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Draft Report: 2 June 2022

Economic Assessment of Proposed Private Plan Change in West Melton

Prepared for:

West Melton Holding Limited

Authorship

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1. Executive Summary

West Melton Holding Limited (WMHL) owns approximately 12.5 hectares of rural-zoned land on the western outskirts of West Melton in Selwyn. WMHL seeks to rezoning the land to Living Zone (LZ) to accommodate a master-planned lifestyle village for older people, comprising approximately 220 dwellings and associated community facilities. To assist, this report assesses the likely economic effects of the proposal.

Having identified and described the subject land, we then summarise the current state of the local and district housing market for additional context. We show that the local housing stock is characterised by large, standalone homes on generous sections. We then show that the district's population has grown rapidly in recent years, with this fast growth set to continue well into the foreseeable future. In fact, Selwyn is projected to be the fastest growing territorial authority to 2048 under Statistics New Zealand's low, medium and high scenarios.

Next, we next assess the need for the plan change according to the National Policy Statement on Urban Development (NPSUD). We show that the Council is currently not meeting its obligations to provide at least sufficient capacity to meet demand, as required by the NPSUD. This is both because the Council's estimates of demand for additional dwellings are inordinately low, while its estimates of likely capacity to meet that demand appear grossly overstated.

When the various issues identified herein are addressed to provide more reliable estimates of dwelling supply/demand, the district clearly faces significant shortfalls over the short, medium, and longer terms. Accordingly, additional land needs to be identified and rezoned as soon as possible to meet NPSUD obligations, and to enable the efficient operation of the local land market.

Having determined the need for the plan change, we assessed its likely economic costs and benefits. Overall, we expect the proposal to provide strong economic benefits, including:

- Providing a substantial, direct boost in market supply to meet current and future shortfalls;
- Bolstering land market competition, which helps deliver new sections to the market quicker and at better average prices;
- Providing a variety of housing options/typologies to meet the needs and preferences of a growing demographic of active older people;
- Freeing up existing housing for more suitable uses, such as larger families or first home buyers;
- Contributing to achieving critical mass to support greater local retail/service provision; and

- The one-off economic stimulus of developing the land and constructing the dwellings that will be enabled there, plus ongoing employment sustained onsite.

Given the strong and enduring benefits of the proposed plan change, and noting the absence of any material economic costs, we support it on economic grounds.

2. Introduction

2.1. Context & Purpose of Report

West Melton Holding Limited (WMHL) owns approximately 12.5 hectares of rural-zoned land on the western outskirts of West Melton, in the Selwyn district. WMHL seeks to rezone the land to Living Zone (LZ) to accommodate a master-planned lifestyle village for older people, comprising approximately 220 dwellings and associated community facilities. To assist, this report assesses the likely economic effects of the proposal.

2.2. Structure of Report

The remainder of this report is structured as follows:

- **Section 3** locates the subject land, describes its current zoning and receiving environment, then outlines the proposed plan change;
- **Section 4** describes the local and district housing market in which the subject site falls;
- **Section 5** discusses the need for the plan change at the district level under the National Policy Statement on Urban Development (NPSUD);
- **Section 6** discusses the need for the plan change at the sub-district level;
- **Section 7** considers the likely economic costs and benefits of the plan change; and
- **Section 8** provides a short summary and conclusion.

3. About the Subject Site & Proposal

3.1. Site Location & Description

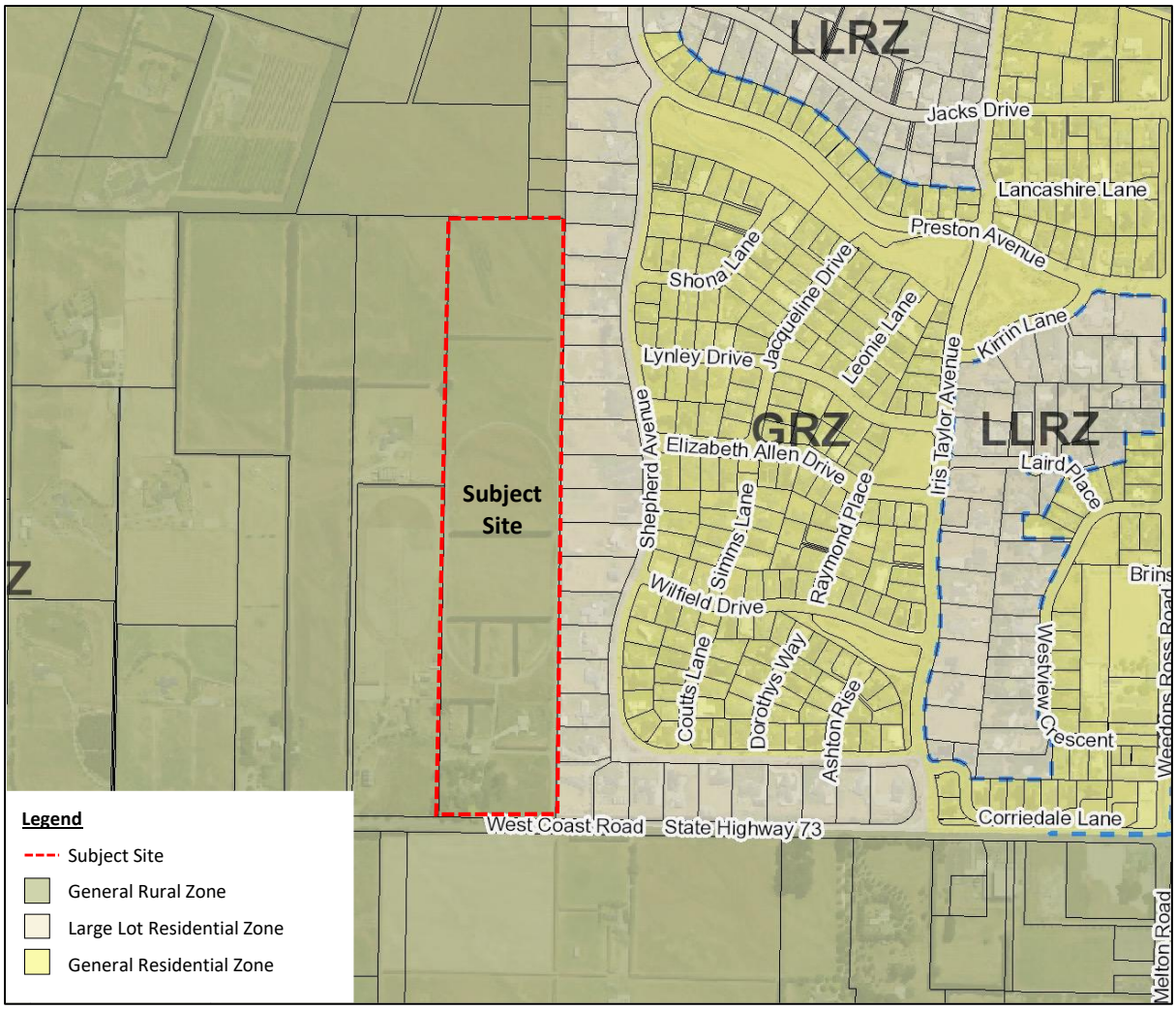
The subject site is located on the western edge of West Melton in the Selwyn district. It is bound by State Highway 73 to the south, residential properties to the east and rural land to the north and west. The site itself spans approximately 12.5 hectares and is relatively flat. The yellow outline in the map below identifies the site.

Figure 1: Location of Subject Site

3.2. Zoning & Receiving Environment

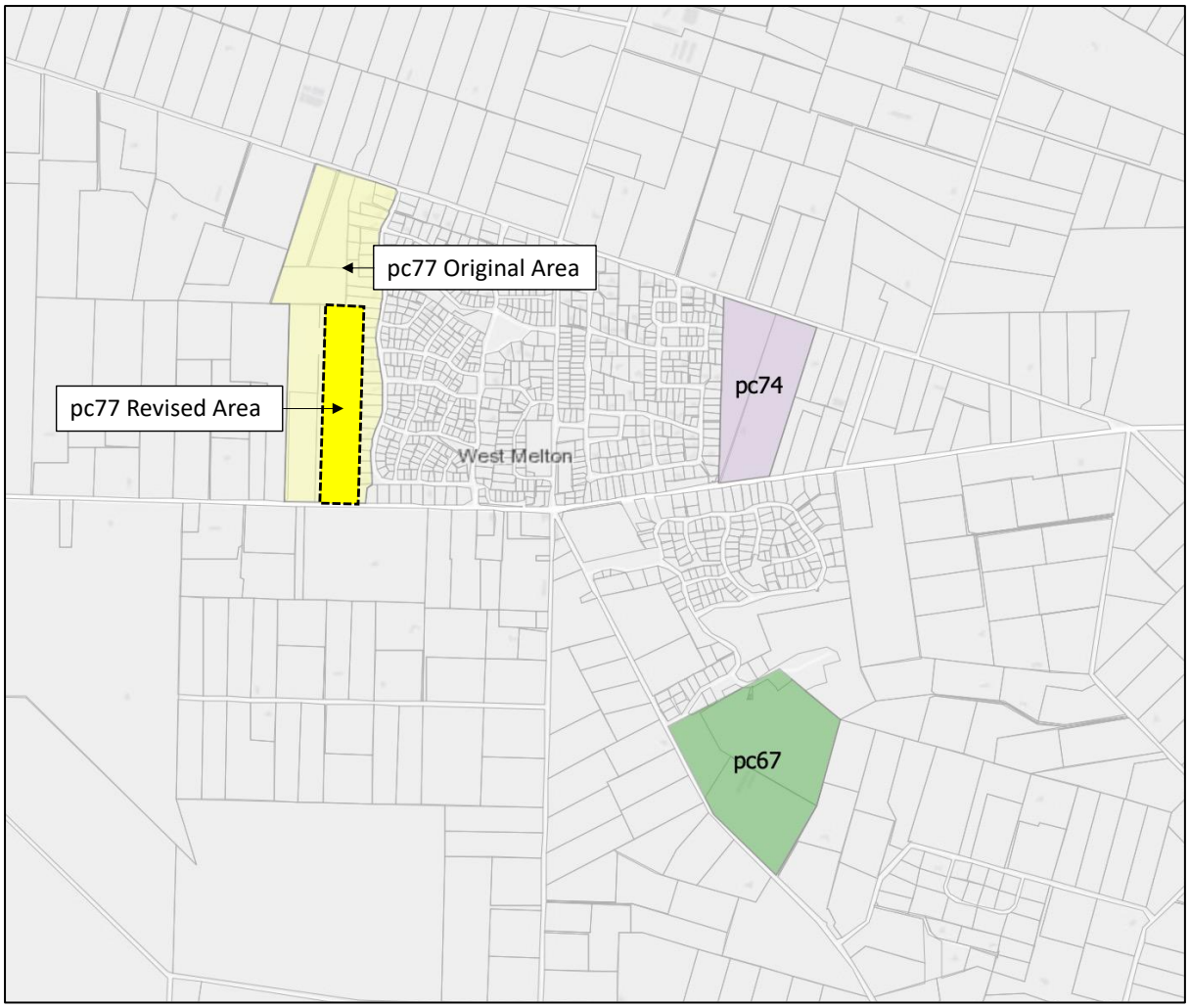
The site is currently zoned Inner Plains under the Operative District Plan (ODP) and General Rural Zone under the Proposed District Plan (PDP). The land immediately east of the site is zoned for large lot residential use, as illustrated in Figure 2 below.

