

**BEFORE THE INDEPENDENT HEARINGS PANEL
AT PORIRUA CITY**

UNDER THE

Resource Management
Act 1991

IN THE MATTER OF

the hearing of submissions
on the Proposed Porirua
District Plan

(Future Urban Zones)

**REBUTTAL EVIDENCE OF PHILIP MARK OSBORNE ON BEHALF OF PORIRUA
CITY COUNCIL**

1. Introduction

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

Experience

3. My qualifications include Bachelor of Arts (History/Economics) (1994), Masters in Commerce (1997), a Masters in Planning Practice (2002) from the University of Auckland and I have provisionally completed my doctoral thesis in developmental economics.
4. I have 18 years' experience advising local and regional councils, as well as central government agencies, throughout New Zealand in relation to economic impacts, industrial and business and residential land use issues as well as strategic forward planning. I also provide consultancy services to private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and residential market assessments, economic costs and benefits and forecasting market growth and land requirements across all property sectors.

Involvement in the Proposed Plan

5. I have been commissioned by Porirua City Council (“**PCC**”) to prepare this statement of rebuttal evidence to address economic matters raised in relation to a submission to Porirua City Council’s Proposed District Plan (“**PDP**”) in relation to the provision of “greenfield” land and Future Urban Zonings (“**FUZ**”), by Silverwood Corporation Ltd.

Code of Conduct

6. I confirm that I have read the Expert Witness Code of Conduct set out in the Environment Court’s Practice Note 2014. I have complied with the Code of Conduct in preparing this evidence and agree to comply with it while giving evidence. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

Scope of Evidence

7. My rebuttal evidence is provided in response to the statement of evidence provided by Mr Adam Thompson dated 20 June 2022 (for Silverwood Corporation Ltd) and will address the following:
- The economics of the housing market and affordability;
 - Comments from my previous advice appended to Gina Sweetman’s s42A report
 - The Porirua Housing Market
 - Interpretation of PDP residential housing enablement;
 - The material changes on MDRS and proposed Variation 1;
 - Mr Thompson’s conclusions;
8. In preparing my evidence, I have read the evidence of Mr Thompson as well as any material cited by him.

The Economics of Housing and Affordability

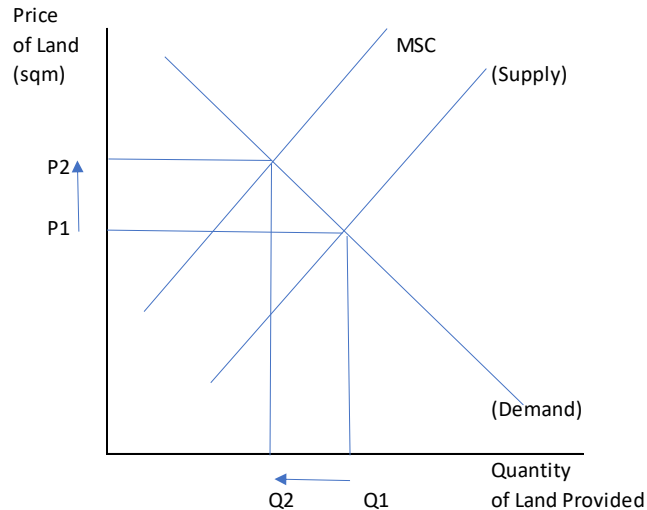
9. Within Mr Thompson's evidence much is made of his understanding of the residential housing market and his solution to affordability. There are several reoccurring themes and statements that underpin his evidence where economic theory and the potential significance of land markets are utilised to provide a position on an efficient and competitive land market.
10. Given his reliance on this position it is important to address his statements.
11. In introducing his evidence Mr Thompson establishes a baseline for the significance of affordable housing by stating that, according to his source, New Zealand has the second least (if not the least) affordable housing market in the world at a ratio of 11.2. This, however, is not the outcome of the report he has cited. The report takes a number (in New Zealand's case 1) of major urban areas internationally and establishes a mean ratio comparing these. In the case of the New Zealand market the area utilised is Auckland. As such the 11.2 cited by Mr Thompson as New Zealand's affordability index is incorrect and represents that of Auckland only. As is identified later in the report, Auckland is by no means the most expensive city with at least seven of the cities assessed exhibiting higher affordability indices.
12. Mr Thompson then goes on to state that the 'simple' reason why housing is unaffordable is due to the fact that not enough housing is being built, with the solution to build more houses. I would agree with Mr Thompson that the supply of houses is a factor (relative to demand) of prices, however Mr Thompson vastly underestimates the complexities of the property market (ignoring the impacts of GDP (the other key factor in the ratios he has utilised, interest rates, speculation (based on the return on investment relative to other opportunities), access to capital, the costs of construction, etc). The fact that these factors play such an important role in house prices is evident in the current realised (circa 10%) and expected drop in house prices throughout New Zealand. This market shift is not due, as Mr Thompson points out, to material changes in housing supply, but to the effects of macroeconomic factors that have, for the best part of the past two

