

**BEFORE AN INDEPENDENT HEARING PANEL
APPOINTED BY QUEENSTOWN LAKES DISTRICT COUNCIL**

UNDER THE Resource Management Act 1991

IN THE MATTER of a Variation to the proposed Queenstown Lakes District Plan (Te Pūtahi Ladies Mile) in accordance with Part 5 of Schedule 1 to the Resource Management Act 1991

**STATEMENT OF EVIDENCE OF PHILIP MARK OSBORNE
ON BEHALF OF THE ANNA HUTCHINSON FAMILY TRUST**

DATED: 20 OCTOBER 2023

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MAY IT PLEASE THE HEARING PANEL

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

Qualifications and experience

2. My qualifications include a Bachelor of Arts (History/Economics), Masters in Commerce, Masters in Planning Practice from the University of Auckland, and I have provisionally completed my doctoral thesis in developmental economics.
3. I have 20 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning.
4. I also provide consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.

Code of Conduct

5. I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2023 and confirm that I have complied with it in preparing this evidence. I confirm that the issues addressed in this evidence are within my area of expertise, except where I have indicated that I am relying on others' opinions. I have not omitted material facts known to me that might alter or detract from my evidence.

Scope of evidence/matters to be addressed

- 6.** I have prepared evidence in relation to economics in support of the submission of the Anna Hutchinson Family Trust (**Trust**), a submitter on the Te Pūtahi Ladies Mile Variation (**Variation**). My evidence:
- (a) Outlines the submission relief sought and the section 42A report position;
 - (b) Comments on the Queenstown housing environment and the economic context for the submission;
 - (c) Identifies the economic issues within the section 42A report and supporting economic evidence;
 - (d) Identifies the potential economic costs and benefits associated with the submission and specific site; and
 - (e) Provides my conclusions and recommendations.
- 7.** I consider the key matters in question or in dispute to be:
- (a) The perceived 'need' for additional residential capacity within the variation area;
 - (b) The economic appropriateness of the proposed site; and
 - (c) The unique Queenstown housing market and the need for additional consideration.
- 8.** It is my understanding that the Trust submission to TPLM Variation seeks to include an additional area of land if approximately 20ha (identified in Figure 1), currently zoned Wakatipu Basin Lifestyle Precinct, to Medium Density Residential (MDR) and Low Density Residential (LDR). I will refer to this as the Extension Area. For context, the current Lifestyle Precinct zone allows for 1 residential unit per hectare, while it is estimated the proposed Extension Area would net approximately 300 - 400 residential units.
- 9.** The site itself lies directly adjacent to the western edge of the Variation area. Figure 1 also indicates the proximity of the site to employment, community services and other forms of amenity. While the site forms a contiguous area to the Variation, it borders the State Highway providing a

high degree of access to the district as a whole. The area immediately neighbouring the submission area has high degrees of accessibility with over a third of all employment, within the Wakatipu Ward, (6,700 jobs) within a 5-minute drive time.