Figure 2: Zoning of Subject Site under PDP



Various rezoning submissions have been received for land in and around West Melton as part of the Selwyn District Plan review process. These rezoning submissions are supported by plan changes to the ODP. The map below shows the location of the subject site relative to land in and around West Melton that is currently undergoing a plan change process.

Figure 3: Location of Subject Site Relative to Plan Change Submissions



3.3. About the Proposed Plan Change

The plan change seeks to rezone the subject site to Living Zone (LZ), to enable the development of a master-planned lifestyle village for older people. Built under the "Harlow" banner of modern lifestyle neighbourhoods, the proposed development offers affordable, non-assisted living options for active New Zealanders aged 55 and over. The single-level village consists of approximately 220 dwellings, a clubhouse (housing internal community facilities for residents) and outdoor recreation spaces.

Higher-density living is concentrated in the central portion of the village, with slightly larger lots of up to 460 square metres located along the rural interface. This is illustrated in the indicative lot layout in Figure 4 below.

Figure 4: Indicative Lot Layout

The proposal provides for a mix of one-, two-, and three-bedroom dwellings across eight different dwelling configurations. Homes range in size from approximately 70m2 to 135m2, as per Table 1 below.

Table 1: Anticipated Dwelling Typologies

House Type	Description	Typical Dwelling Size (m^2)	Number of Dwellings	Share of Dwellings
1A	Single garage, 2 bed, 2 bath	100	27	12%
1B	Single garage, 2 bed, 2 bath	100	32	15%
1D	Single garage, 2 bed, 2 bath	100	15	7%
2A	Double garage, 2 bed, 2 bath	125	57	26%
3A	Single garage, 1 bed, 1 bath	70	26	12%
4A	Double garage, 2 bed, 2 bath	125	4	2%
5A	Double garage, 3 bed, 2 bath	135	45	21%
6A	Single garage, 1 bed, 1 bath (Zero Lot)	85	12	6%
	Averages / Totals	**110**	**218**	**100%**

Figure 5 below shows indicative floorplans for four of the above housing types.

Figure 5: Indicative Floorplans

Conceptual renders of the proposed development are provided in Figure 6 and Figure 7 below.

Figure 6: Architectural Render of Harlow West Melton

Figure 7: Architectural Render of Community Facilities

Future residents of Harlow West Melton will have the option to purchase freehold dwellings at affordable prices, or lease homes on fixed, long-term tenures. This is an important point of difference to retirement villages as it allows residents to retain financial freedom over their housing investment.

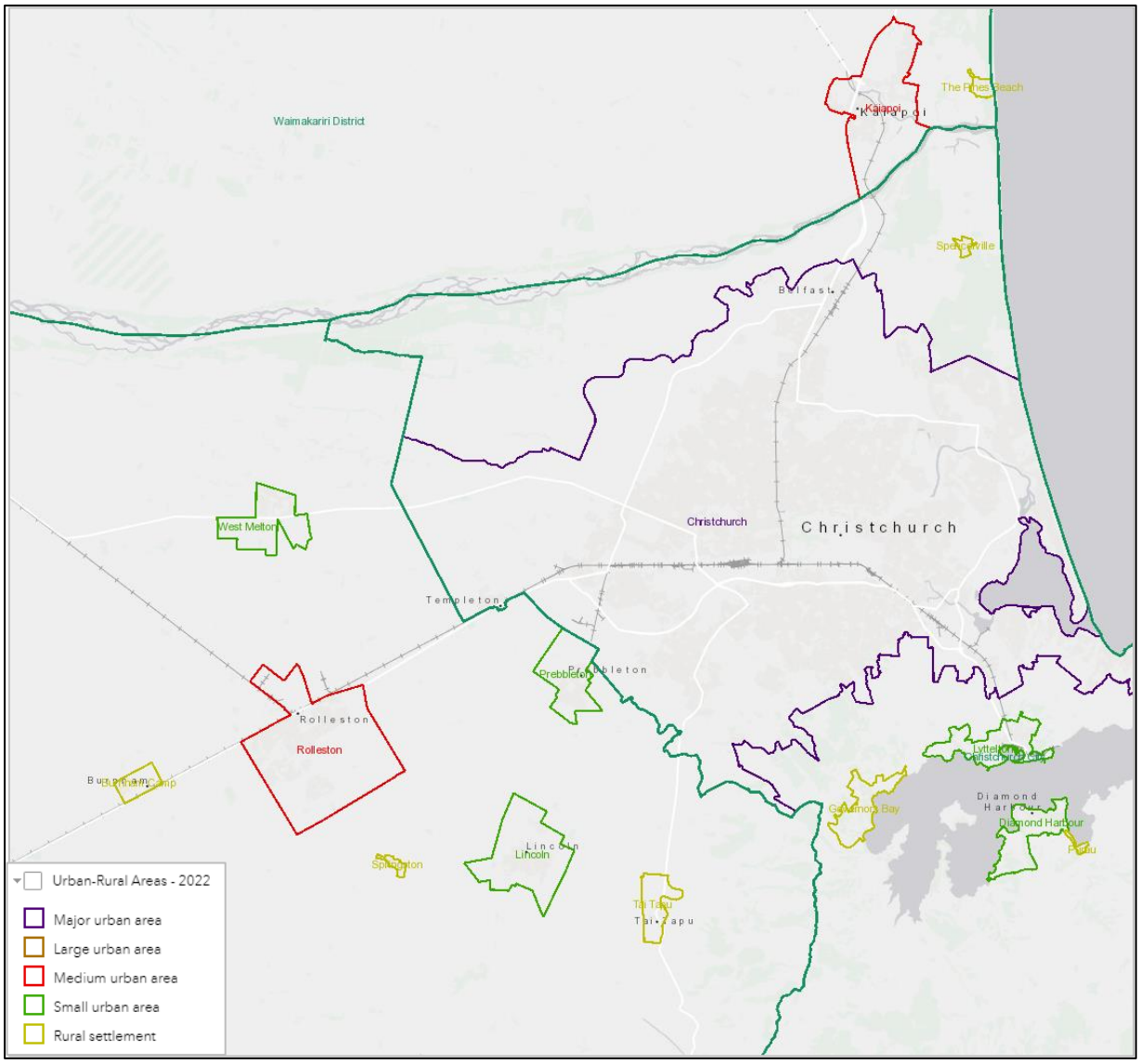
4. Housing Market Context

This section describes the local and district housing market in which the subject site falls.

4.1. About West Melton

West Melton is an urban township in the Selwyn district, located west of Christchurch City, and approximately 10km north of Rolleston. Its location is illustrated in the chart below based on Statistic New Zealand's Urban/Rural groups.

Figure 8: West Melton Urban Context



As at the 2018 census, there were 675 occupied dwellings in West Melton[1] with just under 2,100 usual residents (~an average household size of 3.09). The median age was 39.7 years, and the median personal income was $55,400. 94% of residents identified as European, nearly 6% as Māori, and just over 5% as Asian.[2]

West Melton has grown rapidly, especially over the last 10 years, with the population quadrupling from 580 in 2011 to 2,530 in 2021 (an annual growth rate of 15.9%). Because of this strong recent population growth, most of the established residential-zoned areas in West Melton are fully developed.

To gain a better understanding of West Melton's existing dwelling stock, we used Core Logic's Property Guru tool to profile them. Table 2 presents the results for sections under one hectare in size that contain a dwelling.

Table 2: Summary of Existing West Melton Dwelling Stock

Summary Statistics	**Value**
Number of Dwellings	775
Avg Dwelling GFA (m^2)	270
Avg Section Size (m^2)	1,780
Avg No. of Bedrooms	4.0
Avg Floor Area Ratio	0.15
Average Property Values	**Value**
Land Value	$260,000
Capital Value	$820,000
Decade Built	**Share**
1980 - 1989	1%
1990 - 1999	4%
2000 - 2009	6%
2010 - 2019	82%
Other / Unknown	6%
Wall Materials	**Share**
Brick	47%
Roughcast, etc	32%
Weatherboard	12%
Mixed Material	5%
Other / Unknown	5%
Roof Materials	Share
Steel / G-Iron	88%
Tile Profile	11%
Other / Unknown	1%

[1] Defined as the Prebbleton SA2 area. Data sourced from https://www.stats.govt.nz/tools/2018-census-place-summaries/west-melton

[2] Numbers do not sum to 100% as people may identify with more than one ethnicity.

