

PROPERTY **E**ECONOMICS



WELLINGTON CITY

INCLUSIONARY ZONING

ECONOMIC ASSESSMENT

INITIAL DATA FINDINGS

Client: Wellington City Council

Project No: 52114

Date: August 2021



SCHEDULE

Code	Date	Information / Comments	Project Leader
52114.1	August 2021	Draft Report	Tim Heath / Phil Osborne

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THEORETICAL CAPACITY

- Property Economics utilised the results from WCC Theoretical Capacity modelling
- Only Comprehensive redevelopment was considered
- Apartment options came in three different sizes, small, medium and large apartments which averaged 70sqm, 100sqm and 150sqm respectively.

As a caveat Property Economics consider the average apartment sizes applied in the WCC Theoretical Capacity Model are high, particularly for the purposes of this study and potential reconciliation with demand.

The assessment of inclusionary zoning has been undertaken across three different suburbs and zones, including:

1. Te Aro - Central Area zone
2. Johnsonville - Centre and Medium Density Residential zones
3. Tawa - Rapid Transit zone

Appendix 1 shows a map of each of these three suburbs as well as the sub-zones that have been incorporated as part of this assessment.

Capacity is mutually exclusive between the three typology options. Building Large Apartments removes the capacity for Medium or Small.

TABLE 1: THEORETICAL CAPACITY - TOTAL YIELD

Theoretical Capacity	Entire Suburb			Within Centre Zones		
	Large Apartment	Medium Apartment	Small Apartment	Large Apartment	Medium Apartment	Small Apartment
Johnsonville	20,345	31,215	45,150	4,079	6,226	8,982
Tawa	37,405	57,099	81,865	14,963	23,028	32,599
Te Aro	3,464	5,290	7,655	2,235	3,415	4,942
Total	61,214	93,604	134,670	21,277	32,669	46,523

Source: Property Economics, WCC

Accounting for the number of dwellings removed from the theoretical capacity.

TABLE 2: EXISTING DWELLINGS BY SUBURB

Existing Dwellings	Entire Suburb	Within Centre Zones
Johnsonville	3,149	561
Tawa	4,420	1,748
Te Aro	526	336
Total	8,095	2,645

Source: Property Economics

1.1. FEASIBLE CAPACITY

Feasible Capacity – what is viable to build at an assumed 20% profit margin.

TABLE 3: FEASIBLE CAPACITY

		Entire Suburb			Within Centre Zones		
		Large Apartments	Medium Apartments	Small Apartments	Large Apartments	Medium Apartments	Small Apartments
Theoretical Capacity	Johnsonville	20,345	31,215	45,150	4,079	6,226	8,982
	Tawa	37,405	57,099	81,865	14,963	23,028	32,599
	Te Aro	3,464	5,290	7,655	2,235	3,415	4,942
	Total	61,214	93,604	134,670	21,277	32,669	46,523
Feasible Capacity	Johnsonville	325	911	882	301	851	829
	Tawa	103	297	344	77	205	211
	Te Aro	797	1,924	2,703	769	1,674	2,475
	Total	1,225	3,132	3,929	1,147	2,730	3,515
Feasibility %	Johnsonville	1.6%	2.9%	2.0%	7.4%	13.7%	9.2%
	Tawa	0.3%	0.5%	0.4%	0.5%	0.9%	0.6%
	Te Aro	23.0%	36.4%	35.3%	34.4%	49.0%	50.1%
	Total	2.0%	3.3%	2.9%	5.4%	8.4%	7.6%

Source: Property Economics

1.2. FEASIBLE CAPACITY - MAXIMUM PROFIT OPTION

This section utilises the highest profit typology option for each site. Net Yield shows total built capacity adjusted for demolished dwellings.

TABLE 4: FEASIBLE CAPACITY - MAXIMUM PROFIT OPTION FOR CENTRE ZONES

Maximum Profit	Medium Apartments	Small Apartments	Total Yield	Net Yield
Johnsonville	851		851	813
Tawa	205		205	200
Te Aro	571	1,744	2,315	2,185
Total	1,627	1,744	3,371	3,198

Source: Property Economics

2. INCLUSIONARY ZONING OPTIONS

WCC is investigating the two potential inclusionary zoning options. The first option will require any developer building more than 2,400sqm of floorspace to provide between 1 – 10% of the new floorspace as assisted housing. This is essentially a 'tax' on the profits of large developments that may have a negative impact on their feasibility.

