



Whangarei District Council Inner City Living Business Case June 2021



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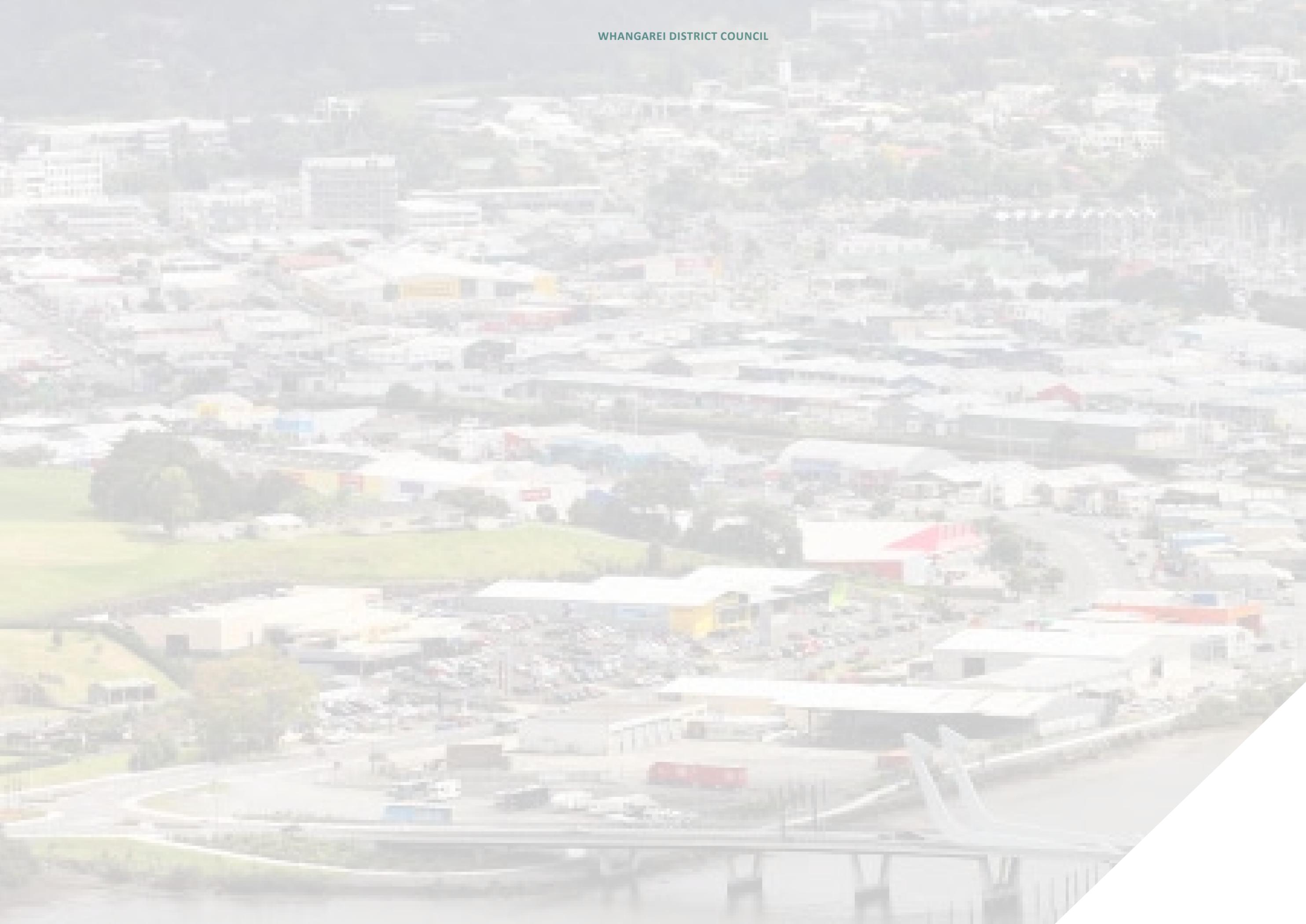
Quality Control

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Executive Summary

The business case has been prepared to explore and test the opportunities of residential development within the inner-city core of the Whangārei town centre. The purpose of this work is to support Council's strategic plans for a vibrant, busy and well-designed city centre, which is a fundamental aspect of a thriving district economy. Identifying the overall development potential for residential living in the city centre will enable Council to identify and prioritise strategies for achieving their goals for the future provision of inner city living.

To establish the viability of residential development in the city centre, the preparation of the business case has been prepared following the intervention logic technique (Treasury, New Zealand, 2019). This is an approach that is used widely in New Zealand and Australia for strategic decision making and involves identification of the issue or problem to be addressed and the interventions required to maximise the benefits sought – in this case the increase in opportunities for development of inner-city residential development. The business case approach has involved market research, policy review, context analysis, development feasibility analysis and stakeholder engagement. The key findings of the business case can be summarised as follows:

The Strategic Case

Council's strategic planning framework, including the Whangārei City Centre Plan and the City Core Precinct Plan, support the development of inner-city residential development. These have informed a range of potential development outcomes, which are now enabled through the District Plan. The City Core Precinct Plan (CCPP) is a key document in Council's strategic planning framework that has informed future central city projects such as public space improvements and infrastructure requirements. Many of the initiatives from the CCPP are underway, having been funded through the Long Term Plan. The District Plan, through the City Centre Zone objectives, specifically seeks to drive residential activity, vibrancy and high-quality urban design in the city centre, while discouraging activities with lower amenity and activities that cater for customers in private motor vehicles.

The Economic Case

The market assessment undertaken to support preparation of the business case demonstrates that there is increasing demand for inner city living and smaller residential typologies. This is backed up by stakeholder experiences of unmet demand. Anticipated population growth and planned investment in the city's amenities including the new Hundertwasser Art Centre and better connections to the waterfront are going to increasingly promote the city as an attractive place to live.

The Commercial Case

Despite the Strategic drive to support inner city residential development and the increasing demand for this type of development, the business case demonstrates current market conditions are making this challenging to achieve. The development feasibility assessment demonstrates that development of new residential apartments, town houses or shop top housing is very difficult to achieve under current market conditions and high construction costs. Based on case study analysis, the most viable option currently for residential development is the adaptive reuse of underutilised commercial spaces. Development of new residential buildings would need to be high quality and achieve high price points to become viable. This may be achievable over the long term as amenity in the city centre improves. Council are already working to improve the amenity of the central city by implementing the Complete Streets Masterplan through the Long Term Plan, including the redevelopment of John and James Streets.

Recommended Council interventions

The evidence presented in the Business Case suggests Council intervention in the following areas:

