**BEFORE THE HEARINGS PANEL**
**FOR THE QUEENSTOWN LAKES PROPOSED DISTRICT PLAN**

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|---|---|
| **IN THE MATTER** | of the Resource Management Act 1991 |
| **AND** | |
| **IN THE MATTER** | of Hearing Stream 13 – Queenstown Mapping Annotations and Rezoning Requests |

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**REPLY OF PHILIP MARK OSBORNE**
**ON BEHALF OF QUEENSTOWN LAKES DISTRICT COUNCIL**

**RESIDENTIAL CAPACITY**

**6 October 2017**

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**TABLE OF CONTENTS**

## 1. INTRODUCTION

**1.1** My name is Philip Mark Osborne. I prepared a statement of evidence, supplementary and rebuttal evidence on Commercial Office and Industrial Land, and Dwelling Capacity, for the Queenstown Mapping Hearing Stream 13, as well as a summary of evidence. My qualifications and experience are listed in my evidence in chief dated 24 May 2017.

**1.2** The purpose of this Reply Evidence is to specifically respond to matters raised by the Panel and submitters during the course of the hearing. In particular, I will:

(a) clarify the assessment of development 'margins' identified in the National Policy Statement for Urban Development Capacity (**NPS**) Policy PC1 and their application in both the Queenstown and Upper Clutha hearing streams for residential capacity;

(b) clarify the business demand calculations;

(c) comment on the requirement for small scale office provision outside of the town centres;

(d) respond to John Ballingall's supplementary evidence for Queenstown Park Ltd (806) dated 28 August 2017; and

(e) respond to Michael Copeland's summary of evidence for Hensman et al (361) dated 12 September 2017.

## 2. DWELLING CAPACITY

### NPS Policy PC1 and the Queenstown Lakes District market

**2.1** The process employed to assess the sufficiency of residential capacity in Queenstown followed three phases.

**2.2** The first assessed the theoretical capacity enabled ('plan enabled') by the PDP (where notified) and ODP. This provided the total additional dwellings possible by zone and location.

**2.3** The second phase addressed the NPS definition of feasible capacity and assessed this quantum through a range of economic and financial factors that were both exogenous at a District level and variables that were specific to both the District and at a suburb level.

**2.4** The final phase related to development chance (also identified in the NPS PC1 as feasible capacity that may not be developed). I referred to this in my evidence as 'realisable capacity'. This proportion is inevitable in the market as individual motives and site specific factors are likely to impact upon the feasible capacity 'realisation'. This approach is similar to that (finally) taken in the proposed Auckland Unitary Plan (**pAUP**) hearings, and is essentially an alternative approach to that provided by PC1 and PC2 in the NPS.

**2.5** As I confirmed in answers to questions from the Panel, from an economic perspective, it is logical to apply a margin to development capacity (rather than demand) when assessing residential capacity. This is because while PC1 calls for a buffer of 15 - 20% between demand and supply, it is the capacity side that has a margin of difference created by the motivations within the supply-side of the market. This also maintains a more conservative position.

**2.6** However, as set out in the Council's Legal Reply and as discussed at the hearing, rather than the 'realisable capacity' approach taken in my evidence in chief, PC1 identifies a general approach of providing an additional margin to projected demand of 20% to 10 years (short to medium term) and 15% in the long term (30 years). The differing rates recognise the ability for the market to 'average out' over the longer term. The consequence of this added margin to projected demand, is then that feasible capacity, must also meet that higher demand projection.

**2.7** The following table reflects the approach that PC1 of the NPS, requires, and demonstrates that the Council is giving effect to this part of the NPS:

