companies specialise in locating and acquiring undervalued property. Their focus is on holding property till new planning rules or market forces increase market values.

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- Others (LandCo in Auckland is a notable example) are specialists in securing changes in land use, and take their profit from on-sale to developers that focus more on construction for sale.

The table below attempts to illustrate these differences:

**Table 11: Land and Property Development – developer profiles**

Type of developer	Core business	Adds value by	Profit objective	Acceptable level of profit	Issues
<b>Speculator</b>	Land purchase/hold	Acquiring land at best possible price and holding till sale	Maximum capital gain for minimum further capital inputs	Maximum	Conditions of sale Holding costs Interim revenue streams value uplift through inflation or zone changes
<b>Planner</b>	Land use reconfiguration	Acquires sub-optimal land Advances scheme of development based on 'highest and best use' Secures planning changes and consents	Maximise value-add of land use changes  Minimise time to development	Maximum	TLA receptiveness, fees/contribs Competing schemes RMA process issues and cost Time Buildability
<b>Land developer</b>	Land development	Carries out development and Sells newly-created lots	Margin on development  Maximise value for sale	5-15% after contingencies Maximum	Cost of development Time to market Marketability,time on market
<b>Property developer</b>	Property development	Acquires developed lots Constructs and sells improvements	Margin on development  Maximise value for sale	5-15% after contingencies Max in market	Cost of development Level of pre-sales
<b>Property investor</b>	Long term management and hold	Providing a range of residential/commercial property to target market	Maintain acceptable ROI Long term capital gain	10%	Rental cash flows Occupancy levels Taxation/depreciation regimes
<b>Property Agent/ Manager</b>	Manages portfolio(s) for investor(s)	Improved efficiency of portfolio	Fees	7-10%	Often 'tack' on for developers eg retaining control of body corp admin post- development
<b>Large scale land and property developers</b>		Combines elements of all the above	Focus is on total project feasibility, with specialist areas separately accounted Can be expressed as IRR with financial milestones		
<b>Smaller scale or /naive property developers</b>		As above	Less sophisticated approach, generally looking at Gross profitability. Manage key risk areas (time, cost, marketability etc) through contingency		

From an overall profitability perspective, we have canvassed a number of large and small developers about how they measure profitability, and what profit levels are acceptable in today's development environment. Because the market as a whole accepts *20% return on total cost* as a reasonable return, we have adopted this for more detailed case study analysis.

**Table 12: Land and Property Development – Commonly-used development margin indicators**

Measure	Expressed as	Feedback	indicator	Comment
<b>Gross margin</b>	Generally expressed as return on direct development costs excl. overheads, interest and tax		Not known	Limited use. Relevant mostly to cashed-up smaller developers
<b>Post-finance margin</b>	Varies, but generally budgeted gross profit less financing costs		20-30%	Preliminary measure normally combined with IRR
<b>Net margin</b>	Generally expressed as EBIT – includes all direct and indirect costs		25-30%	Standard balance sheet approach
<b>Return on total cost</b>	Same as post-finance net margin?	Generally adopted by most developers for projects 12-36 mths. Focus is on controlling costs during development, and capturing inflation-based uplifts	20%	Most developers aim higher, especially for complex projects, but will trade off superprofit for reduced risk e.g. discounted presales or fixed-price construction contracts
<b>Internal rate of return (IRR)</b>	Expressed as percentage – discount that results in a net present value of zero	Generally used when assessing risk over multiple projects Also used for higher risk/complex single projects	9-15% 20-30%	Australian benchmarks for land development corporations Auckland benchmarks
<b>Weighted Average Cost</b>	Used with IRR and NPV approaches – based on actual net financing cost	Seldom used by hands on developers. Common for	Varies by project	

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<b>of Capital (WACC)</b>	+ risk-weighted	development subsidiaries of larger-scale financial institutions	size and cap rate	
<b>Development risk premium</b>	Minimum profitability threshold required by lenders – same as return on total cost	Most lenders will insist on this level even if presales are 100%? (GP)	20%	

### *Managing development risk*

In the table below, we explore some key areas of development risk, and how these are managed over the life of a development. Areas with a high variable risk are highlighted.

**Table 13: The Development Process – risk identification and management**

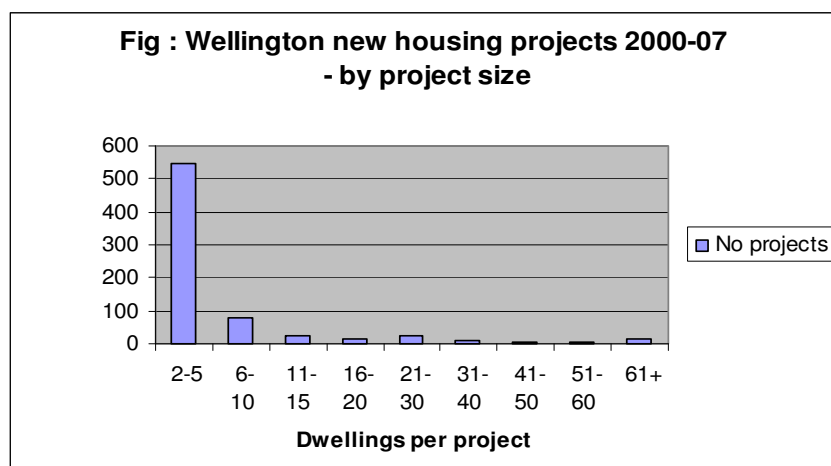
	<b>Risk</b>	<b>Managed/mitigated by</b>	<b>Risk margin?</b>	<b>Comment</b>
<b>Site Purchase</b>	<ul style="list-style-type: none"> <li>Price paid for land too high?</li> <li>Conditions of sale restrict future development potential?</li> <li>Assumptions made at time of purchase (e.g. ability to buy adjacent land) unrealistic?</li> </ul>	<ul style="list-style-type: none"> <li>Initial due diligence</li> <li>Pre-purchase feasibility study based on preferred development</li> <li>Option only over land till key planning/quality variables known</li> </ul>	<p>Not as such, but most developers monitor value and have a quit contingency based on :</p> <ul style="list-style-type: none"> <li>negative cash flows</li> <li>point at which capital gain from sale of unimproved site outweighs risk/reward from development</li> </ul>	<p>Optimal scenario for developer is:</p> <ul style="list-style-type: none"> <li>Price paid is discount on CMV</li> <li>Limited cash up front</li> <li>CMV based on lower-order use</li> <li>Good s/term revenues from existing improvements (or low overhead) – no long term leases</li> <li>Improvements overvalued (tax and depreciation advantages)</li> </ul> <p>Non-price advantages come from: foreknowledge of future land use changes</p>
<b>Site quality</b>	<ul style="list-style-type: none"> <li>Land contaminated?</li> </ul>	<ul style="list-style-type: none"> <li>Due diligence</li> <li>Cost of remediation works factored into purchase price</li> </ul>		
<b>Holding</b>	<ul style="list-style-type: none"> <li>Time/cost of holding land</li> </ul>	<ul style="list-style-type: none"> <li>If site purchased outright – generate an income stream from existing improvements</li> <li>Extend option till development timeframe can be fixed</li> </ul>		
<b>Development planning</b>	<ul style="list-style-type: none"> <li>Advance design to concept stage</li> <li>concept</li> <li>District plan constraints</li> <li>RMA consents process <ul style="list-style-type: none"> <li>Council support</li> <li>Community</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Depends on developer/extent of alignment with existing DP rules</li> <li>Council/community support for proposed development</li> </ul>		<p>Significant changes to DP/public infrastructure investment - need 3-5 years?</p> <p>12 month delay in planning can have a 5-10% on investor bottom line (Addison)</p>
<b>Detailed design</b>	<ul style="list-style-type: none"> <li>Yield issues?</li> <li>Buildability issues</li> <li>Compliance <ul style="list-style-type: none"> <li>Parking/other</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Feasibility generally uses base yield – maximise at detailed design stage</li> <li>Negotiate concessions on levies etc</li> </ul>		
<b>Site preparation</b>	<ul style="list-style-type: none"> <li>Timing/cost of removing existing improvements?</li> <li>Value loss by demolishing existing improvements</li> <li>Historic building retention</li> <li>Civil works – on and offsite</li> <li>Development levies</li> </ul>	<ul style="list-style-type: none"> <li>Where net improvement value is high – developer incentivised to retrofit rather than replace</li> <li>Incentive to reduce development levies by netting off against existing use</li> <li>Site prep works generally held over till required presales levels achieved.</li> </ul>	<p>Holding cost = finance cost, but not many 'naive' developers factor this</p>	<p>Problems if s/term brownfields development driven by smaller-scale developers – incentivised to reinvest in existing structure and split ownership to add value?</p>

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<b>Development funding</b>	<ul style="list-style-type: none"> <li>• Access to and cost of funds</li> <li>• Timing</li> <li>• Conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Track record with lender(s)</li> <li>• High pre-sales levels</li> <li>• Firmed up and consented construction programme</li> </ul>	Development financing rates generally 10-12% (2-5% above base home rate)	Objective of most developers is to limit equity inputs – generally to planning-related costs.
<b>Construction</b>	<ul style="list-style-type: none"> <li>• Contract price?</li> <li>• Cost escalation?</li> <li>• Quality?</li> <li>• Compliance?</li> </ul>	<ul style="list-style-type: none"> <li>• Larger developers generally contract-out at early stage, pass risk to main contractor</li> <li>• Smaller developers more hands on, manage cost escalation thru changes to spec</li> </ul>	As a general rule, all development feasibility includes 5-10% contingency for cost escalation	Larger developers generally take the approach that money is made in the first stages of development process – work off more realistic psm rates (\$2-3k for apts in Akld)
<b>Marketing</b>	<ul style="list-style-type: none"> <li>• Market uptake?</li> <li>• Market shifts?</li> <li>• Sales below budgeted expectations</li> </ul>	<ul style="list-style-type: none"> <li>• Invest in marketing before investing in detailed design/beginning construction</li> <li>• Phase development to allow for changes to design at a later stage</li> <li>• Quit strategy or direct management as lease/rental</li> </ul>	Generally >50% pre sales required by lenders prior to construction	Lenders require significant presales levels if funding full development cost  Anything less than 100% presales means developer equity (i.e. not just expected profit) at risk
<b>Warranty</b>	<ul style="list-style-type: none"> <li>• Level of post-occupancy claims</li> </ul>	<ul style="list-style-type: none"> <li>• Financial provision for remedying defaults</li> <li>• Contract out thru main construction contracts and consents process</li> <li>• Project by project company structure to limit liability</li> </ul>	Generally <1% allowed for by larger developers  Builder-developers tend to absorb cost	

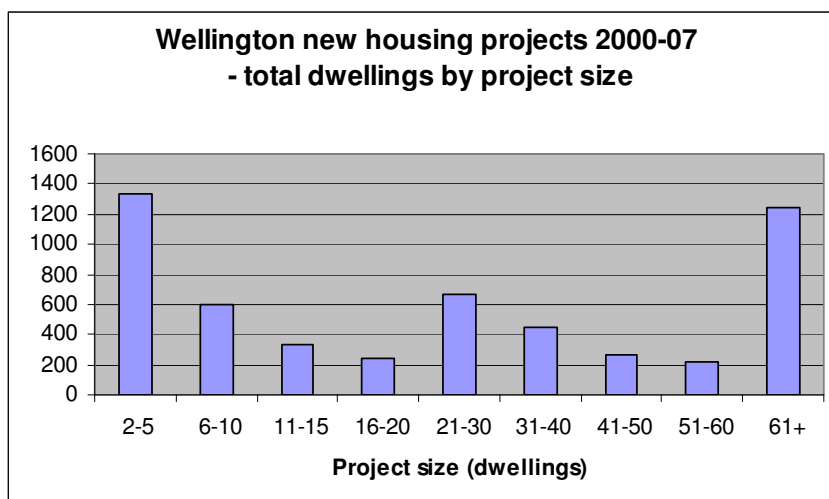
### 5.2.3 Developer Capacity

Recent building consents data suggests that Wellington's development community is geared towards smaller housing projects. 95% of new housing consents issued since January 2000 have been for projects involving less than 5 dwellings. Excluding single, stand-alone units (which made up almost 80% of new housing activity), 75% of multi-housing consent applications over the 2000-07 period were for projects of 2-5 units.