Figure 1: Trust Submission proposed area and environs



Queenstown Housing Market

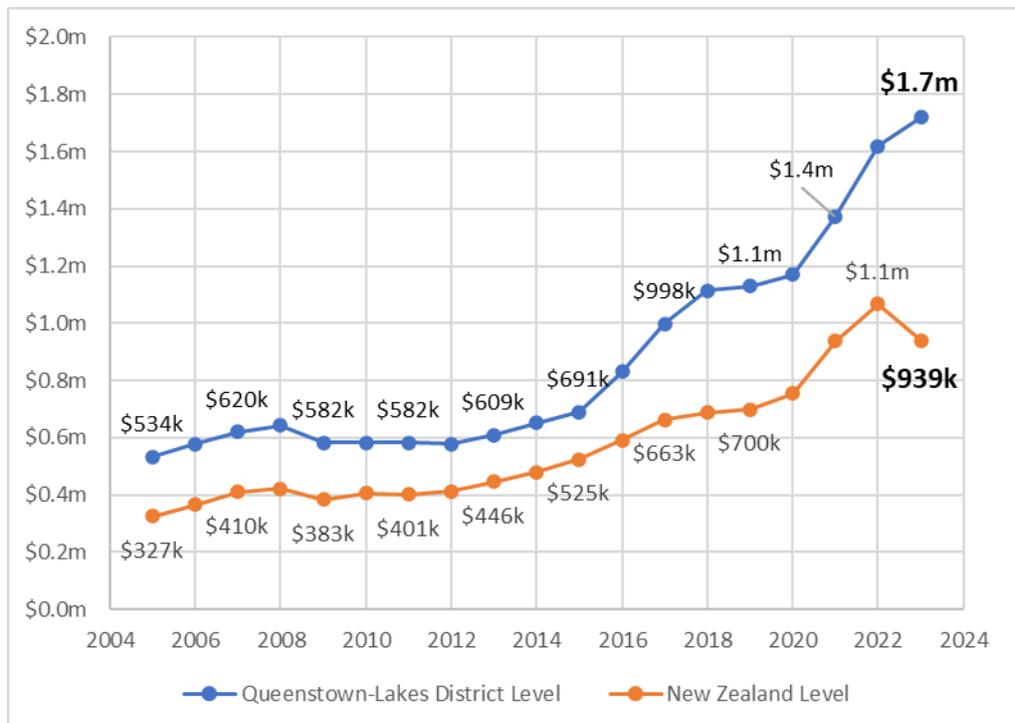
10. While the topic of residential housing has seen a high level of commentary over the past decade the experiences of the market, impact on the community and the efforts through the National Policy Statement on Urban Development 2020 (NPS UD) and RMA Amendment Act 2021¹ have been varied throughout the country. An important consideration in contextualising the need for a more flexible and enabling housing development environment is understanding the extent of the market impacts, both historically and currently, and therefore the level of

¹ This is the Enabling Housing Supply Amendment, introducing Medium Density Residential Standards

enablement that may be required to facilitate a more efficient development environment.

11. Through to the end of 2021 the Queenstown housing market was following the national trends of rapid price increases (albeit at a faster rate) and strong resales. Over the past 2 years however, the New Zealand housing market has seen a significant shift with prices dropping (primarily as a result of interest rates rising) and pressure on construction providers.
12. The Queenstown market has, for the most part, resisted this wider market reversal. This is highlighted in Figure 1 below which illustrates the continued climb of housing prices within Queenstown in stark contrast to the majority of the national market.
13. In 2023, the average house price in Queenstown Lakes District is \$1.7m which is almost double the National average of \$939k.

Figure 2: Housing Prices in Queenstown-Lakes District Compared to the National average

