

## **SmartGrowth Update:**

### **Residential Intensification: Research Brief**

#### **1. Background**

##### **1.1 Sub regional policy aims**

One of the underlying principles of SmartGrowth is that the agreed Strategy is strongly supported for implementation. One of the challenges in implementation has been to translate the strategy actions on residential intensification into a regulatory framework that gains acceptance from both the development community and the neighbourhoods likely to be affected.

Under the SmartGrowth Strategy Tauranga City is expected to accommodate approximately 25 % of its long term growth through residential intensification. That is, through enabling and facilitating greater housing density of older, zoned areas of the city through infill or comprehensive site redevelopment processes (as compared to Greenfield intensification). Suitable intensification areas are to be identified and planned for. These policy objectives are included within the Regional Policy Statement (RPS) which a district plan has to give effect to. Intensification is therefore one of the key sub-regional planning policies to be implemented through to 2051.

Intensification is not without its planning, political and viability challenges. Indeed, Tauranga City Council (TCC) has had learning experiences with suburban intensification through the “Smart Living Places” concepts for Greerton and Arataki and the more recent and more positive engagement around the Tauranga city centre for the new City Living zone. With a range of views on the role and function of intensification within the city it would be fair to say that Tauranga City Council approaches these actions in the sub regional growth strategy with an element of caution.

There is a significant amount of international and national literature on the issues and opportunities of intensification as a planning strategy. Some recent work is summarized in Appendix 1 to this brief for background purposes.

##### **1.2 Current Plan environment**

**Regional Policy Statement:** Chapter 17A of the operative RPS: sets out the resource management framework for managing growth in the western bay sub-region. It places the SmartGrowth strategy within an RMA plan context. Policies cover urban limits, Greenfield and intensification expectations including densities and growth sequencing and integration.

Intensification is specifically covered under policy 17A.3.1 (b) (vi) that directs territorial authorities to generally accommodate population growth by providing for 25% of the projected growth through intensification of residential development within existing urban areas. Under policy 17A.3.1 (b) (vii) a target net yield of at least 20 dwellings per hectare within any intensification

area is required. A similar policy approach is in the Proposed Regional Policy Statement and decisions on submissions are awaited.

Operative Tauranga District Plan: The plan is reasonably liberal on permitted densities in the Residential A zone (the main zone) with a permitted minimum of 1 dwelling per 325m<sup>2</sup> of (gross) site area. A variety of housing forms have emerged under this plan and issues of local amenity have emerged. One dwelling per 325m<sup>2</sup> of site area roughly equates to 22 dwellings / ha.

Proposed Tauranga City Plan: This plan introduces several residential zones to have a more fine-grained approach to residential development. Suburban character and amenity are articulated. The minimum as-of-right density is 1 dwelling per 325 m<sup>2</sup> of nett site area. The amendment to nett site area reflects discussion on suburban environmental attributes over the period of the operative district plan.

The new City Living Zone around the edge of the Tauranga City Centre is a new, focused intensification zone. Comprehensive, medium density development in the suburbs must go through a consent process. No specific suburban intensification areas are zoned at this stage. This conservative approach is a reflection of the issues that emerged from earlier policy work at Greerton and Arataki-further thinking is required. For example the retirement village sector has been the most successful form of residential intensification in the city and its prominent role is likely to continue, if not increase, into the future as the result of factors such as population aging.

### 1.3 Intensification Issues further research for SmartGrowth Update

Intensification is currently an integral part of Tauranga City's growth allocation. There are however a number of challenges that need to be resolved for intensification to make a meaningful, long term contribution to accommodating projected urban growth on any real scale. These include:

- a) The lack of any large scale redevelopment sites (brownfield sites). Because of this there is a need for site amalgamation and for the destruction of significant capital improvements (e.g. existing houses). This is a significant hurdle for intensification projects. Capital improvements are lowest in lower decile suburbs but there is little demand for intensive living in these suburbs and it would necessitate the removal of some of Tauranga's lowest price and therefore affordable houses.
- b) More intensive residential development often involves building upwards. The cost of doing so compared with building single level dwellings is much higher. This is especially true for medium to high rise development with concrete and steel construction and underground car parking. A significant density increase is required to overcome these costs.