In contrast, the second option incentivises developers to provide assisted housing through an increase in the height restriction. Specifically, WCC has proposed to allow developers to build an additional 25% floorspace in return for 10% - 50% of this additional floorspace being provided as assisted housing.

Ultimately, the impact that these inclusionary zoning options will have on the modelled feasibility is highly dependent on what the developer receives from the assisted housing dwellings. For the purposes of this assessment, we have run two revenue scenarios using a 30% and 50% reduction in the revenue received for an assisted home in comparison to one sold at full price. Additionally, we estimate the number of assisted homes provided from each inclusionary zoning option at both the upper end of the spectrum (i.e. 10% and 50% for inclusionary zoning options 1 and 2 respectively) and in the middle of the proposed spectrum (i.e. 5% and 25% respectively). This result in a total of four different scenarios tested for each of the two inclusionary zoning options.

Specifically, these assumptions can be written as follows:

- The developer sells the assisted housing at a 30% or 50% reduction in sale price. This also translates to a reduction in real estate fees and GST. All other costs associated with building the home are identical between the full price and assisted housing options as it is assumed they will be of the same quality.
- For the first inclusionary zoning option, if the additional floorspace is greater than 2,400sqm, then the number of assisted houses is equal to either 5% or 10% rounded down. For example, if a development is posed to construct 32 dwellings, then 10% of the development would equate to 3.2 dwellings. This is rounded down to 3 dwellings which in this instance, represents under 10% of the development's floorspace (approximately 9.4%). The same methodology is applied for the 5% scenario which in this instance, would result in a single assisted dwelling.
- For the second inclusionary zoning option, the number of homes built on each site has been increased by 25% rounded down. Of these additional homes, either 25% or 50% is assumed to be built as assisted housing. In the case of the 32-dwelling development, a 25% increase in housing results in an additional 8 dwellings. Under the 25% and 50% assisted housing assumption, 2 and 4 of these dwellings would be considered assisted housing respectively.

2.1. INCLUSIONARY ZONING OPTION 1

The four scenarios assessed are as follows:

Scenario 1: Up to 10% of the development is contributed to assisted housing at a 30% discount. This results in up to a 3% decrease in revenue (10% * 30%).

Scenario 2: Up to 10% of the development is contributed to assisted housing at a 50% discount. This results in up to a 5% decrease in revenue.

Scenario 3: Up to 5% of the development is contributed to assisted housing at a 30% discount. This results in up to a 2.5% decrease in revenue.

Scenario 4: Up to 5% of the development is contributed to assisted housing at a 50% discount. This results in up to a 1.5% decrease in revenue.

TABLE 5: COMPARISON OF OPTION 1'S IMPACT ON FEASIBLE CAPACITY

Feasible Capacity	Without Assisted Housing	Assisted Housing 10%		Assisted Housing 5%	
		30% Discount	50% Discount	30% Discount	50% Discount
Johnsonville	723	526	420	558	526
Tawa	205	148	116	205	148
Te Aro	319	319	319	319	319
Total	1,247	993	855	1,082	993

Source: Property Economics

TABLE 6: NUMBER OF FEASIBLE ASSISTED HOMES BUILT UNDER OPTION 1

Assisted Housing	Assisted Housing 10%		Assisted Housing 5%	
	30% Discount	50% Discount	30% Discount	50% Discount
Johnsonville	47	38	19	18
Tawa	13	10	7	5
Te Aro	28	28	12	12
Total	88	76	38	35

Source: Property Economics

2.2. INCLUSIONARY ZONING OPTION 2

As with the first inclusionary zoning option, we have assessed four different scenarios which are as follows:

Scenario 1: Up to 50% of the additional homes is contributed to assisted housing at a 30% discount.

Scenario 2: Up to 50% of the additional homes is contributed to assisted housing at a 50% discount.

Scenario 3: Up to 25% of the additional homes is contributed to assisted housing at a 30% discount.

Scenario 4: Up to 25% of the additional homes is contributed to assisted housing at a 50% discount.