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Notwithstanding this, there has been a significant increase in large-scale residential development. 2.5% of all consents issued since January 2000 have been for projects of 50 units or more. This sector will generate 25% of all dwellings approved in 2000-07.



Anecdotal evidence suggest that there are between 10 and 20 developers operating at the upper end, many of whom are ‘rugged individuals’ operating on a project-by-project basis with little personal equity at stake. Some have had previous issues with Council over quality and/or legal compliance.

There is, however, an emerging maturity in the development industry. We note that some players of long standing have created corporate structures and identities independent of their project-specific companies. This bodes well for developing a sense of civic responsibility - a necessary prerequisite if developers are to participate willingly as sub-partners in large-scale development.

Given expected development volumes over the next 20 years, however, we believe the pool of big project talent is too small, and will need to be augmented either:

- A larger number of Wellington’s smaller developers gearing up to tackle the risks (and seeking the rewards) of larger-scale development
- Larger players from Auckland and other centres (including Australia) entering the market

### 5.3 Demand and Supply - summary of the main points

In summary, there appears to be growing demand for intensive housing in Wellington City, driven by a number of factors, including:

- Population growth, both natural and economic growth-related migration

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- Changing household composition, particularly older non-family households (baby boom) but including younger households (deferred family formation)
- Changing tenure patterns, and rental investor preferences for multi-unit housing
- Lifestyle preferences, including a greater willingness to trade off personal space for the right location and increased public amenity values

On the supply side, the market is responding to demand, but there are some critical areas that need further consideration:

- Will the supply of land (and price) along the growth spine be sufficient to meet demand?
- Can Wellington's developer community be 're-engineered' to deliver increasing numbers of high density housing product
- Should council play an active role in respect of supply-side issues, for instance, by proactive policies to generate a stream of development land along the growth spine, or by facilitating the entry of new developers into Wellington



## 6. Case Studies

In this section we look in more detail at the potential for intensification in two areas targeted for intensive redevelopment by the UDS - Adelaide Road and Johnsonville Town Centre. The case studies focus on:

- Current land uses and densities
- Council's 'vision' for selected case study areas: and comment on housing-related assumptions in UDS Working Paper 9 and other Council working papers
- Land analysis: residential redevelopment potential after discounting for recent development, historical and urban design requirements
- Yield analysis: potential residential yields from different development scenarios, including comment on the feasibility of the yields/typologies proposed in UDS working paper 9
- Commercial analysis: the pricing points for land and housing needed to achieve an acceptable return on investment
- Comment on development levers that could be used to direct development in each area along the UDS pathway.

### *Methodology and assumptions*

Each case study area has been divided into blocks, generally following existing street or use patterns. The development potential for each block has then been separately examined, with a particular emphasis on whether any existing improvements could be removed and replaced within reasonable commercial parameters. Considerations include:

- Any requirement to retain existing improvements with heritage value (ref amenity above)
- Whether non-productive uses of land (such as laneways or public open spaces) will be needed to open up the block for redevelopment
- Whether the *land+improvement* value of existing uses is too high to contemplate redevelopment in the near future. This could be because of recent residential redevelopment, or the resilience of some commercial uses.
- Emerging new commercial activity as a consequence of intensification.

Yield and land value information is drawn from Wellington City's own property database, augmented by market and research information already in the public domain. Detailed project feasibility analysis is based on the following assumptions:

- Standard housing modules which deliver roughly the same internal living space – 80 m<sup>2</sup> apartment (plus car park and deck), and/or 120 m<sup>2</sup> townhouse (including garage).

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- Construction cost estimates are derived from industry publications<sup>18</sup>
- Project cost assumptions are based on industry practice
- Profitability targets are based on 20% return on total cost, although we acknowledge that some developers may work on lower margins
- Project financing and contingency allowances are derived from standard valuation practice
- Land and property value targets are based on capital value data from the Council's own database, informed by recent sales data.

Note that, while our analysis attempts to reflect some of the key variables used by developers when assessing a project, no account has been made for things like differential gearing, depreciation or other tax benefits, or competitive advantages accruing from individual developer approaches to land acquisition, construction cost/quality, and marketing. We also take a 'snapshot' approach, based historical values, while developers will often build in positive assumptions about market movements vs. cost inflation.

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<sup>18</sup> For instance, the Rawlinsons 'bible' and Department of Building and Housing residential modal construction costs data

## 6.1 Case Study 1: The 'Adelaide Precinct'

### 6.1.1 Profile

Adelaide Road is considered by Council Officers as having the highest potential for redevelopment (on a yield per hectare basis) of all the suburban centres within the Growth spine.

The precinct is well located approximately two kilometres from the CBD, and one kilometre from Newtown's shopping district. Wellington Hospital lies immediately to the South and Massey University's Wellington campus to the Northwest.

On a topographical note, the area is quite flat by Wellington standards, and is flanked by the elevated areas of Mt Cook to the West and Mt Victoria ridge on the eastern side. This has a number of development advantages, notably a minimal earthworks requirement, and potential to build higher without having a dramatic impact on neighbouring suburbs or the urban landscape (ridgelines etc)



Adelaide Road Study Area

#### *Land area and current uses:*

The precinct has a total land area of about 15 hectares, about 20% of which is taken up by roads and other public infrastructure. The balance is mainly commercial property (60%) ranging from single level service facilities with large forecourts (petrol stations, tyre centres etc) to 3-4 level buildings accommodating several business types. There is a sprinkling of mixed use (residential above commercial). Dedicated residential uses take up about 20% of the total precinct area, concentrated west of Adelaide Road, specifically Myrtle St, Hanson St, Tasman St and King St.

#### *Appearance and character*

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The precinct's overall character is heavily influenced by Adelaide Road itself, and its connecting role between the southern suburbs, Central Area and points further north. Adelaide Road currently has four lanes (although these are generally compromised by on-street parking) and hosts up to 30,000 vehicle movements daily. It is likely to continue to function as a principal road for the foreseeable future.

Adelaide Road divides the precinct into western and eastern areas. The west is further divided along a line formed by Hanson King and Belfast Streets to form a central core (primarily commercial) and western sector (primarily residential).

The eastern and central sectors are dominated by commercial buildings (average 2 levels) built during the 1960-1990's, in response to an earlier Council decision to give priority to economic development activity in the area. The western sector comprises a more eclectic mix of new and old commercial buildings (including the Boys Institute, which we understand will soon give way for a supermarket), clusters of heritage housing and new townhouse/apartment developments.



Adelaide Road – Land use zones

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### *Residential and 'Community' context*

Although Adelaide Road has an expanding residential component, it has neither the design integrity nor amenity to define itself as a 'living community'.

- *From an urban design and spatial perspective*, the community is divided. A significant proportion of housing stock faces away from the precinct towards Mt Cook or Newtown, while the balance is isolated in small clusters.

Unique buildings and other Heritage features have largely been removed apart from period housing in Myrtle Crescent and Tasman Street. Exceptions are the Tramways Hotel building and early town house/shops on corner sites facing Rugby Street. Government house also has an iconic (but somewhat aloof) presence overlooking the precinct.

- *In terms of amenity*: food retail is limited to petrol station forecourts and two large fast food outlets. Pharmacy and medical services are available within the precinct (after hours medical centre). There are no public spaces within the precinct, and those adjacent (for instance the town belt and Basin reserve) have security and access issues. There are no recreational opportunities within the precinct.

### **6.1.2 Short term market analysis and development trends:**

The market absorption rate<sup>19</sup> for recent developments in the Adelaide Road area suggests that there is latent demand for new housing (despite the lack of immediate amenity) from the following market sectors:

- Tertiary students - purpose-built student accommodation, flats in heritage area
- Owner occupiers - existing heritage housing and new townhouse developments
- Private renters - Townhouse/apartments and heritage housing

Prices range from under \$200,000 for studio apartments targeted at student renters, to \$600,000+ for restored family housing in the heritage area. Terrace housing and townhouses built within the last few years are commanding prices of \$450,000-\$550 depending on size and quality.

Council property data on developments built since 2000 indicates CMV's of between \$3,500-4,500 psm net floor area for recent housing, although one or two premium apartment developments are approaching \$6,000 psm.

As a general rule, recent developments have been built to a price. Indeed price appears to be the major determinant of demand in the area, followed by the locational advantages of being close to university (student renters and institutional investors) and the city/hospital (working renters and owner occupiers).

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<sup>19</sup> For this paper market absorption refers to the takeup rate for new housing. For a developer, an important consideration is how quickly and in what volume the market can 'absorb' housing product

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On the supply side, the table below summarises recent consents and projects known to be ‘in the market’ at the time of writing:

**Table 14: Adelaide Road Precinct – recent consents**

Consent date	Address	Land area	No units	Density per ha
6/30/2000	4 Myrtle Crescent	205	2	98
7/17/2001	11 Douglas Street	729	4	55
9/4/2000	185 Tasman Street	1562	25	160
9/4/2000	4 Douglas Street		4	
11/2/2000	66 Adelaide Road		3	
1/29/2003	27 Drummond Street	185	6	324
7/1/2003	27 Hanson Street	2550	18	71
5/27/2004	20 Hanson Street		23	
6/8/2004	39 Tasman Street	374	3	80
Not yet lodged	33 Drummond Street	661	32	490

New development is mostly contained to the western sector, mostly intensive townhouse/student housing developments. The latest proposed development (*Maison Quattro* on the corner of King and Hanson Streets) is the first multi-level apartment block to target non-student market sectors.

In contrast to the Central Area, the volume of recent development is low. Developers appear to be picking off low value sites with minimal improvement values, and testing a range of markets. There are some examples of mixed use development, generally two levels with flats above small workshops or distribution outlets below. There is a trend towards greater intensification in recent projects, and some evidence that larger developers are acquiring and amalgamating adjacent lots for future large-scale development.

Financial analysis of recent projects suggests that, in today’s market, there is a gross realisation ‘ceiling’ of \$4-4,500 psm<sup>20</sup> for new housing product. This ceiling exists, we believe, because market demand for high density housing within the Adelaide precinct comes from essentially the same sectors as for the Central Area – although Adelaide does not have the CBD’s ability to attract higher income owner occupiers.

At present, gross realisations in the area are only marginally below those being achieved in Te Aro (around \$5,000 psm for standard developments), so there is little incentive for developers to overlook development opportunities in the Central Area in favour of Adelaide Road.

The net effect is that residential development within Adelaide Road may be substantially deferred while larger developers pursue bigger and more profitable opportunities in the CBD. Alternately, development will occur as and when land bargains are to be had, or be driven by smaller developers without the appetite for high risk/volume CBD projects.

<sup>20</sup> For this paper, Gross realisations refers to revenue from sales (excl GST) divided by the total built area (including decks, internal parking and common areas).

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The terms of reference for this review do not include an assessment of commercial development trends in the area, although we have observed some re-investment in commercial property (New VTNZ site on Adelaide Road, 43-47 Hanson Street) and some changes to the commercial mix. Our cursory assessment is that the area is well placed to attract and retain high value commercial users (Supermarkets, fuel outlets etc), and that these will successfully compete with residential uses in the medium term.

### **6.1.3 Looking forward – Council’s ‘development vision’ for the Adelaide Precinct**

While strategic planning for the Adelaide Road area is not due to begin till later this year, the existing set of planning documents and working papers gives a sense of what Council hopes to achieve in Adelaide Road over the next 50 years. In summary:

*Wellington City Council wishes to create a vibrant living community in the Adelaide Precinct, by:*

- *Creating a quality housing environment for up to 6,000 residents, most of whom will work, study and play in the surrounding area*
- *finding space for 3,000 dwellings, and maximising opportunities for residential redevelopment, by replacing sub-optimal commercial and residential land uses with more intensive housing*
- *Growing high value business activity, retail facilities and other services to support the new community*
- *Enhancing the effectiveness of Adelaide Road as the major connection for the City’s southern suburbs*
- *Improving internal connections within the Adelaide precinct, to create a walkable catchment of shops, businesses and houses that can be safely traversed*

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### *Housing and Population Growth Expectations*

The table below presents a picture of Adelaide Road's future housing and population mix if the Council's 'housing vision' (and growth assumptions) from UDS working paper 9 are to be realised.