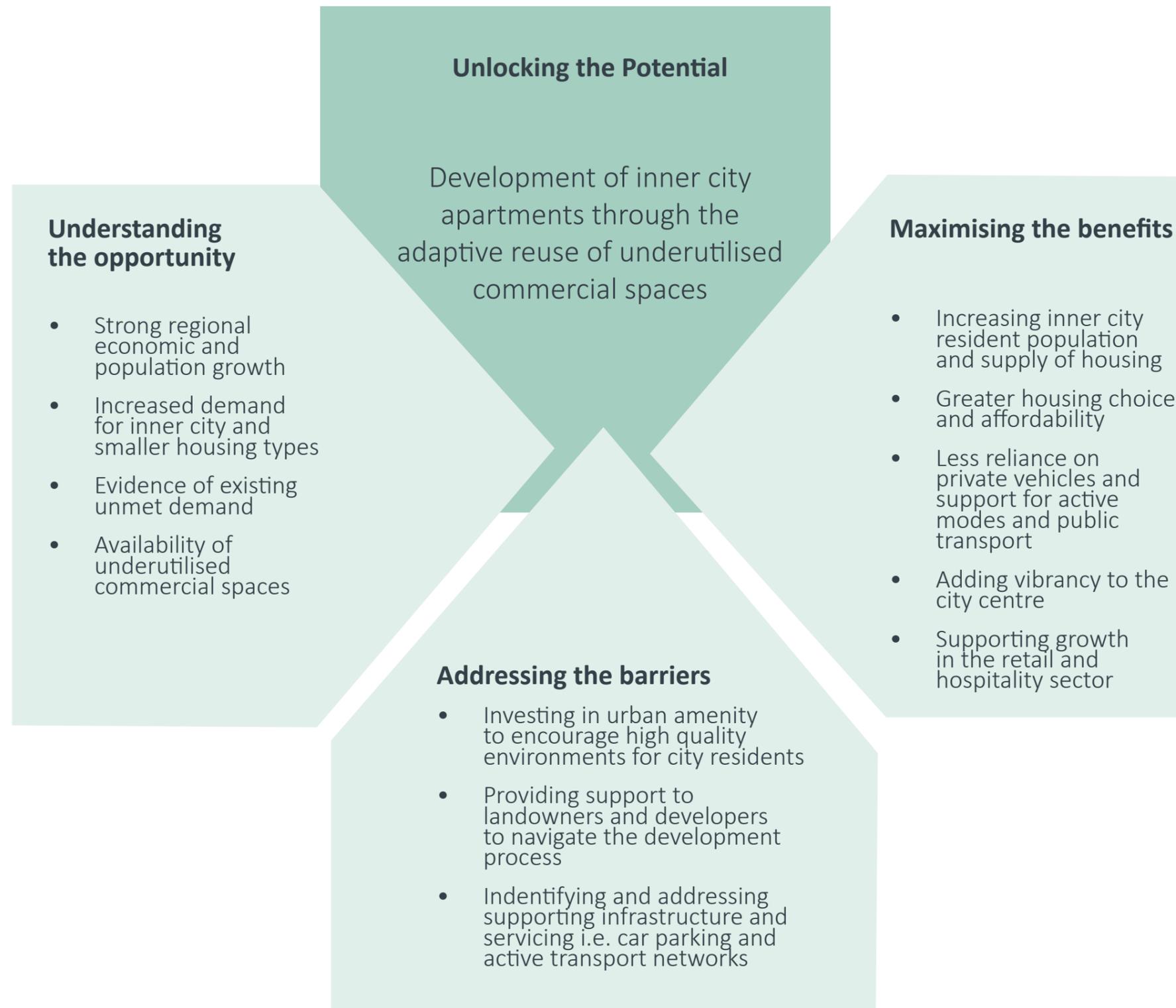
- Continued improvements to amenity values and vibrancy within the inner city to support its attractiveness as a place to live and the acceptance of the higher prices required to achieve development feasibility
- Increasing awareness and action by landowners who are holding on to vacant commercial sites with potential for redevelopment into residential apartments
- City wide initiatives that can reduce the infrastructure costs and risks to development including addressing car parking constraints and addressing issues of flooding and resilience.

Council has a range of tools and levers available that can be used to catalyse the local property and development market in the inner city. This includes actions that can be undertaken across all of Council's functions from policy development and consenting to infrastructure provision and utilisation of Council's property assets. It is recommended that Council focus its attention in the following areas:

- Working alongside the private sector to realise opportunities for conversion of underutilised commercial spaces
- Optimising Council's existing property assets to realise long term development opportunities
- A continued focus on improving inner city amenity values, including connectivity of the city centre to surrounding land uses
- Working towards addressing key challenges in the inner-city including resilience and carparking to improve investor confidence.

While Council has a major role to play in residential development within the city centre, it is also recognised there is a need to engage with other stakeholders including the Regional Council, Central Government and the private sector to enable a vibrant and thriving city centre.

The case for residential development in the Whangārei City Centre at a glance



Introduction

The Property Group (TPG) has been engaged by Whangarei District Council to prepare a Business Case for inner city living in the Whangārei city centre. This includes consideration of a range of residential dwelling typologies that could be developed in the city centre from residential apartments, mixed use developments to town houses. The purpose of the Business Case is to identify what the opportunities for inner city living are in the city centre, any barriers that exist to this type of development, and what interventions are required to support the development of inner-city living opportunities.

The purpose of this work is to support Council's vision to enable residential living in the city centre as part of their work to create a vibrant, thriving and well-designed city centre, which is a fundamental aspect of a thriving district economy. This vision is enabled through Council's strategic planning framework, including Whangārei City Centre Plan, the City Core Precinct Plan and the District Plan.

This assessment will identify the key constraints, opportunities, and dependencies to enabling residential uses in the Whangārei city centre, as well as identifying the key benefits, risks and barriers to enabling inner city living. Identifying the overall development potential for residential living in the city centre will enable Council to identify and prioritise strategies for achieving their goals for the future provision of inner city living.

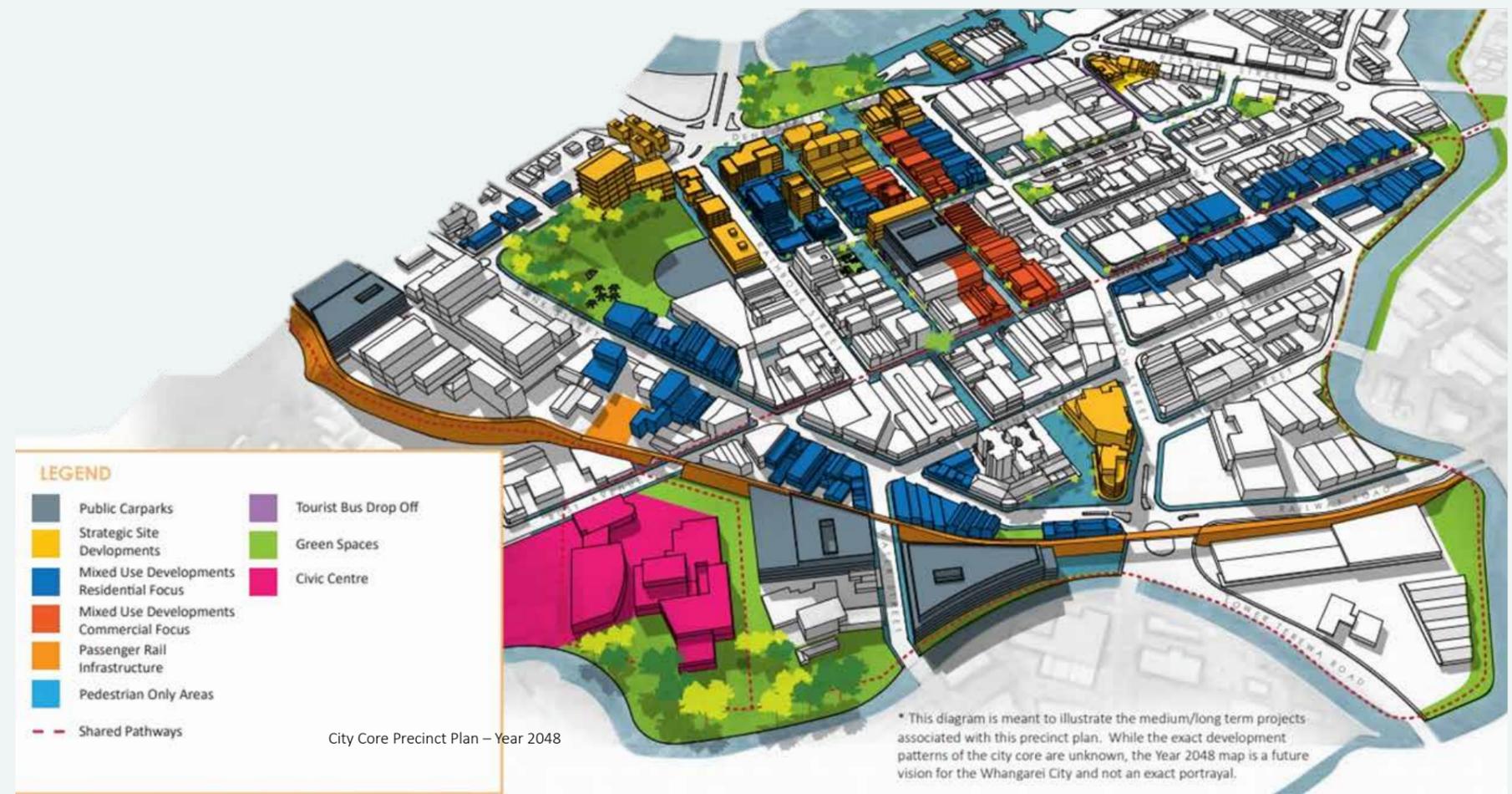
The focus of the business case is the inner-city core which includes the area of the city defined by Walton Street and Bank Street. It includes the main city streets James and John and the retail strip and mall within the Cameron Street. It is the area of the city that sits between the waterfront precinct to the northeast and other surrounding core city functions to the southwest, including the location of the new Council buildings, the city library and surrounding residential areas. Due to its location, this area presents a real opportunity to become a vibrant city centre, supporting and building on from its surrounding uses.

Context

Council and the community recognise that the presence of residents in the central city is vital to the success of the central city, contributing to safety, vibrancy and commercial success. Enabling inner city living is also an important part of responding to the pressures from population growth, low housing affordability, rising costs of infrastructure, strained transport networks, climate change, and demographic change and is consistent with the direction of the National Policy Statement on Urban Development (NPS-UD).