According to Table 2, the average dwelling in West Melton has 270m2 of floorspace on a 1,780m2 section, with an average of 4 bedrooms. More than 80% of these dwellings were built since 2010. The average capital value is $820,000, and the average land value is $260,000.

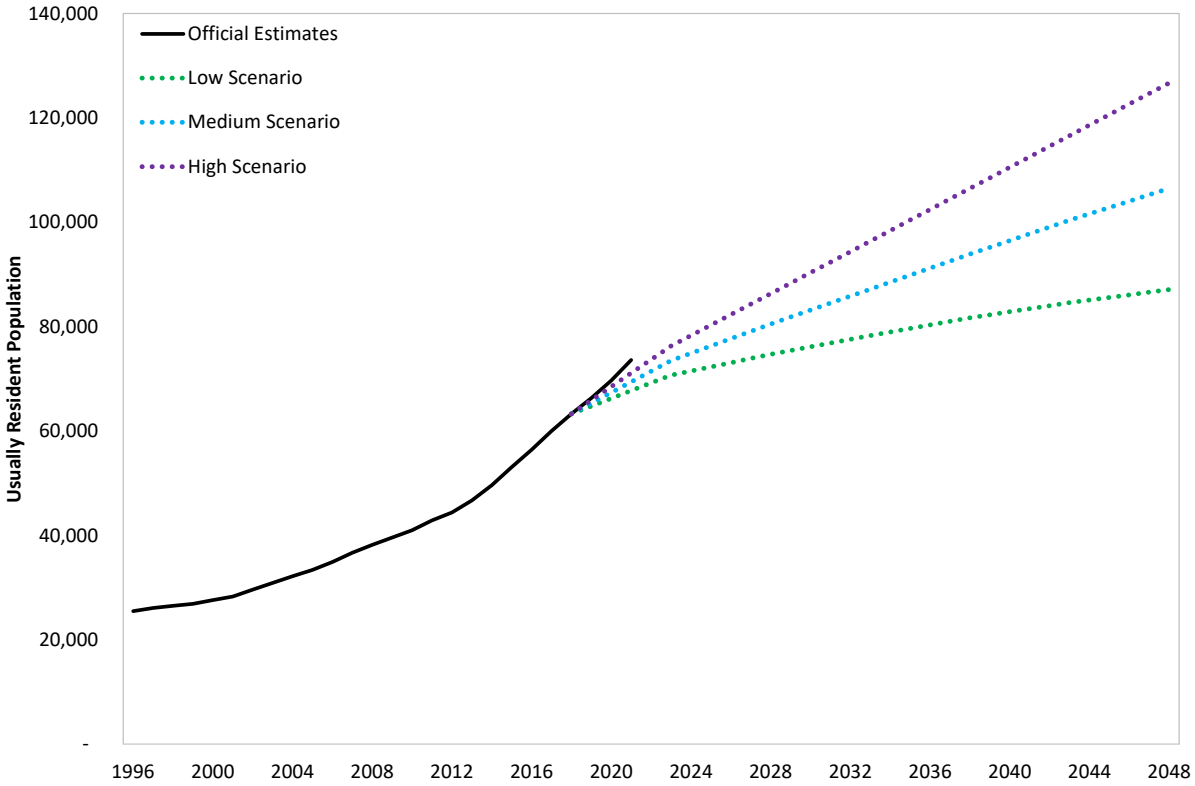
4.2. Past & Future District Population Growth

Selwyn is one of New Zealand's fastest growing areas. Over the last 25 years, its population growth rate was second only to Queenstown, and nearly 3.5 times the national average of 1.6% per annum.

According to official population projections, this rapid growth is set to continue, with Statistics New Zealand's picking Selwyn to have the fastest population growth of all territorial authorities to 2048 under its low, medium, and high scenarios.

And, according to the latest population estimates to 30 June 2021, Selwyn is on track to exceed even Statistics New Zealand's high population growth scenario. This is illustrated in the chart below, which overlays the latest official population projections with official population estimates to 31 June 2021.

Figure 9: Selwyn District Official Population Projections vs Official Population Estimates



4.3. Ageing Population

Moreover, like the rest of the country, Selwyn's population is ageing, and this trend is set to continue. To illustrate, Table 3 below shows Statistics New Zealand's medium population growth projection from the chart above, split by broad age group.

Table 3: Statistics New Zealand Medium Population Projections by Age Group

Year	Under 55	55 and Over	Total
2018	48,330	14,970	63,300
2023	53,870	19,630	73,500
2028	56,130	24,370	80,500
2033	58,760	28,440	87,200
2038	61,560	32,340	93,900
2043	64,080	36,320	100,400
2048	66,800	39,700	106,500
Growth	**18,470**	**24,730**	**43,200**
CAGR	1.1%	3.3%	1.7%

As Table 3 shows, the number of residents aged 55 or older is projected to grow at a rate of 3.3% per annum over the projection period, which is three times the rate of the younger age bracket. Consequently, older people will account for an increasing share of the population over time. In fact, while 25% of the district's population was aged 55 or older in June 2021 this is projected to grow to 37% by 2048.

This in turn leads to falling average household sizes, with less children per household on average, and an increasing share of single-person households – predominantly among the older age brackets. This is evident in Statistics New Zealand's recently updated household projections, which project that single-person households will account for 14.9% of all households by 2043, up from 13.4% in 2018.

4.4. Building Consents

The district's rapid ongoing population growth is also (naturally) captured in building consent statistics. For example, the chart below shows the number of new dwellings consented in the district over the last 30 years (using a 12-month moving average). For the year ended 31 March 2022, a record 1,946 new dwellings were consented.

Figure 10: Consents for New Residential Dwellings in Selwyn District (March 1992 to March 2022)

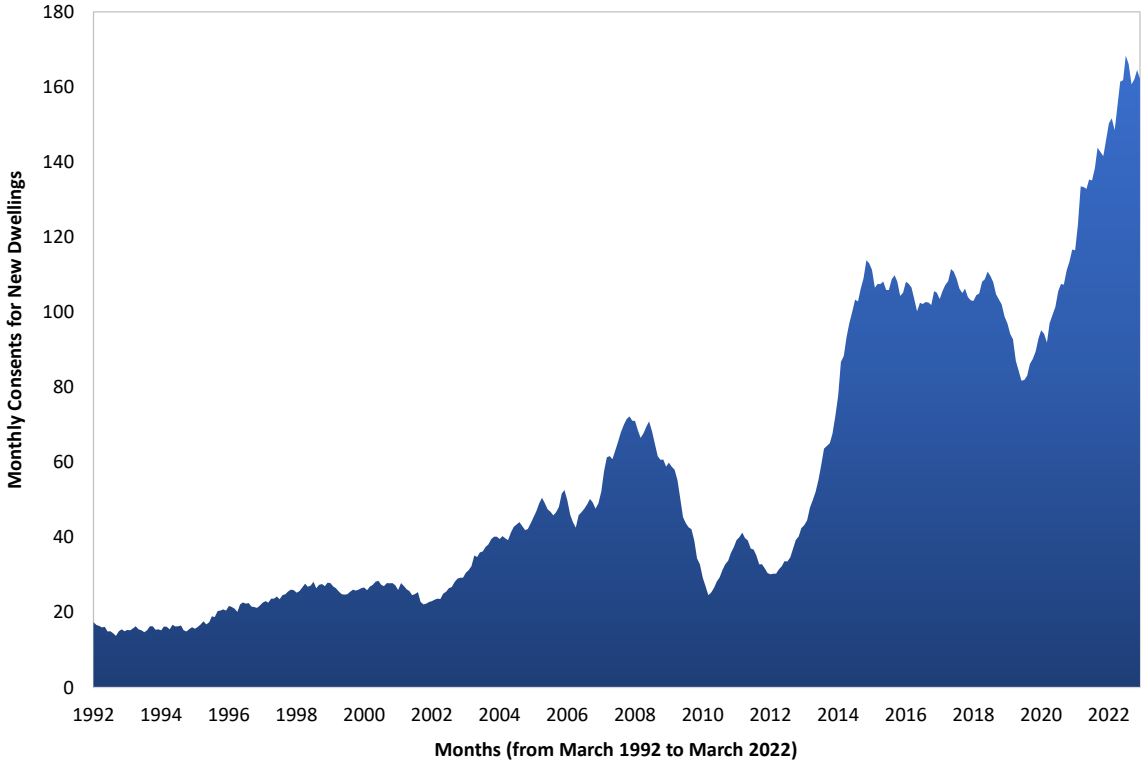


Figure 10 shows that dwelling consents grew steadily between 1991 and 2007, then dropped sharply (presumably due to the GFC). They remained subdued until about 2011/12, then picked up again after the Canterbury earthquakes. For the next four to five years (to about 2017), new consents remained at about 100 per month. However, they dipped again in 2018 before rebounding strongly to reach record highs over the last two to three years.

This strong recent trend indicates an enduring demand for living, including senior living, in Selwyn.

5. Need for The Plan Change Under the NPSUD

This section assesses the need for the plan change according to the National Policy Statement on Urban Development (NPSUD).

5.1. Context

The NPSUD came into effect in August 2020. Like its predecessor, the NPSUDC 2016, the NPSUD requires Councils in high growth areas to provide (at least) sufficient development capacity to meet expected future demand for additional dwellings over the short-, medium-, and long-term. In addition, the NPSUD imposes strict monitoring and reporting requirements to ensure that any likely capacity shortfalls are identified and rectified as soon as possible.