**Table15 : Adelaide Road Housing and Population Growth Projections to 2051**

	Prior to 2001*	2001-06**	2006-26	2026-51	Totals
Multi-unit high density (4-6 levels)	50	50	634	396	1130
Multi-unit medium density	100	75	1040	660	1875
Mixed use	50	25			75
Other incl. stand-alone	120				120
<b>Totals</b>	<b>320</b>	<b>150</b>	<b>1674</b>	<b>1056</b>	<b>3050</b>
Average new units required p/a		15	84	42	55
Resident population (approx)	800	300	2700	1900	5700

\* Nominal split based on observations only

\*\* Nominal, includes houses completed after 2000, but consented in 1990's

The table is a useful reminder of the scale of change needed to achieve UDS targets for the Precinct:

- *A 600% increase in housing numbers over the next 20 years*
- *A tenfold increase in housing numbers by 2051*
- *An increase of over 700% in resident population*
- *Over the next 20 years, a fivefold increase in development activity compared to what has been achieved in the first five years of the UDS (2001-06)*

### **6.1.4 Land available for future redevelopment**

The table and map below summarises our analysis of Council's land and property database. In brief:

1. There are about 13 hectares of saleable land within the Adelaide Road Precinct.
2. About 2 hectares has been recently redeveloped as multi-unit housing, so further redevelopment is unlikely within 50 years because of already high capital values and fragmented ownership.
3. About 2 hectares are currently occupied by heritage buildings, mostly 100 year old housing in Myrtle Crescent and Tasman Street. These areas *could* be cleared and redeveloped, but we expect strong pressure to preserve this area along similar lines to the Mt Cook Special Area.
4. Based on current market values, the balance of 9 hectares is likely to be redeveloped because their current uses do not reflect 'highest and best' use trends. We would expect, however, that public open space requirements (for instance, public parks or widening Adelaide Road) would further erode the pool of redevelopment land.



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5. On balance, we expect no more than 8.5 ha to be available for redevelopment over within the UDS timeframe – unless there is a significant shift in public sentiment in favour of clearing heritage housing areas.
6. How much of that land is available for *residential* redevelopment will depend largely on the resilience of existing commercial/industrial uses, and whether new commercial development (for instance high value retail) prevails over residential development.

In terms of land values:

- Land subject to recent redevelopment has an average capital value of \$5,600 per square metre (range \$3,200-8,250)
- Commercial/industrial land with older improvements has an average capital value of \$1,600 per square metre (range \$1,400-2,100)
- The average capital value of older housing clustered around Myrtle Cres/Tasman Street is \$2,100 per square metre. Average land value is \$800>

### *Impact of land availability on UDS Housing/ Typology assumptions*

Based on current Council planning assumptions, 2,730 new dwellings are needed within the Adelaide precinct in the next 45 years – more than 60% of which should be built before 2026 and 60% should be medium density townhouse/terrace-style units.

Additional allowance will also need to be made to replace any existing dwelling cleared during the redevelopment process. Can this be delivered on the available land?

Our assessment is that *Council's current projections considerably over-estimate Adelaide Precinct's redevelopment potential* – at least along lines envisaged in Working Paper 9:

- Excluding the heritage area, net residential densities approaching 350 units per hectare would be required to meet the UDS overall housing target
- Even if the heritage housing area (Myrtle Crescent/Tasman St) was cleared, densities approaching 300 units per hectare would be required
- In our view, the housing mix proposed in UDS Working Paper 9 would deliver maximum densities of less than 250 units per hectare, and require about 40-60% more land than is available within the precinct
- If the UDS housing target is to be met, and some land made available for commercial or public amenity purposes, then the Adelaide Precinct will need to take on an urban form similar to that proposed for the Central Area –high density apartment living, with a limited buffer adjacent to heritage areas.

The table below illustrates the relative spatial impact of changing the housing mix on 8.5.

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**Table 16: Adelaide Precinct – UDS housing targets – housing mix options**

	yield p/ha	UDS targets				URDS Strategy target achieved on land available		URDS target achieved & land avail for other uses	
		Base UDS targets & housing mix	UDS targets same housing mix but higher densities	UDS targets but reverse housing mix		No	Land req (ha)	No	Land req (ha)
6+ level apartments	450	0	0.0	0	0.0	1500	3.3	2620	5.8
5 level apartments	400	515	1.3	800	2.0	1900	4.8	200	0.5
4 levels plus retail	350	0	0.0	230	0.7		0.0	400	1.1
3 level walk-ups	300	515	1.7		0.0		0.0		0
Intensive terrace/townhouse	200	900	4.5	1600	8.0	1080	5.4	700	3.5
Townhouses on standard lot	150	900	6.0	200	1.3		0.0	0	0.0
Infill housing - townhouses	100		0.0	0	0.0		0.0	50	0.0
Infill - single dwelling	50		0.0		0.0		0.0	30	0.0
<i>Totals</i>		2830	13.5	2830	12.0	2980	10.2	2880	8.5
<i>Surplus/deficit (ha)</i>			-5.0		-3.5		-1.7		0.0
<i>Surplus/deficit as % of land available</i>			-59%		-41%		-19%		0%
<i>Avg density p/ha</i>			210		236		294		340
									7.1

The conclusion drawn from the table is that *Council should revise down its yield assumptions for the Adelaide precinct by at least 40%, unless it is willing to create (through planning controls or active involvement) an environment where CBD-type densities are the norm*

### 6.1.5 Commercial development considerations

The graphs below<sup>21</sup> attempt to identify commercial ‘trigger points’ for residential development within the Adelaide Precinct. In particular:

- The viability of different types of development at different retail pricing points
- The impact of price escalation on land values
- Points at which larger-scale development is likely to be preferred over smaller, less intensive projects.

<sup>21</sup> Data drawn from development feasibility analysis series (ref case study methodology above) attached as Appendix XX

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**Table 17: Adelaide Precinct – Summary Analysis – Land by Development Potential**

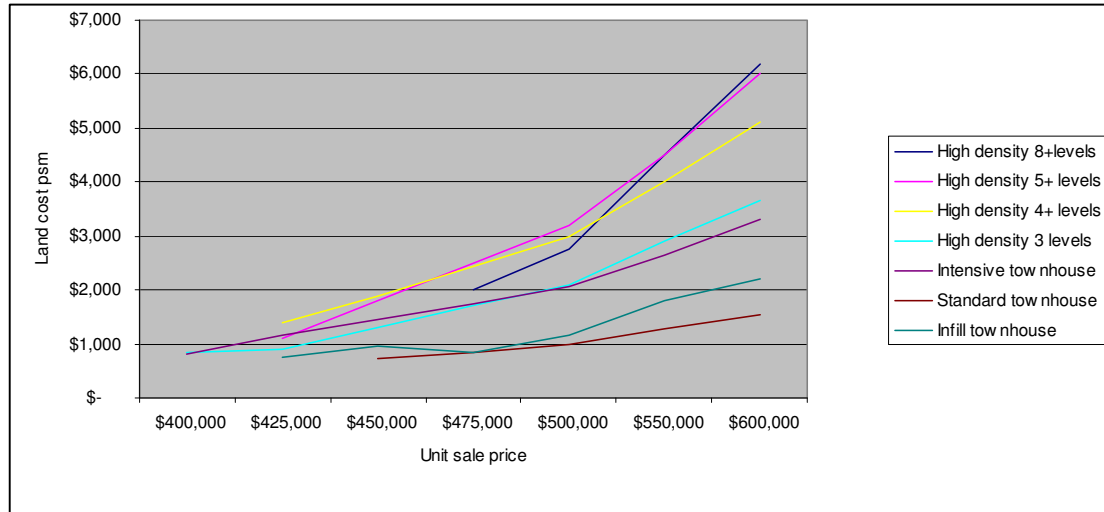
Address	Land area m2	Res dwling units no.	Res density p/ha	Capital value	Land value	Improv value	Land as % of tot value	Land value psm	Cap value psm land	Building floor area	Cap value psm floor	Building scope	Site cover -age
<b>Development Potential - Capital value of potential dev blocks less than \$3000 psm</b>													
1. Belfast/Tasman/Rugby/Douglas	13492	9	7	\$21,054,000	\$13,301,000	\$7,753,000	63%	\$986	\$1,560	0	\$0	9057	67%
2. Belfast/Adelaide/Rugby/Douglas	4927	5	10	\$10,471,000	\$7,300,000	\$3,171,000	70%	\$1,482	\$2,125	3900	\$2,685	2700	55%
3. Adelaide/Douglas /King	3342	0	0	\$4,200,000	\$4,000,000	\$200,000	95%	\$1,197	\$1,257	1740	\$2,414	1230	37%
5. Upper King Street	13991	33	24	\$19,865,000	\$10,520,000	\$9,345,000	53%	\$752	\$1,420	6609	\$3,006	4546	32%
7. Adelaide/King/Drummond	8436	0	0	\$13,088,000	\$8,394,000	\$4,694,000	64%	\$995	\$1,551	15530	\$843	6840	81%
8. Adelaide/Hansen/Drummond/service lane	8773	21	24	\$15,057,000	\$11,543,000	\$3,514,000	77%	\$1,316	\$1,716	6485	\$2,322	4622	53%
9. Tasman/Hansen/Drummond Steps/John St	8692	35	40	\$12,530,000	\$6,295,000	\$6,235,000	50%	\$724	\$1,442	8751	\$1,432	4401	51%
10. Hanson St/John St/Service lane	2770	8	29	\$4,770,000	\$3,150,000	\$1,620,000	66%	\$1,137	\$1,722	1770	\$2,695	1060	38%
11. Adelaide/Hospital/Hugh/Drummond	6068	3	5	\$9,795,000	\$7,767,000	\$2,028,000	79%	\$1,280	\$1,614	3921	\$2,498	2780	46%
12. Adelaide/Drummond/Brown inc Broomhedge/Oxford	15908	5	3	\$27,155,000	\$18,805,000	\$8,350,000	69%	\$1,182	\$1,707	17089	\$1,589	8736	55%
13. Brown/Adelaide/Rugby incl Girton & Alfred Sts	6132	4	7	\$10,842,000	\$8,014,000	\$2,828,000	74%	\$1,307	\$1,768	4054	\$2,674	2664	43%
<b>Total development potential</b>	<b>92531</b>	<b>123</b>	<b>13</b>	<b>\$148,827,000</b>	<b>\$99,089,000</b>	<b>\$49,738,000</b>	<b>67%</b>	<b>\$1,071</b>	<b>\$1,608</b>	<b>69849</b>	<b>\$2,131</b>	<b>48636</b>	<b>53%</b>
	9.2531	ha								land/building ratio		75%	
	73%	26%		51%	66%	35%							
<b>No/limited development potential - Capital value exceeds \$4,000 psm land or recent intensive res development</b>													
1. Belfast/Tasman/Rugby/Douglas	137	1	73	\$650,000	\$165,000	\$485,000	25%	\$1,204	\$4,745	184	\$0	92	67%
2. Belfast/Adelaide/Rugby/Douglas	309	1	32	\$1,330,000	\$640,000	\$690,000	48%	\$4,148	\$4,304	540	\$2,463	310	100%
3. Adelaide/Douglas /King	2365	17	72	\$13,595,000	\$4,749,000	\$8,846,000	35%	\$2,008	\$5,748	4916	\$2,765	2017	85%
5. Upper King Street	171	0	0	\$780,000	\$350,000	\$430,000	45%	\$2,047	\$4,561	270	\$2,889	180	105%
8. Adelaide/Hansen/Drummond/service lane	3832	57	149	\$21,059,500	\$8,534,000	\$12,525,500	41%	\$2,227	\$5,496	11176	\$1,884	2501	65%
9. Tasman/Hansen/Drummond Steps/John St	4100	87	212	\$30,850,000	\$10,572,000	\$20,278,000	34%	\$2,579	\$7,524	11165	\$2,763	4938	120%
10. Hanson St/John St/Service lane	1172	18	154	\$9,686,000	\$3,196,000	\$6,490,000	33%	\$2,727	\$8,265	2228	\$4,347	1000	85%
11. Adelaide/Hospital/Hugh/Drummond	1538	3	20	\$4,970,000	\$1,295,000	\$3,675,000	26%	\$1,280	\$3,231	3921	\$2,498	2780	46%
12. Adelaide/Drummond/Brown inc Broomhedge/Oxford	1268	21	166	\$5,965,000	\$1,524,000	\$4,441,000	26%	\$1,202	\$4,704	1660	\$3,593	820	65%
13. Brown/Adelaide/Rugby incl Girton & Alfred Sts	4531	43	95	\$20,205,000	\$6,290,000	\$13,915,000	31%	\$1,388	\$4,459	1140	\$3,042	600	67%
<b>Total no/limited development potential</b>	<b>19423</b>	<b>248</b>	<b>128</b>	<b>\$109,090,500</b>	<b>\$37,315,000</b>	<b>\$71,775,500</b>	<b>34%</b>	<b>\$1,921</b>	<b>\$5,617</b>	<b>37200</b>	<b>\$2,933</b>	<b>15238</b>	<b>78%</b>
	1.9423	ha								land/building ratio		192%	
	15%	53%		38%	25%	51%							
<b>Limited development potential - Historic character area?</b>													
4. Myrtle Crescent Historic Precinct	8282	41	50	\$18,265,000	\$6,762,000	\$11,503,000	37%	\$816	\$2,205	4928	\$3,706	3613	44%
6. Lower Tasman St - 87-135	7389	54	73	\$13,970,000	\$6,049,000	\$7,921,000	43%	\$819	\$1,891	4179	\$3,343	2268	31%
<b>Total potential historic housing area</b>	<b>15671</b>	<b>95</b>	<b>61</b>	<b>\$32,235,000</b>	<b>\$12,811,000</b>	<b>\$19,424,000</b>	<b>40%</b>	<b>\$817</b>	<b>\$2,057</b>	<b>9107</b>	<b>\$3,540</b>	<b>5881</b>	<b>38%</b>
	1.5671	ha								land/building ratio		58%	
	12%	20%		11%	9%	14%							
<b>Totals</b>	<b>127625</b>	<b>466</b>	<b>37</b>	<b>\$290,152,500</b>	<b>\$149,215,000</b>	<b>\$140,937,500</b>	<b>51%</b>	<b>\$1,169</b>	<b>\$2,273</b>	<b>116156</b>	<b>\$2,498</b>	<b>69755</b>	<b>55%</b>