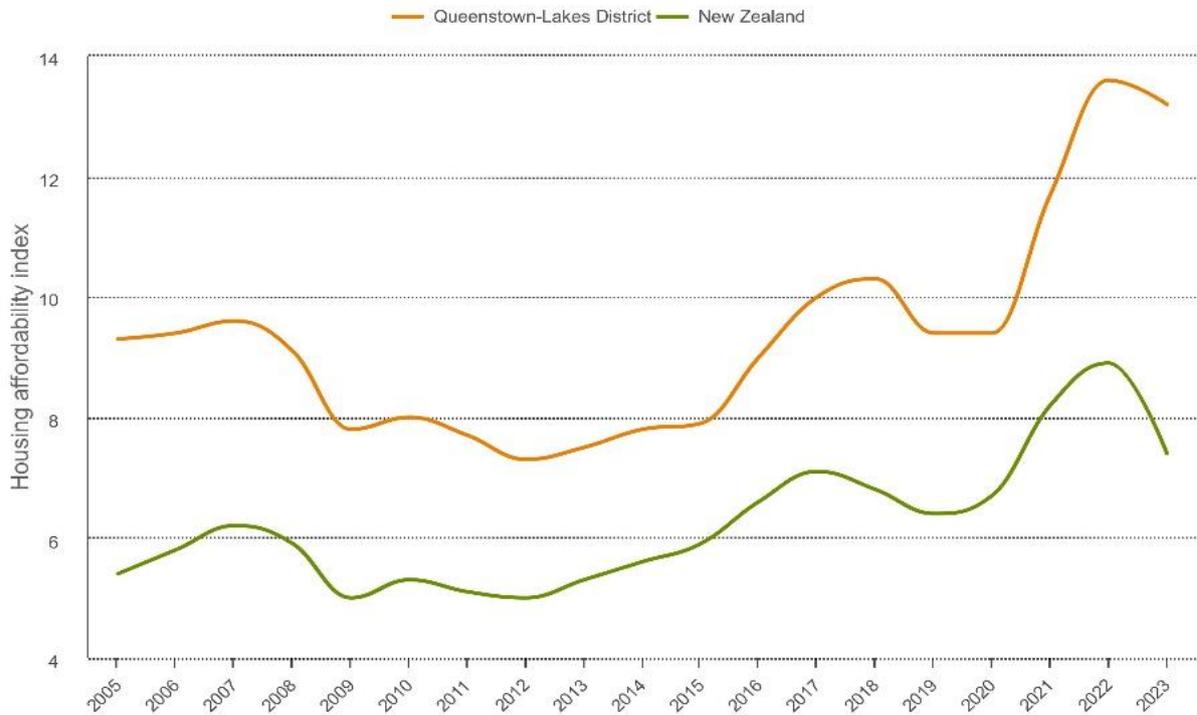


Source: Data from Informetrics Regional Economic Profile², Graph from Property Economics

² [Regional Economic Profile | Overview \(infometrics.co.nz\)](https://www.infometrics.co.nz/Regional-Economic-Profile-Overview)

- 14.** This continued rise has had a material impact on Queenstown Lakes housing affordability. Figure 2 illustrates this trend with most recent ratios for the district hitting over 13 times average household annual income.

Figure 3: housing affordability trends (2005 – 2023)



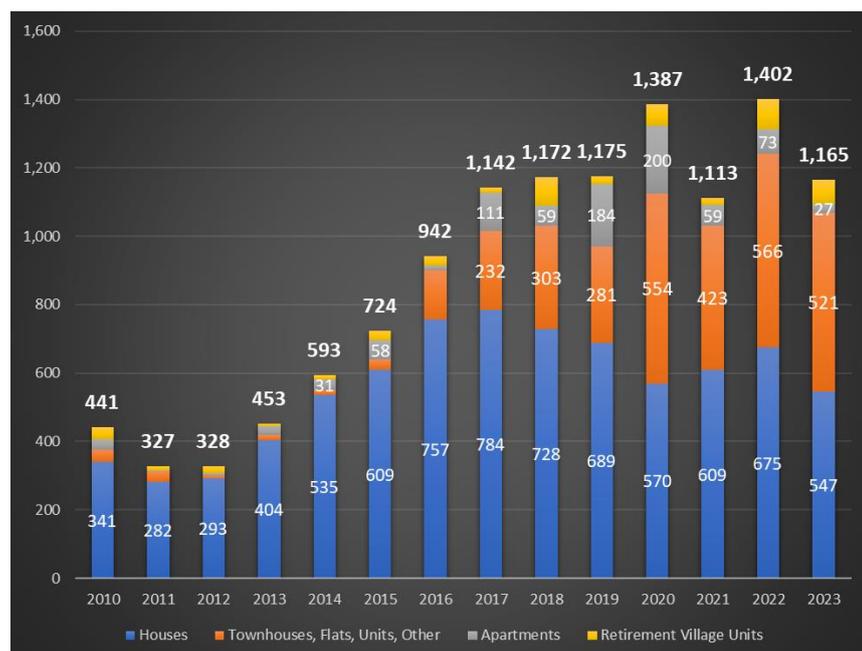
Source: Data from Informetrics

- 15.** While this illustrates a poor level of affordability, the level of housing serviceability is worse still. With interest rates increasing from 2.6% to over 8.6% (and rising), the annual servicing cost of an average Queenstown mortgage has risen to almost the average household income.
- 16.** An unusual feature of the district's residential property market is the significant level of site sales (sometimes referred to as 'lot or section' sales) that make up the market annually. Due to the rapid residential growth levels, it is anticipated that this component of the market would be higher than is normal.
- 17.** However, over the past 2 years site sales have consistently made up approximately 20% of all residential sales. This level of turnover is significant even when allowing for the large proportion of new homes and

the expected vacant site turnover. It would appear from this market indicator that there exists a greater than average market in the district for the trading of vacant residential sites as commodities.

