

PROPERTY ECONOMICS



**ASSESSMENT OF KAPITI
COAST RESIDENTIAL
INTENSIFICATION AREA
FEASIBILITIES**

Client: Kapiti Coast DC

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SCHEDULE

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TABLE OF CONTENTS

1. INTRODUCTION.....	5
1.1. GLOSSARY	6
1.2. WALKABLE CATCHMENTS	7
2. THEORETICAL CAPACITY	10
3. FEASIBLE CAPACITY OUTPUTS	11
3.1. LOCATIONAL DISTRIBUTION OF REALISABLE CAPACITY	12
4. VARIATIONS ON THE MODEL	15
4.1. SCENARIO TESTING	15
5. SUMMARY.....	16
APPENDIX 1 REALISABLE CAPACITY.....	17

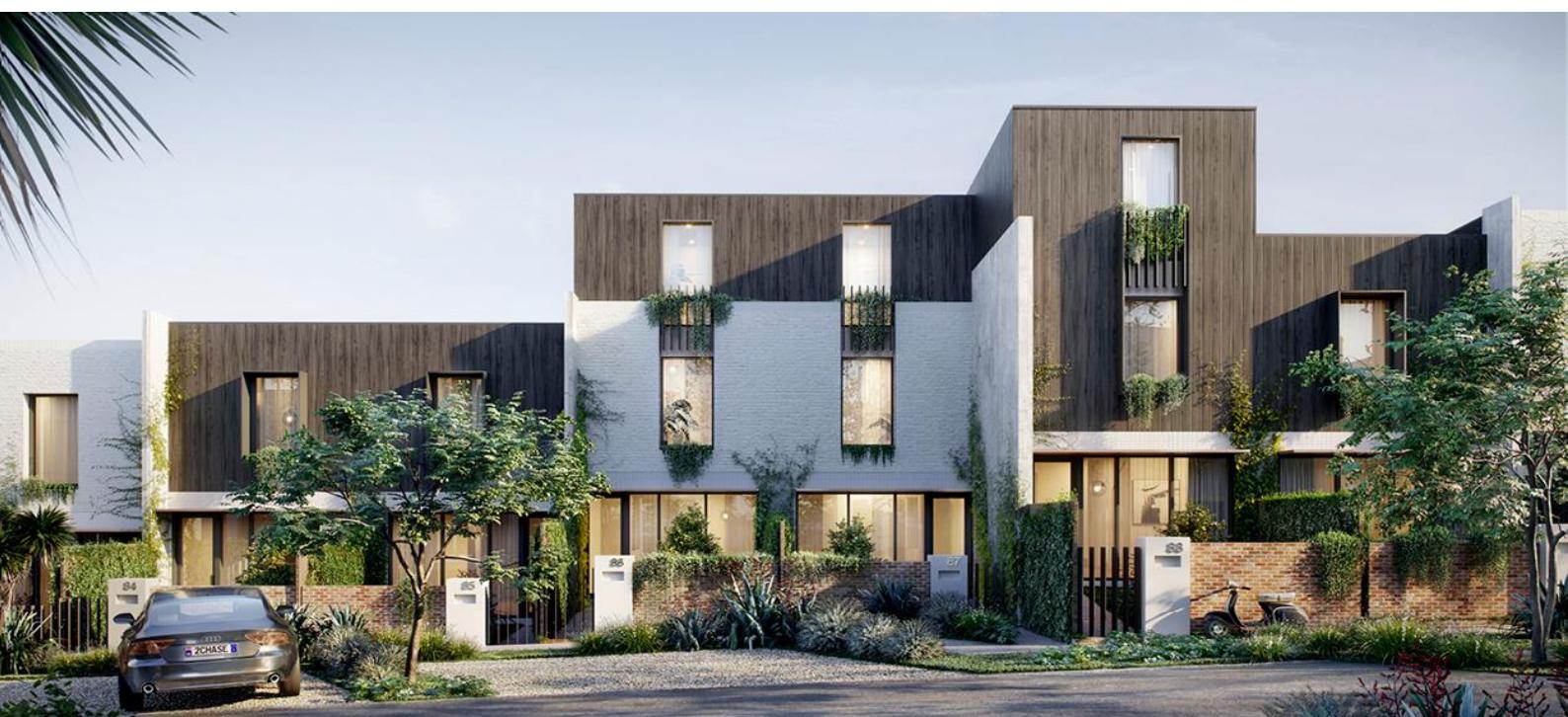


LIST OF TABLES

TABLE 1 – KAPITI COAST WALKABLE CATCHMENT THEORETICAL RESIDENTIAL DEVELOPMENT CAPACITY BY SUBURB.....	10
TABLE 2: WALKABLE CATCHMENTS MOST PROFITABLE AND REALISABLE CAPACITY BY TYPOLOGY	11
TABLE 3: FEASIBLE AND REALISABLE CAPACITY IN THE WALKABLE CATCHMENTS BY SA2	13
TABLE 4 –WALKABLE CATCHMENTS REALISABLE CAPACITY SENSITIVITY ANALYSIS.....	15
TABLE 5 – DEVELOPER REALISABLE PROFIT RATES	17