decades, driven land construction (hence building) values at a rate beyond that of a normal cycle.

- 13.** Having identified a shortage of built housing stock as the simple reason for unaffordable housing, Mr Thompson then goes on to conflate the market for built homes with the market for residential land.
- 14.** Mr Thompson makes much of the simple concept of demand and supply, both in his affordability section and in Section 10 where he explains the relationship between supply and price. My initial struggle to understand his Figure 14 highlighted the fact that he has, mistakenly, identified the independent variable price on the y-axis. Also, while indicating a lack of built houses Mr Thompson appears to continue to conflate this with the market for land. There is an extremely important distinction within residential land markets that Mr Thompson's commentary does not identify or understand.
- 15.** Many markets such as residential land demand exhibit externalities (or market failure), often without the recognition of these (generally through regulation) markets with negative externalities will over produce given that all costs are not internalised. A simple example of this is a producer who pollutes. Without regulation to have the market pay for this expense, the balance of supply and demand fail and too much of the good or service will be produced. This example is a key reason for planning intervention and the reason why cities around the world have not simply increased housing supply by increasing (apparently without limit) rezoning massive tracks of greenfield land.
- 16.** To utilise and expand on Mr Thompson's approach, economic efficiency requires that Marginal Social Costs (MSC) are in equilibrium with Marginal Social Benefits (MSB). These simply translate into the total costs of provision (including social costs the market would not otherwise consider) representing social supply while MSB represents social demand.
- 17.** In terms of residential land capacity and provision, this means not all supply is created equal and an increase in supply of one does not necessarily result in social equilibrium. It is important to note that these social costs are not simply theoretical and in terms of land provision are often represented by increased marginal costs for infrastructure, reduce agglomeration benefits, and opportunity costs associated with replacing other land uses. These considerations go on and are at the foundation of most major city's recognition of the economic costs associated with urban sprawl.

18. Figure 1 illustrates how marginal social costs can impact a market equilibrium

Figure 1: Potential Marginal Social Cost for Greenfield Land



19. As can be seen, recognising that this land provision can have other costs (externalities) that are not as prevalent, other capacity options result in an economically efficient outcome where these costs are considered and prices for this option are higher with a lower quantity demanded than if they were not. As identified above, these costs are real with someone (generally the community inter-generationally) paying them and in turn slanting the market, inefficiently, towards greenfield development. While this may or may not have the impact of lowering the internalised cost to the property, the outcome has not considered these community costs.
20. It is of interest to note that given this land market, the impact on lower per square metre land costs does not typically have a linear relationship in these markets. As the price per square metre of land potentially falls, so the substitutability of site area plays a role in site costs. Put simply when greenfield land becomes cheaper there is a trade-off with the demand for larger sections¹.
21. A further consideration that is crucial in the consideration of greenfield land supply, is its potential impact on the competitiveness of other residential land development options. As identified in my report provided in the section 42a report, brownfield (both infill and comprehensive) and greenfield capacities compete with each other for development. In terms of achieving an economically efficient outcome the two markets would compete equally with both markets internalising