| Queenstown | Zone Name | Enabled | Feasible | 3 Year Short Term | 10 Year Medium Term | 30 Year Long Term |
|---|---|---|---|---|---|---|
| CAPACITY | Low Density Residential | 9,500 | 5,700 | | | |
| | Medium Density Zone | 1,565 | 689 | | | |
| | High Density Residential | 2,395 | 1,090 | | | |
| | Mixed Business Use | 747 | 556 | | | |
| | Rural Residential | 267 | 164 | | | |
| | Rural Lifestyle Zone | 359 | 215 | | | |
| | Local Shopping Centre | 162 | 162 | | | |
| | Queenstown Town centre | 196 | 146 | | | |
| | Arrowtown Town Centre | 32 | 21 | | | |
| | Township | 293 | 157 | | | |
| | R.G. Glenorchy | | | | | |
| | R.G. Wakatipu | | | | | |
| | Gibbston Character Zone | | | | | |
| | Ferry Hill RR Sub-Zone | | | | | |
| | Bobs Cove RR Sub-Zone | | | | | |
| | TC Queenstown (PC50) | | | | | |
| | SP Remarkables Park | | | | | |
| | Jacks Point | | | | | |
| | Quail Rise | | | | | |
| | SP Bendermeer | | | | | |
| | SP Millbrook | | | | | |
| | SP Waterfall Creek | | | | | |
| | SP Meadow Park | | | | | |
| | SP Shotover Country | | | | | |
| | Kingston Village | | | | | |
| | Arrowtown South | | | | | |
| | Arthurs Point | | | | | |
| | Frankton Flats B | | | | | |
| | Total Special Development Capa | 11,643 | 11,594 | | | |
| | TOTAL | 27,159 | 20,494 | 20,494 | 20,494 | 20,494 |
| DEMAND (2018 Base) | | | | | | |
| | Rationale Dwelling Projections | | | 1,085 | 3,126 | 8,133 |
| | Latent Demand | | | 800 | 800 | 800 |
| | NPS Buffer | | | 2,262 | 4,711 | 10,273 |
| **Differential / Surplus** | | | | **18,232** | **15,783** | **10,221** |

| Upper Clutha | Zone Name | Enabled | Feasible | 3 Year Short Term | 10 Year Medium Term | 30 Year Long Term |
|---|---|---|---|---|---|---|
| CAPACITY | Low Density Residential | 10,719 | 6,764 | | | |
| | Medium Density Zone | 1,090 | 381 | | | |
| | High Density Residential | 427 | 281 | | | |
| | Special Purpose | 2,068 | 2,068 | | | |
| | Northlake | 1,500 | 1,500 | | | |
| | TOTAL | 15,804 | 10,994 | 10,994 | 10,994 | 10,994 |
| DEMAND (2018 Base) | | | | | | |
| | Rationale Dwelling Projections | | | 723 | 1,830 | 3,744 |
| | Latent Demand | | | 150 | 150 | 150 |
| | NPS Buffer | | | 1,048 | 2,376 | 4,478 |
| **Differential / Surplus** | | | | **9,946** | **8,618** | **6,516** |

**2.8** PC2 of the NPS also states that a higher margin can be applied if more appropriate. As outlined in my evidence in chief the markets for both Queenstown and Wanaka currently operate at a unique level to the national market with a higher than average volume of section sales and resales. This along with the rapid increase in land values illustrates a buoyant market for land/site speculation and lower than expected building activity. It would appear that sections were bought and sold with the expectation of capital gain (greater than that which would be expected in a property market).

**2.9** This has resulted in a market where there is less capital outlay, less risk and a greater return in not developing residential. As such it is considered that the development chance for both Wanaka and Queenstown can be linked to the rate of sales and resales (as an inverse proportion of builds) and so warrants a greater than 'average' margin. I note however, that the NPS directs the Council to monitor a variety of factors, which will feed into what is the appropriate 'margin', moving forward, which will be relevant to the Council's Capacity Assessment to be completed by December 2017, and the Future Development Strategy, by December 2018.

**2.10** While the differentials outlined above identify the potential need for a greater margin, the NPS only suggests that a greater margin by applied, not the margin itself. In any event, I have applied a higher margin, in the following table, which reflects a conservative approach on behalf of the Council and takes into account the evidence in paragraphs 2.8 – 2.9 and also the land banking issue that has been discussed during the hearing and in Ms K Banks' reply, and again demonstrates that the Council is already giving effect to PA1, PC1 and PC2. I explain the greater margin I have used, further in the paragraphs below.