18. In providing a balanced approach to housing provision and affordability within Queenstown it is important to consider the nature and responsiveness of the market and the role that zoning, and zoning extents, have on this.
19. Figure 3 shows the building consent trends in the Queenstown-Lakes District between 2010 and 2023. This shows that, coinciding with the upward trend in house prices during the mid-2010s, there was an increase in the number of dwelling consents from an average of around 400, to over 1,100 dwelling consents per year following 2017. At its peak in 2022, there were 1,402 dwellings consented in 2022.
20. Notably, with the increasing housing unaffordability, there has been a shift in dwelling consents in favour of higher-density dwellings. Apartments and Terraces made up 50% of non-retirement village dwelling consents in 2023 whereas they previously made up only 10% of dwellings consents in the early 2010's.

Figure 4: Building Consents Trends 2010 – 2023



Council section 42A report and expert evidence

21. The section 42A report has identified some concerns raised in the economic evidence of Ms Fairgray for Council. These include:
- a) The relative size of the proposed TPLM expansion in relation to MDR growth expectations;
 - b) The potential for a dilution in the pattern of growth;
 - c) Distance from the proposed centre; and
 - d) Reduction in the level of intensification³.
22. While identifying these potential issues, both the economic evidence and the section 42A report recognise the wide level of accessibility offered by the expansion area. *'The proposed location is within the eastern extent of the urban edge and is closer to core areas of amenity in Frankton as well as that within the TPLM commercial centre'*.⁴ The section 42A report author also agreed that...*'the location has good proximity to the Frankton commercial area and active travel links, and that these are arguably more enabling of active travel modes than other more distant parts of the notified zone.'*⁵
23. I agree with the economic evidence identifying the positive locational benefits attributable to the submission site. Additionally, I agree with the comments of Ms Fairgray⁶ outlining the potential for the Variation area and the associated mix of housing typologies to contribute to housing affordability within the district. This position and the inevitable balance between economic costs and benefits plays a central role in the consideration of the extended Variation area sought. Where I disagree with Ms Fairgray relates to her very narrow focus on the role of the Extension Area and its alleged impact on the functioning of the Variation area.

³ Evidence Susan Fairgray 27 September 2023 paragraph 113

⁴ Evidence Susan Fairgray 27 September 2023 paragraph 114

⁵ TPLM Section 42A 29 September 2023 paragraph 12.108

⁶ Evidence Susan Fairgray 27 September 2023 paragraph 85

General Economic Considerations

24. From an economic viewpoint, the intensity of residential land use enabled within and immediately adjacent to centres and highly accessible areas is a crucial tool in enabling residential development to achieve greater degrees of efficiency and certainty in terms of public and private investment. The level of flexibility and capacity indicated by zoning also impacts upon housing fundamentals such as choice and affordability.
25. I understand that a key consideration in terms of the NPS UD is the utilisation of appropriate land around centres for intensified residential development to provide efficient access to services (and opportunities).
26. From an economic perspective I strongly support the overall direction of the NPS UD, including the consolidation of land use activities within a compact urban form, focussed within and around centres, as well as the provision of sufficient capacity to support and efficiently facilitate growth in each district. This approach has a number of economic advantages:
- (a) A compact urban form reduces the marginal cost of construction in terms of infrastructure such as urban roading and wastewater and water supply networks;
 - (b) A compact urban form reduces the need for and cost of travel for residents to access employment, education, healthcare and services. That is likely to generate savings in resource use (e.g. fuel or electricity) for trips that use private vehicles but also increases the likelihood of active transport modes (e.g. walking or cycling);
 - (c) Intensification within and around centres and along key transport routes reinforces travel efficiency. It increases the accessibility of employment and services and further improves the efficiency of the public transport network;
 - (d) Intensification improves land use efficiencies with regard to the extent of land required to meet demand, reducing the average

site cost. This is more likely to result in lower priced residential options; and

- (e) Intensification increases the diversity, viability, and comparative advantage of commercial centres.

27. In considering this, it is important to understand what, if any, impact the Variation as notified will have. This goes beyond the act of applying a zone to an area of land and must consider the potential market response and therefore the practical outcome of applying zones with increased densities.

28. In assessing the economic appropriateness of an Extension Area to the Variation, there are a number of other factors that require consideration. Firstly, the potential for economic costs. As identified above, there are a number of economic benefits attributable to more intensified residential development, while there is also the potential for some economic costs. When considering locational options for increased density residential development it is important that the appropriateness of the location is considered. With a finite level of demand for medium to high density development, adding development potential in inappropriate locations can increase competition redistributing demand to less efficient locations.