- c). The final cost of intensive housing product often means that it is only affordable to the upper / luxury end of the market. An intensive product may not compare favourably with the cost of alternatives to this market e.g. detached dwellings unless there is a market premium such as for views or coastal location.
- d). Development finance is relatively expensive and difficult to obtain for this type of housing product.
- e). Mortgage lending criteria is substantially tighter for this type of residential product. In particular, minimum deposit requirements are much greater. This reduces the pool of people who can afford this type of product compared to a detached dwelling at the same price.
- f). Like several other NZ councils Tauranga has experienced community resistance to proposals for large scale intensification projects in existing, well established suburbs. Existing property owners seem to jealously guard their existing and foreseeable 'suburban' amenity which they perceive as threatened by the process of replacement of existing dwellings with much more intensive residential housing typologies.

## **2. Proposed Research for SmartGrowth Update**

### **2.1 Project Goal**

To get a greater understanding of the market drivers and options for potential delivery of intensification within Tauranga City, as one method of accommodating some of the forecast urban growth into the future, and to recommend policy that can assist this to happen..

### **2.2 Project Delivery**

The Environmental Policy team within TCC has planning, urban design, infrastructure servicing and development viability resources available to lead this work with the input from of other SmartGrowth partners. An internal TCC project team will be set up with direct reporting up to SGIMG members in the first instance.

The Project Managers will be jointly Andy Ralph and Andrew Mead of Tauranga City Council.

### **2.3 Project Methodology**

#### **Step I: Review key National and Local Trends on Intensification**

This step will expand on and/or update the existing information on national and local residential intensification initiatives. This is to provide a context and benchmark for further research work. It would draw on a range of information sources but particularly a literature review. This information will be written up as a section of the draft policy report (Step 4).

## Step 2: Understanding Infill

This step will research the potential contribution infill housing can make to accommodate some growth in existing, established Tauranga suburbs. It will take into account physical site constraints and opportunities, infrastructure, economic drivers etc while having regard to the proposed City Plan policy on maintaining a suburban residential environment. It will quantify at a reasonably high strategic level, the possible potential for further infill

### a) Infill Demand

- Assemble data on number of infill lots created and where over last 10 years (since 2001 census). This builds on existing TCC data and trends monitoring
- Develop an understanding of demand issues and opportunities seen by the market by interviews with surveyors, real estate, developers and other market advisors including location, size, features, quality, price, and management.
- Identify likely indicators of the future market from the work on Demographic Drivers and Housing Preferences project.
- Establish locations where demand exists and what price range(s)/ development feasibility could support infill development

### b) Infill Supply

- Sample survey of selected meshblock areas, similar to the fine grained analysis undertaken in Auckland. Focus on further infill capacity rather than site redevelopment potential (which is covered later under 'intensification')
- Build on existing work by TCC planners
- Build 'infill' scenario and apply across Suburban Residential zone (in fill area). This to test the relative effects of 1/325 gross density with 1/325 nett density potential, and any other practical infill scenarios
- Review infrastructure capacity available to support scenario development potential (three waters and transport)
- Interview surveyors and other market advisors on any supply constraints seen by the market place.
- Determine a relative feasibility of delivering new infill houses to market.

## Step 3: Understanding Intensification

This part of the research will drill down into supply and demand issues and opportunities and to assess how these could support strategic intensification objectives, or amended strategic aims; for example a different proportion of growth allocation or change from nodes/ corridors policy emphasis?.

This will be informed by the Step 1 literature review, such as information on the Auckland Spatial Plan and its peer review on the matter of intensification.

### a) Intensification Demand

- Develop an understanding of demand issues and opportunities seen by the market by interviews with surveyors, real estate, developers and other market advisors including location, size, features, quality, price, and management.
- Talk to retirement sector operators about their market
- Talk to financial institutions about lending criteria etc related to intensive housing/ intensification projects
- Identify likely indicators of the future market from the work on Demographic Drivers and Housing Preferences project.
- Build a demand profile of locations/ attributes/ factors that might support successful intensification in Tauranga City considering things such as:
  - Proximity to public transport / main roads
  - Proximity to parks / reserves
  - Proximity to neighbourhood shopping centres, supermarkets
  - Water (or other types of ) views
  - Proximity to harbour / beach
  - School zones
  - Market desirability of different neighbourhoods/suburbs.