| Queenstown | Zone Name | Enabled | Feasible | 3 Year Short Term | 10 Year Medium Term | 30 Year Long Term |
|---|---|---|---|---|---|---|
| CAPACITY | Low Density Residential | 9,500 | 5,700 | | | |
| | Medium Density Zone | 1,565 | 689 | | | |
| | High Density Residential | 2,395 | 1,090 | | | |
| | Other | 2,056 | 1,421 | | | |
| | Total Special Development Capa | 11,643 | 11,594 | | | |
| | TOTAL | 27,159 | 20,494 | 20,494 | 20,494 | 20,494 |
| DEMAND (2018 Base) | | | | | | |
| | Rationale Dwelling Projections | | | 1,085 | 3,126 | 8,133 |
| | Latent Demand | | | 800 | 800 | 800 |
| | QLDC Buffer (22%) | | | 2,299 | 4,790 | 10,898 |
| **Differential / Surplus** | | | | **18,195** | **15,704** | **9,596** |

| Upper Clutha | Zone Name | Enabled | Feasible | 3 Year Short Term | 10 Year Medium Term | 30 Year Long Term |
|---|---|---|---|---|---|---|
| CAPACITY | Low Density Residential | 10,719 | 6,764 | | | |
| | Medium Density Zone | 1,090 | 381 | | | |
| | High Density Residential | 427 | 281 | | | |
| | Other | - | - | | | |
| | Special Zones | 3,598 | 3,598 | | | |
| | TOTAL | 15,834 | 11,024 | 11,024 | 11,024 | 11,024 |
| DEMAND (2018 Base) | | | | | | |
| | Rationale Dwelling Projections | | | 723 | 1,830 | 3,744 |
| | Latent Demand | | | 150 | 150 | 150 |
| | QLDC Buffer (32%) | | | 1,152 | 2,614 | 5,140 |
| **Differential / Surplus** | | | | **9,872** | **8,410** | **5,884** |

**2.11** In contrast, in my evidence the additional margin was applied to supply (feasible capacity) to retain a conservative position as well as the fact that I consider the margin identified in the NPS relates better to capacity for residential development than for demand. Additionally, both Wanaka and Queenstown have a significant proportion of identified residential developments for which the model was not run, given that the developers had identified a quantum they believed viable and were pursuing. As such it was thought prudent to not directly attribute a development chance to this capacity but apply it to the remaining proportion of capacity directly assessed through the model.

**2.12** Given the proportion of 'fixed development' and modelled development across both Queenstown and Wanaka, several iterations illustrated that a 50% margin on modelled capacity resulted in what was considered appropriate margins overall for both areas. While the 30 year (long term) margins under the NPS identify a 15% buffer for demand, the rates utilised for Queenstown were 22% and Wanaka 32% on supply.

**2.13** These rates have been applied to the table above to illustrate the conservative position adopted through the evidence where these margins were applied to the higher supply side and so essentially 'discounted' the residential capacity surplus present in the QLDC position.

## 3. BUSINESS LAND DEMAND

**3.1** The process employed to assess the sufficiency of both industrial and commercial office floor space and land in Queenstown was undertaken utilising employment projections for the NPS 30-year timeframe to 2048.

**3.2** The basis for these projections were national production growth estimates by sector, land supply assessment, relative land prices, economic development strategy, trended sector change analysis and population projections.

**3.3** Following this, employment projections by 2$^{nd}$ level ANZSIC sectors were translated to floor space and land demand based on ratios that were dynamic over time.

**3.4** A further consideration is the NPS PC1 requirement of a 20% short to medium term margin and 15% over the long term to 2048, which also applies to business capacity. Given the level of development within the commercial business market these margins on top of demand, were considered appropriate for Queenstown Lakes and applied accordingly. Based on the current evidence, it is not considered necessary to apply a higher margin (through PC2), although the Council will need to monitor that as part of its obligations under PB1.

### Industrial land

**3.5** Overall this resulted in demand for industrial land to 2048 of approximately 106ha (including the PC1 15% margin) and to 2030 of approximately 54ha in the District. With a supply of 52ha in both the

Wakatipu and Wanaka wards this was expected to reach capacity by 2030.[1]

**Commercial office**

**3.6** My evidence on commercial office illustrated a demand for 18ha (at an average of 2 storeys across the District). Given the uses that ultimately compete for this space, this figure was then coupled with the demand for retail and commercial services provide in evidence by Mr Tim Heath. At this stage the PC1 long term margin of 15% was applied illustrating a total demand for this space at 89ha by 2048 (using a 2018 base year).