Council's strategic planning framework supports the development on inner city residential development and a range of potential development outcomes are enabled through the District Plan. However, to date this policy direction has not been reflected in change on the ground, with no significant uptake in building or resource consents for new residential buildings in the city centre.

The City Core Precinct Plan provides the vision for the central city into the future. It identifies the inner-city core as providing significant development and growth potential with a number of strategic developments sites shown linking the city to the waterfront. It envisions a range of mixed-use developments with opportunities for residential development to locate above retail



The Approach – Intervention Logic

TPG’s approach to understanding the Whangārei central city residential market is based upon an intervention logic technique (Treasury, New Zealand, 2019). This approach is used widely in New Zealand and Australia for strategic decision making.

Following the intervention logic technique, TPG’s assessment has been undertaken in four key stages:

Stage 1	Problem definition	Complete a desktop review and targeted consultation to understand and highlight the relevant current and future market problems
Stage 2	Options analysis	Define each of the options for strategic intervention by Council to address the problems, including identifying the associated opportunities and risks with each option
Stage 3	Definition of outcomes	Analysing the potential outcomes or benefits associated with the strategic interventions
Stage 4	Reporting	Provide a report based on the findings of the above to inform the next steps for Council including establishing a residential development programme for the city centre

Report Structure

Following this introduction, this report provides an overview of the results of the assessment in the following sections and also those provided in the ‘Whangārei Inner City Living Market Assessment – April 2021’ report, which is included in [Appendix 1](#).

Following the intervention logic technique, TPG’s assessment has been undertaken in four key stages:

Section 1	The Strategic Case	Puts the assessment into context by providing a review of relevant plans and policies and what they mean for inner city residential development
Section 2	The Economic Case	Provides a summary of population growth and trends in the residential and commercial markets to establish current and future demand in these sectors and how this relates to inner city living development
Section 3	The Commercial/Financial Case	Provides an overview of the development economics
Section 4	Developing an Inner-City Residential Development Programme	Identifies the potential interventions Council could undertake to address the problems identified and makes recommendations for establishment of an inner-city residential development programme.

1.0 Strategic Case

A focus on understanding the opportunities for inner city living development within Whangārei's city centre aligns with the strategic planning work Council has undertaken to date, which includes: the City Core Precinct Plan (2019), the City Centre Plan (2017), the Sustainable Future: Whangārei District Growth Strategy (2020) and the Whangārei District Urban and Services Plan Change.

This work is also in alignment with central government's strategic direction set through the National Policy Statement Urban Development 2020 (NPS-UD) and Arataki (Version 2) - Waka Kotahi's 10-year view of what is needed to deliver on the government's current priorities and long-term outcomes for the land transport system.

The NPS-UD aims to ensure that New Zealand's towns and cities are well-functioning urban environments that meet the need of our diverse communities. The NPS-UD directs local authorities to enable greater supply and ensure that urban development outcomes can be realised through Council's planning frameworks.

Arataki represents Waka Kotahi's most up to date view of the challenges and opportunities faced by the land transport system, including post-COVID-19 challenges and opportunities over the next 10 years. Waka Kotahi's focus for Northland is to help create a safer, more resilient transport system that supports economic growth, stronger community connections and provides better access to employment opportunities. This is to be delivered by closely collaborating with Territorial Authorities to consolidate urban form and support land use changes that encourage more people to live in urban centres and offering greater use of public transport, walking and cycling modes. There is also a focus on reducing reliance on private vehicle use, significantly reducing harm on the transport network and tackling climate change.

All of these strategic planning documents underpin Council's and the Whangārei community's shared desire to realise a vibrant, thriving and attractive central city. Sustainable Future: Whangārei District Growth Strategy sets out the following performance goals which direct growth towards inner city and other urban areas and growth nodes.

80% of people will have 30-minute travel time or less to their place of work or education.

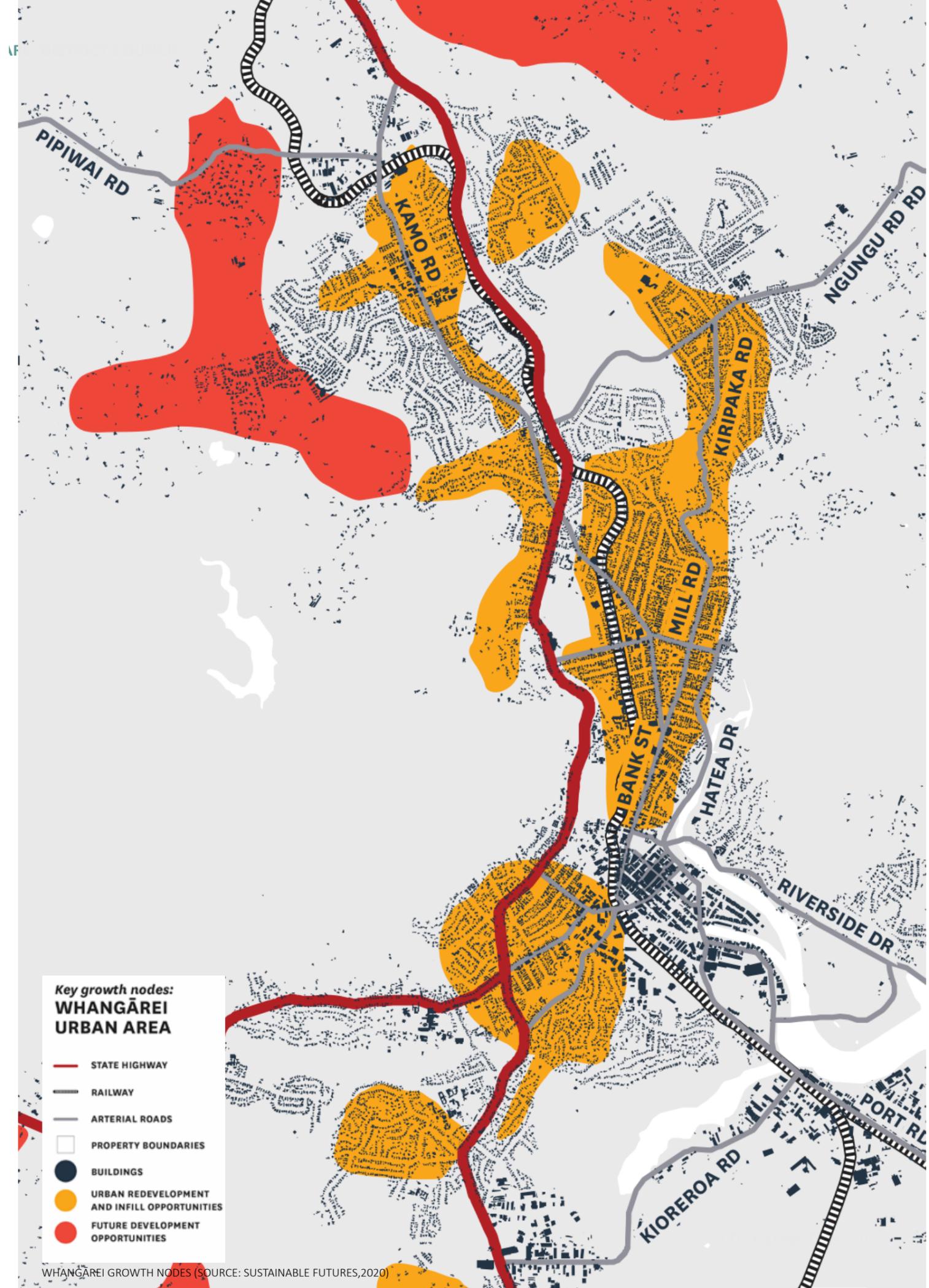
70% or more of new residential building consents are located within our urban area or growth nodes.

2% annual average increase in jobs

10% or more new residential building consents are apartments and townhouses

15% improvement in housing affordability, based on the HAM first home buyer measure

2% annual increase in inner city residents for the first 5 years, then 5% annual increase



Why inner city living?

Why is inner city living important?

Over the last 150 years, Aotearoa New Zealand has experienced steady growth in towns and cities, and, over the past 75 years, a shift of the population growth to the north of the country¹. This has a large influence on the economic performance of our cities and districts, the health and wellbeing of communities, the health of our environment and the quality of life in New Zealand.