LIST OF FIGURES

FIGURE 1: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – KAPITI SOUTH ...	8
FIGURE 2: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – OTAKI.....	8
FIGURE 3: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – WAIKANAE TOWN CENTRE.....	9
FIGURE 4: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – KAPITI CENTRAL	9
FIGURE 5: DISTRIBUTION OF REALISABLE CAPACITY WITHIN THE WALKABLE CATCHMENTS BY SA2 ..	12
FIGURE 6: MAP OF REALISED DWELLINGS AROUND PARAPARAUMU BEACH TOWN CENTRE.....	14



1. INTRODUCTION

In 2021 Property Economics was engaged by Kapiti Coast District Council (**KCDC**) to assess the commercially feasible residential capacity (supply) of the Kapiti Coast District. This work was utilised to inform the Housing and Business Capacity Assessment (**HBA**) which the Council is obligated to prepare under the National Policy Statement on Urban Development (**NPS UD**).

The results of the 2021 report showed that Kapiti Coast had insufficient feasible capacity in the urban and greenfield areas to accommodate projected 30-year dwelling demand for the district. Since then, the government has outlined new policy direction that requires Tier 1 Councils around the country, including KCDC, to implement Medium Density Residential Standards (**MDRS**) across all residential zones to provide for increased height in and around centres and transportation nodes.

In response to the 2021 report identifying a shortfall of supply (relative to projected demand) over the 30-year period, KCDC has identified areas for intensification in Kapiti around the existing centre network and public transport nodes.

The purpose of this report is to provide KCDC with a high level assessment on the feasibility of residential development in these identified intensification areas to ensure it is feasible to deliver the intensified development sought, and quantify the increase in feasible urban capacity as a result of the proposed changes.

1.1. GLOSSARY

This section provides definitions for frequently utilised terms applied in this analysis.

- **Theoretical Yield / Plan Enabled Capacity** – The total number of properties that could be developed according to the District Plan provisions within the permitted building envelope, irrespective of market conditions.
- **Comprehensive Development** – A development option that assumes the removal of all existing buildings for a comprehensive redevelopment of the entire site.
- **Greenfield Capacity** – Typically defined as development on areas outside the existing urban area on rural or undeveloped large lots. In Kapiti Coast, the Council has defined specific Greenfield Areas.
- **Infill Development** - A development option that assumes the existing building is retained, and new residential house(s) are developed on the balance of the site.
- **Standalone House** – Single-detached dwelling.
- **Terraced House** – Dwellings that are attached horizontally to other dwellings but not vertically. This typology is always built to the ground floor (i.e., does not include homes built above retail stores).
- **Apartments** – Dwellings that are attached vertically and potentially also horizontally. Usually in multi-storey developments of higher density.
- **Total Yield**- The total number of dwellings developed.
- **Net Yield** – The total number of dwellings constructed net of any existing dwellings removed. For Infill development, the total yield is equal to the net yield, while for Comprehensive development the net yield is equal to the total yield less the existing dwellings.
- **Feasible** - A development is labelled as being feasible if it is able to achieve a profit margin of 20%.
- **Realisable** - A development is labelled as being Realisable if it is able to achieve its development specific profit margin as defined in Appendix 1.
- **SA2** – Statistical Area 2 is an output geography defined by Statistics NZ with approximately 2000 – 4,000 residents.

1.2. WALKABLE CATCHMENTS

The NPS-UD states:

Policy 3: In relation to Tier 1 urban environments, regional policy statements and district plans enable:

- (a) in city centre zones, building heights and density of urban form to realise as much development capacity as possible, to maximise benefits of intensification; and
- (a) in metropolitan centre zones, building heights and density of urban form to reflect demand for housing and business use in those locations, and in all cases building heights of at least 6 storeys; and
- (b) building heights of at least 6 storeys within at least a walkable catchment of the following:
 - (i) existing and planned rapid transit stops
 - (i) the edge of city centre zones
 - (ii) the edge of metropolitan centre zones; and
- (c) within and adjacent to neighbourhood centre zones, local centre zones, and town centre zones (or equivalent), building heights and densities of urban form commensurate with the level of commercial activity and community services.

In order to meet the requirements of this policy KCDC has proposed to implement intensification areas based on walkable catchments from centres and transport nodes which allows for up to six storeys around Metropolitan Centres and Rapid Transit Stops and four storeys around Town and Local Centres.