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*'Highest and best land uses'*

Figure 6.1 looks at input land costs and what a developer would be prepared to pay if they could sell completed units at a range of prices from \$400,000 (2006 base) to \$600,000 (150% of base). Data is summarised in the graph below.

**Fig 6.1: Retail pricing impacts on development value of land**



The table suggests that, at 2006/07 pricing levels (\$400,000 for a standard 80m<sup>2</sup> apartment with a \$50,000+ premium for townhouses), medium density developers can sustain input land values of around \$1,500. Low density infill housing is also viable at around \$1,000 psm. Higher density housing (3-4 levels) is on the cusp.

Upward house price movements of 10% increase the attractiveness of higher density housing as a 'highest and best' use, and support input land values in excess of \$2,000 psm.

### *Development scale and profitability*

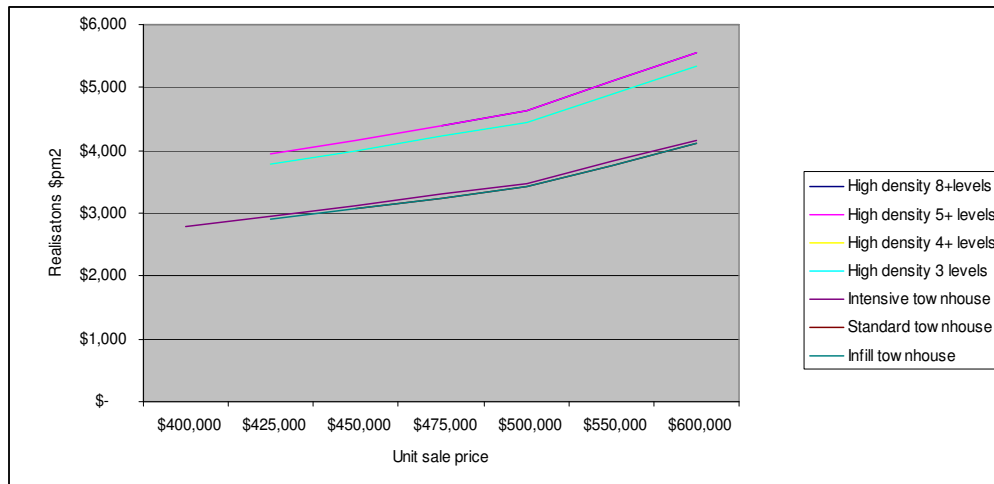
Figs. 6.2-6.4 look at key financial triggers for different developments, and give a general indication of developer capacity and risk. The graph below, for instance, suggests that townhouse and infill developments require a lower gross realisations threshold to generate an acceptable profit, because:

- 100% of the built area is saleable (ie no common areas)
- Lower cost/complexity of medium density construction projects

As a result, townhouse developers can afford to build bigger, thereby increasing the pool of prospective buyers. This advantage will be short-lived, however, if increasing land prices (which can be a significant component of lesser-scale developments) push realisations thresholds upwards.

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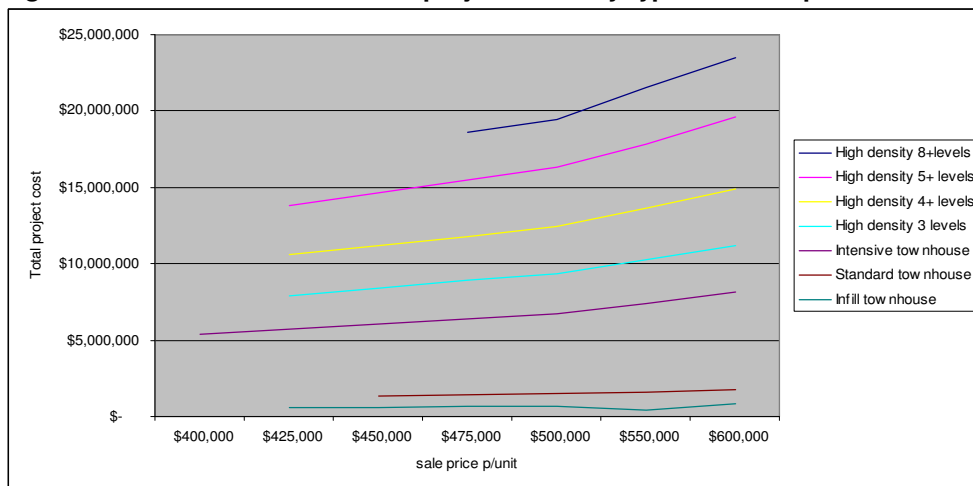
**Fig 6.2 : Adelaide Precinct – gross realisations targets by type of development**



*Total project costs and profit expectations:*

The graph below gives an indication of the expected total project cost of different developments (including finance and land costs). It is a useful reminder that high density housing projects are not only more complex but require significantly higher capital inputs and risk acceptance. If, for instance, early land acquisitions are led by developers operating at the sub-\$10 million project level, then we can expect housing forms to follow the ‘comfort zones’ of that segment of the developer community (medium density terrace/townhouses and smaller apartments).

**Fig 6.3 : Adelaide Precinct – total project costs by type of development**

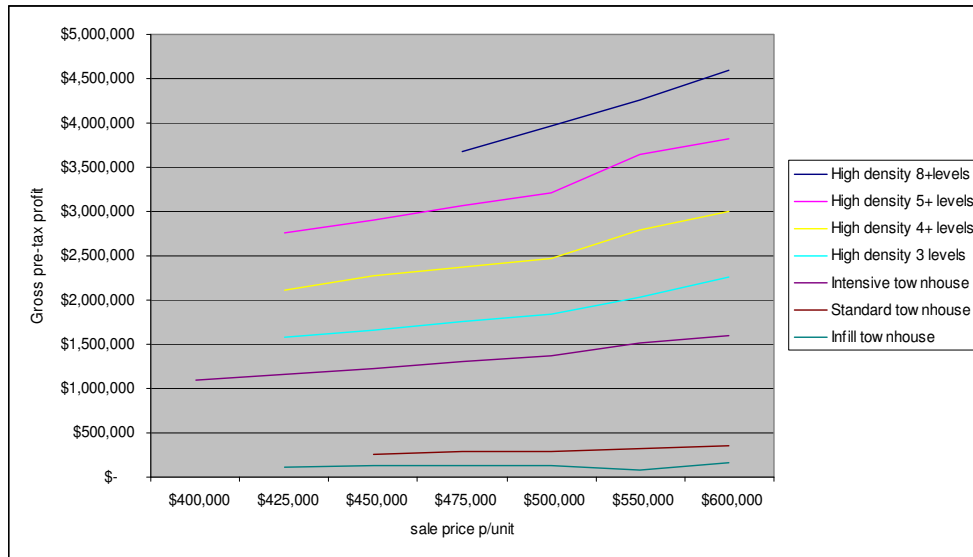


High capacity developers capable of delivering (say) a \$20 million apartment project will carefully consider their options before committing to a project in the area. As noted above, opportunities in the CBD will continue to be more profitable as long as there is higher demand and ongoing price differentials between the Central Area and Adelaide Precinct

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Student housing may be an exception to this rule. Demand for student housing is high, and there is a high market absorption rate for lower-cost, high density product targeted at this market segment. Developers can bank on lower sale costs and high pre-sales, so may pursue 'cash cow' institutional housing developments as an adjunct to their city-based projects.

**Fig 6.4: Adelaide Precinct – Base profit by type of development**



### 6.1.6 Adelaide Precinct - Summary and conclusions

In our view, the Adelaide Precinct is at a crossroads. Without direct intervention:

- Development will continue to occur within the area over the next 20 years – although it is unlikely to keep pace with the expectations of ADS Working Paper 9. The nature and quality of new development will depend heavily on who is behind the development.
- Property values (and commercial rentals) will steadily increase – to the extent that some low value businesses will close or relocate. If Wellington's commercial sector continues to expand, however, it is likely that other commercial players will replace them – especially if CBD locations are in short supply for second-tier business needed larger non-office building
- The supply of land available for residential development will also be eroded by infrastructure needs as traffic volumes increase along Adelaide Road.
- Housing demand will be held in check by the new housing supply in the Central Area and adjacent suburbs – which have higher amenity values than Adelaide Road in its current form

In the current environment, each new development – no matter what residential density it achieves – has the potential to compromise future development. At the very least, individual developments that seek to maximise onsite yields may have negative impacts

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on adjacent sites and urban amenity as a whole (*Drummond Lane* provides a contemporary example of this).

#### 6.1.7 Recommendations

The recommendations below are, in our view, a minimum requirement if Adelaide Road is to achieve the urban growth and timing objectives set out in UDS working paper 9.

##### 1. *Develop a robust 'vision' for the new Adelaide community (essential)*

We believe that *immediate priority should be given to developing a master plan for the Adelaide Precinct as a high density residential community.*

As previously noted, Adelaide Road precinct has no community identity, or other points of difference needed to make it a preferred residential location. This must be addressed through a well-articulated vision of what Council wants to achieve (and when). A council-sponsored concept for the entire precinct would:

- Provide a clear steer to the development community on council thinking
- Act as a vehicle for promoting Adelaide as a residential choice and for managing community consultation
- Permit detailed consideration of how different functions could be integrated, for instance, the precinct's dual role as a residential/business community, and its function as the main conduit to the southern suburbs
- Create a robust basis for assessing costs/yields etc

From an urban design perspective, we believe there also needs to be certainty around the following:

- *Overall scale of the built form.* If, for instance, CBD-level densities are to be encouraged, 8-level high rise apartments would become the norm in the central core.
- *Transport and infrastructure planning,* including the future of Adelaide Road and other through-roads. Would higher densities (and greater setbacks) along Adelaide Road, for instance, provide opportunities for widening the carriageways as well as creating more user-friendly pedestrian access?
- *Historic buildings and other character features.* Is there merit in keeping the upper Tasman Street area (and Myrtle Crescent) as a heritage precinct? This would limit new development in this area to character infill housing.
- *Future commercial uses:* To what extent should their location be determined by current landowner preferences, for instance, land held by supermarket interests in Adelaide/Rugby streets.