TABLE 7: COMPARISON OF OPTION 2'S IMPACT ON FEASIBLE CAPACITY

Feasible Capacity	Without Assisted Housing	Assisted Housing 50%		Assisted Housing 25%	
		30% Discount	50% Discount	30% Discount	50% Discount
Johnsonville	851	1,087	607	1,411	1,249
Tawa	205	369	148	635	527
Te Aro	2,315	3,207	2,809	3,653	3,531
Total	3,371	4,663	3,564	5,699	5,307

Source: Property Economics

FIGURE 1: IMPACT OF INCLUSIONARY ZONING OPTION 2 ON NET PROFIT % - SCENARIO 1



Source: Property Economics

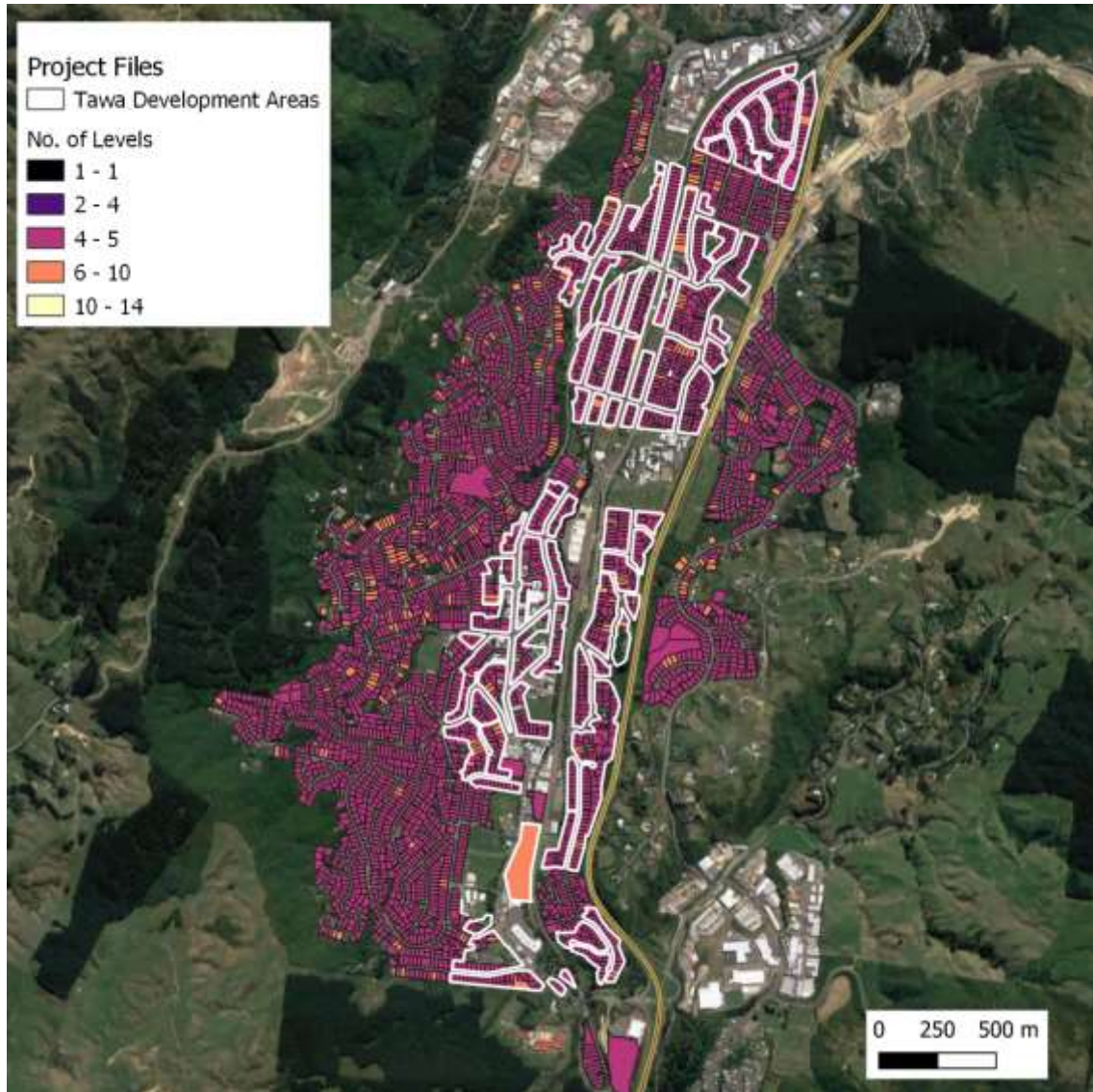
TABLE 8: NUMBER OF FEASIBLE ASSISTED HOMES BUILT UNDER OPTION 2

Assisted Housing	Assisted Housing 50%		Assisted Housing 25%	
	30% Discount	50% Revenue	30% Discount	50% Revenue
Johnsonville	82	5	54	42
Tawa	19	0	26	21
Te Aro	212	108	88	72
Total	313	113	168	135