Increasingly larger numbers of people work, live and play in towns and cities and are reliant on well-functioning urban environments to support their livelihoods, meet their daily needs and support their social, economic and cultural wellbeing as well as their health and safety.

Cities and towns across New Zealand are facing increasing pressures from population growth, low housing affordability, the rising costs of infrastructure, strained transport networks, climate change, and demographic change.

Alongside recent shifts in national policy directions with the National Policy Statement Urban Development 2020 (NPS-UD 2020), these pressures are requiring decision makers to take a more strategic, coordinated, evidenced-based approach to the development of land, the supply of housing and infrastructure and the resilience of towns and cities.



Aro Development, Wellington (source: oneroof.co.nz)

¹ (Te Tari Taiwhenua Department of Internal Affairs, 2019)

² (Freiling, M., Krasso Peach E., and Cording, J., 2018)

³ (Dantas, A., Krumdieck, S., & Page, S., 2007)

⁴ (Galea, Fredenberg, & Vlahov, 2005)

⁵ (Galea, Fredenberg, & Vlahov, 2005)

Pressures on Whangārei City



Population Growth



Limited Housing Choice at Affordable Price Points



Climate Change and Resilience



Private Vehicles Dominant Transport Mode Causing Congestion



Demographic Change

Strategic Response



Strategic growth planning to enable inner city living



Increase housing supply and choice



Climate responsive & resilient development



Integrated efficient multi-modal transport system



Housing Choice and Amenity investment

What are the potential benefits of inner city living?

The following benefits can be derived from enabling inner city living:

- It has the potential to direct expected population growth towards a more compact, mixed-use and connected urban form which optimises the use of existing urban land, reducing pressure on expansion of infrastructure and social services and limiting or preventing expansion of urban area into highly productive lands or valuable open spaces.
- A compatible mix of uses in the central city, including residential, creates a reduced risk of crime and a sense of safety because people will be present in the city around the clock. Crime can be deterred with 'eyes on the streets' and populated public places feel more secure
- There is increasing evidence that compact urban form can lead to health benefits including the reduction of obesity rates (as walking and cycling become more viable transport choices when distances are shorter) and promote social connectedness which is a key determinant of subjective wellbeing, resilience, physical and mental health, labour market outcomes and educational outcomes.
- Having people living in the central city could support better access to jobs and services, as well as potential productivity growth. A sufficient concentration of skilled workers located near employers generating high-value, knowledge intensive, service-oriented economic activity relies on vibrant, liveable environments with high amenity to attract highly skilled workers.
- A wider range of housing preferences can be accommodated, thereby increasing potential for affordable housing
- Co-location of households and employers can reduce journey times, energy consumption, congestion, and freight costs
- Having people live close to their place of employment and the services they require has the potential to reduce risks to shocks as the economy becomes increasingly de-carbonised. This might be from shocks from energy shortages i.e. heavy dependence on fossil fuels and vehicle-dominant development patterns put cities at greater risks of major disruption, social and economic losses

What are the potential drawbacks?

Inner city living does not come without drawbacks however, and if not well managed, enabling denser inner city living and closer interactions among urban physical and social environments can also impact on many social and environmental dimensions, including:

- Potential for loss of existing open and recreational spaces and biodiversity if growth is not managed well and these spaces are lost to development
- Impacts on human health and wellbeing including respiratory conditions, vehicle/traffic related injuries, psychological distress, child development, exposure to air pollutants and noise
- With space at a premium, demand for central city space impacts affordability due to higher land values and living costs associated with urban living (particularly disadvantaging lower-income groups)
- Crime and violence rates are higher due to increased population density
- Reverse sensitivities exist such as noise and odour, when new residential uses are enabled in existing city centres in close proximity to established commercial and industrial uses and activities with impacts on both residential and established users

Specific policy and design interventions are required to retain the benefits of having more people living in compact urban areas, while still enabling healthier, greener cities with high amenity.

2.0 Economic Case

Whangārei City Centre - Existing Situation

Council recognises that a lack of inner-city residents undermines the economic viability and vitality of the city centre. Council have made a concerted effort to promote and encourage residents to live in the city centre through their strategic planning work and by enabling it in the District Plan. The District Plan seeks to encourage economic and residential growth within the city centre by enabling activities and development that contributes to a safe, pleasant, vibrant, diverse and high amenity environment. The City Centre Zone (CC) objectives specifically seek to drive residential activity, vibrancy and high-quality urban design in the city centre, while discouraging activities with lower amenity and activities that cater for customers in private motor vehicles.

According to Council’s growth strategy, *Sustainable Futures*, approximately 37% of residential demand is to be accommodated within in Whangārei City, which comprises the District’s main urban centre plus adjacent greenfield areas.

Demographics

Despite Council’s efforts, few residents currently live in the city centre. According to the 2018 Census,

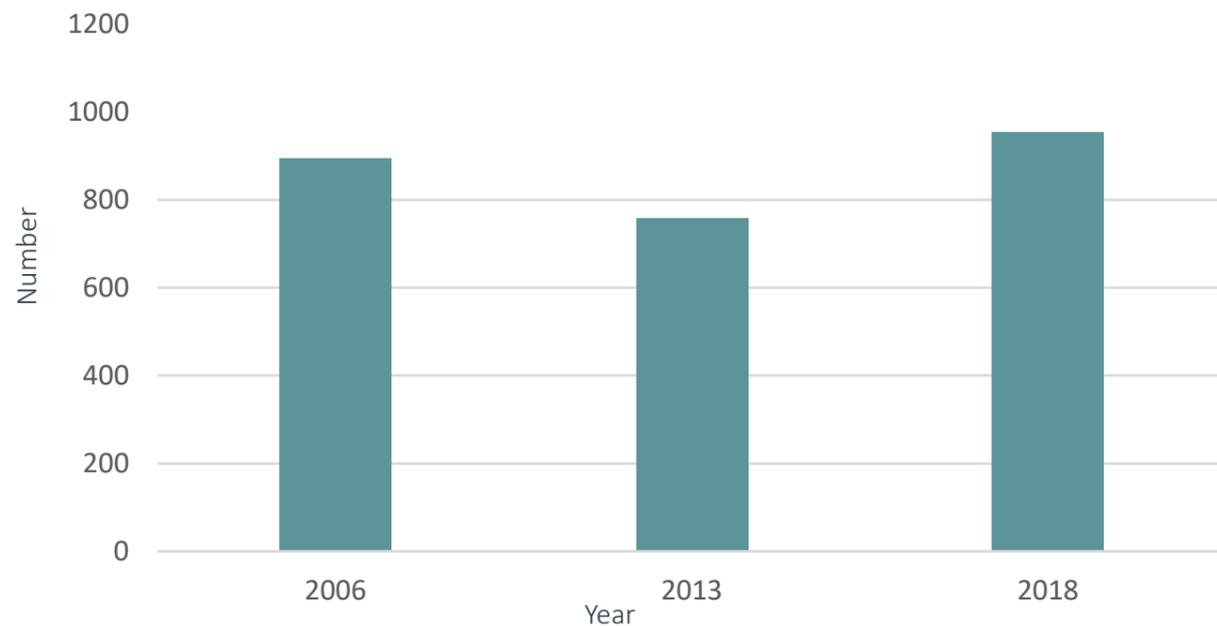


Figure 1: Population in Whangārei Central, 2006-18 Census (Statistics NZ)

954 people live in Central Whangārei (Figure 1). The number of Māori residents in central Whangārei has increased by over 50% from 171 in 2013 to 267 in 2018. Most residents in central Whangārei are aged 30-64 years and male and female residents are almost equally balanced.

Most (19.5%) residents in central Whangārei are professionals, followed by community and personal service workers (13%) and technicians, trade workers and labourers (13%). The majority (51.3%) travel by

private vehicle to work. However, far more people walk or jog to work in central Whangārei compared to the wider district and this was the second most likely choice for transport mode.

Dwellings

There are 432 total private dwellings in Whangārei Central, of which zero are under construction. These dwellings represent 1% of all Whangārei District’s dwellings. Almost 40% of households in Whangārei Central own or partly own their households. The median weekly rent is \$260.00 which is lower than the wider district’s weekly rent (\$300).

In Whangārei, detached houses on larger “full” (typically 700-1000m²) sections or ‘half’ (typically 350-500m²) are the dominant housing typology and most new development is greenfield development on the fringe of the urban area. This is consistent with consent data which shows that the vast majority (82%) of consents issued are for standalone houses.

New Dwelling Consents

Few new dwelling consents have been issued for apartments or townhouses in Whangārei. In 2020, of the 507 consents issued, less than 2% (actual number 10) of these were for apartments or townhouses (Figure 2).

