

I hereby give notice that an ordinary meeting of the Planning Committee will be held on:

Date: Tuesday, 28 November 2017
Time: 9.30am
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

Planning Committee

OPEN ADDENDUM AGENDA

MEMBERSHIP

Chairperson
Members

Cr Chris Darby	Cr Daniel Newman, JP
Cr Dr Cathy Casey	IMSB Member Liane Ngamane
Deputy Mayor Bill Cashmore	Cr Dick Quax
Cr Ross Clow	Cr Greg Sayers
Cr Fa'anana Efeso Collins	Cr Desley Simpson, JP
Cr Linda Cooper, JP	Cr Sharon Stewart, QSM
Cr Alf Filipaina	Cr Sir John Walker, KNZM, CBE
Cr Hon Christine Fletcher, QSO	Cr Wayne Walker
Mayor Hon Phil Goff, CNZM, JP	Cr John Watson
IMSB Member Hon Tau Henare	
Cr Richard Hills	
Cr Penny Hulse	
Cr Mike Lee	

(Quorum 11 members)

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24 November 2017

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National Policy Statement on Urban Development Capacity initial assessment results

File No.: CP2017/24289

Purpose

1. To receive the preliminary high-level results of the housing demand capacity assessment required under the National Policy Statement on Urban Development Capacity.

Executive summary

2. The National Policy Statement on Urban Development Capacity (NPS-UDC) became operative in 2016. The policy requires the council to undertake a housing and business development capacity assessment (the assessment) by 31 December 2017.
3. The assessment is a key part of council's evidence base. It informs the future development strategy and the feasibility targets which are to be included in the Unitary Plan. These requirements need to be completed by 31 December 2018.
4. Overall housing demand is assessed to be between 350,000 (Statistics NZ medium population forecast) and 410,000 (Statistics NZ high population forecast) households from 2016 to 2046:
 - Plan-enabled capacity in residential zones in the urban area ranges between 120,000 (infill) and 1.07 million (redevelopment).
 - Feasible development capacity in the urban areas is 140,000 residential dwellings
 - Feasible development capacity in the future urban areas is 146,000 residential dwellings
 - When including rural capacity of around 20,000 (not modelled) and redevelopment of Housing New Zealand land of around 30,000 (still being confirmed), total assumed feasible development capacity is around 336,000 throughout the region
5. The enabled feasible capacity for dwelling supply, as modelled for the 2016 draft Unitary Plan recommended by the Independent Hearings Panel, was for approximately 422,000 – being 270,000 (modelled) in brownfield existing urban areas and 130,000 (assumed feasible) in future urban areas, with the remainder being potential Housing NZ developments and future dwelling growth in rural-zoned areas. The new modelling shows, principally due to rising construction costs and flat to declining sales prices, that the brownfield enabled feasible capacity of 270,000 has since reduced to 140,000; and that the future urban feasible enabled capacity has changed slightly as it is now modelled, from 130,000 to 146,000 dwellings.
6. The Statistics New Zealand medium population forecast is being used for all council planning purposes. On that basis, the preliminary assessed demand is around 14,000 more than the feasible development capacity in 2046. Or demand is around 66,000 more in 2046 when the NPS-UDC's required 15 per cent long-term margin is added.
7. Further analysis is being undertaken which will be included in the final assessment report that will be put to government prior to Dec 31st this year, via the proposed delegated authority outlined in the recommendations.
8. The business development capacity assessment is being done externally and results are not yet finalised.
9. Note that the feasibility models will be refined and rerun in early 2018. This will form the basis of council's response required under the NPS-UDC.
10. This is a snapshot of development capacity at a moment in time and is the first assessment under the national policy statement. It is important not to assume trends or patterns based on one assessment alone.

Recommendation/s

That the Planning Committee:

- a) receive the preliminary high-level findings of the housing development capacity assessment.
- b) delegate responsibility for signing off the finalised housing and business development capacity assessment to the chair of the Planning Committee and Deputy Mayor, before 31 December 2017.
- c) note that the feasibility models will be re-run in early 2018 to produce a final assessment which will form the basis of council's response required under the National Policy Statement on Urban Development Capacity.