##### 2. *Use the planning process to direct growth*

To safeguard Adelaide Road's high density residential future, *immediate constraints should be placed on new commercial and residential development, especially:*

- Where commercial activity is likely to be incompatible with residential growth
- If building forms are not suitable for subsequent residential conversion

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- If development compromises subsequent development on adjacent sites
- Where poor quality development is likely to devalue Adelaide Precinct as a residential destination

In the medium term, *Adelaide Road should become a special planning zone*, with its own comprehensive development planning and enabling process. This should include a requirement for all new single site development to conform to a comprehensive development plan for (say) the block they are located in, in order to:

- Ensure that development is consistent with the precinct master plan
- Get property owners and developers thinking collectively. Ideally, individual land owners would amalgamate their sites to create large footprints suitable for comprehensive high density development
- Ensure that the development will not compromise the planned-for yield and character for the block

The model proposed is similar to that trialled by Waitakere City for Hobsonville (in conjunction with Housing New Zealand's subsidiary the *Hobsonville Land Company*), where Resource consents must be applied for at the block level, not for individual housing. As a result, individual building consents requirements are quite prescriptive in terms of building form and quality – no bad thing in a community building context.

### 3. *Implement a strategic land acquisition programme*

In the short term, we strongly *recommend that Council acquires strategic parcels of land within the precinct*. Land ownership is a key ingredient in the development process, and will give council greater leverage over the timing and character of subsequent development.

In our view, Council should target those blocks most at risk of sub-optimal redevelopment, especially if they are part of large blocks targeted for high densities. This, of course, presupposes that Council will stay in touch with the market over the coming months/years (see *active participation* below).

In addition, there are a number of strategically-located blocks currently owned by public agencies. These include Police (72 Adelaide Road), Housing New Zealand (King and Hanson Streets). The most significant is a large block of education land (approximately 6,000 m<sup>2</sup>) bounded by Tasman St, King St and Drummond Steps:

- This is the largest single block of underdeveloped land which (when combined with adjacent housing) contains about 10% of all land available for redevelopment
- There is a high risk that this land could be lost to residential development if Massey University extends its facilities into the Adelaide precinct

### 4. *Redefine the Adelaide Precinct?*

As Council is unlikely to achieve its housing targets within the currently-prescribed limits, we recommend that *the existing precinct boundaries be reconsidered with a view to incorporating adjacent land areas with redevelopment potential*. These include:



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- Land to the south of Hospital Road.
- Bare land on the Western edge adjoining Government House and the Hospital
- John Street frontage including open areas associated with public housing
- The old show grounds area

It may be wishful thinking on our part to suggest that John Street's function as part of the local roading network be reconsidered, but this would extend the Adelaide catchment to the south and double land potentially available for redevelopment.

#### 5. *Become an active participant in the development process*

We strongly believe that *Council must play a more active role within the Adelaide Precinct if it wishes to create a sustainable community* based around intensive housing forms. This could involve a number of elements including:

- *Council as developer:* Council's existing holdings in the Adelaide Precinct mean that WCC already has 'skin in the game'. Hugh Street, for instance, is an ideal location for intensive townhouse development – or even a transitional high-rise complex .
- *As a Development Partner:* This could take a number of forms, including JV social housing developments with HNZ, active participation in developments that include community facilities destined for council ownership, or as a land owner sharing development risks and rewards with a reputable commercial developer.
- *As a facilitator:* We suggest a 'one stop shop' for Adelaide Road, offering single point coordination of Council planning and property investment activity, and also to market the precinct to larger-capacity developers outside Wellington.

In summary, the key issues for Council are *informed leadership, active participation* and *an ability to work across Council functions* during the planning and development process.

## 6.2 Case Study 2: Johnsonville Town Centre

This case study focuses on residential development opportunities arising from proposed redevelopment of the Johnsonville Town Centre. The study area comprises approximately 125 hectares surrounding the existing main street/mall area. This is divided into three main catchments:

- *The commercial centre itself*
- *An inner ped shed (or walkable catchment) within 5 minutes walk or 400m from the commercial centre*
- *An outer ped shed within 5-10 minutes walk or 800 metres from the commercial centre*

Our purpose in this case study is to assess the redevelopment potential of each catchment, with a particular focus on high density housing within 400 m<sup>2</sup> of the Town Centre's 'heart'. For detailed yield and land use analysis, each catchment area has been split into smaller blocks.



Johnsonville Study Area

### 6.2.1 Profile

Johnsonville Town Centre lies about 7 kilometres to the North of Wellington CBD, and is the largest and most significant of Wellington's suburban centres. It houses the largest agglomeration of retail and commercial activity outside of the Central Area, and services a local catchment comprising over 9,000 households and 25,000 people – as well as adjacent suburban areas.

Over the next 20 years, the Town Centre's importance as the City's northern heart will increase as new residential land is brought on stream in the Northern Growth Area, and residential intensification begins to fill in what remains of the original suburban pattern of subdivision.

*Land area and current uses*

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The tables and map overleaf provide a summary of current land uses and densities. The total net area of 115 hectares (excluding road networks and road reserves) is made up of:

- About 12 hectares dedicated to commercial/industrial use.
- An inner ring of about 20 hectares comprising over 500 housing units, community and church facilities and some spill-over commercial/services.
- The outer residential area covers about 68 hectares and is almost exclusively residential in character (1200 housing units).
- About 15 hectares is devoted to schools and large open spaces, including Alex Moore Park.

#### *Appearance, amenity and character*

A recent Council *issues and context report* provides an excellent overview of the Johnsonville Town Centre<sup>22</sup> spatial and community dimensions. To paraphrase some of the findings in that report:

- The Johnsonville Town Centre sits in the floor of a natural basin formed by the hills extending north that define the Western corridor. The study area centres around a series of 'super blocks' dominated by large footprint buildings surrounded by open parking areas.
- Housing on the western, northern and southern side of the commercial core have easy access to the Town Centre, but houses to the east are isolated by the Northern motorway, which bisects the study area, and makes pedestrian access somewhat academic.
- The area's history has been buried by subsequent development (although some heritage features remain).
- Like Adelaide Road, the internal integrity of the Town Centre is compromised by its main roads, which function as a connecting link to the motorway and adjacent suburbs. Johnsonville Road, for instance has up to 25,000 vehicle movements daily, Moorefield Road has up to 19,000 traffic movements. Unrestricted parking reinforces the impression that the town centre is a 'drive to' rather than 'walk through' destination.
- Existing rail and road transport infrastructure need to be upgraded, but presents a real opportunity to create a transit-oriented development, with mutual leverage between the Town Centre's commercial and transport hub functions.
- Johnsonville has an ample supply of schools, council-owned community facilities and parks, but there is a sense that many of these are in the wrong place, or need to be reconfigured to exploit their full potential. Random growth of recreational business activity (restaurants, bars etc) is also evident

The current Johnsonville Town Centre Planning process is an exciting opportunity to help the area "...mature from a suburban shopping centre to a quality town centre,"<sup>23</sup> and to insert adjacent residential areas into the planning mix.

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<sup>22</sup> Ref *Johnsonville Town Centre Plan – Issues and Context report*, Wellington City Council September 2006

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### *Existing residential context*

The table overleaf summarises our analysis of Council's property database for the study area. In brief:

- Residential content within the existing commercial area is limited to one or two houses that have survived commercial expansion, and some new mixed use housing (average density 2 units per hectare). Capital values are around \$1,500 per square metre of land
- The inner ped shed area (500 housing units) is notable for its already high residential intensification levels, averaging 28 units per hectare (net of roads) and exceeding 40 units per hectare around Trafalgar Road and Rotoiti Street. More than 75% of all land parcels within the inner ped shed have some form of multi-unit housing (eg: purpose built flats, townhouses or older housing units divided up for rental).
- The outer catchment contains more than 1200 housing units at more traditional housing densities (18 units per hectare net of roads). About 45% of all land parcels have experienced some form of intensification.

Our observation is that Johnsonville Town Centre has been subject to ongoing intensification over the last 30-40 years. Initially, the focus was on low cost rental and pensioner housing. Later developments (especially those constructed during the home ownership heydays from 1970-1990) appear targeted at low income home owners – although many have since become rental investments. Today, we observe a spread of new housing – higher quality for the home ownership market, and basic standard multi-unit development targeted at rental investors.

## **6.2.2 Short term residential market analysis and market trends**

### *Housing market indicators:*

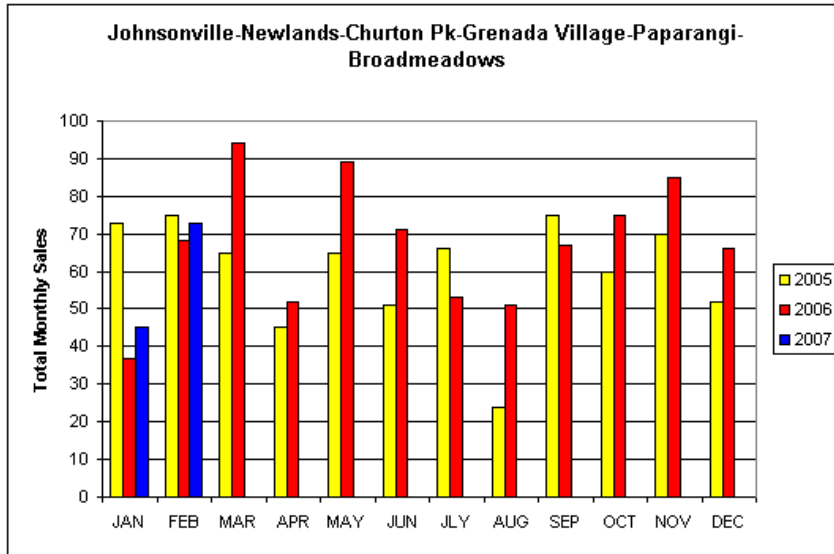
Although there are signs of higher quality and higher prices, it would be fair to say that Johnsonville's residential content does not command the premium prices associated with its southern suburban neighbours. Notwithstanding this, Johnsonville and its northern suburbs have a healthy housing market, with annual sales approaching 900 units.

**Fig 6.5: Wellington City: Northern suburbs property market trends**

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<sup>23</sup> As above, p3

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We estimate there were about 300 sales in greater Johnsonville during 2006 and, so far in 2007 there have been about 30 sales<sup>24</sup>. The current median house price is \$265,000<sup>25</sup>

- Based on 2006/07 market data, prices range from \$220,000-\$260,000 for two bedroom housing units, \$250-350,000 for three bedroom townhouses (new units at the upper end of these scales), and from \$200,000-high \$400,000's for stand alone housing.
- New developments in the area are generally single-lot infill, with realisations rates ranging from \$2,000-3,000 excl GST (average about \$2,500) per square metre of built area. Some mini-townhouse units (60square metres) have achieved prices of up to \$4,000 per m2, but these prices are exceptional, because the developments (for instance *Monterrey*) feature high amenity levels (Tennis courts, pool, gym and grounds) not normally associated with apartment-style housing.
- There is strong demand for stand-alone housing with redevelopment potential, and an established core of smaller builder-developers who appear to make a business out of building infill housing for sale.

### *Rental market trends:*

Johnsonville is the most affordable rental housing area within the growth spine, although (as discussed in *housing investment parameters* above) low rents are a mixed blessing from a residential intensification perspective. The table below compares recent tenancy data for a number of different housing options:

<sup>24</sup> Sales data derived from QV data (410 sales including Churton Park to the North) and local real estate sources.