The NPSUD's requirements for monitoring and providing development capacity vary across three tiers, with the strictest requirements imposed on Councils in tier 1 urban environments. These represent the highest-growth areas, and also places where capacity shortfalls have historically been the most acute.

Selwyn District comprises part of the Greater Christchurch Tier 1 urban environment and is therefore required under the NPSUD to complete a detailed housing and business development capacity assessment (HBA) every three years. The HBA synthesizes a raft of information about the supply and demand for new dwellings to ensure that sufficient capacity is being provided in the right places and at the right time to keep pace with demand through to the long term.

5.2. 2021 Greater Christchurch HBA

On 30 July 2021, the Greater Christchurch Partnership (GCP) published its latest HBA for its three partner Councils: Christchurch City, Selwyn District, and Waimakariri District.[3]

The table below summarises the estimated feasible capacity and projected future demand for additional dwellings in Selwyn according to the latest HBA for three different capacity scenarios:

- Excluding Rolleston's future development areas (FUDAs) (which were identified in the 2018-2048 Our Space strategy);
- Including Rolleston's FUDAs at a density of 12.5 households per hectare; and
- Including Rolleston's FUDAs at a density of 15 households per hectare.

[3] https://www.greaterchristchurch.org.nz/assets/Documents/greaterchristchurch/Capacity-Assessment-reports-2021/Greater-Christchurch-Housing-Development-Capacity-Assessment-July-2021.pdf

Table 4: Selwyn District Feasible Capacity and Dwelling Demand in Latest HBA

Scenario 1: Excluding Future Urban Development Areas (FUDAs)			
Timeframes	**Feasible Capacity**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	4,578	2,714	1,864
Medium term	6,452	8,541	2,089
Long term	6,452	25,338	18,886
Scenario 2: Including Future Urban Development Areas (FUDAs) @ 12.5 hh/ha			
Timeframes	**Feasible Capacity**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	4,578	2,714	1,864
Medium term	12,208	8,541	3,667
Long term	12,208	25,338	13,130
Scenario 3: Including Future Urban Development Areas (FUDAs) @ 15 hh/ha			
Timeframes	**Feasible Capacity**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	4,578	2,714	1,864
Medium term	13,502	8,541	4,961
Long term	13,502	25,338	11,836

Table 4 shows that, when the FUDAs in Rolleston are excluded, the latest HBA reveals a significant shortfall in feasible district dwelling capacity over the medium-term (3 to 10 years) and long-term (10 to 30 years). When the FUDAs are included, however, the medium-term shortfall disappears leaving only a long-term deficit.[4]

5.3. Critique of HBA Methodology & Conclusions

While the HBA's dwelling supply/demand figures imply no short-term need to provide additional dwelling capacity to meet demand, there are several compelling reasons why this is unlikely to be the case.

NPSUD Requirements are Minima Not Targets

First, the capacity requirements set out in the NPSUD are minima, not targets, and they must be achieved "at all times". Thus, even if a Council appears to have "sufficient" capacity to meet demand, that does not negate the benefits of providing additional capacity. The opposite is generally true. Thus, all other things being equal, the greater the capacity provided, the greater the degree of land market competition and the more efficiently that the market operates (for the wider benefit of the community).

Inclusion of FUDA in Medium Term Capacity Figures

Second, the Council has used the FUDA's as part of its medium-term capacity. However, clause 3.2 of the NPSUD requires that for capacity to be 'sufficient' to meet expected demand, it must be (among other things) 'plan enabled.' Clause 3.4 of the NPSUD goes on to state that development is 'plan-enabled' for housing if, in relation to the medium term, it is on land zoned

[4] That said, and as explained below, only the recently-consented Faringdon development belongs in the short and medium term figures as the rest of the FUDAs do not meet NPSUD criteria for inclusion.

accordingly for housing[5] under either an operative or proposed district plan. This is not the case for the FUDAs in Rolleston – except Faringdon – and as such these areas cannot be considered in any medium-term development capacity assessment.

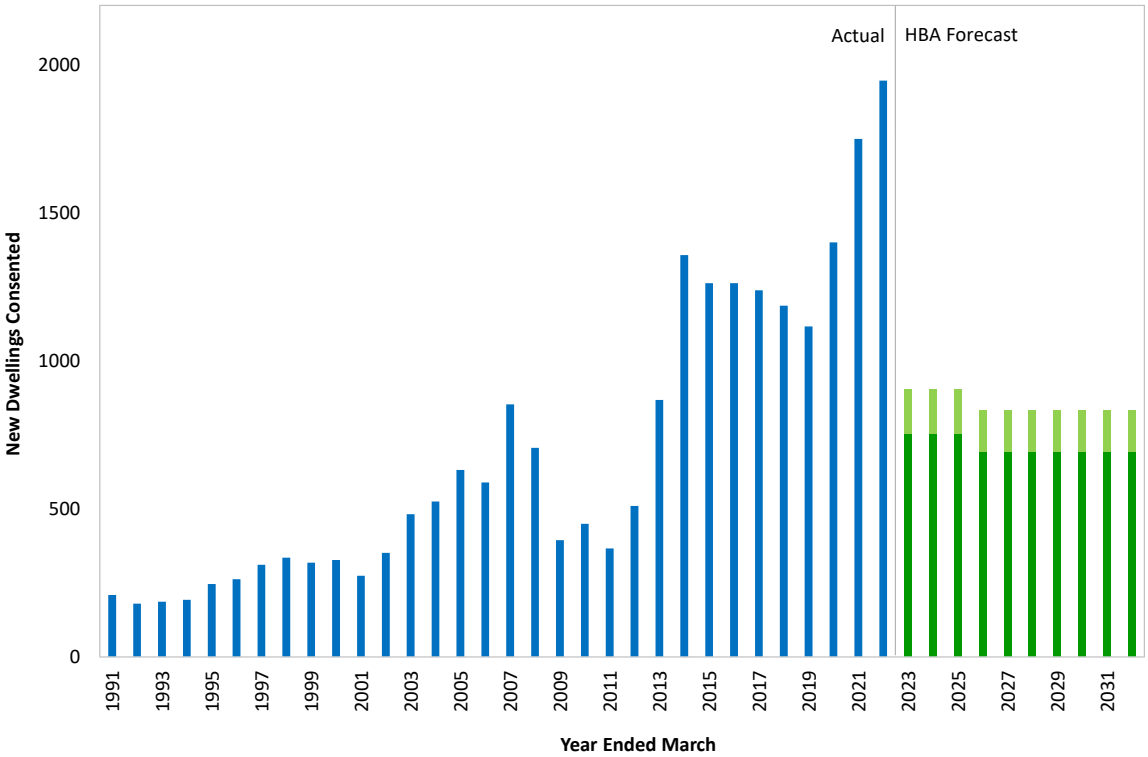
Demand Estimates Appear Implausibly Low

Thirdly, the Council's estimates of future dwelling demand appear too conservative. Specifically, the HBA assumes short-term demand for only 2,714 new dwellings over the next three years, and a medium-term demand for only 8,541 over the next 10 years (both including 20% competitiveness margins). These equate to annual run rates of about only 900 dwellings over the short term, and 850 over the medium term, which are far lower than recent building consent volumes.

By contrast, the latest building consent data published by Statistics New Zealand show that nearly 1,800 new dwellings were granted in Selwyn during the 12 months ended June 2021, which is double the assumed short-run rate of only 900.

Figure 11 provides more details. It compares the HBA's projected dwelling demand to 2031 (the green bars) to actual district building consents granted since 1991 (the blue bars). The light green segments at the top of the HBA forecast bars represent the NPSUD competitiveness margins.

Figure 11: Recent Building Consent Volumes vs HBA Demand Estimates[6]



[5] Noting that clause 3.4(2) goes on to state that land is 'zoned' for housing only if the housing use is a permitted, controlled, or restricted discretionary activity on that land.

[6] Building Consent data was retrieved from http://infoshare.stats.govt.nz/

Clearly, the HBA's forecasts of short- to medium-term future do not reflect recent trends and are thus highly likely to understate the true extent of future demand. For example, district building consents have averaged nearly 1,400 per annum since 2014, which is 53% higher than the HBA's short to medium term demand estimates including competitiveness margins of 20%. When the competitiveness margins (i.e. the light green bits at the top of the HBA bars) are stripped out to make it a like-for-like comparison with the blue bars (which are raw consent numbers and thus exclude any margins), the difference between actual recent growth and the HBA's estimates becomes even more stark.

For added context, 1,946 consents for new dwellings were granted in the district for the year ended 31 March 2022. This rate is more than double the short-term demand estimate of 900 additional dwellings adopted in the HBA (incl competitiveness margins).

HBA Yield Assumptions

Not only does the HBA for Selwyn adopt very low estimates of demand, but its estimates of feasible capacity (to meet that demand) appear overstated. There are several issues at play here, which we now work through one by one.

First, when calculating feasible capacity in existing greenfield areas, the modelling assumes that 75% of the land will be available for development.[7] In FUDA areas, it assumes that all land will be available for development.

As discussed in the Appendix, we consider these assumptions unrealistic, and instead recommend that a 65% yield assumption be adopted for existing greenfield areas, and 85% for the FUDAs (based on recent studies and discussions with developers).

Another issue, which is also discussed in the Appendix, is the HBA's assumption of an inexplicably low profit margin on house construction. This contradicts MBIE's official guidance for feasibility modelling, and further distorts feasible capacity estimates.

Finally, the model used to estimate feasible capacity appears to contain several anomalies, which further overstate district dwelling capacity. These were covered in detail in the evidence of Greg Akehurst for Plan Change 69. In summary, the model:

- Appears to count capacity residing outside of the Greater Christchurch urban environment as defined by the NPSUD, such as Darfield and Leeston;
- Assumes that some district reserves will be developed for residential purposes; and
- Includes residential capacity on developed non-residential sites.[8]

[7] See page 42 of the HBA (30 July 2021).