Figures 1-4 following are maps showing the proposed extent of the walkable catchments across the Kapiti district by centre / transport node. The extent of the walkable catchment varies depending on the 'status' of the centre in the centre network hierarchy of the district.

Figures 1 and 4 also highlight the area covered by the NPD UD Coastal Hazard qualifying matter. For the purposes of simplicity in this analysis any additional capacity in these areas has been removed from the outputs of this report entirely.

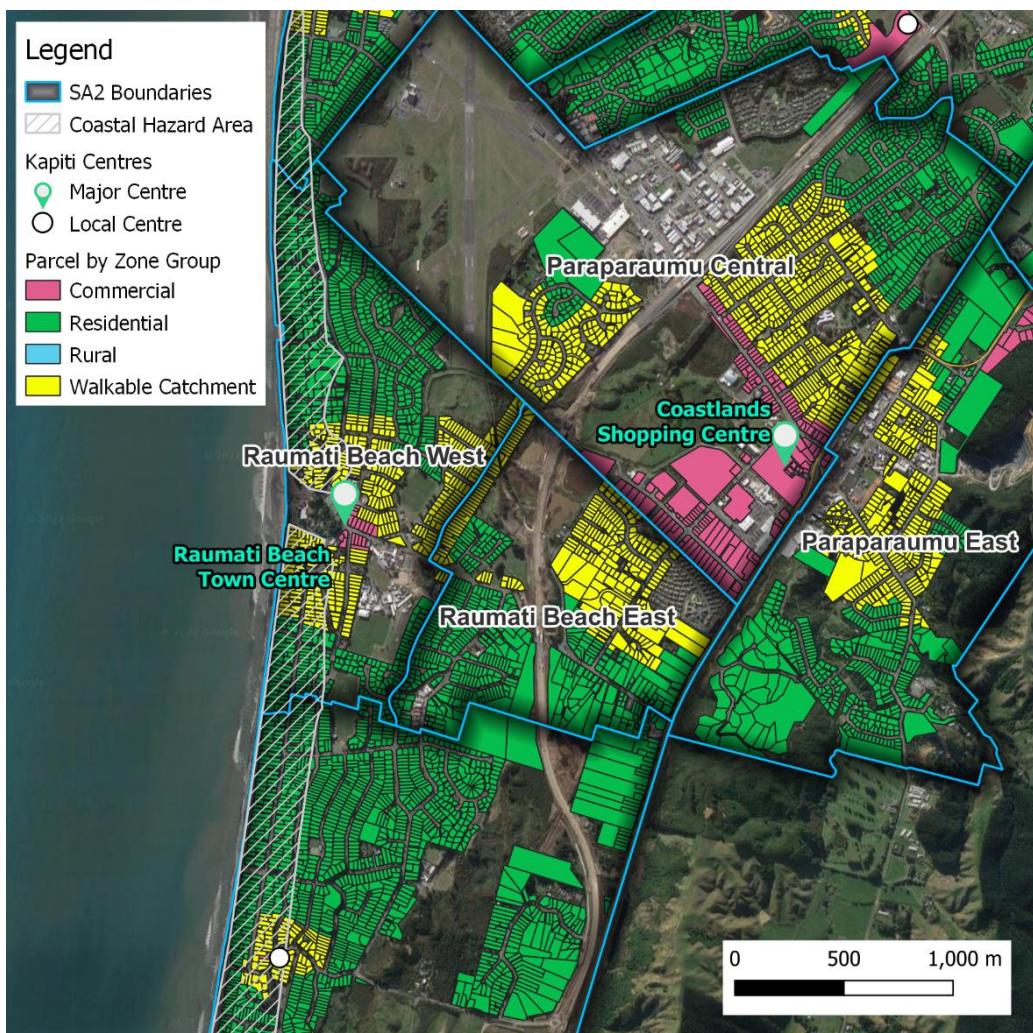
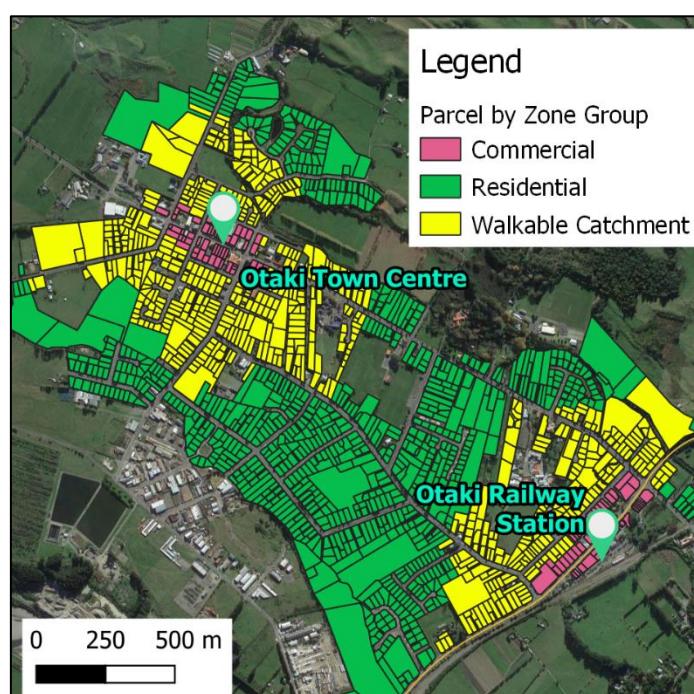
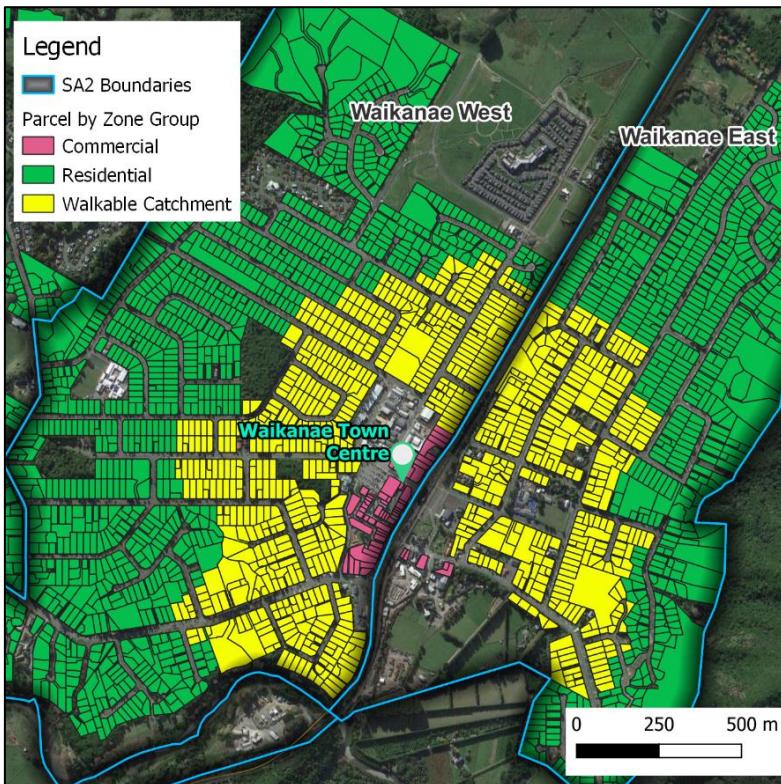
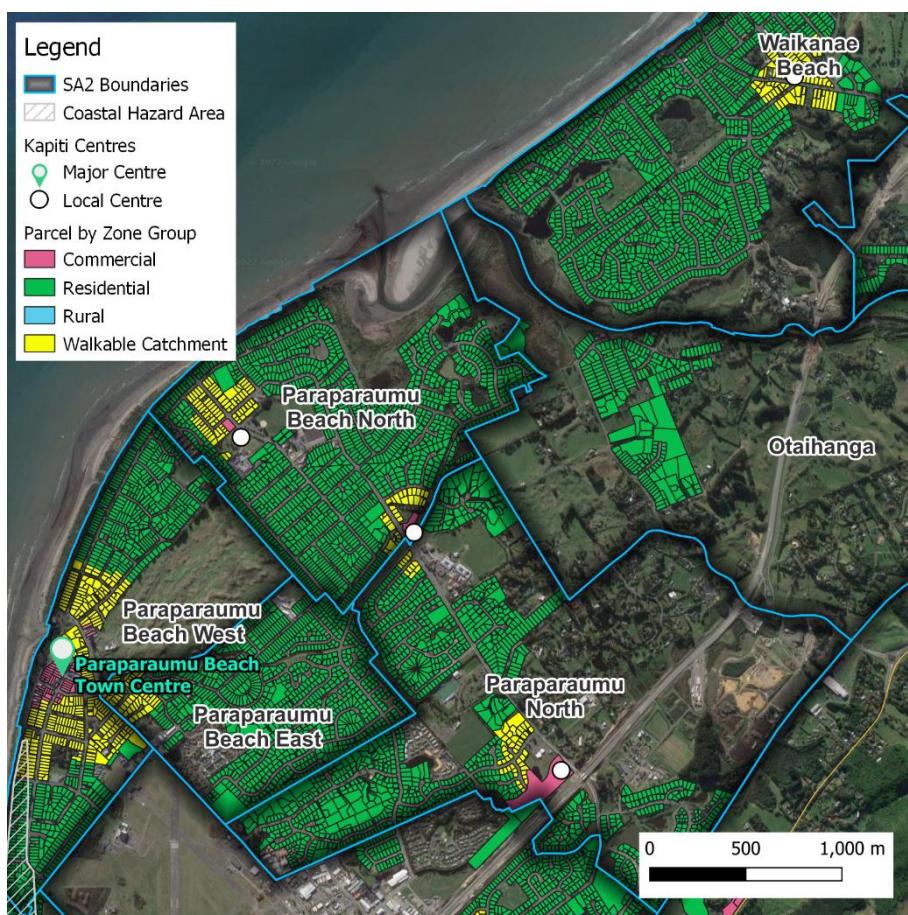
FIGURE 1: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – KAPITI SOUTH**FIGURE 2: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – OTAKI**