¹ It is important to note that not all greenfield sites exhibit the same extent of MSC's

social as well as private costs. However, as identified, many markets exhibit what is termed market failure, with products that exhibit higher MSC's being over produced, and products with higher MSB being under produced. This is essentially the potential case with an open market between brownfield and greenfield residential land. The provision of greenfield competes (very strongly, according to Mr Thompson's own evidence) unequally with brownfield and by its nature lowers the feasibility and propensity for brownfield development, thus reducing the potential community benefits. While there are potentially costs associated with limiting greenfield supply (from an infinite amount) in the short term the key issue is that this form of residential development is provided a market that enables some form of redevelopment. In terms of the Porirua PDP, this position is not one that inappropriately limits greenfield choice (the PDP provided for nearly 6,000 residential units) but tries to provide some competitive balance, and sufficient feasible urban capacity, between the brownfield and greenfield markets.

22. Overall, in my view, Mr Thompson's representation of the market is fundamentally flawed. Not only has the market he has suggested not played out in reality, with fundamental economic factors playing a more significant role (worldwide) in recent times than a simple building supply issue, but his representation of the market fails to consider the economic premise for efficient planning and the recognition of market failure.
23. Finally, his position that there needs to be between 25-50 greenfield developers in any given market to achieve a competitive land market appears without merit, and without any evidence to support this statement it is difficult to go into detail on the obvious flaws in his conclusion. Suffice to say, I have not encountered any city or government that has sought this as a "silver bullet" to 'ensure a competitive land market'. Any consideration of such a position highlights its complete lack of credibility with the Council having to allow the rezoning of greenfield land, regardless of the total quantum, until there are 25 developers in the market. Then if a developer sells their land holdings to another, the Council would have to allow further greenfield development for another developer. In my view, the suggestion that this is a legitimate position is fundamentally flawed. It also does not consider the wider planning framework under which greenfield development is regulated.

The Porirua Housing Market and Affordability

24. In sections 6 to 8 of his evidence Mr Thompson attempts to review the potential market under the ODP and PDP. While I will not go into depth on these

comments, as I believe they are almost entirely negated by proposed Variation 1² (and at the very least by the MDRS required by central government), I make some note the of Mr Thompson's assessment of the market.

- 25.** In figure 7 Mr Thompson's assessment finds that 54% of Porirua households can raise a mortgage of \$600,000 or less. Mr Thompson further identifies in Figure 13 that this represents only 16% of the current market. However over 52% of residents own their homes. This speaks to a considerable level of equity held by residents. Additionally, this proportion is likely to be distorted due to the fact that many of the lower income brackets are retirees who typically hold significant levels of housing equity.
- 26.** It is also of interest to note that construction costs have risen over 30% in the last two years. This would suggest that an average 120sqm home has a development cost of over \$500,000 (this is supported by Mr Thompson's own feasibilities⁴). This would make the development of homes under \$600,000 extremely difficult no matter the land cost, unless residents are willing to accept smaller homes. It is of interest to note that in Mr Thompson's feasibility assessments (example Figure 23 and 26) that the average infill property sells for approximately \$570,000 (total \$4.336m for 8 homes), while the greenfield location (with a lower per square land value) sells for over \$750,000 (\$4.524m for 6 lots).
- 27.** While I do not deny that Porirua (as do most urban areas currently) has an affordability issue that should be resolved, I do not believe that the 'simple' reason is a lack of greenfield supply (either in terms of quantum of land or the number of developers).
- 28.** Utilising the supply of often inefficient greenfield land to solve an issue that is a macro-economic issue has the potential to create substantial economic costs. Put simply as the market corrects (as it has started to) the provision of swaths of greenfield residential will simply leave a community cost for future generations.
- 29.** As identified, there are a raft of inaccuracies and misinterpretations within Mr Thompson's statement. However, this assessment has been undertaken on the 2021 Housing and Business Capacity Assessment (HBA) results. As part of the conferencing with Mr Thompson I made him aware of the information that

² Note: On 23 June 2022, Porirua City Council agreed to publicly notify Variation 1. This is anticipated to occur in early August 2022.