<sup>25</sup> From RPNZ Ltd *Area Profile*, March 2007

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**Table 18: Market rents for new tenancies – September 2006 to February 2007<sup>26</sup>**

Housing type	No bdrms	Johnsonville & Newlands	Khandallah Ngaio & Wadestown	Premium over Jville base	Thorndon City & Mt Cook	Premium over Jville base	Island Bay Lyall Bay & Kilbirnie	Premium over Jville base
Apartment	1				\$ 303			
	2	\$ 292			\$ 421	44%	\$ 331	13%
	3		\$ 449		\$ 492			
Flat	1	\$ 188	\$ 209	11%	\$ 245	30%	\$ 213	13%
	2	\$ 242	\$ 263	9%	\$ 345	43%	\$ 285	18%
	3	\$ 305	\$ 321	5%	\$ 384	26%	\$ 344	13%
House	1	\$ 188			\$ 284	51%	\$ 232	23%
	2	\$ 288	\$ 320	11%	\$ 393	36%	\$ 345	20%
	3	\$ 329	\$ 424	29%	\$ 461	40%	\$ 396	20%
	4	\$ 373	\$ 497	33%	\$ 564	51%	\$ 497	33%

Johnsonville itself has long been associated with lower cost family housing mixed in with a relatively high proportion of social and welfare rental stock – especially in the study area where HNZA and WCC have significant rental property holdings. Our view is that any new housing built for investment purposes will need to target this market for the foreseeable future

<sup>26</sup> Source, Department of Building and Housing, March 2007

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**Table 19: Johnsonville Town Centre – Database Summary**

	Land area m2	Units of use	Density: Use unit per ha	Res units?	Prev infill or multi-unit hsng	Capital value	Land value	land as % of tot value	Cap value psm land	Land value psm
<b>Total Johnsonville Commercial Area</b>	<b>121574</b>	<b>207</b>	<b>17</b>	<b>23</b>	<b>22</b>	<b>\$173,094,000</b>	<b>\$94,880,000</b>	<b>55%</b>	<b>\$1,424</b>	<b>\$780</b>
<b>Total net area</b>	<b>12.1574 ha</b>	<b>Res as % of all uses</b>		<b>11%</b>	<b>infill/multi</b>	<b>96%</b>	<b>Avg value</b>			
						<b>\$836,203</b>				
<b>Inner Ped Shed Summary</b>										
<b>SW Inner:</b>										
<b>Total Bould/Hindmarsh Block Inner Ped Shed</b>	38931	83	21	82	58	\$23,050,000	\$10,186,000	44%	\$592	\$262
<b>Moorfield Heath Inner Ped Shed (excluding park)</b>	8098	68	84	68	62	\$7,170,000	\$3,050,000	43%	\$885	\$377
<b>NW Inner:</b>										
<b>Trafalgar Moorfield Block</b>	13954	45	32	27	25	\$16,805,000	\$8,565,000	51%	\$1,204	\$614
<b>Trafalgar Rotoiti Ironside Frankmoore</b>	24677	100	41	91	80	\$26,245,000	\$10,895,000	42%	\$1,064	\$442
<b>Rotiti Earp Frankmoore Ironsides lwr Woodland</b>	41950	104	25	101	69	\$35,270,000	\$12,719,000	36%	\$841	\$303
<b>Upper Phillip Street to Fankmoore Broderick</b>	21036	45	21	44	21	\$13,105,000	\$5,299,000	40%	\$623	\$252
<b>Lower Phillip Street/Upper Dr Taylor (excl school/church)</b>	25788	89	35	88	67	\$22,971,000	\$9,948,000	43%	\$891	\$386
<b>Dr Taylor/Moorfield incl Wanaka to Broderick Frankmoore</b>	20719	15	7	8	6	\$16,435,000	\$7,580,000	46%	\$793	\$366
	<b>195153 m2</b>	<b>549</b>	<b>28</b>	<b>509</b>	<b>388</b>	<b>\$161,051,000</b>	<b>\$68,242,000</b>	<b>42%</b>	<b>\$825</b>	<b>\$350</b>
<b>Total net area</b>	<b>19.5153 ha</b>	<b>Res as % of all uses</b>		<b>93%</b>	<b>infill/multi</b>	<b>76%</b>	<b>Avg value</b>			
<b>Avg land per unit</b>	<b>355.469945 m2</b>					<b>\$293,353</b>				
<b>Outer Ped shed summary</b>										
<b>Bould/Hindmarsh/Fraser Block - Outer Ped Shed</b>	128953	262	20	257	147	\$73,701,000	\$28,703,000	39%	\$572	\$223
<b>Moorfield to Bannister - Outer Ped Shed</b>	71528	179	25	176	100	\$43,795,000	\$17,457,000	40%	\$612	\$244
<b>Kipling Bannister Autua Broderick (excl school/hall)</b>	55390	120	22	114	50	\$36,010,000	\$14,017,000	39%	\$650	\$253
<b>NW Blocks outer ped shed (excl school/hall)</b>	252323	406	16	386	127	\$129,848,000	\$48,443,000	37%	\$515	\$192
<b>Outer ped shed east of motorway</b>	173747	294	17	283	126	\$92,502,000	\$39,427,000	43%	\$532	\$227
	<b>681941 m2</b>	<b>1261</b>	<b>18</b>	<b>1216</b>	<b>550</b>	<b>\$375,856,000</b>	<b>\$148,047,000</b>	<b>39%</b>	<b>\$551</b>	<b>\$217</b>
<b>Total net area</b>	<b>68.1941 ha</b>	<b>Res as % of all uses</b>		<b>96%</b>	<b>infill/multi</b>	<b>45%</b>	<b>Avg value</b>			
<b>Avg land per unit</b>	<b>540.793814 m2</b>					<b>\$298,062</b>				
<b>Exclusions</b>										
<b>Alex Moore Park</b>	47114	4		0	0	\$2,950,000	\$2,500,000	85%	\$63	\$53
<b>87-97 Broderick Rd School/Hall</b>	24616	0		0	0	\$4,140,000	\$1,265,000	31%	\$168	\$51
<b>6-12 Dr Taylor school/church/ Phillip St hall</b>	10048	5		0	0	\$2,805,000	\$1,295,000	46%	\$279	\$129
<b>38 Ironside school/14 Basset St Hall</b>	55544	6		0	0	\$9,510,000	\$2,630,000	28%	\$171	\$47
<b>Reserve 23 Chapman St</b>	8884	1		0	0	\$1,750,000	\$600,000	34%	\$197	\$68
	<b>146206 m2</b>	<b>16</b>		<b>0</b>	<b>0</b>	<b>\$21,155,000</b>	<b>\$8,290,000</b>	<b>39%</b>	<b>\$145</b>	<b>\$57</b>
<b>Database Summary</b>	<b>1144874 m2</b>	<b>1826</b>	<b>16</b>	<b>1748</b>	<b>960</b>	<b>\$731,156,000</b>	<b>\$319,459,000</b>	<b>44%</b>	<b>\$639</b>	<b>\$279</b>
<b>Total net area</b>	<b>114.4874 ha</b>	<b>Res as % of all uses</b>		<b>96%</b>	<b>infill/multi</b>	<b>55%</b>	<b>Avg value</b>			
						<b>\$400,414</b>				

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### *New house construction:*

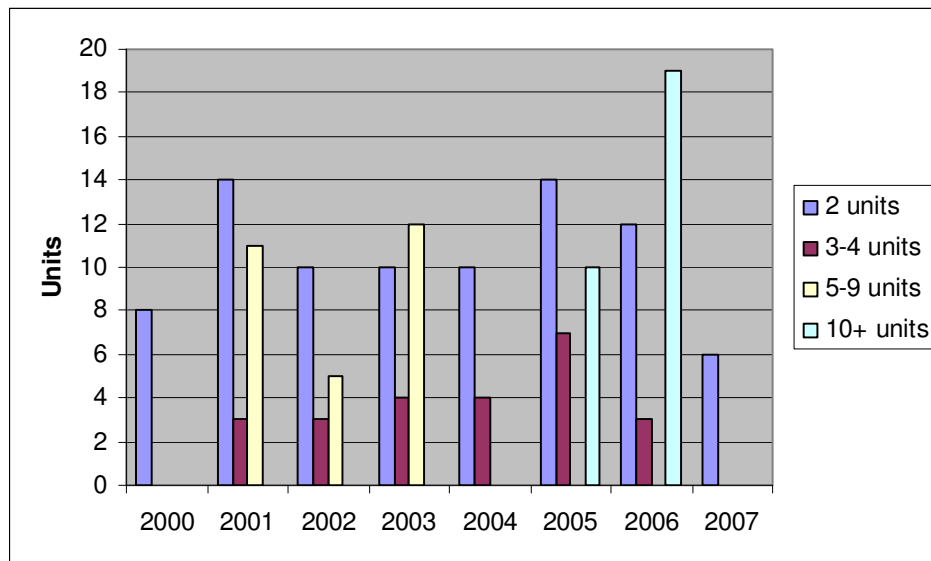
The table below summarises recent multi-unit housing construction in the wider Johnsonville area, based on consents issued since 2000.

**Table 20: Johnsonville – new dwelling construction since 2000**

	2000	2001	2002	2003	2004	2005	2006	2007	Totals
<b>2 units</b>	8	14	10	10	10	14	12	6	84
<b>3-4 units</b>	0	3	3	4	4	4	3	0	21
<b>5-9 units</b>	0	11	5	12	0	0	0	0	28
<b>10+ units</b>	0	0	0	0	0	10	19	0	29
<b>Totals</b>	8	28	18	26	14	28	34	6	162

About 100 of the 162 housing units come from projects in the study area, although it is interesting to note that the largest projects (an extension of *Malvina Major* retirement village, and new townhouses on the old milk processing station below) are south of Raroa. No project in the case study area has been larger than 6 units. As the graph below attests, there is no discernable trend towards bigger projects, and single-site redevelopment (infill) remains ‘de rigueur’ for developers.

**Fig 6.6: Johnsonville - New dwelling construction 2000-07 by project size**



The trends suggest that Johnsonville is continuing to find favour with home seekers priced out of the market in other inner residential locations, and attracted by high suburban amenity values. The rental market is strong, but capped by Johnsonville’s primary rental customer base – low to middle income families and groups.

In terms of residential intensification, the local development community has few incentives to look beyond existing low-medium density housing delivery models. In particular, construction of 1-2 bedroom housing targeted at smaller households is unlikely to find favour in the short term because:

- For most older households already living in the area, the value of existing housing is too low to transfer without penalty.



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- For rental investors, the benefits of investing in smaller rental housing are similar to those elsewhere along the growth spine (ref. housing investment discussion and analysis in Section 2 above) but the market is less established, or tainted by association with lower income markets.

There are few opportunities left in the inner ped shed for standard infill (ie where the existing improvement is retained) and our observation is that developers there are gradually increasing densities by building (say) four units on a cleared lot where two or three units may have been the norm in the 1990's.

The outer ped shed has significant potential for redevelopment along traditional low-medium density lines. Land values are low enough not to require smaller developers to change their mode of operation

### 6.2.3 Looking forward – Council's 'development vision' for the Johnsonville Town Centre

Turning now to Council's strategic vision for the area, the statement below paraphrases key principles articulated in WCC's *Johnsonville Town Centre Plan* consultation document.

1. *Facilitate and manage growth:* through an integrated approach that delivers wider choices, better quality and greater sustainability
2. *Encourage more people to live in and around the town centre:* in apartments and townhouses, to bring vibrancy to the centre, improve walkability and safety, encourage a wider range of facilities and services, increase the viability of public transport and provide more affordable housing choices.
3. *Develop Johnsonville as the 'mainstreet':* by reducing vehicle traffic flows and increasing pedestrian flows, building up densities of high value commercial activity
4. *Improve design quality and sense of place:* key elements of which are high design standards, celebrating heritage and encouraging environmentally sustainable buildings.
5. *Develop a fuller range of town centre functions:* a better range of retail, recreational and civic facilities and a thriving night-time economy
6. *Retain a compact town centre:* enhance the existing compact town centre, locate major activities within the centre
7. *Maximise the potential of the public transport systems:* including rail bus and road representing aspects of Johnsonville's heritage

The table below looks at Council's strategic vision from a housing and population growth perspective (using numbers from UDS Working Paper 9) and takes into account what we know about the existing housing environment.