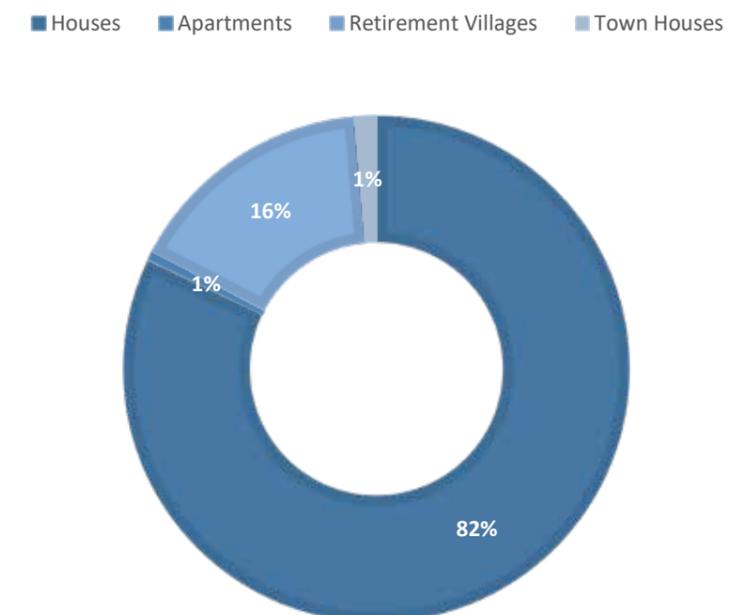


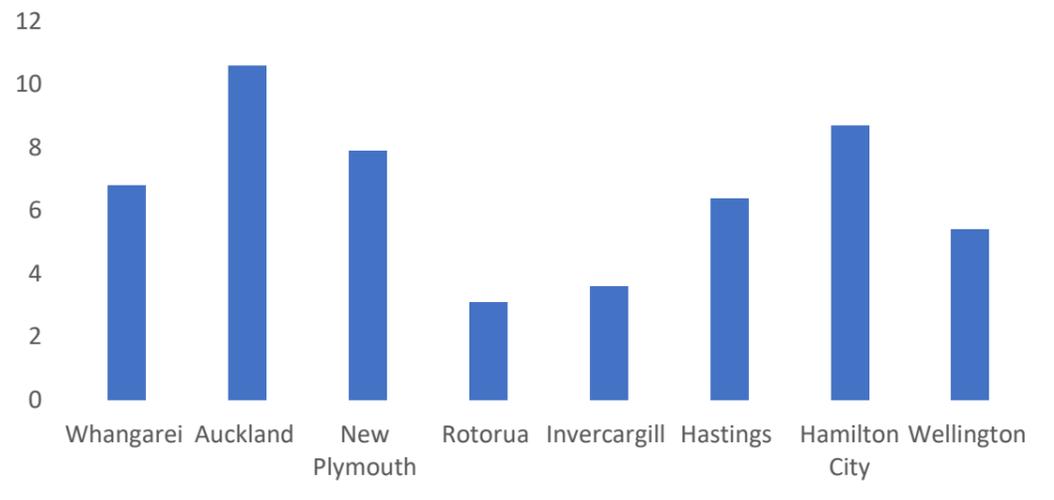
Figure 2: Whangārei City Building Consents Issued 2020 by typology

In 2021, this figure has increased substantially, already overtaking the 2020 total, with 25 consents issued for apartments and townhouses so far this year.

While new dwelling consents issued in Whangārei are close to the New Zealand average (8.4 new dwelling consents per 1000 residents) (Figure 3) and higher in number than other similarly-sized New Zealand cities (Figure 4), the majority of these consents are for standalone housing.

The number of consents issued in Whangārei for apartments are comparable to similarly sized New Zealand

Figure 3: Number of new dwelling consents per 1000 residents by city



cities (Figure 4) such as New Plymouth, Rotorua, Invercargill and Hastings. However, these numbers are low across all of these cities.

In terms of new building consents for townhouses, Whangārei lags behind similar sized New Zealand cities (Figure 5). In New Plymouth, 8% (actual number 49) of total consents in 2020 were townhouses. In Hastings, 10% (actual number 58) of total consents in 2020 were townhouses. Whangārei had the fewest consents for townhouses of comparable cities, with 1.3% (actual number 7).

This is despite a demographic shift whereby smaller and more diverse households are making up a greater share of households in New Zealand cities, including Whangārei, requiring a greater variety of housing options to meet the needs the district’s changing population and deliver housing at affordable price points.

Figure 4: Building Consents Issued in similar-sized New Zealand cities by typology in 2020

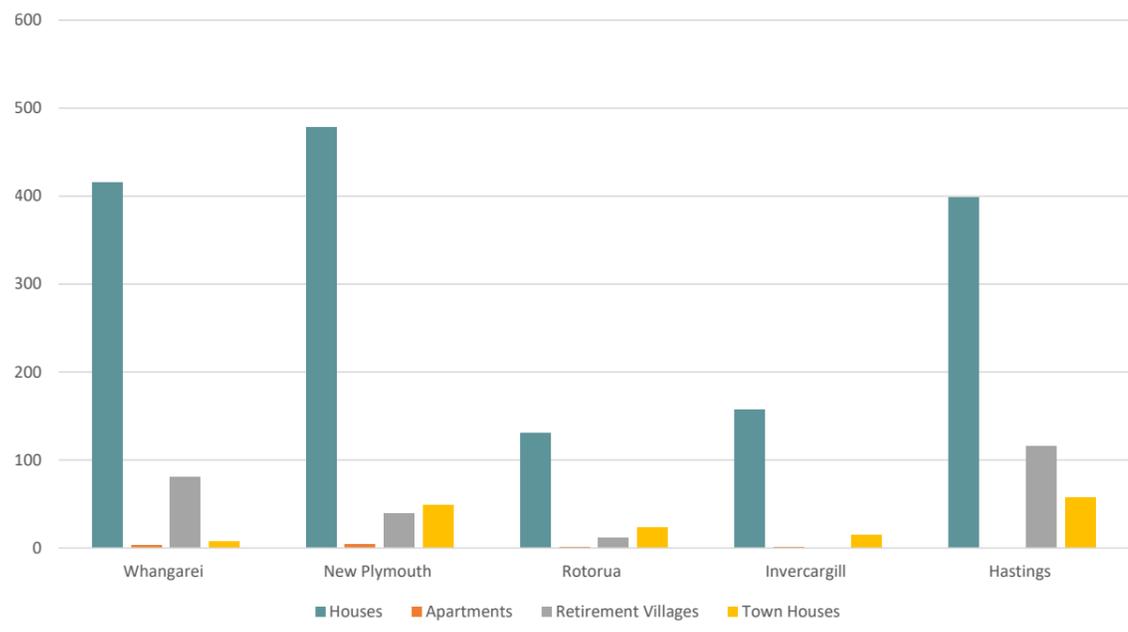


Figure 5: New Building Consents for Apartments and Townhouses by City (2020)

Land Ownership

While there is some fragmentation within the city centre, there is a large amount of private land in single ownership. This includes a number of sizable lots and buildings (over 1,000m²) which present viable development sites.

Vacant Sites

The majority of Council’s landholdings in the area are currently used for at grade car parks which, depending on the outcome of the car parking review, could become development sites or provide areas for amenity investment, to support the needs of inner-city residents.

Existing Building Stock

Limited new development and investment occurring in the inner city over the last 15 years means there is a dominance of older building stock. There is varying degrees of building quality with a number of the older buildings now in poor condition and requiring upgrades or earthquake strengthening.

City Centre Amenity

According to the City Core Precinct Plan, the city centre currently suffers from low foot traffic, a lack of vibrancy and a lack of a night-time and weekend economy. Many parts of the town centre are poorly connected, with low quality buildings and low amenity overall.

There is a perception that streets are busy, vehicle-dominant and difficult to navigate for pedestrians. It is difficult for pedestrians to walk around the city centre, despite distances not being great – the city centre is approximately 1200m in diameter- and despite the city centre being relatively flat.

Council has identified a number of actions in the City Core Precinct Plan to address city centre amenity and support revitalisation. Two of these projects- John Street and James Street, now have Long Term Plan funding to be transformed into pedestrian priority streets.



Private freehold
 Council
 Crown
 Multi-title sites
 Precinct boundary



Vacant land
 Precinct boundary

Market Overview

This section explores Whangārei's housing, commercial and retail market trends. To inform this analysis a market evaluation has been prepared, which is attached at Appendix 1. The key findings are summarised below.