³ Note: It is not my position that a year of sales data is representative of the value distribution of housing in Porirua

⁴ It is of interest to note that Mr Thompson has a sample size of 18, while the PDP modelling has been run on all urban parcels of land in Porirua

underpins Variation 1 that, based on preliminary results, will significantly change the outcomes of the feasibility modelling. I informed Mr McKenzie at the Council of this issue who I understand discussed this with the hearing panel. I was advised that the Panel considered that this was the most suitable information to be provided. I relayed this to Mr Thompson who remained steadfast, after confirming with him the Council and Hearing Panel's position, in his request of the older data set.

- 30.** Variation 1 includes a number of changes to the PDP not least of which is the Council's statutory requirement to implement the Government's medium density residential standards (MDRS), as well as Policy 3 of the National Policy Statement on Urban Development. I understand that Variation 1 has yet to be publicly notified. However, the RMA changes that require the Variation are very directive with very little room for submission or appeal. In my view, while understanding that there may be some changes through the Variation submission and hearing process, it is unlikely that the economic direction of Variation 1 will be materially impacted.
- 31.** As could be expected from such far-reaching changes to capacity the resulting feasible and realisable outputs have changed substantially. One other change is the treatment of restricted discretionary residential development in commercial zones. The current model includes an additional level of risk (and cost) associated with restricted discretionary zoning (as well as a more up to date understanding of the competitive pressures from other uses).
- 32.** Mr Thompson makes comment on this stating 'the theoretical capacity estimates are considered fanciful because it is not considered possible to build 53,392 standalone and terrace dwellings in the commercial zones'⁵. While neither I nor Property Economics undertook this theoretical assessment, it is clear that the PDP and Variation 1 enables the development of residential within these zones, whether it is practical or possible to development is the purposes of the feasibility modelling.
- 33.** Throughout his assessment Mt Thompson does not identify the significant level of greenfield development (nearly 6,000 sites, including Future Urban Zones) that are already provided for in the Porirua PDP. This, in itself, would meet over 50% of projected dwelling demand (for the next 30 years). A material proportion of this capacity is accommodated within Plimmerton Farm. With the potential for 2,000

⁵ Paragraph 46

sites at Plimmerton Farm, it is my view that this area will be developed by more than one entity over the period of the PDP and beyond, thereby adding to what Mr Thompson calls a competitive greenfield market.

34. Table 1 below sets out the differences in capacity resulting from the introduction of Variation 1 to the PDP.

Table 1: Realisable Residential Development (Variation 1)

Maximum Profit Scenario	Theoretical	Apartment	Standalone	Terraced	Total
Theoretical Capacity PDP	144,573				
Feasible Capacity PDP	21,556				
Realisable Capacity PDP		192	5,189	5,576	10,957
Theoretical Capacity Var 1	230,830				
Realisable Capacity Var 1		939	12,261	14,271	27,471
Realisable Capacity MRDS (only)		203	11,985	13,723	25,911

35. As can be seen from the above table the level of realisable residential capacity within Porirua City materially increases due to, in part the Council Variation, but primarily due to the statutory introduction of the MDRS. It is important to note that this is not necessarily the form in which capacity will be development. Firstly, due to the excess of capacity, second due to the composition of demand, and thirdly due to the alternative (the above scenario is driven by maximising profit) motivations of developers.
36. It is clear however that the market enablement is significantly greater under the Variation 1 scenario.
37. Once again, as are with most capacity assessments⁶, the modelling utilises current sales values, as such if the current market is unaffordable, it is likely (based on the changing typologies) that the resulting model will be unaffordable. As identified above there are a large number of reasons for this including the costs of construction, that are not impacted by land supply. However, as with Mr Thompson’s demand and supply modelling, the enablement of nearly 15,000 more infill residential units through the Government’s MDRS and NPS-UD directive is likely to shift supply (without the associated costs of some greenfield

⁶ In fact, many of the prevailing capacity assessments utilised by other Councils include a price increase through time.

development) thereby lowering the price of residential (given that they can now be smaller) sites rather than just the square metre value of land.