[8] For example, the model assumes that the Kindergarten at 76-80 Granite drive can provide 2 infill sites, which is highly unlikely given the acute need for early childhood education provision in Rolleston.

To summarise, not only has the HBA understated likely future demand, but its estimates of feasible capacity are also overstated.

Feasible Capacity vs Market Supply

Not only is feasible capacity significantly overstated for the reasons set out above, but there is also a critical difference between feasible capacity, as reported in the HBA, and likely market supply (which is ultimately tasked with meeting increased demand over time).

In short, while feasible capacity is an interesting metric, it should not be confused with market supply. There are several reasons why feasible capacity may not form part of market supply, particularly over the short to medium term. They include:

- *Developer intentions* - some landowners have no clear intention to develop in the short- to medium-term, nor to sell their land to others who may wish to develop it.

- *Tax implications* – greenfield land owners are liable for taxes on recent land value uplifts caused by rezoning. These taxes are greatest in the first year following the rezoning, but gradually diminish over time and then cease 10 years later. In some cases, efforts to avoid or minimise these taxes could cause land to be withheld from the market for up to a decade.

- *Land banking and drip-feeding* – other landowners intend to develop in future, but are currently withholding supply to capitalise on inevitable land price inflation, while some are drip-feeding supply to maintain prices and hence maximise returns.

- *Site constraints* – the Council's estimates of likely supply appear to consider only infrastructure as a potential site constraint and therefore overlook other factors that affect developability, such as contamination or awkward site shape/topography.

- *Operational capacity* – some landowners face operational capacity constraints, which limit the number of new residential lots that they can supply per annum.

- *Financing* – similarly, some landowners face capital/financing constraints that also limit their ability to supply.

Given these various market forces, it follows that actual market supply will only ever be a modest proportion of feasible capacity, and hence that reliance on "just enough" feasible capacity to meet demand will invariably lead to significant and prolonged market shortages.

Revised Estimates of Demand and Supply

To provide a more reliable basis for assessing the adequacy, or otherwise, of the district's current land supply, we recreated our

Table 4 above to reflect the various supply/demand issues just discussed. These revised supply/demand estimates take Table 4 as their starting point, and incorporate the following adjustments that we adopted:

- Short-term demand equals 80% of the number of new consents granted in the district over the last 5 years (plus a 20% competitiveness margin).

- Medium term demand equals 70% of the number of new consents granted in the district over the last 5 years (plus a 20% competitiveness margin).

- Long term demand equals 60% of the number of new consents granted in the district over the last 5 years (plus a 15% competitiveness margin).

- The FUDAs are excluded from medium-term capacity because they do not meet the definitions in section 3.4 of the NPSUD, except for Farringdon, which is included in short/medium/long term supply due to recently becoming operative via Fast Track consent.

- 65% of land residing in existing greenfield areas will be available for residential development, with the other 35% used for roads, reserves, and commercial activities.[9] For the FUDAs, 85% of the land will be available for residential development.

- Likely market supply equals 60% of short-term feasible capacity, 75% of medium-term, and 90% of long-term. This reflects the fact that the various market constraints identified at para 0 above are typically more acute in the short-term but less so in the longer term.

- No adjustments are made for the inordinately low developer margin of 6.6% because it is impossible to identify the impacts on feasible capacity. Neither are any adjustments made for the various modelling inconsistencies noted at para 0. Accordingly, my revised totals are conservative and continue to overstate feasible capacity and hence likely market supply.

- Sufficiency is based on the relationship between demand and likely market supply, not demand and feasible capacity.

Bearing these adjustments in mind, Table 5 presents our revised dwelling supply/demand estimates for the district.

[9] Further, 80% of existing feasible capacity is assumed to be within the district's greenfield areas, and 20% within infill areas.

Table 5: Revised Dwelling Supply/Demand Estimates

Scenario 1: Excluding Future Urban Development Areas (FUDAs)				
Timeframes	**Feasible Capacity**	**Likely Market Supply**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	5,060	3,036	3,886	-850
Medium term	6,734	5,050	11,819	-6,769
Long term	6,734	6,060	30,438	-24,378
Scenario 2: Including Future Urban Development Areas (FUDAs) @ 12.5 hh/ha				
Timeframes	**Feasible Capacity**	**Likely Market Supply**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	5,060	3,036	3,886	-850
Medium term	6,734	5,050	11,819	-6,769
Long term	11,626	10,464	30,438	-19,974
Scenario 3: Including Future Urban Development Areas (FUDAs) @ 15 hh/ha				
Timeframes	**Feasible Capacity**	**Likely Market Supply**	**Demand incl buffer**	**Surplus/Shortfall**
Short Term	5,060	3,036	3,886	-850
Medium term	6,734	5,050	11,819	-6,769
Long term	12,726	11,454	30,438	-18,984

5.4. Implications for This Plan Change

Table 3 confirms that, when the Council's supply and demand estimates are revised to better reflect reality, that there are significant shortfalls across all three timeframes. Accordingly, additional supply needs to be identified and rezoned as soon as possible (despite the findings of the HBA).

Even if the various private plan changes mooted for the district's townships (outside the FUDA) are included, there is still a significant shortfall over the long term.

For example, Table 6 shows that these private plan changes add just over 8,900 additional dwellings if all are accepted (including PC77). This is significantly less than the long-term supply shortfall of nearly 20,000 dwellings identified just above.

Table 6: Capacity of Proposed Private Plan Changes Outside the FUDA

Plan Change	Inside FUDA	Total Dwellings
63 – Darfield	No	440
67 – West Melton	No	131
68 – Prebbleton	No	820
69 – Lincoln	No	2,000
71 – Rolleston	Partially	440
72 – Prebbleton	No	320
73 – Rolleston (recommended to be declined)	No	2,100
74 – West Melton	No	130
77 – West Melton	No	220
79 – Prebbleton	No	633
81 – Rolleston	No	350
82 – Rolleston	No	1,320
Total		**8,904**

6. Need for the Plan Change at Sub-District Level

Having determined a pressing need for additional capacity at the district level, including PC77, this section drills down to consider the need for additional capacity at the sub-district level.

West Melton is often considered to form a housing submarket with Prebbleton, since both are similar distances from Rolleston and have traditionally catered for larger homes on larger sections (although this is clearly evolving, particularly with recent developments in Prebbleton ODP Areas 3 & 4). For example, an October 2021 memo by Ben Baird[10] for the Council grouped West Melton & Prebbleton together to form a submarket and then assessed their likely dwelling supply/demand balance. Table 7 below presents the details. It reveals a significant shortfall over the medium and longer terms. In fact, medium term demand is ten times capacity, while long term demand is about 30 times higher.

Table 7: Supply/Demand Balance for West Melton and Prebbleton

Additional Dwellings	Medium Term	Long Term
Feasible Capacity	181	181
Demand (incl comp margins)	1,859	5,530
Surplus/Shortfall	**-1,678**	**-5,349**

This acute lack of supply is corroborated by market metrics, such as "time to sell." For many residential subdivisions across both Selwyn and Waimakariri that we have been involved with, section sales have far exceeded all expectations, with enquiries often outweighing available sites by more than 10 to 1.

Next, we compiled a list of the proposed plan changes for West Melton and Prebbleton and identified their plan-enabled capacity. Then, we derived their likely contributions to future market supply over the three NPSUD timeframes. These likely market supply figures are intended to provide a more meaningful measure of capacity against which to assess demand. They are defined to equal:

- 20% of plan enabled capacity over the short term;
- 75% of plan enabled capacity over the medium term; and
- 90% of plan enabled capacity over the long term.

To explain: Our short-term likely supply figures reflect the fact that these plan changes are not yet decided, let alone ready for development, so only a fraction of their capacity will be available over the short term to 2024. The medium and longer term likely supply figures, conversely, mostly reflect other market factors or constraints that naturally limit the rate of future supply, as discussed above. The table below presents the results.

[10] Ben Baird, Growth Planning in Selwyn District, Technical Memo, 1 October 2021.

Table 8: Plan Enabled Capacity and Likely Market Supply of Private Plan Changes

		Likely Market Supply		
Private Plan Changes	**Plan Capacity**	**Short Term**	**Medium Term**	**Long Term**
68 - Prebbleton	820	164	615	738
72 - Prebbleton	295	59	221	266
79 - Prebbleton	633	127	475	570
67 - West Melton	131	26	98	118
74 - West Melton	130	26	98	117
77 - West Melton	220	44	165	198
Total	**2,229**	**446**	**1,672**	**2,006**

When our estimates of the likely market supply associated with the various plan changes in West Melton and Prebbleton (from the table above) are added to the shortfalls identified in Ben Baird's memo (in Table 7), there is almost enough capacity to meet demand over the medium term if all plan changes are granted (including PC77). However, even then, there is still a significant shortfall projected over the longer term.

Table 9: Sub-Market Supply and Demand Including Private Plan Changes

Additional Dwellings	**Medium Term**	**Long Term**
Capacity	181	181
Demand	1,859	5,530
Surplus/Shortfall	-1,678	-5,349
Likely Plan Change Supply	1,672	2,006
Revised Surplus/Shortfall	**-6**	**-3,343**

Not only is there a significant dwelling shortfall projected over the longer term, as tabulated above, but there is also an acute lack of new sections available to absorb short-term demand pressures. For example, recent work by Gary Sellers for PC67 found that there had been no sections available in Prebbleton for a prolonged period.