Comments

11. National Policy Statements are a legislative tool in the Resource Management Act 1991. They are a means for central government to prescribe objectives and policies for matters of national significance which all local authorities must implement within their planning framework.
12. To qualify for national direction, a topic must involve one of the following:
 - significant national-level benefits, costs or values
 - significant benefits of having a consistent approach across the country
 - technical complexity that makes it more efficient and effective to address the issues at the national level.
13. The NPS-UDC came into effect in December 2016. Its purpose is to enable urban environments to grow and change in response to the changing needs of communities and to provide enough space for their populations to live and work.
14. The NPS-UDC has four objectives. These are:
 - outcomes from planning decisions
 - evidence and monitoring to support planning decisions
 - responsive planning and coordinated planning evidence
 - decision-making.
15. Each objective has an associated set of policies.
16. The evidence and monitoring objective requires a robustly developed, comprehensive and frequently updated evidence base to inform planning decisions. The evidence base has two components; the assessment, and the monitoring and reporting of indicators.
17. An assessment is required at least every three years. The first assessment requires completion by 31 December 2017. In relation to housing, the assessment must estimate the demand for dwellings - including the demand for different types of dwellings, locations and price points - and the supply of development capacity to meet that demand, in the short, medium and long-terms.
18. The short, medium and long-terms are defined as 3, 10 and 30 years respectively. A margin is to be added to the feasible development capacity amount. This is in recognition that not all that is feasible is built (the margin is 20 per cent in the short and medium term and 15 per cent in the long term).
19. The assessment is to enable decision makers to make well-informed planning decisions.
20. However, doing the assessment and interpreting is a complex task that is still evolving, including the development of guidance from central government.

Requirements and responses

21. If the assessment indicates insufficient development capacity in the short, medium or long term, providing further development capacity and enabling development is required.
22. This could include reviewing the consenting process or initiating plan changes to increase feasible development capacity.
23. Minimum targets for feasible residential development capacity must be included in the regional policy statement section of council's Unitary Plan by 31 December 2018.
24. A future development strategy that uses the results of the assessment is required by 31 December 2018. Demand must be met with a minimum 15 per cent buffer. The strategy must therefore identify:
 - the broad location, timing and sequencing of future development capacity over the long term in future urban environments
 - intensification opportunities within existing urban environments.
25. The Auckland Plan is currently being refreshed. It incorporates a development strategy. This will be the council's future development strategy as required by the NPS-UDC.

Demand assessment

26. Statistics New Zealand's most recent population projections are the starting point for demand. Council must calculate future housing demand which includes:
 - the total number of dwellings required to meet projected household growth and projected visitor accommodation growth
 - demand for different types of dwellings
 - demand for different locations within the urban environment
 - demand for different price points.

Capacity assessment

Independent Hearings Panel modelling

27. Modelling undertaken for the Independent Hearings Panel (IHP) as part of the Unitary Plan hearings process concluded that the recommended Unitary Plan enabled approximately 1 million additional residential units, of which 422,000 were commercially feasible.
28. Urban locations were modelled using a feasibility model. The final IHP result also replaced feasible capacity from the feasibility model with Housing New Zealand's development objectives (~39,000 residential units).
29. For the IHP's purposes, greenfield and rural sites and Housing New Zealand land was assumed to be feasible but not modelled.

NPS-UDC modelling

30. Development capacity is the basis of supply. There are two aspects to this. The first is plan-enabled capacity which must include an analysis of:
 - the cumulative effect of all zoning, objectives, policies, rules and overlays and existing designations in plans
 - the actual and likely availability of development infrastructure and other infrastructure in the short, medium and long term.
31. The second aspect of supply is feasible development capacity. This involves analysing:
 - Plan-enabled supply to determine which developments are commercially viable considering current costs, revenues and yields
 - the rate of take up of development capacity, observed over the past 10 years and estimated for the future
 - the market's response to planning decisions.