Housing demand

There is strong district wide demand for housing. Whangārei house prices have continued to increase over the past 5 years, with a limited supply of new residential listings and increased demand which has driven property prices to its market peak. The median house sale price for all dwellings within the District for the not quite previous three months (December 2020-February 2021) and how this compares to other regions is as follows:

- **Whangārei District** **\$666,692.00**
- Kaipara District \$669,333.00
- Tauranga City \$927,022.00
- Hamilton City \$746,909.00
- Auckland Region \$1,233,385.00

Sale prices continue to climb steadily, and in May 2021, the median sale price in the Whangārei District has risen to \$692,000 (REINZ, 2021). Despite recent periods of sustained population growth and sustained high demand for housing, few residents currently live in the city centre.

There are a limited number of residential dwellings within Central Whangārei and sales data for the location as a standalone suburb is not available. For this reason, analysis has focussed on the District as a whole, with consideration of three of the larger central suburbs- Kensington, Regent and Avenues. Data for similar sized urban areas including Tauranga, Hamilton Central, New Plymouth and Orewa has also been considered as a comparison

The median house price in Whangārei District is \$639,000. This is lower than all other comparable markets as shown in Table 1 and lower than the New Zealand (ex-Auckland) median house price of \$680,000 (REINZ, 2021). In terms of apartments and flats, Whangārei's market for apartments compares favourably to comparable markets, with sale prices for flats considerably lower than all other comparative markets. Whangārei apartment sale prices are higher than all comparative markets, however this number is likely to be skewed by the limited data available.

Based on engagement with local landlords of inner-city apartments within the market value and rental values are currently in the range of \$600-\$650 for a 'high-end' two-bedroom inner city apartment. This is significantly higher than the median rent reported by Statistics New Zealand for Whangārei Central of \$260 per week and could suggest that the 'high end' offering in the town centre is limited at present.

Median Price (\$)				
Whangārei area	All Dwellings	Houses	Apartments	Flats
Whangārei District	\$639,000	\$663,000	\$1,579,000	\$434,850
Kensington	\$606,000	\$638,000	\$303,000	\$476,500
Regent	\$635,000	\$815,500	N/A	\$538,500
Avenues	\$613,000	\$613,000	N/A	\$459,500
Comparable Markets	All Dwellings	Houses	Apartments	Flats
Orewa	\$1,186,000	\$1,295,000	\$1,115,000	\$850,000
Tauranga City	\$858,500	\$870,000	\$809,500	\$735,000
Hamilton Central	\$677,000	\$753,000	\$650,000	\$716,000
New Plymouth Central	\$779,000	\$1,005,000	\$777,000	\$598,000

Table 1: Median Sales by Suburb - CoreLogic, Q2, 2021

Housing supply

Council’s Housing and Business Development Capacity Assessment has identified that it will need to accommodate between 12,000-20,000 new homes and 520-560 hectares of business land in the next thirty years to meet the growth needs of the district. As outlined in Council’s Growth Strategy- Sustainable Futures, Council has sufficient land capacity to meet residential demand over the next 30 years. By allowing for growth in urban areas and key growth nodes, infrastructure can be provided to support these areas of growth.

Several areas of the District have been identified to accommodate the predicted population growth (Sustainable Futures, 2020). This includes both infill and urban intensification within existing urban areas as well as several suburbs on the outskirts of the city including Marsden Point/ Ruakaka, Hikurangi and Waipu.

Projected long-term future supply for housing is split between the different parts of Whangārei District as follows:

- About 40% of the supply for housing will be provided in the Rural Area, which include a number of rural villages and the majority of the District’s coastal environment
- Approximately 37% of demand will be accommodated within in Whangārei City, which comprises the District’s main urban centre plus adjacent greenfield areas
- Meanwhile 23% of the future demand is projected to be accommodated within Ruakaka/Marsden Point, which is a rapidly-urbanising area near the south head of Whangārei Harbour.

Despite this capacity, the supply of housing is comparatively low considering Northland is one of the nation’s fastest growing regions by population. While bulding consents issued in Whangārei are on par with cities of similar sized populations in New Zealand, this is only the case for standalone housing. Overall, there remains a general shortage of housing stock across the whole city for all typologies.

In particular, there is currently limited availability of apartments, townhouses, or retirement units in Whangārei. This is reflected in the Whangarei District Housing and Business Land Demand and Capacity Assessment (HBA) and building consent data. This suggests that there is currently an area of unmet demand for diversity of the housing stock, including smaller dwelling typologies to accommodate smaller household sizes and affordable price points.

The shortage of stock, plus low interest rates and general positive economic indicators is encouraging developers and investors to provide new multi-unit developments.

The market for homes in the inner city will need to provide a point of difference to those provided in the outer suburbs. The proximity of living close to the inner city and its amenity and services will be a key factor in achieving a successful inner city residential market.

Non-Standalone Dwellings (Flats, Townhouses, Units)	
Address	Analysed Gross Sale Price (\$/sqm)
Kensington	\$3,290 - \$7,400 (average \$4,848)
Regent	\$2,520 - \$6,050 (average \$4,478)
Avenues	\$ 2,850 - \$6,010 (average \$4,160)

Table 2: Recent sales for non-standalone dwellings - Property Guru

Apartments	
Comparable Market	Analysed Gross Sale Price (\$/sqm)
Orewa	\$4,524 - \$20, 914 (average \$8,112)
Tauranga City	\$2,805 - \$9,113 (average \$5,825)
Hamilton Central	\$4,700 - \$7,831 (average \$6,252)
New Plymouth Central	\$2,892 - \$5,789 (average \$4,329)

Table 3: Recent sales for apartments in comparable markets- Property Guru

Rental Market

Market rent reflects the amount a tenant might reasonably be expected to pay for a tenancy in Whangārei. Figure X shows the market rents for the three central suburbs, Kensington, Regent and Avenues. Data is limited, especially for apartments. The average rent for a one-bedroom apartment in Whangārei District is second lowest compared to the comparable urban areas shown in the table. For flats, a 2-bedroom flat in Whangārei is more expensive than comparable locations, where there is data available. For standalone houses, Whangārei is the lowest (matched with New Plymouth) for 2-bedroom dwellings and the lowest for 3-bedroom dwellings.

Affordability

Affordable housing is important for peoples' well-being. For lower-income households, high housing costs relative to income are often associated with severe financial difficulty, and can leave households with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education. High outgoings-to-income ratios are not as critical for higher-income earners, as there is sufficient income left for their basic needs.

The housing affordability index is the ratio of the average current house value to average annual earnings. A higher ratio, therefore, suggests that average houses cost a greater multiple of typical incomes, which indicates lower housing affordability (i.e. a lower index is more affordable).

Traditionally, Whangārei has been considered an affordable housing market. However in recent years this affordability has been diminishing. Following a general trend since 2016, housing affordability has decreased, as house prices across the region outpace wage growth. While housing affordability is still better than New Zealand comparatively, with no current outlook for house prices to stop rising, combined with the expected growth in Whangārei, without significant increases in the supply of housing, it can be expected that Whangārei will continue to become more unaffordable. The feasibility of new development undertaken by the private sector will be contingent on achieving market rates for dwellings. Ways in which Council can encourage affordable housing outcomes alongside attracting investment will be critical to this success.

Medium Market Rental for Comparable Markets					
Property Type	Whangarei \$/week	Orewa \$/week	Tauranga City \$/week	Hamilton Central \$/week	New Plymouth \$/week
Apartments					
One Bedroom	\$325	\$430	n/a	\$350	\$280
Two Bedrooms	No data	\$575	\$490	\$460	\$390
Three Bedrooms	No data	\$630	\$695	\$530	n/a
Flats					
One Bedroom	No data	n/a	\$450	\$320	n/a
Two Bedroom	\$380	n/a	n/a	\$360	\$340
Houses					
One Bedroom	NA	\$400	n/a	n/a	n/a
Two Bedrooms	\$400	\$525	\$490	\$490	\$400
Three Bedrooms	\$485	\$600	\$590	\$550	\$495
Four Bedrooms	\$580	\$753	n/a	n/a	n/a
Five+ Bedrooms	NA	\$764	n/a	n/a	n/a

Table 4: Median market rentals for comparable markets - CoreLogic, Q2, 2021



Figure 6: Housing affordability 2006-2020 - Infometrics Quarterly Economic Monitoring

Figure 6 demonstrates the affordability of housing in Northland Region and New Zealand by comparing average current house values with average annual earning. The trend for housing affordability in Whangārei District follows that of Northland closely. It shows that Northland is following the New Zealand trend and generally indicates that recent housing affordability in the Region is diminishing, as is the national trend.