Also, while West Melton is often grouped with Prebbleton as a separate submarket (as noted above), it arguably also forms its own distinct housing market. Being further from Christchurch City, West Melton does not benefit from the growth and development of areas such as Haswell, as Prebbleton does. In addition, West Melton is less accessible from the city, and does not have the frequent and reliable public service services available in Prebbleton. Plus, it has a rural outlook, and houses are typically larger and on bigger sections. For these reasons, we consider West Melton to comprise its own housing market, despite often being grouped in with Prebbleton.

7. Cost & Benefits of the Plan Change

Having established above that there is a pressing near-term need to identify and rezone additional land to meet forecast growth in demand, this section considers the likely economic costs and benefits of the plan change.

7.1. Boost in Market Supply

Perhaps somewhat obviously, the proposed plan change will provide a substantial, direct boost in the district's dwelling capacity, thereby helping to narrow the gap between likely future supply and demand. All other things being equal, this supply boost will help the market to be more responsive to growth in demand, thereby reducing the rate at which district house prices grow over time (relative to the status quo).

Further, although the district's housing has been reasonably affordable compared to other parts of New Zealand in the past, its prices have surged recently. This is illustrated in the chart below, which incorporates the latest data published under the NPSUD to 31 December 2021.

Figure 12: Selwyn District Median Dwelling Prices (from NPSUD Data)

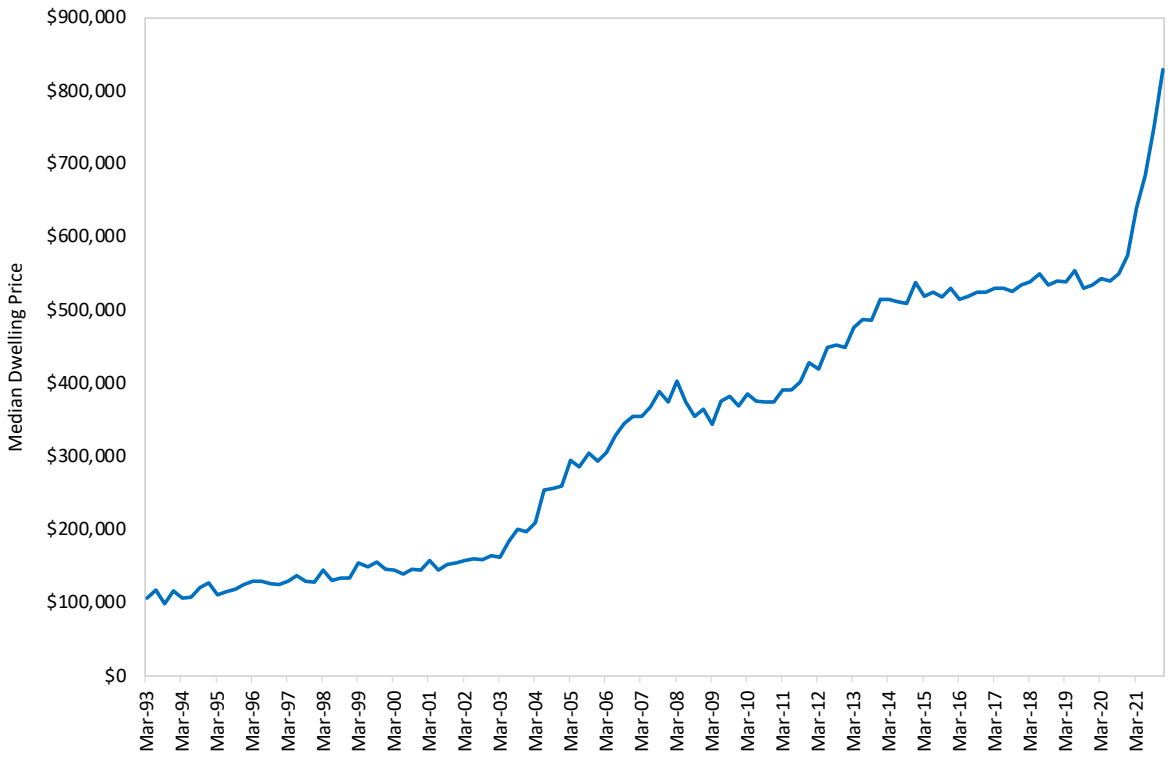


Figure 12 confirms that district dwelling prices have increased steadily over time, but recently shot up after a prolonged period of consolidation. In fact, they increased 14% over the last 3 months (ended 31 December 2021), and 40% over the last 12 months, which will likely be starting to reduce affordability.

Even prior to this recent spike in house prices, district housing had started to become relatively unaffordable. For example, the latest affordability report by Core Logic (31 December 2021)[11] showed that the median house price was 9.1 times the median household income. By comparison, the benchmark for affordability is a ratio of only three.

In addition, the latest Core Logic report showed that it takes about 12.1 years to save the deposit for a new home in Selwyn. Thus, not only are house prices themselves increasingly unaffordable, but even saving the deposit for a new home is an onerous task that is starting to become well beyond the reach of many households.

The Plan Change directly responds to this need for additional dwelling capacity by enabling the development of approximately 220 new homes over time (plus supporting amenities).

In our view, and from an economic perspective, this represents a significant boost in supply. To assess whether this satisfies the definition of "significant" in clause 3.8 of the NPSUD (which relates to unanticipated or out-of-sequence plan changes), we reviewed the latest HBA. At page 10, it discusses consultation with the development community (while writing the HBA) and describes landowners that could develop 20 or more dwellings as being significant.

As such (and particularly given the shortfalls we have described), we consider that the proposed development of approximately 220 dwellings on the subject site represents a significant increase in capacity for the Selwyn district, from both an economic and market perspective and by virtue of the way that term is used in the HBA (and by extension how it might be considered for the purposes of clause 3.8 of the NPSUD).

To put the supply boost in context, I note that the 220 new lots provided would increase likely short-term district supply by 7%, and medium term by 4%.[12] I consider this a significant contribution, especially from just one development.

7.2. Land Market Competition

In addition to directly boosting district dwelling capacity, the proposed plan change will also help to foster competition in the local land market. This is important because, as recognised through objective 2 of the NPSUD, competition is the cornerstone of economic efficiency. When the land market becomes more competitive, land developers have a greater incentive to get their product to the market in a more timely and cost-effective manner, thus further helping to keep district housing as affordable as possible.

Absent competition, landowners experience "market power", which enables them to charge more for land and be slower in releasing it to the market. Both outcomes conspire against affordability and reduce the overall efficiency of the housing market. Indeed, this sort of market power is likely to explain some of the rapid growth in land and dwelling prices over the last 12 months, as shown

[11] https://www.corelogic.co.nz/housing-affordability-report

[12] Based on the likely short term supply estimate of 3,036 dwellings in Table 3, and the medium term figure of 5,050.

in Figure 12 above. It also helps explain the exorbitant rises in West Melton section prices over the last year or so, as detailed in real estate evidence presented for other plan changes, including PC67.

Moreover, not only do the direct boost in supply and increased land market competition (discussed above and created by the proposal) have direct economic benefits by making land and dwellings more affordable than they would have been otherwise, they can also have broader impacts.

Specifically, by reducing the rate at which dwelling prices grow, future residents will spend less on weekly rent or mortgage payments than they would have otherwise, which will boost disposable incomes. With a significant proportion of that extra money likely to be spent locally, lower future dwelling prices (relative to the status quo) will also create additional economic stimulus for the wider benefit of the local area through increased household spending over time.

7.3. Helps Provide for a Range of Housing Typologies

The NPSUD requires high growth areas, like Selwyn, to not only provide at least sufficient capacity to meet future demand in aggregate, but to also provide a range of housing typologies to meet a wide range of needs and preferences. This is shown in the excerpt below, which displays the first part of policy 1 of the NPSUD:

Table 10: Policy 1 of the NPSUD

2.2 Policies

Policy 1: Planning decisions contribute to well-functioning urban environments, which are urban environments that, as a minimum:

(a) have or enable a variety of homes that:

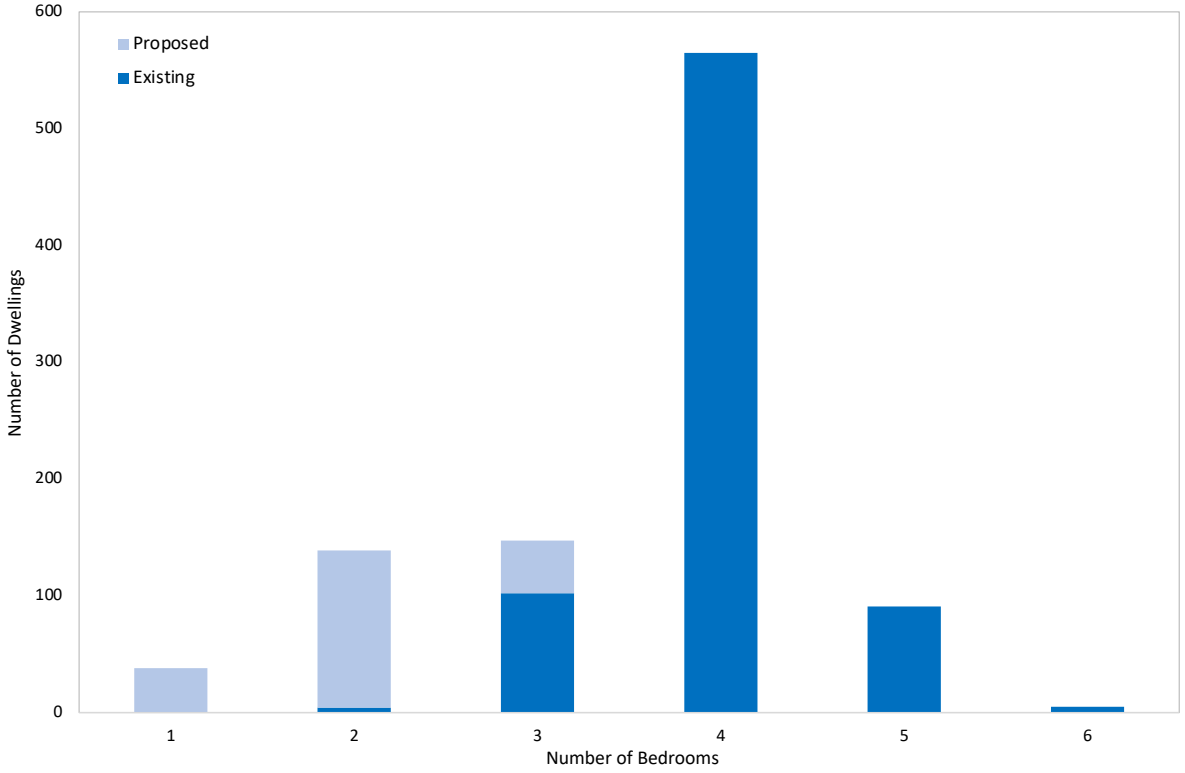
(i) meet the needs, in terms of type, price, and location, of different households; and

The proposal gives effect to this policy by catering to the needs of a specific and growing demographic of active older people who wish to live in a community with those at a similar life stage. This is achieved in several ways, which are set out briefly below.