FIGURE 3: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – WAIKANAE TOWN CENTRE**FIGURE 4: HOUSING PARCELS BY UNDERLYING ZONE AND WALKABLE CATCHMENT – KAPITI CENTRAL**

2. THEORETICAL CAPACITY

Using Property Economics 2021 HBA feasible capacity modelling outputs as a base, KCDC provided Property Economics with an updated estimate of theoretical capacity incorporating the MDRS and increased building heights. Previously, the average site size used to calculate capacity was:

- 250sqm in the Medium Density Housing Precinct,
- 450sqm in the General Residential Zone and;
- A range of other sizes depending on the Precinct such as 950sqm in the Peka Peka Precinct and upwards of 6,000sqm in the Manu Grove Low-Density Housing Precinct.

The MDRS standards allow for up to three dwellings to be built per site, 50% site coverage, three storeys and more permissive geometric constraints (i.e. setbacks and recession planes).

KCDC has applied an average site size of 140sqm units across the General Residential Zone as a potential development scenario under these provisions. Additionally, for the Walkable Catchments and Centre Zones that allow for height above three storeys, KCDC has included apartments at an average size of 100sqm.

For the purposes of this modelling, Property Economics have interpreted the 140sqm units as terraced dwellings and added a Standalone dwelling option on an average of 200sqm lots.

Table 1 shows the Theoretical Capacity in the Walkable Catchments by Suburb.

TABLE 1 – KAPITI COAST WALKABLE CATCHMENT THEORETICAL RESIDENTIAL DEVELOPMENT CAPACITY BY SUBURB

Theoretical Capacity	
Suburb	Walkable Catchment
Otaki	12,384
Paekakariki	3,291
Paraparaumu Beach East	676
Paraparaumu Beach North	1,616
Paraparaumu Beach West	3,455
Paraparaumu Central	13,290
Paraparaumu East	7,005
Paraparaumu North	797
Raumati Beach East	7,550
Raumati Beach West	4,226
Raumati South	527
Waikanae Beach	1,547
Waikanae East	8,279
Waikanae West	11,993
Total	76,636

Source: *Property Economics, KCDC*

3. FEASIBLE CAPACITY OUTPUTS

Property Economics has assessed the variables outlined above in the Kapiti Coast market and run feasible capacity models across the range of locations, land values, improvement values, and land value changes. A key component of the market's willingness to develop infill is the relationship between a site's land value, fixed subdivision costs and the identifiable 'uptake' in value (sqm) through subdivision.

Note this capacity assessment has not taken into account infrastructure constraints.

Table 2 following shows the feasible capacity under both the Maximum Profit and Realisable options for each site. These figures have removed all 'double ups' i.e., where multiple instances were tested on a specific site and represent the most profitable / 'likely' scenario for that site. If it is assumed that every developer and landowner will objectively choose the most profitable option (out of the 18 development scenarios tested), then the model estimates that the Walkable Catchment areas have Feasible Capacity for a total of 11,022 dwellings.

However, the most profitable option when ranked against a static market is not always the most likely. Different development options and typologies have differing levels of risk and by extension, differing profit expectations. For example, a scenario where a developer could make a 24% profit margin by building five standalone dwellings or a 28% profit margin by building fifteen apartments. In this instance, although the apartments are more profitable, the standalone option will provide a better return relative to the level of risk and is therefore considered the more likely development scenario. How this is applied is explained in more detail in Appendix 1.

TABLE 2: WALKABLE CATCHMENTS MOST PROFITABLE AND REALISABLE CAPACITY BY TYPOLOGY

Zone	Typology	Feasible (Max Profit)	Realisable
Walkable Catchment	Standalone	957	1,353
	Terraced	1,490	894
	Apartments	8,575	1,595
	Total	11,022	3,842
Theoretical (Max Yield)		76,636	76,636
Feasibility %		14%	5%