Impacts of COVID-19

The effects of COVID-19 over the past twelve months are still unknown. In the short term, it appears to have been a factor in supporting higher prices in the Whangārei District. The long-term outcomes are not clear and whether the growth in house prices continues or declines as a result may well be linked to the impacts on the wider economy. With a continuation of a low interest rate environment, a significant drop in house prices appears unlikely in the short term, as long as stock is available to satisfy occupier and investor demand.

Unemployment in Whangārei District was 4.6% in December 2020 (Infometrics). The rate is down from 5.2% twelve months previously, which continues the general downward trend since the GFC. It remains to be seen if this will change due to impacts of COVID-19 and the long term consequences on the economy.

The number of building consents issued stepped up in 2016, this may decrease because of the impact of COVID-19 in line with the trends seen during the GFC, including a general them of banks looking to decrease lending for riskier projects.

The housing affordability index, as shown in Figure 6, has stepped up since 2016. The index value has increased from a figure of just under 5 to just under 6, meaning housing is now less affordable than 2016. This follows the general trend in New Zealand with house prices growing faster than incomes. This follows a period prior to 2016, when from 2008 to 2015, housing in Northland and Whangārei was becoming more affordable.

Although the housing affordability index has not increased in Northland as much as the national average, we would expect the potential growth in unemployment and the continuing trend for house price increases to move this indicator in the same upward trajectory as experienced since 2016.

Commercial Property

This section of the report provides a description of the current dynamics of the office and retail sectors within the Central Whangārei area. The focus of this section is on recent sales and rental activity, sale price per Gross Floor Area (GFA) rates, face rental levels and the outlook for the various markets.

Capital values

Analysis of recent sales indicated the following per square metre rates, this is based on the gross sale price per gross floor area of building.

Precinct	Capital Values (\$/sqm)
Whangārei Central – Prime	\$1,750 - \$5,000
Whangārei Central – Secondary	\$1,000- \$2,500

There is a wide range of negotiated rents for prime space. This is also likely a result of the varied nature of market in a similar fashion as commented on in the above section. Whilst typical prime rents for space with a standard base fitout would be expected in the region of \$230 to \$240 per square metre, there are a number of comparables at significantly higher levels especially for space of less than 300 square metres. Also comparables for prime office space for larger footprints exist below \$200 per square metre.

These are Net Face Rents that do not include adjustments for any incentives negotiated by landlords to secure tenants, such as rent-free periods, rent reductions or rent abatements and fit-out contributions.

Prime rents have marginally increased over the past year, secondary rents have remained steady. The table below details average rental ranges per square metre for the different types of space in central Whangārei.

Precinct	Net Face Rent (\$/sqm)
Whangārei Central – Prime	\$165 – \$350
Whangārei Central – Secondary	\$90 - \$165

Table 5: Capital Values -Telfer Young and Various, 2021

Retail Market

Retail in Whangārei, much like retail in the wider Northland region, has been volatile for at least the past 18 months. More recently this has been attributable to COVID-19, however, the trend was established prior to the outbreak. Retail in central Whangārei, both prime and secondary, is struggling and rental growth is expected to be static at best into the near future.

Prime face rents 10 years ago were in the region of \$600 per square metre for traditional shaped shops. Now \$600 for the same locations may be achieved but only for optimally sized space being entirely within the 'Zone A' space i.e. less than 6m deep the frontage. Recent evidence supports rents closer to \$300 per square metre for the traditionally shaped shops in prime locations with the greater, average depths. To retain the highest rental rates, and also to keep tenants happy with smaller shop requirements some units have been reduced in size with tenants retaining the optimal sections only and the rear remaining vacant or leased at much reduced rates.

The general trend of decreasing prime rents does not appear to have changed over the last 12 months. An extended leasing period should be expected as should the payment of generous incentives for any reasonable lease length to a tenant with reasonable covenant strength. A number of significant rent reductions have been agreed at lease expiry as landlords would rather keep a tenant than risk long vacancy periods. A number of shops located in prime locations have been vacant for several years.

Development Costs

The purpose of the development cost review and the rates noted below is to identify indicative construction costs within the Whangārei market to inform the preliminary financial feasibility and modelling of the development options. The cost information is based on the market sectors identified by TPG and as generally commented on in this report. The costs below are broad and based on generic assumptions of the site and proposed buildings. They assume a median build quality and average floor sizes. They will require refinement as the build options are further defined. Any site-specific conditions, including those that may onerously affect the due diligence, method of construction or materials will need to be assessed with the feasibility studies and included in addition to the below as the individual projects are defined and assessed.

It should be noted development costs, and particularly construction costs, are currently volatile while consequences of COVID-19 fully feeds through to the market. The below indicative costs are based on current development estimates as of early 2021, however, these estimates are themselves heavily caveated and subject to update, availability of materials and cost updates at the time of instruction. They will likely be influenced by pre COVID-19 prices and therefore a degree of cost escalation might be considered, however, any factor on this is currently unknown and potentially will be until the economy normalises. Further comment is included in the cost escalation section below.

Construction Costs

Once the project is further defined, including detail around occupier use, building type, floor areas, number of levels, location, access etc, a refined build cost will be provided for the feasibility studies which will incorporate site-specific issues. The following rates are indicative and for guidance only. They are build rates for construction above ground on a gross floor area basis. Rates are exclusive of the following:

- Goods and Services Tax

- Demolition
- Remediation and removal of contaminated materials, including in demolition and earthworks
- Site works, earthworks and site infrastructure costs
- Service connections
- Foundation costs
- Car parking
- Resource consent fees
- Council development costs (contributions)
- Professional Fees
- Legal costs
- Finance costs
- Contingency
- Developers Profit
- Land purchase

Specification enhancements for 'Iconic', 'Gateway' or the like projects are excluded from the rates noted above.

Approximate Build Rates

- Retail: \$1,850- \$2,550 per square metre (Ground level of three-level building, shell construction, excludes tenant fitout, fittings, hot water, HVAC and sprinklers)
- Office: \$3,250- \$4,000 per square metre (Ground level of three-level building, basic finish, excludes fit-out and sprinklers)
- Apartments: \$3,800- \$5,000 per square metre (Two levels above commercial use)
- Apartments: \$3,600- \$4,800 per square metre (Three to four levels including ground)
- Town Houses: \$3,000- \$4,300 per square metre (Three levels including ground)

Site establishment

Site establishment is not included within the build rates above. The cost is site specific and will vary dependent on a number of factors including location, accessibility and surroundings.

Construction within a city centre development will require additional costs for site establishment and temporary works above a more suburban or rural location. Brownfield sites are also likely to incur additional costs relative to a greenfield sites.

Development contributions

Council's Development Contributions are set by the Whangarei District Council 2018 Development Contributions Policy. The relevant Development Contribution zone is 'Whangārei City' and the various Development Contributions for residential developments are summarised as follows:

Council may apply a pro-rata development contribution rate to an additional dwelling, if the dwelling is less than 100 square meters of gross floor area (GFA), recognising the lower level of impact generated by the additional dwelling

A non-residential subdivision will attract development contributions for each new allotment created at the rate of one non-residential HUE per new allotment. Credits will be applied when a construction or Land Use activity takes place on the lot.

Cost Escalation

Construction costs and material prices have been extremely volatile following implications COVID-19. Effects including following the periods of shutdown, and also logistics and import difficulties have resulted in significant increases. These are ongoing, particularly for materials like timber and steel, and estimating a figure for how much these have increased over the past 12 months across the market will be inaccurate.

It appears a degree of cost uncertainty will continue over at least the short term and potentially over a longer time period. Although it is generally anticipated costs will rise over the next 5 years we would recommend updating costs with the Quantity Surveyor rather than relying on a cost escalation assumption.

Land Costs

High-level land values have been indicated by Telfer Young Limited as being in the region of \$2,000 per square metre for prime central Whangārei locations, falling to circa \$700 to \$800 per square metre for secondary sections with limited frontage or back alley locations.

Non-residential land use will attract development contributions based on the demand a proposed new building or activity will place on Council's network infrastructure. It is noted that Council does not require contributions for community infrastructure from non-residential development as Council considers that non-residential land use impacts are at such a low level that it is administratively inefficient to require contributions.