**3.7** When reconciled with the identified vacant commercial space of 70ha, this highlighted a shortfall in commercial zoned land that was likely to occur between 2038 and 2048 in the Queenstown Lakes District.

## 4. REQUIREMENT FOR SMALL SCALE OFFICE PROVISION OUTSIDE OF THE TOWN CENTRES

**4.1** In relation to the McBride Street submissions the Panel commented that it might not be viable for small scale commercial uses or offices to be in the town centre so over time they end up spreading out and occupying industrial zones (e.g. Gorge Road and Glenda Drive).

**4.2** Economically this relates to the equilibrium between the need to consolidate activity and the feasibility of operating small businesses. Essentially my economic position is that there should be some allowance made for home businesses as well as providing for small (>5 Employment Counts) commercial business that support local activity. While this level of business activity actually constitutes a large number of businesses in Queenstown Lakes, it does not make up the majority of economic activity nor total employment.

1 As corrected in paragraph 17 of my summary of evidence.

## 5. MICHAEL COPELAND FOR HENSMAN ET AL (361)

**5.1** At paragraph 2.6 of Mr Copeland's summary of evidence presented at the hearing dated 12 September 2017, he identifies issues with the Council's concerns about the potential impacts of oversupplying industrial land 'running' counter to the NPS 'buffer'. However, consideration has been made for this fact in the figures supplied. Also, the concern still remains valid in terms of the timing around providing sufficient capacity for industrial land. The 30-year timeframe addressed in the NPS does not mean that the Council should seek to provide (nor zone) all the required land ready and serviced at this point in time as, clearly, most would lie vacant for several decades and distort the market's operation.

**5.2** Similarly, in paragraph 3.3 Mr Copeland raises issue with the potential to oversupply a market, contending that most economist would see this as healthy competition. This is absolutely not the case. The NPS seeks to provide flexibility in the market with a buffer to allow the movement of businesses and the potential for individuals to act in a manner not expected by general market forces (e.g. land banking, insufficient personal/company finances). This is not an indication that simply more is better. If the argument held then rezoning more business land would improve an economy's competitiveness and community wellbeing. Although this is sometimes the approach taken, and in the short term can yield growth, the long term implications are acknowledged through literature, with such areas failing to sustain a business environment that remains efficient, with sufficient certainty for land owners, leading to a reduced ability to compete.

**5.3** In paragraph 3.5 Mr Copeland suggests that office activity is unlikely to develop on the Coneburn site given its distance from the commercial centres. This, in itself, would suggest that limiting this potential for office activity is unlikely to have any material impact on the site to develop. Further the distribution of commercial office through the District would suggest that commercial office does have a material tendency to locate some distance from existing centres.

**5.4** While I agree with the proposal to allow only ancillary office activity within an industrial zone I believe it is important to limit this also. This limitation is present in most district plans around the country, either by limiting the overall square metre or % of total floor space, or a limitation of the lower of the two options.

## 6. JOHN BALLINGALL FOR QUEENSTOWN PARK LIMITED (806)

**6.1** Mr Ballingall filed supplementary evidence after I appeared at the hearing. He acknowledges the need, at least, to identify economic costs and benefits for proposed projects such as the gondola (at his paragraph 3.1 ).

**6.2** Mr Ballingall rightly identifies opportunity cost for resources as a potential resource reallocation distribution cost. In assessing the evidence in chief of Ballingall, I had assumed, based on his numbers, that these had been considered.

**6.3** My key concern is the lack of information pertaining to the potential costs to the Outstanding Natural Landscape (**ONL**) of the construction and operation of the gondola.

**6.4** Once again, Mr Ballingall is correct that there is a point where the cost of providing tourist operations within the ONL will outweigh the potential benefits. It is the identification of these costs, and understanding them, that allow identification of this tipping point or proximity to it.

**6.5** In simple terms, the construction of man-made operations is likely to have some impact on the ONL and therefore result in some costs. It is important to understand, or at least identify, the extent of these costs.

**6.6** I agree with Mr Ballingall that there is inevitably a tipping point, but the key aspect of this is understanding where that might be and to what extent this will move the community to that point.

**Philip Osborne**
**6 October 2017**