Source: *Property Economics, KDCD*

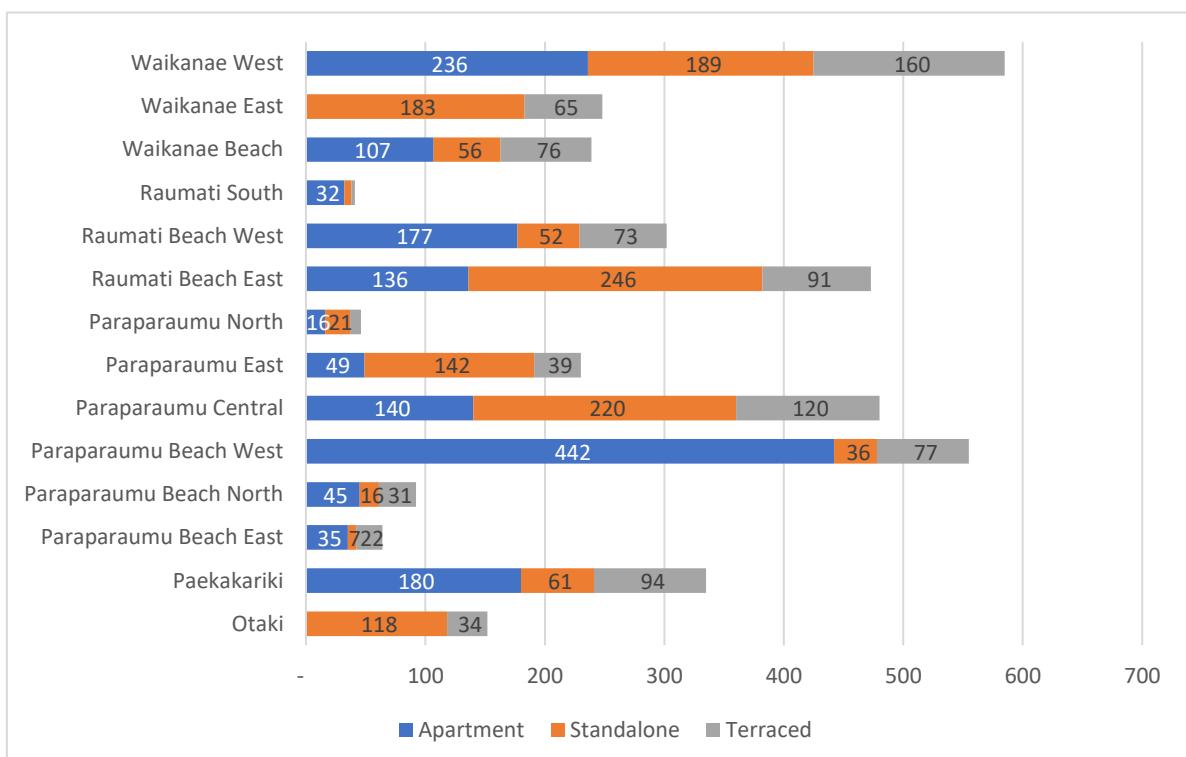
By applying different profit margin requirements to each of the different development options based on their relative risk and location, the estimate of feasible capacity in the Walkable Catchment is reduced to 3,842 which has been labelled as the Realisable Capacity. The primary purpose of this step is to provide a more balanced and realistic feasible capacity estimate in regard to the typologies more likely to be delivered by the market. As such, the number of Apartments that are considered to be Realisable is substantially smaller than are feasible.

3.1. LOCATIONAL DISTRIBUTION OF REALISABLE CAPACITY

Figure 5 shows both the quantity and proportion of realisable capacity within each of the Walkable Catchment areas. The areas around the Raumati and Paraparaumu Beach centres have the highest proportion of apartments, while Waikanae East (the eastern half of the Waikanae Town Centre Walkable Catchment) and Otaki areas have none.

What the feasibility modelling in essence indicates is that the intensified areas / Walkable Catchments around Waikanae (eastern half) and Otaki centres are unlikely to deliver a level of intensified residential development significantly more than what the MRDS would deliver.

FIGURE 5: DISTRIBUTION OF REALISABLE CAPACITY WITHIN THE WALKABLE CATCHMENTS BY SA2



Source: Property Economics

Table 3 shows the Feasible and Realisable Capacity in each of the Walkable Catchments by Statistical Area 2 areas. The Paraparaumu Beach West area has the highest realisation rate of 16% while Otaki has the lowest at only 1%.

As Figure 2 showed, Otaki has two Town Centre Zones that each has its own Walkable Catchment covering almost half of the township. Consequently, the Theoretical Capacity in this area is the second-highest in the District. However, the land values around this area are comparatively lower being a small township outside the primary urban area. This results in a lower value in subdivision and the low feasibility rate reflected in Table 3.

Conversely, the areas closest to the beachfront have the highest feasibility rates and the highest proportion of apartments. These areas have higher underlying land values improving the feasibility of higher density development. This also includes the beachfront settlement of Paekakariki south of the main Kapiti Coast urban area.