29. This issue relates directly to an economic concern raised by Council about the Extension Area. Both the level of proposed development capacity (as a proportion of total capacity within the Variation area) and the ability for this capacity to 'dilute' intensification have been identified. It is important to note that both these concerns relate to the expected or projected level of demand. However, that demand is by its nature a function of enablement, with increased choice of location(s) and built form increasing the potential market size. This fundamental shift is evident is the introduction of greater levels of development potential through the Auckland Unitary Plan, with an intensified form of development increasing in popularity. Additionally, the NPS-UD seeks to encourage the enablement of higher density so that the market is more accepting of it rather than simply providing for an identified market demand.

- 30.** The proposed Extension Area represents an addition of 300 - 400 housing units compared to both the expected or projected 2,400 units (with the vast majority of these being medium or high density) within the TPLM Variation area and the over 32,000 units identified as being feasible throughout the Wakatipu Ward (with approximately 20,000 of these being attached units). As an addition to both the Ward and the TPLM Variation area, this does not represent a disproportionate increase. Indeed, the increased choice and market flexibility has the potential to increase the market size and acceptance of a denser residential product within this area (quite apart from having regard to locational efficiencies and benefits, which I address later in this statement).
- 31.** Residential zoning is a crucial tool in directing residential growth and development to achieve greater degrees of efficiency and certainty in terms of public and private investment. The level of flexibility and capacity indicated by zoning and zoning extent also impacts upon housing fundamentals such as choice and affordability.
- 32.** While residential zoning is necessary to achieve these levels of certainty it does not in itself generate the level of development that the provisions would suggest. The market is also driven by social and economic factors including:
- a) tenure;
 - b) demand;
 - c) acceptance of risk;
 - d) knowledge of 'Best' fit;
 - e) capital to improvement ratios;
 - f) construction costs;
 - g) construction restraints;
 - h) fragmented ownership;
 - i) inaccessibility to capital funds;

- j) least path of resistance: the development of least risk may not result in the greatest level of capacity realisation; and
- k) future market expectations.

33. While these market factors determine the market response to zoning, zoning itself plays a significant role in the efficient and effective geospatial distribution of residential activity, as well as a well-functioning residential housing market. This is a fact that is crucial to the objectives of the NPS UD and, in particular, the extent of such zoning, which is directly relevant to the relief sought through the Trust submission.

34. As identified above there are several factors that influence the potential market response to residential zoning. While the 'plan enabled' capacity is the level of development that is essentially provided for in the plan, when considering all provisions and constraints, there are clear financial constraints that will play a significant role in the extent, location and typology that actually results within the market. Typically, feasible residential capacity addresses these constraints and illustrates the level of capacity that exhibit a viable profit margin.

35. This feasible capacity is, in general, significantly lower than the capacity enabled through a district plan. The last two decades has generally seen a rise in the proportion of feasible capacity in urban centres as land prices have escalated. As identified, unlike the rest of the nation, Queenstown continues to experience these land price increases that ultimately should continue to increase feasibility and thereby balance supply with demand. This outcome has unfortunately not materialised in Queenstown in practice. In my view, the reliance on plan-enabled capacity in the Queenstown market has been proven unreliable time and again. The reality is that, in the Queenstown market, significant further feasible capacity needs to be provided in order to shift the market in terms of supply and affordability, rather than simply being sufficient to meet a projected demand at a single point in time.