32. Plan-enabled capacity has been calculated using council's Capacity for Growth Model.
33. Feasible capacity for existing urban areas has been calculated using the ACDC model. This model was developed as part of the Unitary Plan Hearings IHP process in collaboration with property and planning experts.
34. Feasible capacity for the Future Urban Land Supply Strategy (FULSS) areas was calculated in two stages:
 - stage one involved testing the commercial feasibility of creating sections in the FULSS
 - stage two involved testing the commercial feasibility of developing residential units on those sections.
35. Feasible capacity was calculated in two different sets of locations – urban residential zones (urban) and future urban zones (as per the FULSS).
36. In the urban area the ACDC model was used. This is largely the same model as developed at the request of and used for the IHP Feasibility Assessments by the Urban Growth Expert Group.
37. However, a number of assumptions have been updated to reflect current (as at 'mid' 2017) costs and prices from the 'mid' 2016 values used for the IHP.
38. The changes made have been developed in conjunction with members of the Property Council and include per m2 build costs from Ryder Level Bucknell. The key changes are:
 - build costs per m2 have increased, particularly for higher density developments and higher end locations. This cost-centre includes materials and labour. The increase reflects construction sector constraints
 - professional fees e.g. design and project management, have increased for higher densities / larger projects
 - funding costs have generally increased; both interest rates payable and the contingencies required (increasing overall costs and the interest payable) particularly for larger and more complex projects
 - the 2016/17 Development Contributions Policy and WaterCare's Infrastructure Growth Charges are now included. A universal growth charge was used in previous models.
 - electrical and telecommunications per unit connections and site costs have increased. No gas connections are assumed
 - site civil works costs (all physical works not included in build costs or demolition fees) such as earthworks, have increased by 10 per cent
 - the cost of a development site (applied as a relativity to the 06/2014 valuation data) has increased significantly for developable Terraced Housing and Apartment Buildings and Mixed Use zoned sites in higher value areas, reflecting their scarcity
 - the Operative in Part Auckland Unitary Plan rules and zonings (including precincts and overlays) on a 2017 cadastral base are used for the input capacity.
39. The net effect of these changes is input cost increases combined with flat sales prices. This has an impact on project feasibility.
40. The feasibility model is underpinned by a number of assumptions. The key assumptions are:
 - nine different typologies are tested that comply with simplified density, bulk and location rules
 - a developer purchasing the land, building and then selling the development within 18 months, returning a minimum of 20 per cent gross (pre-tax) return on costs is assumed. The 20 per cent threshold is consistent with industry requirements when demonstrating pre-start feasibility to prospective financiers
 - an 'average' developer and development is assumed. Developers can, and do, structure, development to account for different risks and opportunities. However, these options are not modelled

- sales prices are set by sales location, floor area and typology, reflecting relativities to a 'standard' dwelling sale price. As a general rule, apartments and terraces will sell at a \$/m² of floor area discount to a house
 - land area is not explicitly considered but is implicit in the per m² of floorspace rates
 - costs vary by a number of model variables - e.g. floor area, typology, civil works - to reflect the development process
 - as a general rule, apartments are more expensive to build (on a per m² of floorspace) than terraces. Terraced are more expensive to build than houses.
41. The feasibility model is not a forecast or projection of development. It is a commercial filter on present plan-enabled opportunities, providing a 'snapshot in time' of the sites that would be most appealing to an 'average' percentage return¹ motivated developer that wanted to commence a project today. The model does however allow scenarios to be tested to understand what impacts policies might have on feasibility.
42. FULSS locations are the second area modelled, but this time using a two-step process.
43. Current Future Urban Zone titles (i.e. land holdings as they currently are) are first developed into sections for sale (step one). Sections that are commercially feasible are then assessed for dwelling feasibility (step two).
44. The key assumptions in the FULSS area feasibility model are:
- FULSS-related infrastructure costs use the 2016/17 development contributions policy and WaterCare Infrastructure Growth Charge.
 - the feasibility model assumes that existing land is bought, sections are created by 'land developers' and then sold for a profit at retail prices, to 'dwelling developers' who build and subsequently sell to residents/investors. Both steps include a minimum required gross profit of 20 per cent for each developer.
 - 'Mixed Housing Suburban' is the assumed zoning framework for the baseline
 - costs such as earthworks, development contributions, and sales prices vary across FULSS areas to reflect localised constraints.

Rural capacity and Housing New Zealand developments

45. Rural capacity is complex (transfers and incentives) and is subject to appeal. It is not presently modelled for feasibility.
46. It is anticipated that an agreed approach will be developed as part of the Unitary Plan rural appeals process.
47. The assessment results (feasible development capacity) do not yet include Housing New Zealand developments. These will be included in the final assessment. The 2016 IHP modelling added 39,000 dwellings that were assumed to be feasible to the total.

¹ Other scenarios are also produced after a minimum percentage return filter is applied (so they are still 'feasible', just not necessarily returning the greatest percentage yield on costs), including cheapest dwellings, most dwellings, lowest project cost and largest dwellings scenarios. By default the maximum return scenario is reported as the yield motivated developers first choice of project. Should this demand be fully satiated, the potential for the nth developer to choose an alternate development is a good indicator of the potential for choice and efficiency in the market.

Capacity assessment results

48. Plan-enabled development capacity for all residential zones in the urban area are shown in the table below. The results exclude potential capacity in town centres and business areas and Housing New Zealand developments.