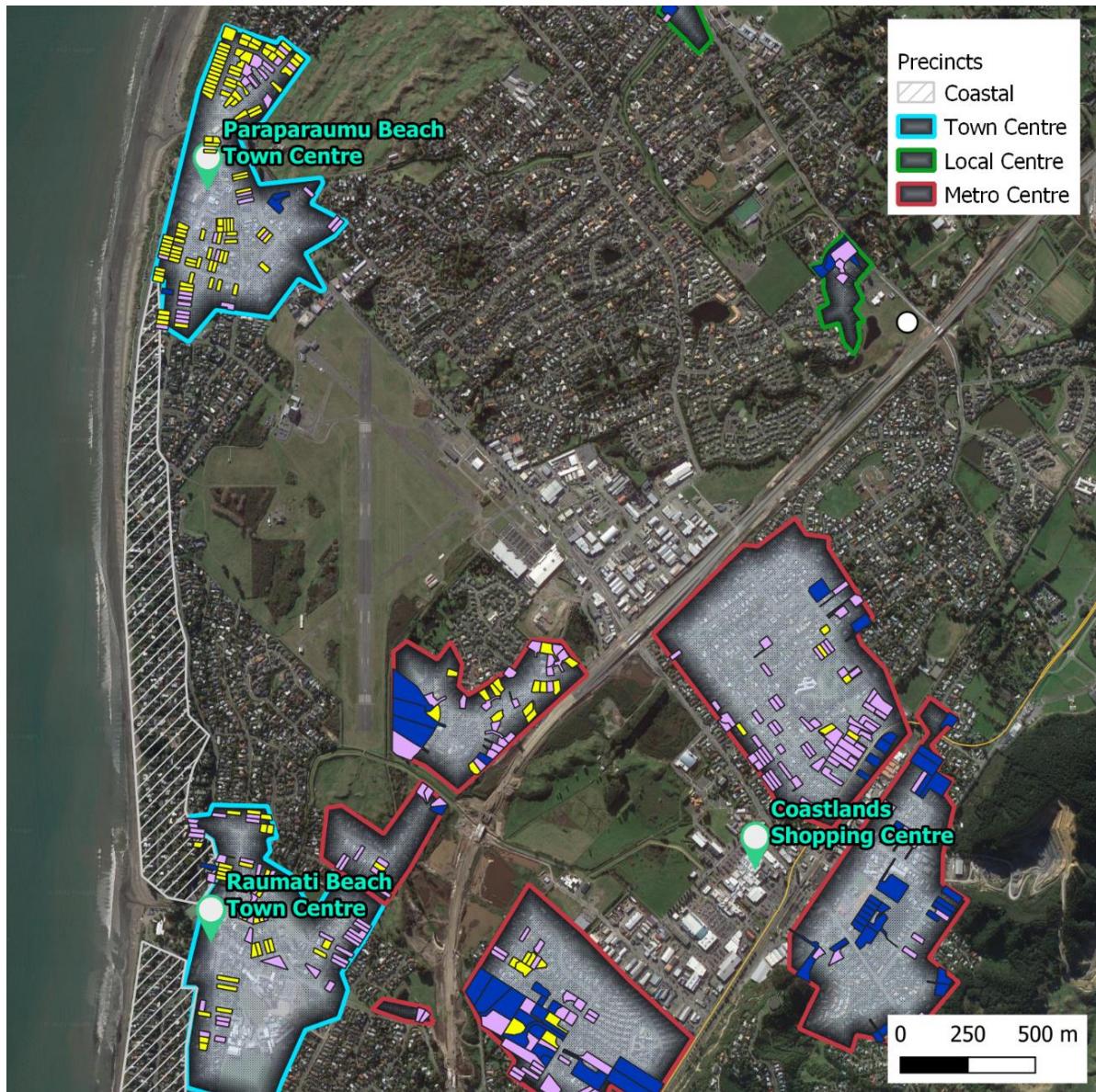
TABLE 3: FEASIBLE AND REALISABLE CAPACITY IN THE WALKABLE CATCHMENTS BY SA2

Suburb	Theoretical Capacity	Feasible	Realisable	Realisable Rate
Otaki	12,384	436	152	1%
Paekakariki	3,291	981	335	10%
Paraparaumu Beach East	676	123	64	9%
Paraparaumu Beach North	1,616	212	92	6%
Paraparaumu Beach West	3,455	1,317	555	16%
Paraparaumu Central	13,290	2,068	480	4%
Paraparaumu East	7,005	671	230	3%
Paraparaumu North	797	90	46	6%
Raumati Beach East	7,550	1,151	473	6%
Raumati Beach West	4,226	1,468	302	7%
Raumati South	527	220	41	8%
Waikanae Beach	1,547	427	239	15%
Waikanae East	8,279	786	248	3%
Waikanae West	11,993	1,072	585	5%
Total	76,636	11,022	3,842	5%

Source: Property Economics

Figure 6 shows a map of this Realisable Capacity around three of the Walkable Catchment areas (Coastlands Shopping Centre and the Raumati and Paraparaumu Beach Town Centres).