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**Table 21: UDS targets for Johnsonville Town Centre 2001-51**

Elements	Goals	2001 Base	UDS objectives		
			2001-26	2001-26	2026-51
<b>Population</b>	Enable population growth in line with WGS objectives	Resident population Approx 4,500	Increase resident population by 100%	3000 net inc (1% pa)  7,000	2,000 net (0.5% pa)  9,000 gross
<b>Housing</b>	Maximise new housing provision close to the town centre as a means of increasing the viability and quality of services provided there	1,800 approx occupied dwellings s/alone, infill plus 60's 2 level walk up flats	Increase residential unit numbers by at least 2000 - 200+ high density - 1800 med density - low density/infil	1300 new units  3,000 tot units	700 new units  3,000 tot units
<b>Household composition</b>	Generate greater diversity of housing choice	Avg h/hold size 2.5 persons, predominantly family housing plus low income singles hngng	Increase housing provision for non-family households while maintaining family housing supply	Avg h/hold size new units =1.7  Gross = 2.1	Avg h/hold size new units =1.8  Gross = 2.0

### *Residential development assumptions*

UDS Working paper 9 includes a more detailed breakdown of Council's residential unit growth assumptions for the Johnsonville Town Centre. The table below re-presents these, adjusted to take into account recently-built housing:

**Table 22: Johnsonville Town Centre Housing and Population Growth Projections to 2051**

	2001-06**	2006-26	2026-51	Totals
Multi-unit high density (3-4 levels)		137	79	216
Multi-unit medium density	25	1040	660	1800
Lower density infill	75			
<b>Totals</b>	<b>100</b>	<b>1177</b>	<b>739</b>	<b>2016</b>
Average new units built/required p/a	20	60	30	40

\*\* Nominal, includes houses completed after 2000, but consented in 1990's

As they stand, Council's assumptions call for a *threefold increase in development activity over the next 20 years*, but relatively modest development outputs in later years. Average housing densities would need to double to about 40 units per hectare (net of roads and current commercial land). This is at the lower end of the intensification spectrum and could be achieved by low level infill and single lot medium density type-development – all within the capacity of Johnsonville's existing developer community. A lower density approach also limits the number of existing housing units that need to be lost to redevelopment.

The picture changes, however, if (as proposed in WCC planning documents) a greater proportion of growth is to be directed at the inner residential catchment. For instance, to deliver 50% of planned growth within the 400m ped shed requires an average density of 80 units per hectare in that area - almost 200% higher than current densities. By comparison, the outer ped shed would need to accommodate an increase in catchment density of only 75%.

## 6.2.4 Land requirements and housing mix

Unlike Adelaide Road, there is no shortage of potential redevelopment land in and around the Johnsonville Town Centre:

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1. We estimate that about 17 hectares in the inner ped shed, and 50 hectares in the outer area could sustain more development.
2. In addition, there is scope in the existing commercial area for higher density and mixed housing, especially if sub-optimal commercial uses were replaced by higher value business activity. For the purposes of this paper, we have assumed that up to 25% of the existing commercial area could support residential housing if the price was right.
3. Underutilised open space could also be opened up for new development. As an example, the existing layout of Alex Moore Park could benefit from a ring of townhouse development around its edge. This, we believe, would improve the safety (according to CEPTED principles) and overall useability of the park without too much impact on weekend sport.

The table below summarises our current thinking on land potentially available for redevelopment:

**Table 23: Johnsonville Town Centre – potential redevelopment land**

Area	Description	Est land area	Existing housing	Density	Avge capital value psm
		ha	est units	Units/ha	
Commercial	Land on periphery of proposed new town centre development (nominal)	3	0	0	\$1000 - 1500
Inner ped shed	Existing housing with less than 2 units per parcel, excl recent development	17	350	21	\$766
Outer ped shed	Existing housing with less than 2 units per parcel, excl recent development	50	700	14	\$440
Open space	Underutilised parks with dev potential on edge	1	0	0	
Totals		71	1050	15	

How much of this land will be needed for redevelopment depends ultimately on the mix of housing that emerges over the period. In the table overleaf, we look at a number of different scenarios, based on different policy/commercial drivers. In summary:

- If Council wishes to see at least 50% of all new development within 400 metres of the commercial centre it needs to promote projects that deliver on-site densities of over 200m<sup>2</sup>.
- If left to their own devices, the development community is likely to drag development away from the commercial centre, because land is cheaper and more plentiful. As discussed above, there is also no commercial rationale (at least in the current market) to shift from profitable low-medium density townhouse development to higher yield housing.

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**Table 24: Johnsonville Town Centre – impacts of different development strategies on land requirements**

Scenario driven by:		Current URDS strategy assumptions	Maximising densities close to new town centre	URDS Strategy optimised to minimise impacts on existing residential uses	Current developer practice
High density base		216	216	216	216
Med density base excl units already delivered 2001-06		1700	1700	1700	1700
Replace units lost to redevelopment		250	140	40	134
Target units		2166	2056	1956	2050

		No	Land req (ha)	No	Land req (ha)	No	Land req (ha)	No	Land req (ha)	
<b>1. Within Commercial Centre</b>										
Yield p/ha										
4 levels residential plus retail on ground		350	108	0.3	216	0.6	216	0.6	0	0.0
4 level res only (3 levels res, 1 pk)		300	0	0.0	0	0.0	0	0.0		0.0
Intensive townhouse development amalgamated lot		200	0	0.0	475	2.4	475	2.4	0	0.0
<b>Totals</b>			108	0.3	691	3.0	691	3.0	0	0.0
Land available with redevelopment potential				3.0		3.0		3.0		3.0
As % of land available for development				10%		100%		100%		0%
Avg density p/ha newly developed land				350		231		231		#
<b>2. Within 400m ped shed</b>										
Yield p/ha										
4 levels residential plus retail on ground		350	0	0.0	0	0.0	0	0.0	0	0.0
4 level res only (3 levels res, 1 pk)		300	108	0.4		0.0	0	0.0		0.0
Intensive townhouse development amalgamated lot		200	400	2.0	1000	5.0	310	1.6	100	0.5
Intensive townhouse development single lot		200	300	1.5	15	0.1		0.0	500	2.5
Std townhouse redevelopment single lot		150	300	2.0		0.0	0	0.0	200	1.3
Infill housing - existing plus 2+ townhouses		100	0	0.0		0.0	100	1.0	30	0.3
Infill housing - existing plus single unit		50		0.0		0.0	15	0.3	20	0.4
<b>Totals</b>			1108	5.9	1015	5.1	425	2.9	850	5.0
Land available with redevelopment potential				17.0		17.0		17.0		17.0
As % of land available for development				34%		30%		17%		30%
Avg density p/ha newly developed land				189		200		149		169
<b>3. Within 800 m ped shed</b>										
Yield p/ha										
Std townhouse redevelopment single lot		150	450	3.0	0	0.0	0	0.0	600	4.0
Infill housing - existing plus 2+ townhouses		100	500	5.0	200	2.0	350	3.5	400	4.0
Infill housing - existing plus single unit		50		0.0		0.0	350	7.0	200	4.0
<b>Totals</b>			950	8.0	200	2.0	700	10.5	1200	12.0
Land available with redevelopment potential				50.0		50.0		50.0		50.0
As % of land available for development				16%		4%		21%		24%
Avg density p/ha newly developed land				119		100		67		100
<b>4. Existing open space</b>										
Yield p/ha										
Std townhouse redevelopment single lot		150	0	0.0	150	1.0	150	1.0	0	0.0
<b>Totals</b>			0	0.0	150	1.0	150	1.0	0	0.0
Land available with redevelopment potential				1.0		1.0		1.0		1.0
As % of land available for development				0%		100%		100%		0%
Avg density p/ha newly developed land						150		150		
<b>New residential redevelopment summary</b>										
Yield p/ha										
4 levels plus retail		350	108	0.3	216	0.6	216	0.6	0	0.0
3 level walk-ups		300	108	0.4	0	0.0	0	0.0	0	0.0
Intensive townhouse development amalgamated lot		200	400	2.0	1475	7.4	785	3.9	100	0.5
Intensive townhouse development single lot		200	300	1.5	15	0.1	0	0.0	500	2.5
Std townhouse redevelopment single lot		150	750	5.0	150	1.0	150	1.0	800	5.3
Infill housing - existing plus 2+ townhouses		100	500	5.0	200	2.0	450	4.5	430	4.3
Infill housing - existing plus single unit		50	0	0.0	0	0.0	365	7.3	220	4.4
<b>Totals</b>			2166	14.2	2056	11.1	1966	17.3	2050	17.0
As % of land available for development				20%		16%		24%		24%
Avg density p/ha newly developed land				153		186		113		120

## 6.2.5 Commercial development considerations

As with Adelaide Road, we have carried out feasibility assessments of a number of different redevelopment project scenarios, to identify commercial 'trigger points' for residential development around the Johnsonville Town Centre, in particular:

- The viability of different types of development at different retail pricing points
- The impact of price escalation on land values
- Points at which larger-scale development is likely to be preferred over smaller, less intensive projects.

The table below summarises our analysis. In brief, the analysis confirms our earlier impressions that Johnsonville's real estate market is some way off supporting high density residential development on a commercially viable basis. Based on today's land values, for instance:

- High density housing will return a reasonable development return only if an apartment developer can achieve a gross realisation rate of about \$3,750 per square metre of built area – in a market that currently cannot support realisations much higher than \$2-2,500 per square metre
- By contrast, infill and townhouse developments command a \$50,000+ premium in the current market, and can generate acceptable developer profits at gross realisations levels of about \$2,500 per square metre

**Table 25: Johnsonville Town Centre: Estimated land price 'trigger' by type of development and retail value**

<i>Average unit value on completion (incl GST)</i>		\$325,000	\$350,000	\$375,000	\$400,000	\$425,000	\$450,000
<b>Est density per ha</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>	<b>Developer can pay for land per m2</b>
<i>(net land)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>	<i>(excl GST)</i>
<b>Multi-unit high density</b>							
5 res levels plus secure parking on L1	450	Not feasible	Not feasible	Not feasible	400	1100	1800
4 res levels plus screened parking on L1	350	Not feasible	Not feasible	350	900	1400	1900
3 res levels 'walk up' open parking under	250	Not feasible	Not feasible	100	500	900	1300
<b>Multi-unit medium density</b>							
Intensive townhouse complex on larger site	450	Not feasible	250	550	850	1150	1450
Intensive single lot redev (6+ units on single lot)	200	100	325	575	800	1050	1550
Standard townhouse redev (4 units on single lot)	100	30	170	300	450	575	725
<b>Lower density infill (1)</b>							
2+ townhouses on infill site	100	Not feasible	100	280	450	600	775
Stand-alone dwelling	50	Not feasible	Not feasible	90	200	310	425

Feasibility assessment from base data

	Not feasible at any price or land price trigger below current CV
	Feasible only in outer ped shed
	Feasible in inner and outer ped shed
	Feasible in inner ped shed and commercial area

(1) Land value psm does not include value of existing improvements as these do not need to be demolished

## 6.2.6 Summary and conclusions

The Johnsonville Town Centre has been subject to ongoing intensification for 30-40 years, and has a well established developer community, delivering low-medium density housing product:

- In the inner ped shed area, more than 75% of all land parcels have been subdivided in some way. This is generally historical (re-subdivision of larger parcels into smaller lots), turning older houses into flats or multi-unit infill. Has the ‘horse already bolted’ in respect of further intensification there?
- The outer area has significant intensification potential and will become more attractive to developers as land opportunities in the inner catchment areas decrease.

In terms of overall numbers, WCC’s growth targets for Johnsonville Town Centre are probably on the light side. The outer area in particular has the capacity to absorb another (say) 1,000 units without moving to higher density urban forms.

Our analysis tends to confirm Mead and McGregor’s 2004 findings that high density intensification is harder in lower value suburbs, and infill will continue to be the norm. They concluded that the only realistic options for higher density development in such areas was public housing projects, or by ‘freezing’ redevelopment until values start to justify higher levels of investment.<sup>27</sup>

WCC’s current high density target (216) is relatively modest, and could be achieved by targeting (say) the supported housing market (for instance older peoples housing along lines of *Malvina Major*), or by promoting a major public housing project. This may send the wrong signals to the market, however, if it reinforces perceptions that high density housing is unattractive to the wider market.

A further option is to leverage off proposed new commercial development. Mixed use housing within the commercial centre could attract modest income households seeking an ‘urban’ lifestyle – provided that amenity levels were improved to address the needs and preferences of this market sector.