- 38.** As identified, there are more factors influencing residential property prices than merely the supply of land, this is evident in their current rapid decline. Rather than providing the current modelled prices it is more relevant to understand at what price the PDP, with the MDRS, can still meet projected demand.
- 39.** With a projected demand requirement of approximately 14,000 dwellings (over a thirty-year period) land prices in Porirua would need to fall 44% for urban (realisable) capacity under the PDP and MDRS to only just meet demand⁷. When considering the greenfield capacity identified within the PDP land values could fall by 50% and there would remain sufficient capacity under the PDP and MDRS (implemented through Variation 1).
- 40.** This position negates most of Mr Thompson's comments regarding PDP sufficiency. In his conclusion Mr Thompson appears to relate a 'competitive land market'⁸, ensuring affordable housing. Mr Thompson has provided no evidence to identify what he believes is affordable. However, his conclusion does state that 'based on his analysis (which is not present) increase the number of greenfield developers in Porirua from 9 to 25-50 will 'ensure' affordable housing. This statement is baffling and indicates a lack of understanding regarding housing market dynamics. Even if Council were to intervene at the point of ownership, this would imply that Porirua does not necessarily require more greenfield land but simply more owners.
- 41.** There is little in Mr Thompson's evidence that addresses the submission for which it was presented. Given that Silverwood currently owns greenfield land (Pacific Heights) Mr Thompson's conclusion would suggest that this does not add to the number of greenfield landowners in Porirua and therefore does not contribute to his solution, to ensure affordable housing⁹.
- 42.** My position on the Silverwood submission, remains, that the provision of additional greenfield capacity into a market with capacity to meet circa 50% of projected demand for the next 30 years, will materially impact upon the potential

⁷ At this point it is likely that some of the properties that meet the feasibility threshold but not the realisable (due to risk levels) would become realisable.

⁸ Paragraph 18

⁹ Paragraph 19

for urban development and result in reduced economic efficiency and a community wellbeing loss.

Conclusion

- 43.** It is my economic opinion that Mr Thompson's evidence ignores the significant role that other market factors play in the provision and cost of housing. The impact of interest rates, GDP growth and levels of capital investment are self-evident in the current market that drove property prices worldwide the same forces that now seek to reduce them.
- 44.** Mr Thompson's position fails to consider the impacts on economic efficiency that result from differing residential capacity sources and so sees additional land provision as an answer to the factors that have driven property prices beyond the reach of many.
- 45.** The PDP, and the Government through the mandatory implementation of the MDRS, seeks to provide additional appropriate and efficient residential capacity, which provides for a market without passing on unnecessary cost to future generations.
- 46.** The PDP provides for significant levels of greenfield capacity. Additional, capacity in this form will impact upon the markets willingness and ability to realise urban capacity.
- 47.** The addition of Variation 1 to urban capacity materially increases theoretical, feasible and realisable capacity within these areas. A preliminary assessment has indicated that even with a 50% reduction in underlying land values this, along with currently identified greenfield sites provides for sufficient capacity for the Council to meet its s31 RMA function and NPS-UD obligations.
- 48.** In terms of the Silverwood submission, there is no evidence provided by Mr Thompson that would suggest additional greenfield supply will result in improved economic efficiency. In fact, the key principle of Mr Thompson's evidence, advocating an increased number of greenfield owners does not seem to support additional capacity under the same ownership.

5th July 2022

Philip Osborne