This further highlights the Paraparaumu Beach waterfront area as a potential apartment hotspot in the district. It also illustrates the decreasing realisability of capacity in the eastern side of the Coastlands Shopping Centre (Metropolitan Centre) compared to the two Town Centres. As both Figure 5 and Table 3 show, the Paraparaumu Central and Eastern SA2's have some of the lowest feasibility rates and a higher proportion of standalone dwellings compared to other areas.

FIGURE 6: MAP OF REALISED DWELLINGS AROUND PARAPARAUMU BEACH TOWN CENTRE

Source: Property Economics

4. VARIATIONS ON THE MODEL

4.1. SCENARIO TESTING

As an extension to the feasibility modelling outlined above, Property Economics have also tested a scenario (Scenario 1) where sale prices drop by 10% while construction costs continue to rise (in this case by 10%). This potentially better represents current day metrics.

As the central government continues to push forward with a range of actions to significantly increase the delivery of housing development, the cost of building materials has been steadily increasing over the last few years coupled with supply chain issues and labour shortages. However, with the increases to the OCR and interest rates, the market is starting to experience a downwards pressure on prices and a tightening of liquidity in the market.

Table 4 shows a summary of the walkable catchments feasible capacity under this scenario against the default model inputs presented earlier in this report.

TABLE 4 -WALKABLE CATCHMENTS REALISABLE CAPACITY SENSITIVITY ANALYSIS

Zone	Typology	Realisable	Scenario 1
Walkable Catchment	Standalone	1,350	845
	Terraced	890	569
	Apartments	1,600	714
	Total	3,840	2,128
Theoretical (Max Yield)		76,636	76,636
Feasibility %		5%	3%

Source: *Property Economics, WCC*

This shows that the combination of a 10% increase in construction costs and a 10% decrease in sale price values results in a roughly 55% reduction in the level of feasible capacity. This has the greatest impact on the number of realisable apartments which is why the effect of this change has a more pronounced impact on the level of realisable capacity within the Walkable Catchments than it would for the General Residential Area.

5. SUMMARY

The purpose of this report was to evaluate the level of feasibility of the proposed intensification area / Walkable Catchments to ensure it is feasible to deliver the intensified development sought. The results of the Feasibility Modelling show that the combination of greater height allowances and rising house prices (since the 2021 HBA report) have made apartments a more realistic development option in the Kapiti Coast housing market overall.

In particular, the areas closest to the waterfront have the highest land values and consequently the highest feasibility rates. Conversely, the areas furthest from the coastline have lower feasibility rates and Waikanae East and Otaki both have no realisable apartments. These areas are therefore unlikely to deliver additional capacity over and above the MDRS standards.

Given current market trends, a scenario was tested where the average sale price drops by 10% but Construction Costs continue to increase by 10%. This resulted in a roughly 55% drop in realisable capacity from 3,840 to 2,128. It should also be mentioned that this modelling work has not taken into account any urban infrastructure constraints.

APPENDIX 1 REALISABLE CAPACITY

On top of the feasible capacity modelling, practical considerations must be taken into account as to what is likely to be developed in the real world. This chapter explains how Property Economics applies different profit margins reflecting the propensity for development variances.

These considerations are based on:

- Dwelling typology
- Development option

The identification of these variables not only provides for sensitivities but also addresses the relativity between typologies. While all three typologies may be feasible the development model identifies the site scenario with the highest profit margin. However, practically while the model assesses the standard 20% profit margin, there is greater risk in some typologies. The assessment below endeavours to consider these risks and motivation differentials.

Risk has been accounted for developments undertaken by developers by increasing the required profit level for a development to be classified as "Realisable" on top of being feasible.

Table 5 below shows the profit levels required for each combination of typology and development option to be considered realisable by the model.

TABLE 5 – DEVELOPER REALISABLE PROFIT RATES

	Comprehensive Developer	Infill Developer	Infill Owner
Standalone	20%	17%	25%
Terraced	23%	20%	28%
Apartment	32%	28%	39%

Source: *Property Economics*

This reflects the market practicality that developments taken on by a developer have relatively lower risk if they are an infill development, rather than a comprehensive development. It also shows the increasing risk of development as the typology increases in scale from standalone dwellings to terraced products, and finally apartments.

For an owner-occupier the model considers the profit level of the development relative to the capital value of the existing dwelling(s). This is because motivations for an owner to subdivide their property are inherently linked with the relative profit they can achieve against the value of their own home e.g. a \$100,000 profit on a \$1,000,000 site will be less likely to be developed by the owner, compared to a \$100,000 profit on a \$500,000 site, assuming similar fixed costs. Therefore, as a methodology for this, the model considers that the lowest quartile of feasible infill developments in terms of the relative profit / CV ratio will not be realised by the market.