The key challenge for Johnsonville planners is how to stimulate demand for new housing product close to the town centre, when commercial drivers are likely to pull development outward. The development of an attractive town centre environment will contribute, but will it result in higher prices being paid for new housing closer in? Can a higher marginal development cost can be justified in these areas?

In our view, two areas are worthy of further research

- *Improving the commerciality of higher density residential development inside/adjacent to the town centre:* This could be achieved by, for instance, leveraging housing off commercial development (mixed use), or through selective zoning within the commercial centre itself to preclude higher-use (i.e. commercial) developments.

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<sup>27</sup> Op cit pp 80-83

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- *Widening the demand profile by attracting new market segments to Johnsonville Town Centre:* To our knowledge, Council has yet to conduct a robust demand analysis to support its population and housing growth objectives. What factors apart from price, for instance, would lead to high density home seekers shifting their preferred location from CBD environs to a peripheral suburban centre?

### 6.2.7 Recommendations

The following recommendations are, in our view, a minimum requirement if WCC's intensification objectives are to be achieved in the Johnsonville case study area.

#### 1. *Ensure that residential development is at the forefront of Council's 'vision' for the new Johnsonville Town Centre*

The current Town Centre planning process makes reference to residential growth, but concept planning appears to be focused on commercial activity/roads etc. As a result, we speculate that Johnsonville's residential developers are not yet to be seriously engaged in the planning process.

This could be achieved by widening the master planning canvass to include the 400 and 800 m<sup>2</sup> ped sheds. In our experience, concept plans (especially 3D modelling) are a powerful tool for demonstrating the benefits of higher density living. For developers as yet unconvinced of these benefits, we *recommend that council creates a knowledge base* including:

- *Market demand information* – along lines discussed above
- *Model building data* – full feasibility analyses of the type of housing projects council would like to see built in the short-medium term
- *Potential positive incentives* – forum for discussing planning and other concessions that could take some of the risk out of higher-density residential development

#### 2. *Use the planning process to direct growth*

As noted above, much of the residential land within the 400 m ped shed has already been subject to some form of intensification. The objective now must be to re-direct new housing activity towards higher-density housing forms. In our view, this will require council to be more interventionist, and to:

- Amend the district plan to create a special planning zone for Johnsonville Town Centre
- Place constraints on new building in the short term. As a minimum, this should involve minimum densities of 1:1-200 in the inner residential area
- Introduce a comprehensive multi-lot development planning process along lines outlined for Adelaide Road above
- Specify a target for residential units within the commercial centre

#### 3. *Make better use of Council's existing land holdings*

WCC has significant land holdings in the area, and must consider how these 'fit' with its long-term vision. We recommend a thorough review of the WCC portfolio, looking at

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both quality and land use efficiency perspective. The main focus should be on residential redevelopment potential of:

- *Parks and reserve areas* – particularly Alex Moore Park and the Gilbert Young playground
- *Council housing estates* – particularly with reference to consolidating housing numbers on a smaller blocks of land, and improving the quality of existing stock
- *Land and buildings scheduled to be replaced* by facilities within the new town centre.

We appreciate there will be some constraints on Council's ability to re-use land for residential purposes (the PWA and Reserves Act, for instance) but, in our view, Council land holdings in the Johnsonville area are too significant to treat as a passive resource.

### 4. *Implement a strategic land acquisition programme*

In the short term, we strongly *recommend that Council acquire strategic parcels of land within the precinct*. Land ownership is a key ingredient in the development process, and will give council greater leverage over the timing and character of subsequent development. Priority should be given to:

- Property adjacent to existing council holdings (increase overall footprint, improve access etc) in the Western ped shed
- Underdeveloped housing in the Bould/Hindmarsh St area, which would appear to have the greatest potential for amalgamation and development along medium density townhouse lines.
- Other underdeveloped housing lots with amalgamation potential elsewhere in the 400 m2 ped shed. This would increase Council leverage with developers planning projects on neighbouring sites
- Lower-cost property within the commercial area, for a demonstration high density apartment complex

### 5. *Engage other public and community agencies in the development process*

A significant proportion of land and housing within the case study area is owned by public agencies like HNZC and education, churches and community organisations. We recommend that these agencies be encouraged to consider the development potential of their land holdings.

Housing New Zealand is a prime target. We recommend that Council engage with HNZC and develop a joint public housing strategy, the objectives of which could be:

- To improve the overall quality and reputation of public housing in the area
- Through property swaps and consolidation, to release land for residential development without impacting on the quantum of public housing available in the area
- To develop an accurate picture of future demand for affordable housing in the area

### 6. *Become an active participant in the development process*

Johnsonville Town Centre's strategic importance extends well beyond residential housing. It is Wellington's Northern hub and critical to the delivery of UDS transport



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and economic development objectives. On this basis, we believe there is a strong rationale for WCC to *play a more active role within the Johnsonville Town Centre* than its traditional planning and regulatory roles. This could include a number of elements including:

- *Council as developer*: If the market is reluctant to deliver new housing forms, then Council may wish to carry out residential development on its own account, for instance:
  - Mixed use residential development in conjunction with building new public facilities. Waitakere City's experience in New Lynn may be a useful pointer here
  - Demonstration projects in the commercial centre – as a means of persuading the development community that latent demand exists for this sort of housing
  - Projects on existing council land, to demonstrate new forms of intensive housing, and to maximise Council returns from land no longer required
- *As a Development Partner*: This is a lesser-risk option, which would nevertheless give Council significant leverage over development outcomes, for example:
  - *Council as an equity partner* in a commercial JV arrangement – on existing Council land or capital contribution
  - *Targeted housing projects* in conjunction with HNZC or (say) an older persons housing provider
  - *Council as customer* – for instance projects where Council is a significant end-user
- *As a facilitator*: The current town centre planning process is a useful starting point for single point coordination of Council planning and property investment activity in and around the Johnsonville Town Centre. As planning winds down, a new 'vision-owning' entity will be needed – that understands the commercial dynamics of development and has strong financial and political strength backing. .

As for Adelaide Road, *informed leadership, and an ability to work across Council functions* will be critical to getting buy-in from development partners.

## 7. Conclusion: creating the right conditions for residential intensification

This section draws some general conclusions about residential intensification in Wellington City – and what classes of intervention could improve Council’s chances of achieving UDS growth objectives.

### 7.1 Summary comment

A growing proportion of Wellington housing is being constructed along intensive housing lines and (given a diminishing supply of greenfields land) medium and higher density development looks set to become the mainstay of Wellington’s new housing industry.

The question remains, however, will the market support intensive housing development along the growth spine? Or will it take a different path? In this context:

- Are UDS housing targets for the growth spine realistic, or will attractions like coastal aspect and more affordable housing promote higher-than-anticipated levels of intensification in outer suburbs?
- Has the development industry got the capacity to deliver more intensive housing, especially in the shorter term when the commercial viability of higher density housing outside the city is largely unproven?
- Can WCC deliver required improvements in public amenity in places like Johnsonville? And can it be done early enough to influence development patterns?
- Does the city really need to concentrate growth in such a way? Wellington is, after all, already a compact city by international standards.

Our overall impression is that the growth spine is a useful organising concept, with a well-developed policy rationale. *What is required now is a well-founded implementation strategy.* This in turn will require:

- A robust analysis of all the factors that influence demand and supply, especially locational choice
- An appreciation of the commercial drivers of development, especially land pricing impacts and developer capacity

We concur with the findings of the 2004 Auckland study that some locations will support intensification better than others. Areas like the CBD, for instance, have a natural market for intensive housing products (based on current demand trends) and prices that make development commercially feasible. Council’s main concern in these areas should be to manage activities that could dampen demand, for instance:

- Balancing new housing development against other high end land uses such as commercial development

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- Containing reverse sensitivity impacts
- Ensuring a quality housing product and a community environment
- Addressing access/affordability issues for low-modest income households that need to be in these areas

Areas yet to develop a natural market for intensive housing products (such as Johnsonville) need a different approach. In this instance, the requirement is to stimulate both demand and supply by more transformational means such as:

- Large scale investment to upgrade urban amenity values
- Promoting the benefits and values of urban living in a suburban context, including walkability, good public transport and lifestyle
- Identifying and targeting latent demand that could act as a catalyst for intensification
- Promoting changes in developer practice
- Providing positive incentives by removing barriers to development
- Sharing the risks and rewards of greater investment with the private sector

## 7.2 Mechanisms and Interventions

Experience in Auckland and other large cities is that *sustainable communities* based on higher density housing forms *will not emerge from developer practice alone*. Nor will significant results (such as those proposed in the UDS) come from tinkering with the existing planning and regulatory framework. For instance:

- Traditional forms of *financial incentive* (e.g. no dev contributions, rates holidays of land subsidies land) don't work because they're not significant enough to change the market. At best, they are temporary solutions that can't be sustained when incentive is withdrawn
- Negative planning incentives (such as punitive zonings for outer areas) are difficult to sustain over long periods, especially if there is a strong natural market for new housing in these areas.

The overall conclusion of this paper is that Wellington City needs a new 'toolkit' of mechanisms and interventions to help it create the right conditions for intensification.

### *Council as vision leader*

The city needs to set the agenda for intensification, through Council-led master planning exercises for each area targeted for growth, to set the platform for all subsequent development activity. To provide certainty around future land use (and credibility to the process itself), master planning needs to be quickly translated into planning and zoning changes, and backed up by a programme of public investment.

### *Council as Project leader*

Council's leadership role cannot stop at the concept planning level. The City's vision also needs to be actively managed and promoted - to developers, housing consumers, and

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within WCC itself. This implies an organisational form that has the resources and mandate to carry out such roles as:

- *Facilitation* – knowledge of the key players in the development process and an ability to bring them together
- *Mediation* – resolving differences between, for instance adjacent landowners
- *Negotiation* - especially where Council is a financial stakeholder
- *Marketing* - Introducing new development players and housing consumers. Managing the re-branding of suburban centres as urban villages.
- *Knowledge building* – creating an information base for developers and housing consumers, for instance, on the benefits of higher density housing or fully-tested housing designs
- *Coordination* – of council planning and regulatory functions to offer developers a timely, less risky pathway.

### *Council as regulator*

New planning and regulatory approaches and needed, that emphasise the block or precinct as principal planning unit, instead of single lots. This should lead to developers taking a more collective approach to development planning, and promote amalgamation of smaller lots into sites more suitable for higher density housing.

Council willingness to place constraints on sub-optimal developments in key areas in the short term, will also be key to preserving their intensification potential

### *Council as investor*

For suburban centres in particular, significant new investment in public amenity will be required. Council needs to ensure that all public investment (both local and central government funded) is designed around not only its primary purpose, but also to improve the chances of higher density housing forms.

### *Council as developer*

As noted in the *case studies* above, there is a strong case for Council to play a more active part in the development process. Council will gain considerable leverage if it is willing to share risks and rewards of development – especially in areas where demand for higher density forms of housing (at least in the eyes of the development community) is largely unproven.

Council already has ‘skin in the development game’ through its existing land holdings, and close working relationships with large land holders like HNZC, Transit and other public agencies. We strongly believe that Council should give consideration to increasing its portfolio by acquiring strategic parcels of land in areas likely to need a kick start along the road to intensification. Financial risks of land ownership are, by and large, relatively low compared to the potential to benefit from their future development.

### *A City Development Corporation?*

### **Final 18.5.07**

Finally, our analysis points to the need for an entity within Council that can ‘own’ the Wellington Urban Development Strategy and take responsibility for achieving its objectives.

In our view, Council needs to look beyond the purely commercial ‘development subsidiary’ model used in some New Zealand TLA’s (Waitakere Properties Ltd for example), which tend to focus on short term building projects.

Established overseas models (for instance Melbourne and Perth) provide some pointers on matters like master planning, delegation of statutory powers, and working with the private sector. There is also an emerging work stream in New Zealand, looking functions, powers and mechanisms required for urban transformation in our large cities<sup>28</sup>.

In our view, Wellington City should play a lead role this work, and pioneer a new corporate form that has both the mandate and capacity to perform the roles outlined above.

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<sup>28</sup> Ref, for instance, *Towards an Urban Transformation Framework for New Zealand*, discussion paper prepared by R Neil Gray Strategic Projects for the Ministry for the Environment, November 2006