First, it provides for a mix of dwelling typologies and lot sizes, ranging from one-bedroom units of approximately 70 square metres, through to larger dwellings with three bedrooms and two bathrooms on larger sections. Importantly, this includes dwellings that are considerably smaller than the existing West Melton housing stock, which is characterised by large, standalone houses on expansive sections (as shown in Table 2). In fact, the average dwelling size in the proposed development is just 110 square metres, compared to 270 square metres for West Melton overall.

Moreover, there were no single-bedroom dwellings identified in our survey of the West Melton area, and only four two-bedroom dwellings (representing just 1% of the total housing stock). The proposal would therefore contribute significantly to the breadth of housing options in West Melton by providing options not yet available. This is illustrated in the chart below, in which existing dwellings are depicted in dark blue, and those proposed by PC77 in light blue.

Figure 13: Contribution to Existing West Melton Dwelling Stock



Second, as people age and life circumstances change, some properties become unsuitable, difficult to maintain and even potentially hazardous. This is highlighted in the recent evidence of John Collyns[13], which suggests that the lack of appropriate accommodation options in Selwyn means that many of the district's older people are living in unsuitable accommodation, which is affecting both their safety and wellbeing. The proposal directly responds to this need by providing single-storey homes in a secured environment, designed expressly for older people.

Third, the mix of dwelling typologies and section sizes helps to achieve a variety of price points, further giving effect to the NPSUD. Economies of scale achieved from the single-entity master-planned development will also likely help keep prices affordable. In addition, the proposal provides for more flexible tenure than, say, a retirement village, allowing future residents to retain financial control over their housing investment. Freehold-titled dwellings will be available to purchase at affordable prices, and leases will be offered with fixed, long-term tenures.

Fourth, the proposal is the only proposition of its kind in West Melton. According to a market assessment report prepared by Mission Marketing for Ultimate Group, there are currently three independent retirement offerings in the district: Woodcroft Estate and The Boulevard in Rolleston and Haunui Retirement Village in Darfield (all of which are still under development).

[13] Statement of Evidence of John Collyns on behalf of the Retirement Villages Association of New Zealand Incorporated, Hearing 23: Commercial and Mixed Use Zones, 21 Feb 2022 para 8.

The proposal hence provides an opportunity for existing West Melton residents 'age in place', thus retaining important social connections.

Finally, by providing housing options that cater specifically to the target demographic, this frees up older, larger dwellings for younger families or first homebuyers, for which they are likely to be better suited.

Accordingly, not only does the proposal make a significant contribution to both West Melton, specifically, and the district overall, but it also helps give effect to Policy 1, which requires Councils to provide various housing choices to meet a diverse range of needs and preferences.

7.4. Critical Mass to Support Greater Local Retail/Service Provision

Currently, Selwyn District residents rely heavily on centres in Christchurch City to meet their daily household needs. For example, the table below shows the destination of Selwyn District resident spend in 2019 using detailed Marketview data provided to us by Waimakariri District Council on a recent, separate matter.

Table 11: Destination of Selwyn District Resident Spend in 2019

Spending Categories	Selwyn District	CHCH City	Rest of Region	Rest of NZ	Total
Apparel and Personal	15%	73%	3%	10%	100%
Cafes, Restaurants, Bars, Takeaways	31%	47%	6%	15%	100%
Department Stores and Leisure	16%	73%	3%	8%	100%
Fuel & Automotive	44%	40%	8%	8%	100%
Groceries & Liquor	50%	39%	4%	6%	100%
Home, Hardware & Electrical	10%	80%	3%	6%	100%
Other Consumer Spending	18%	58%	6%	18%	100%
All Categories	**34%**	**52%**	**5%**	**9%**	**100%**

Currently, Selwyn District residents rely heavily on centres in Christchurch City to meet their daily household needs. For example, the table below shows the destination of Selwyn District resident spend in 2019 using detailed Marketview data provided to us by Waimakariri District Council on a recent, separate matter.

shows that only a third of Selwyn resident spend is retained in the district, with more than half leaking out to Christchurch City. While some of that City spending may occur before, during, or after working there, others reflect specific trips.

By enabling the resident population to grow, including via additional development on the subject site, the district will eventually be able to support greater local retail/service provision and be less reliant on the City to meet its household needs.

This, in turn, will not only support greater district economic activity and hence employment, but also reduce vehicle travel and the harmful emissions associated with it.

More specifically, greater district critical mass – including at the subject site – will help the Council and community to realise its ambitions for a renewed Rolleston Town Centre, thereby elevating its current status as a lower-order KAC to a fully-functioning town centre that fulfils a wider range of roles and functions.

In addition, it will provide growing local support for the West Melton commercial area, though future households in West Melton will continue to meet a significant share of their household needs from centres in Christchurch City too. Future residents of the plan change area will also help create critical mass to improve the provision of improved public transport facilities and services over time.

7.5. One-Off Economic Stimulus

Constructing the 220 new homes and associated community facilities enabled by the proposal will generate significant one-off economic impacts. We quantified these using a technique called multiplier analysis, which is based on detailed matrices called input-output tables. These tables describe the various supply chains that comprise an economy, and therefore enable the wider economic impacts of a change in one sector (or sectors) to be traced through to estimate the overall impacts.[14]

These impacts include:

- *Direct effects* – which capture onsite activities directly enabled by the proposal; plus

- *Indirect effects* – which arise when businesses working directly on the project source goods and services from their suppliers, who in turn may need to source good/services from their own suppliers, and so on; and

- *Induced effects* – which occur when a share of the additional wages and salaries generated by the project (directly or indirectly) are spent in the local/regional economy and therefore give rise to additional rounds of economic impacts.

These economic effects are usually measured in terms of:

- *Contributions to value-added (or GDP).* GDP measures the difference between a firm's outputs and the value of its inputs (excluding wages/salaries). It captures the value that a business adds to its inputs to produce its own outputs.

- *The number of people employed* – this is measured in terms of employment counts, which include both part-time and full-time workers, because Statistics New Zealand does not provide data on full-time equivalent employees (FTEs).

- *Total wages and salaries paid to workers*, which are often labelled 'household incomes.'

[14] The multipliers used here are for the Canterbury region, and were derived by our organization. They are widely used by a range of public and private organisations across New Zealand, including Lincoln University.

Having defined these key terms, the following table shows the estimated economic impacts of the various activities enabled by the proposal.

Table 12: One-Off Regional Economic Impacts of Construction

Economic Impact Measures	Direct	Indirect	Induced	Total
National GDP ($m)	$22	$24	$8	$54
Employment (FTE-years)	210	250	80	540
Salaries / Wages ($m)	$10	$12	$3	$25

In summary, we estimate that future construction activity enabled by the proposal could boost regional GDP by $54 million, including flow on effects, generate employment for 540 FTE-years, and generate $25 million in household incomes.

Assuming (say) a 3-year construction period, these translate to annual impacts of $18 million in regional GDP, including flow on effects, full time employment for 180 people, and $8 million in household incomes.

7.6. Ongoing Economic Stimulus

Once operational, the proposal will also provide ongoing employment across a range of roles, including:

- Facilities Manager;
- Caretaker;
- Gardening / Landscape Maintenance;
- Property Maintenance;
- Restaurant / Café staff;
- Hairdresser;
- Laundry Service; and
- Cleaning Service

In total, based on information provided by the applicant, we estimate that the development will sustain approximately 10 FTE jobs on an ongoing basis.

8. Summary and Conclusion

This assessment has shown that future development enabled by the plan change represents a significant boost in dwelling capacity, which will help keep pace with demand while also helping to meet NPSUD requirements. Overall, the proposal will generate a wide range of enduring economic benefits and avoid any material economic costs. Accordingly, we support the proposal on economic grounds.

Appendix 1: Critique of Feasible Capacity Modelling

This Appendix critiques various aspects of the Council's latest estimates of feasible dwelling capacity, as contained in the 2021 Housing Capacity Assessment.[15]

Assumed Development Yields

When calculating the feasible capacity for new dwellings still residing in the district's existing greenfield areas, which account for most of the short-run supply, the modelling assumes that only 25% of such land will be used for infrastructure (such as roads, parks, and reserves). Thus, it assumes that 75% of the land will be available for development.[16] In FUDA areas, it assumes a 100% yield.

To ground-truth these assumptions, we reviewed a recent, detailed report on residential development densities by Harrison Grierson, which was commissioned by the Greater Christchurch Partnership (GCP).[17] It profiles the development outcomes achieved across various recent greenfield subdivisions, several of which were in Greater Christchurch.