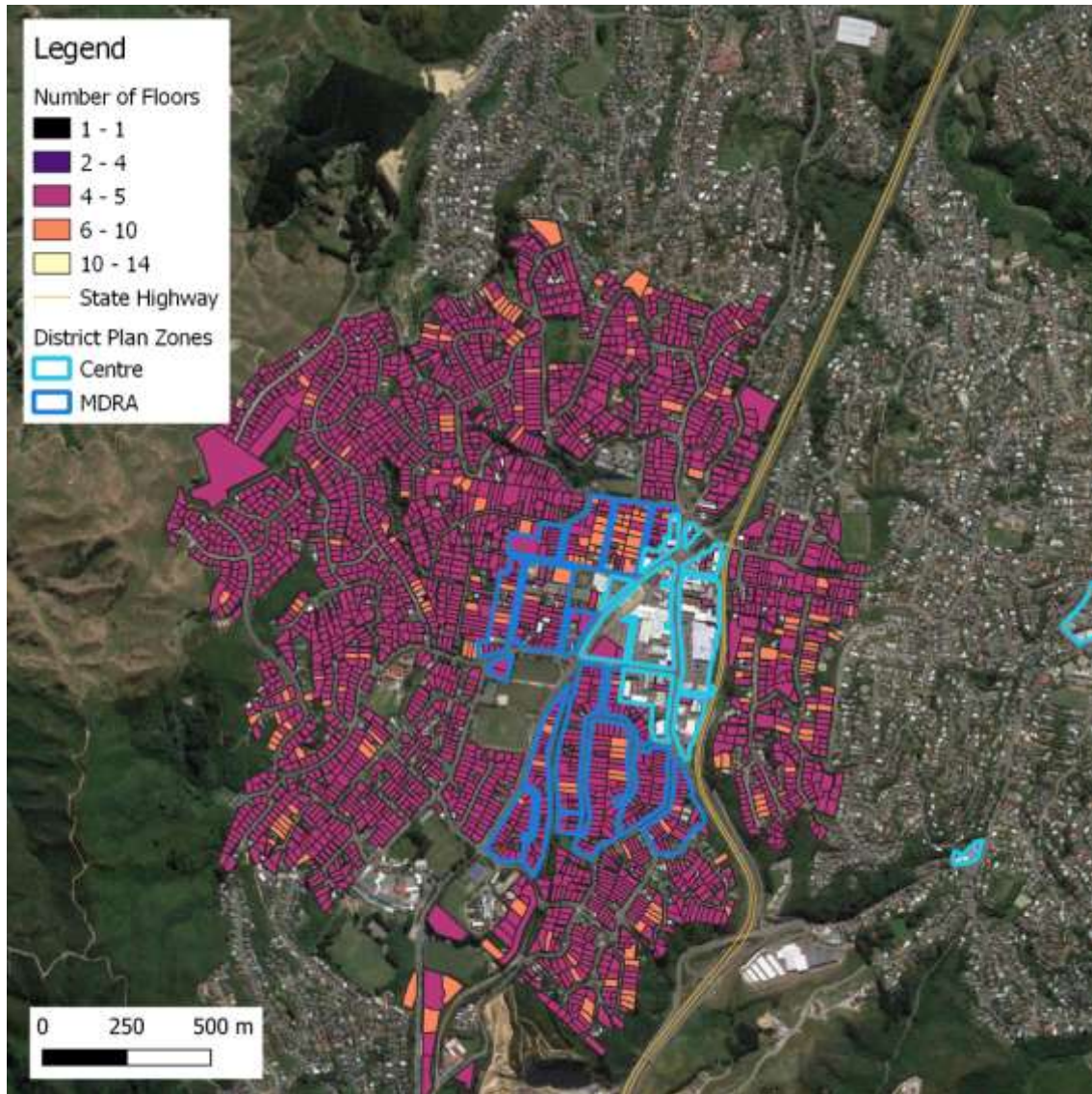
Source: Property Economics

APPENDIX 1 - DEVELOPMENT SITE MAPS

FIGURE 2: TAWA DEVELOPMENT AREAS



Source: Property Economics

FIGURE 3: JOHNSONVILLE DEVELOPMENT AREAS

Source: Property Economics

FIGURE 4: TE ARO DEVELOPMENT AREAS



Source: Property Economics