#### b) Intensification Supply

- Review economic assumptions of delivery in the earlier Neil Gray report
- Develop a development feasibility model (adapting the TCC Wairakei model) of various typologies and locations. Include land and building costs, returns etc.
- Sample survey of selected meshblock areas, similar to the fine grained analysis undertaken in Auckland. Focus on site redevelopment potential (compared to infill).
- Consider whether further infill development will reduce opportunities for larger scale site redevelopment (i.e. intensification) to occur.
- Look at location, large sites, Council property, high amenity opportunities to see whether these offer good potential
- Build theoretical 'intensification' scenario and apply across Suburban Residential zone for assessing realistic supply potential
- Review infrastructure capacity available to support scenario development potential
- Interview surveyors and other market advisors on supply constraints seen by the market place.
- Review District Plan policies and rules related to intensification and what refinement might be needed

## **2.4 Project Output**

### Step 4: Draft Policy Review Report and policy consideration

This step will produce a draft written report for discussion by Smartgrowth on the potential for residential intensification within Tauranga City, to

accommodate some of the forecast future city growth. It will background local and national learning's.

It will include recommendations on policy directions and/ or regulatory documents to implement the recommended approach. It will include methodology information and analysis, mapping etc in appropriate appendices.

### Step 5: Draft report consultation and peer review

The Draft report will be circulated for consideration by the Developers Forum, SGIMG and SGIC and comments from these parties will be considered in finalizing the report for SmartGrowth use at a strategic level.

This step will include a peer review of the draft report by an experienced market analyst with an opportunity for them to directly express their view on the draft report to the Project Team.

### Step 6: Finalise report.

Finalize an intensification policy report and related technical appendices for consideration into the main SmartGrowth Update.

## **2.5 Project Timeframes**

Project Inception Meeting	Late May 2012
Project Team Meetings	2 weekly or as determined by Project team/ managers
Step 1: Trends/Literature review Draft literature review section	Mid May to mid June for first draft
Step 2: Understanding Infill Supply research Demand research Draft Infill step section, maps etc	Supply; Mid April to mid May Demand; Mid April to mid June Draft Step 2 report; finish by late July
Step3: Understanding Intensification Supply research Demand research Draft Intensification section , maps etc	Supply; Late May to late July Demand; Late May to late July Draft Step 3 report by mid August
Step 4: Draft Policy Review Report, bringing together earlier sections and policy overview, recommendations maps etc	Draft Step 4 policy report mid August to late September
Step5: Draft Report consultation and Peer Review	Late September put draft report to Research Reference Group for peer review feedback Early November put draft report to SGIMG and SGIC for feedback
Step 6: Finalise Report, maps etc	Mid November to late November 2012

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## Appendix

### Broad summary of recent observations and research on intensification issues

R Neil Gray Strategic Projects Report, March 2009: This report was commissioned by TCC in association with SGIMG to gain a better understanding of the economic and market conditions required to promote residential intensification as part of the growth strategy. It looked at both Greenfield and existing community intensification issues. In summary, in terms of the latter, the report observed;

- that the development economic forces required to support large-scale intensification such as high land to capital value and consumer demand were largely absent in Tauranga at this stage. Rather, there were niche market segments (like Mount holiday apartments) which are not fundamental to the wider strategic aims of SmartGrowth over the long term; housing change responding to demographic and household changes.
- Developers have been slow to embrace intensive housing, in part because of perceived low demand and development risk. There is not a strong level of experience in medium-higher density development in the city and developing conventional forms of residential development are more attractive and less risky.
- There has to be a greater level of understanding about the forces (demand and supply) that shape and influence the housing market and developer decision making. Also, whether intensive housing models can deliver affordable housing remains unanswered.
- There are few built examples of comprehensive site redevelopment in the suburbs, other than high-end apartments or retirement villages. Some recent examples have created some negative community responses.
- The Councils needs to take a leadership role in promoting medium – higher density living, including looking at city plan rules, development contributions policies and (possibly) pilot schemes on Council held land, to support this type of housing.

The value of the Neil Gray work was that it posed a realistic view of what factors are required to implement this aspect of the broad sub-regional strategy of SmartGrowth ‘on the ground’. In particular it raised concerns about the ability of the private sector to deliver intensification objectives without a change in market conditions or feasibility.

Report for CRANZ by CityScope Consultants, June 2011: The stated aim of this research was to identify those features of residential intensification that need to be addressed to make high(er) density housing a relatively more attractive option for an increased number of New Zealanders. This

comprehensive study while based primarily on Auckland information has wider applicability;

- It looks at planning policies, progress on achieving planning objectives, factors of resistance to medium density housing and understanding people's housing choices. It asks the question –why has adoption of medium density not matched planned expectations?
- It focuses on consumer experience and attitudes to identify attributes of medium density housing that might increase its market appeal, therefore demand and uptake.
- It evaluates market influences and acceptance and the complexities of the housing market including various segments.