We extracted data from that report to identify the proportion of land in each subdivision used for residential dwellings versus commercial uses or infrastructure. The results are tabulated below, and show that only 60% of greenfield land is typically available for new housing, not 75% as the HBA modelling suggest.

Table 13: Land Use Coverage Ratios in Recent Greenfield Subdivisions

Greenfield Development	Residential	Commercial	Infrastructure	Total
Spring Grove (Belfast, Christchurch)	53%	0%	47%	100%
Golden Sands (Papamoa, Tauranga)	58%	1%	41%	100%
Huapai Triangle (Kumeu, Auckland)	58%	1%	41%	100%
Longhurst (Halswell, Christchurch)	63%	2%	35%	100%
Greenhill Park (Chartwell, Hamilton)	53%	0%	47%	100%
Faringdon (Rolleston, Selwyn)	63%	1%	36%	100%
Sovereign Palms (Kaiapoi, Waimakariri)	71%	1%	28%	100%
Average	60%	1%	39%	100%

We acknowledge that the proportion of land available for residential development varies across the case study areas in Table 13, and also understand that geotechnical conditions are a key driver. For example, in low-lying, flood prone areas, more land is generally needed for stormwater management, with less required in more elevated and well-drained areas.

Based on discussions with district developers – including the developer of PC67, who has developed more than 2,700 sections across Greater Christchurch over the last 10 to 15 years – we

[15] https://www.greaterchristchurch.org.nz/assets/Documents/greaterchristchurch/Capacity-Assessment-reports-2021/Greater-Christchurch-Housing-Development-Capacity-Assessment-July-2021.pdf

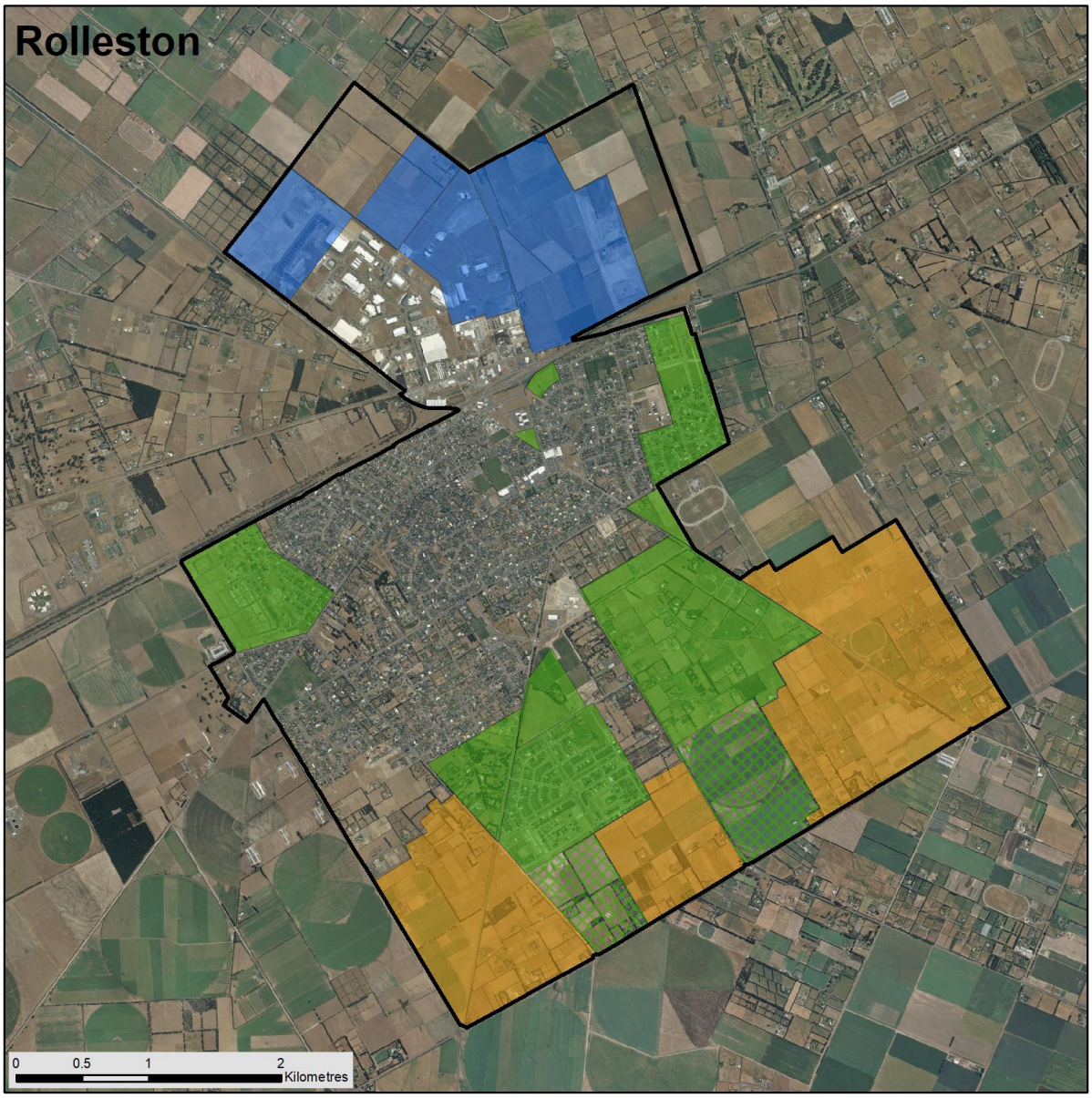
[16] See page 42 of the HBA (30 July 2021).

[17] https://www.selwyn.govt.nz/__data/assets/pdf_file/0005/475466/UG-Chapter-Appendix-3-HG-Greenfield-Density-Analysis.pdf

understand that a net yield of 65% is more likely to reflect future development outcomes across Selwyn district, not the 75% assumed in the HBA. We return to this point shortly.

Yet another issue with the Council's estimates of feasible capacity relate to the FUDAs identified in the 2018-2048 Our Space Strategy, which are represented by the orange blocks in the map below.

Figure 14: Map of Rolleston Future Urban Development Areas (FUDAs)



According to the HBA, these FUDAs can accommodate an additional 5,756 to 7,050 dwellings at densities of 12.5 and 15 dwellings per hectare, respectively.

While the HBA is not explicit about the land area underpinning these estimates, the lower figure translates to approximately 460 hectares of developable land, while the higher equates to about

470 hectares. Hence there is a discrepancy of 10 hectares of land within the FUDAs in these figures.

To verify the amount of land contained with the FUDAs, which seem to differ between the HBA's two density scenarios, we used Canterbury Maps to trace their outlines. The results show that these FUDAs span roughly 462 hectares in total.

Herein lies the problem. As discussed just above, not all land in these FUDAs will be available for residential development, with some instead required for roads, reserves, and other infrastructure that is expressly excluded from the definition of net density in the Canterbury Regional Policy Statement and which dictates the 12 dwellings per hectare target. Consequently, the estimates of feasible capacity residing in the FUDAs need to be scaled down too to allow for the land required by these excluded features.

Because the assumed yields of 12 to 15 dwellings per hectare for the FUDAs reflect net densities, they already account for local roads and reserves etc. To account for other non-residential land uses – such as arterial roads, stormwater areas, commercial activities, schools, and so on – we understand that the FUDA yields should be scaled down by about 15%.

Assumed Profit Margin on House Construction

Another significant issue that seriously undermines the veracity of the HBA's estimates of feasible development capacity is the profit margin that is assumed to be required by developers. According to official guidance published by MBIE, feasibility assessments should adopt a default development margin of 20%, with this value altered only upon review from the development community.

In our 20 years of working with developers and other property professionals, this target return is accurate, although many developers target a higher return of around 25% to reflect the significant risks associated with property development.

The analysis underpinning the latest HBA for Selwyn, however, adopts a far lower development margin of only 6.6%. This much smaller margin, in turn, lowers the financial hurdle required for hypothetical developments to be considered commercially feasible, and therefore directly overstates likely future dwelling supply.

Interestingly, bullet 2 in appendix 3 of the HBA acknowledges that a 20% development margin is recommended by MBIE, but notes that the assessment has departed from it "to better recognize local and actual market parameters."

We are unaware of any basis for this assertion. Indeed, we are unaware of any developers in the Greater Christchurch area that would risk millions of dollars of their own capital to potentially earn a 6.6% development margin. Nor are we aware of any lenders that would inject capital into a venture where the profit margins are so thin and hence the project is at risk of potential default.

Interestingly, this inexplicably low profit margin also was not reviewed or endorsed by the development community, as required by official guidance.

To put it in context, a target return of 6.6% could only ever be considered a "black swan" scenario that might be used to assess the absolute worst case, but it would never be used as the baseline assumption. It simply makes no sense, so we dug deeper to better understand the origins of this rather unusual and misleading assumption.

Our query was answered on page 50 of the HBA, where the authors cite data from Stats New Zealand, which allegedly showed a development margin of only 6.6% for house construction. We then obtained a copy of that data from Stats NZ and identified the 6.6% figure to put it in context. Regrettably, the HBA's authors appear to have mistaken two similar but entirely different financial metrics.

The first metric is the development margin, which is the profit that a developer seeks to earn over and above their costs for a given project. The second is net profit after tax, or NPAT, which measures the profit earned by a venture when all costs – including tax – are deducted.

In short, it appears that the HBA's authors have mistakenly used the NPAT figure from those financial data and assumed that it equals the developer margin. However, NPAT accounts for a wide range of costs that do not feed into the calculation of developer margins, such as fixed operating costs, depreciation, amortization, and income tax.

The upshot of all this is that the HBA has used an implausibly low developer margin to calculate the commercial feasibility of building new homes in the district, and therefore has overstated the true extent of feasible development capacity. These figures are an improvement on the previous HBA, however, which assumed that all plan-enabled capacity would be commercially feasible to develop.