- 36.** Following on from feasible development is the motivation of landowners and developers, who may not choose to develop sites that are deemed feasible. This has also been a distinct feature of the Queenstown market. For example, the market exhibits a willingness to accept a private economic cost associated with retaining larger sites, while other sites may not be developed to their capacity given developers' lack of willingness (or indeed that of financial institutions in terms of lending) to accept greater risk with larger developments. These factors are often considered in a further reduction to 'realisable' capacity. Each of these factors are likely to play a significant role in lowering capacity numbers and materially impacting upon the distribution of that capacity and its efficiency.
- 37.** While acknowledging that there are inevitably constraints on applying residential zones, as a whole, such limitations should not be applied in isolation to the corresponding locational efficiencies. The ability for the district plan and the proposed variation to accommodate future residential growth in the existing urban areas hinges on its ability to function as a catalyst for residential development.
- 38.** In order for the market to accept a denser residential product there needs to be several overt factors in play. The driving force behind the market's acceptance is clarity over future demand and the certainty of development potential. In order to achieve this clarity, it is important that the intensified product attains a competitive advantage in the market through high quality product and associated amenity. Accompanied by this potential change in dwelling preference must be financial viability and a manageable risk for development of the product itself. In other words, the better and more efficient the location, the higher the chances of feasible development capacity being realised. This is directly relevant to consideration of the Extension Area.
- 39.** The economic benefits associated with greater residential densities are implicit in the direction of the NPS UD. Objective 3 sets out the requirement to access these efficiencies:

Objective 3: Regional policy statements and district plans enable more people to live in, and more businesses and community services to be located in, areas of an urban environment in which one or more of the following apply:

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

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

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

- 40.** The relief sought by the Trust seeks to prioritise enablement that is not limited to simple sufficiency (in relation to estimated demand) but seeks to provide for an efficient residential housing development environment (ie. this takes into account locational attributes and advantages). This is coupled with a focus on centres and transport networks to a level where it is likely to provide greater economic benefits to the district's performance and the economic and social wellbeing of the communities it primarily services. This is in relation to increased sales performance, a larger population base in the surrounding locale, increased employment opportunities, increased accessibility to public transport infrastructure, increased market efficiencies, increased return on investment on public expenditure (particular upcoming public transport initiatives), and so on.
- 41.** This feasible (and realisable) capacity plays a fundamental role in the level of competition enabled in the district. While the NPS UD directs the need to provide for sufficient feasible capacity, there are potential affordability benefits that the district, as a whole, can realise through enabling the housing market to a greater extent.
- 42.** Objective 2 of the NPS UD identifies that "*Planning decisions improve housing affordability by supporting competitive land and development markets*". This competition is inherent, not only in providing for a level of development potential that meets expected demand in the short, medium and long terms, but provides capacity that materially impacts upon the market's competitiveness.

43. In terms of a dilution of intensive development, there is ultimately a degree of trade-off in the provision of capacity that exceeds the potential demand (both feasible and, to a lesser extent, enabled capacity). Generally, the market will consider two key aspects, firstly the profitability of a development and secondly the revealed housing choice within the market. The need (and direction from the NPS UD) within a market to provide for *'at least'* sufficient capacity is the material impact that restrictions have on affordability and choice (and therefore the community's economic wellbeing). The key aspect to consider here, therefore, is whether the proposed area is an efficient location to provide for residential development at a larger extent.
44. The second potential economic cost relates to a 'crowding out' of economic benefits associated with density. This is typically through congestion where high levels of concentrated activity result in pressures on infrastructure, slowing economic activity. While, in general, Queenstown faces some congestion issues primarily with regard to transport infrastructure, the TPLM area is unlikely to materially impact the areas currently experiencing this. In fact, the close proximity of the submission area to over one third of the Wakatipu Ward's employment has the potential to alleviate some of these issues.
45. The final consideration with regard to increasing the potential residential housing capacity is the potential for the market to actually deliver an 'on-the-ground' product. While modelling can account for some of this variance, market motivation and district-specific considerations have played a significant role in the provision of residential product within Queenstown.

My conclusions and recommendations

46. Having reviewed the economic evidence and the position outlined in the section 42A report and based on the preceding evidence I support the proposed inclusion of the Extension Area within the TPLM Variation. When

considering the proposed Variation area this site clearly forms part of the future urban area, with extremely strong links and accessibility to existing employment opportunities, amenity, transportation networks and community services. Its benefits would significantly outweigh its costs, such as they are.

- 47.** The proposed extension represents an appropriately located and highly efficient opportunity to further manage and remedy existing housing issues within the district.
- 48.** I do not share the views of the section 42A report writer and Ms Fairgray that the Extension Area would dilute the pattern of growth across the Variation Area; rather it would have the effect of better supporting the intention and viability of the Variation and would be highly efficient in doing so. A focus on relative efficiency having regard primarily to the location of the proposed commercial centre is, in my view, an unduly narrow and economically unsound approach.

DATED this 20th day of October 2023



Philip Osborne