Plan enabled capacity type by zone	Vacant	Vacant potential	Infill	Redevelopment	Special	Total Infill	Total Redevelopment
Large Lot	107	2700	222	3515	62	3091	6384
Mixed Housing Suburban	5105	23927	10094	373949	2478	41604	405459
Mixed Housing Urban	5141	19581	10521	284101	4954	40197	313777
Rural and Coastal Settlement	85	950	0	674	567	1602	2276
Single House	2114	15129	2099	13793	6701	26043	37737
THAB	4002	508	16	303881	2243	6769	310634
Total	16554	62795	22952	979913	17005	119306	1076267

49. The dwelling feasibility results for the FULSS areas are shown in the table below.

50. The baseline result is consistent with the reporting of previous feasibility, representing the highest percentage return outcome for both the land developer and the house developer. The other scenarios are used to illustrate how changes to model variables affect feasible dwelling capacity and potential house prices.

Scenario	Sections Model scenario	Dwellings Model Scenario			
		Feasibility Threshold	Zoning	Feasible dwellings (000's)	Average Sale Price (\$M)
Baseline FULSS	Max % Profit	>=20%	MHS	146	1.50
Baseline w/ Reduced profit threshold	Max % Profit	>=15%	MHS	192	1.40
Baseline w/ Reduced profit threshold	Max % Profit	>10%	MHS	288	1.21
'Restricted Zoning'	<i>Largest Feasible Sections</i>	>=20%	<i>Single House</i>	73	1.83
'Enabling Zoning'	Max % Profit	>=20%	<i>MHU</i>	375	1.15
'Cooling Market' (<i>Sales Locations as per Urban ACDC model</i>)	Max % Profit	>=20%	MHS	14	1.12

51. The feasibility results for the residential and business zones (urban area) are shown in the table below:

Scenario	Feasibility threshold	Feasible dwellings (000's)	Average Sale Price (\$M)
Baseline urban area	>=20%	140	1.22
Baseline w/ Reduced profit threshold	>=15%	209	1.22
Baseline w/ Reduced profit threshold	>10%	291	1.21

In conclusion

52. The scenarios highlight the potential for development to proceed using a 'non-average' developer. They also highlight how sensitive the model outputs are to changes in assumptions. The scenarios serve as a reminder that feasibility is, primarily, not a function solely of the planning system.
53. The feasibility models only consider current prices and costs faced by a theoretical developer, testing the feasibility of providing plan-enabled developments on the sites tested into that market.
54. The models do not consider demand (other than implicitly in present prices) or the actions of other developers.
55. The consideration of demand will alter the outcomes from what is best for the developer (as shown) to the results of a balancing between what is demanded and what can be supplied that meets this demand.
56. That is, if dwelling prices are too high for households' ability to pay (or borrow), or the location or typology does not suit, then the mix of developments that will eventuate will vary. For example, it is unlikely that all 374,000 terrace houses and apartments that are feasible in the 'enabling zoning' scenario will be demanded, given the nature of many of the tested locations and the potential alternatives. Even if demand matched the results of the feasibility models, the prices and costs faced by developers over time will vary from the current situation.
57. Addressing the demand side requires further modelling, which is well advanced, but is pending the final feasibility assessment to be able to be completed.

Consideration

Local board views and implications

58. This is a modelling and data collection/analysis process which, in itself, has no impact on local boards or their communities. The plan-enabled and feasible capacity modelling results can be reported by local boards as can the demand and supply matching.

Māori impact statement

59. This is a modelling and data collection/analysis process which, in itself, has no impact on iwi or mana whenua.
60. Iwi-owned land was modelled through applicable planning provisions however, it is understood that iwi development intentions may be different from that modelled.
61. Confirmation of known iwi development intentions is currently being sought. The final assessment will replace council's analysis of land being developed by iwi authorities (including their commercial arms) where confirmed, and will become publicly available information as part of that assessment.

Implementation

62. Council will have to include the feasible residential development capacity targets in the Regional Policy Statement, based on the final assessment, by 31 December 2018.
63. Further work to finalise the housing development capacity assessment is required. It needs to:
 - review the results of the feasibility modelling, including agreeing finalised costs and price information
 - complete the demand and supply matching process against those results
 - incorporate consideration of supply and demand for business capacity, some of which will overlap with residential (mainly office demands in town centres of which there is significant capacity for both)
 - complete the final assessment.
64. The business development capacity assessment underway will be finalised and will be subject to recommendation b).
65. The feasibility models will be re-run in early 2018 to produce a final assessment. This will form the basis of council's response required under the NPS-UDC. However, these initial results suggest that sufficient feasible development capacity exists in the short and medium terms, but probably not in the long term.
66. The results of the preliminary assessment were used to inform the development strategy in the Auckland Plan. Changes may be made to the development strategy prior to its finalisation in June 2018.

Attachments

There are no attachments for this report.

Signatories

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