It is not practicable to summarise the findings of this large report here. It does provide some good research that can inform thinking about the future role and function of residential intensification in the SmartGrowth strategy and its effective delivery. Some key observations are;

- Low adoption to date is a sign of over-optimistic planning forecasts
- The cultural preference for detached housing on individual sections is hard to change
- Good quality, low-rise medium density housing style gets some traction
- The key “must haves” identified were:
  - *accessibility* to local services, employment etc and connectivity to other parts of the city;
  - the quality of amenity in the local *domain/* neighbourhood area;
  - *sanctuary* -safe and secure site, privacy, space, light and warmth to the house etc
- Life stage influences decisions on location and style of house conditioned by affordability and geographic sub markets. For example, family households generally still prefer (if they can afford) suburban living.
- Future demand for new housing will be driven increasingly by empty nesters/ retirement households. In theory these market segments will have more choice, may seek medium density option but are likely to favour familiar neighborhoods with known amenity. They will be seeking owner-occupier potential rather than rental. They are not really seeking centralized apartments. A range of city locations therefore should have medium density opportunity.
- Residential intensification is more likely to be achieved with plans allowing diversity of location and form. Node/ corridor type policy needs to be reviewed.
- Intensification in suburban areas raises a greater risk of resistance from established residents or at least pushes for quality, small scale (compared with high rise) product. This is likely to influence medium density supply costs.
- The study offers a set of principles, drawn from the research, which might improve the general acceptability of medium density housing development. These are at both neighbourhood and on-site level.
- Financial/ lending policies have to also support the rapidly expanding intermediate housing market segment (two incomes, cannot afford a house) and young families.

Report for Auckland Council by Studio D4/ Jasmx, December 2011: This recent report looks at the total Auckland development potential of the Auckland Spatial Plan using a method called “Fine Grained Analysis” (FGA). It was piloted on 14 diverse neighbourhoods and extrapolated to the metropolitan area.

The FGA method drills down to the potential of individual properties and makes extensive use of GIS. The aim is to get a reasonably accurate estimate of net neighbourhood potential. Summary of steps followed:

- Generate development potential maps with improvement value v capital value, parcel size, existing dwellings, relative land value
- Potential for redevelopment under zoning rules-density and process
- Apply professional judgement –likely max additional dwellings, likely capacity utilization of property owners who choose to redevelop, the redevelopment chance of properties over the next 30 years
- Report on meshblock potential
- Peer review by Martin Udale

The professional judgement decreased the technical potential down significantly (20-50%), bringing a market reality to the theory. The well-publicised conclusions are:

- That the Auckland Plan in its current form (extensive intensification targets) is unworkable.
- Intensification would require significant plan amendments both within town centres and beyond.
- Intensification would need to be more widespread than nodes and corridors and need extensive rezoning of suburban environments
- There is likely to be community resistance to major up-zoning of established suburban areas, which is likely to be politically fraught.
- Sales demand drives intensification. Developers provide where there is sales demand. There is no sales demand for intensification along high volume transport corridors.
- Facilitating quality intensification needs extensive communication of benefits, reducing plan barriers, providing economic incentives in target areas. Target areas where the market wants to go rather than planning theory.

Independent Review –Auckland Plan Growth Capacities Essentia Consulting Group, January 2012. This paper provides an independent review of the Studio D4/Jasmx

report on Auckland residential development potential; it also provides a review of growth capacity assumptions in the draft Auckland Plan. It further comments on likely forms of residential development that may be feasible and affordable.

The findings include:

- The growth capacity assumptions within the draft Auckland Plan are not practicable.

- There is a need to further explore what is probable in terms of intensification housing supply. This has to cover broader development constraints arising from environmental, community and political constraints;
- Past performance is a sound basis for testing future outcomes – it is the basis for developing a better understanding of the market’s ability to supply, and consumer demand for infill housing, and thus a realistic assessment of infill housing supply over the next 10-20 years. Further supply side analysis is required;
- The development industry is significantly constrained, for at least the medium term, in its ability to provide both the quantum and ratios of new housing for Auckland proposed in the draft Plan;
- The ratio of infill to Greenfield housing, as proposed by the draft Auckland Plan, is highly unlikely to be achievable. Other scenarios should also be tested;
- To assist the industry to meet the targets for supply, the Unitary Plan should be permissive and enable widespread infill housing with a range of typologies to occur;
- Council should first focus on achieving quality outcomes – the rest will follow;
- The most viable and prolific forms of infill housing for at least the next decade will be small lot/attached/terraced housing delivered by a multiplicity of projects;