Key environmental challenges impacting on the central city

The resilience of Whangārei city centre is a key consideration for Council seeking to attract more residents to the central city.

There will be inevitable challenges to realise feasible urban development in many parts of the precinct due to the effects of climate change and other natural hazard risks. There may be a requirement to either avoid high-risk areas all together, or to address poor ground conditions with more expensive construction methods.

Coastal Flooding and Sea Level Rise



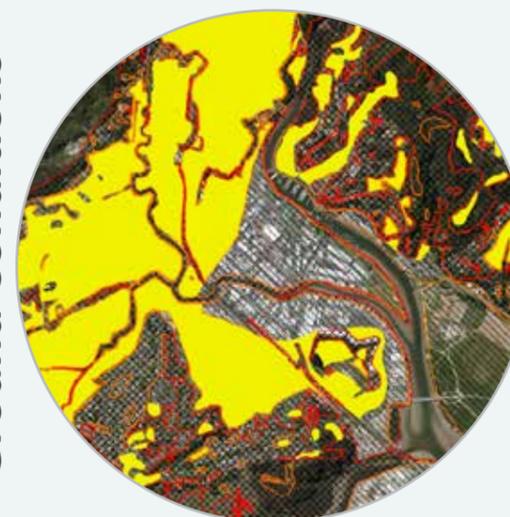
River Flooding



Tsunami



Ground Conditions



Whangārei city centre faces significant challenges relating to coastal flooding, river flooding and sea level rise. Ongoing changes in coming decades will impact on the city centre and the residents who live there will inevitably be living with more water in the city.

Key assets such as streets, three waters infrastructure, open spaces and sea walls will face ongoing exposure to flooding events. New development will need to be designed to be responsive to increased coastal and river flooding risk and the onset of sea level rise.

There will be inevitable challenges to realise feasible urban development in many parts of the city centre due to the requirement to either avoid high-risk areas all together, or to address risks like flooding with more expensive construction methods.

Located on the coast and at the edge of the Hatea River, Whangārei city centre is subject to three levels of tsunami risk and evacuation requirements.

This impacts both on requirements to evacuate safely and could, in the future, require specifically designed vertical evacuation measures to be included in buildings. At this time, vertical evacuation has no statutory position under the Building Act 2004.

The majority of the city centre is covered by the Orange Inundation Zone- this zone matches the 3–5m threat level warning and is to be evacuated in the event of either the 1–3m, or 3–5m threat level warning being issued (area inundated by a tsunami with a 500 year return period).

The city centre is also covered by the Yellow Inundation Zone- this zone should also be evacuated in an official warning for larger than a 3–5 m threat level (2,500 year return period) or in the case of a natural or informal warning where the potential wave height is unknown.

The city centre is subject to low-moderate risk of land instability.

The depth of suitable building foundations will vary across the wider precinct. Deeper foundations have the potential to significantly add to the cost of construction. The sites requiring significant foundation solutions may be better suited to non-development purposes, such as open space. Further geotechnical investigations are required to address the suitability for development of the precinct.

It is likely that sites in the city centre will be contaminated due to historic uses. Contamination risk will likely require significant soil remediation and potentially active ground water remediation if they are to be redeveloped for sensitive land uses such as residential housing. Further investigations would be required to ascertain whether sites are contaminated.

Council's response to key environmental challenges

These key resilience challenges impact the feasibility of development in the inner city and may also impact on developers' confidence to engage in inner city residential development.

Climate Change

Council recognises the elevating risk that climate events pose to the central city and understands the need for investment in resilience.

The Climate Action Plan sets out the direction on how Council will move ahead with achieving net zero emissions and aligns action implementation with other key Central Government legislation and strategy. It is relevant to all the district's rural, urban and coastal communities and covers both mitigation to climate change and adaptation. Ultimately, it provides strategic direction for future decision-making with enough flexibility to respond to new data, legislation and other updates and changes.

The key outcomes Council are seeking in the Action Plan which relate to the Built Environment and Infrastructure include:

- Adapting to climate change- Council future-proofs its resources, assets and services from the risks of climate change. Council will work with hapū, iwi, industry and communities to prepare to adapt to the impacts of climate change
- Reducing greenhouse gas emissions in line with the Government's national emissions reduction targets or better
- Honouring Te Tiriti o Waitangi with hapu and iwi in everything Council does
- Community ownership- the residents of Whangārei are informed, engaged and take ownership of this kaupapa and ensuring transition to net zero is equitable, fair and inclusive for all communities
- Human wellbeing- supporting community resilience and applying a health, wellbeing and equity lens over all their activities.

Council's priority actions

- Integrate climate change into WDC District Plan and Environmental Engineering Standards guiding development practices to work towards more resilient communities and infrastructure
- Through the District Plan and the Whangārei Growth Strategy, discouraging future development areas that are among the high risk areas based on coastal hazards
- Developing and implementation plan and partnership agreements for the Blue/Green Network Strategy, which includes a programme of works which prioritise projects in alignment with the Walking and Cycling Strategy, City Core Masterplan, planned infrastructure upgrades, low impact stormwater designs, planting plans developed through related actions
- Following best performance standards to ensure new infrastructure is climate resilient
- Support knowledge building within Whangārei's building and development sector to inform the design, construction/ development and assessment of carbon neutral buildings, properties and communities

- Investigate methods to enable and encourage the installation of infrastructure and tools that lower emissions of the community
- Identify areas on Council holdings and community spaces to increase green spaces with appropriate planting to deliver multiple outcomes: cooling capacity, biodiversity, reducing pressure on the stormwater system, amenity
- Investigate low impact design using green infrastructure solutions to align with storm water management. Update the Engineering Environmental Standards
- Investigate opportunities to increase energy generated through solar and wind based technology on individual buildings, properties and as a network across Whangārei
- Investigate low carbon emission material for use in the infrastructure pipe network.
- Investigate trenchless technologies
- Review agreements between WDC/Northland Regional Council regarding flooding responsibilities.

The Blue/Green Network Strategy

Restoring the city's urban waterways and riparian zones will provide Whangarei with more efficient stormwater filtration, retention and flood control. The Blue/Green Network Strategy acts as an overarching framework that will ensure multiple benefits are realised over time for the city's waterways and green open spaces which support the city's flood resilience, as well as opportunities to improve urban amenity, increase sense of place and connect these valuable places.

The Long Term Plan has budgeted \$14.1m to implement the strategy.

Linking these responses to the objective of achieving inner city residential development

To ensure Council's response to the environmental challenges is integrated with the objectives of achieving inner city residential development it is recommended that it forms a key consideration. This includes ensuring that the inner city becomes a resilient area capable of accommodating residential development, the investment requirements do not further hinder development feasibility and taking a Council-led approach to improving flooding issues within areas with development opportunity. This is further discussed in the recommendations of this report.

Drivers for growth and change

A sustained period of population growth across the District, which is expected to continue, will drive continued demand for new residential development. Whilst the majority of growth can be accommodated within the outer residential areas, Council’s strategic policies and plans seek to absorb some of this growth through inner city living opportunities.

A number of planned investments in the wider district and region may also drive further demand for inner city living opportunities and increase amenity values in the inner city to support the feasibility of residential developments.

Population growth and demand

Whangārei is one of the fastest growing districts in New Zealand. Whangārei District’s population of approximately 98,300 (at 2020), is growing at around 2.4% per annum which is faster than the national average of 1.9% (Whangārei District Annual Economic Profile 2019) (refer to Figure 1). Recent growth now makes Whangārei New Zealand’s 12th largest city. Council anticipate across the District, an annual average population percentage change from 1.52% from 2021-2051.



Growth in the Whangārei District is mostly associated with net migration rather than a natural increase. Of those people moving to Whangārei, the majority are moving from Auckland (Stats NZ, 2018). People moving out of Auckland are largely doing so due to pressures (housing costs, traffic, amenity) created by Auckland’s population increase, which is largely driven by immigration.

This migration from Auckland is a key consideration when considering demand for inner city living opportunities. To be considered as a feasible alternative to the Auckland housing market, inner city living opportunities will need to provide an affordable alternative with high amenity and with good access to the city’s key attractors including emerging employment opportunities and the natural environment.

Based on the Whangārei District’s Proposed Growth Model 2021-2051, the district’s population is projected to grow by an estimated 1.6% per annum over the next 10 years (slightly lower than the existing high – growth rate of 2.4%), reaching about 115,000 people by 2031, and 144,000 by 2051. The number of dwellings in the District is projected to increase from 41,500 homes today to over 48,000

homes by 2031, and 61,000 by 2051.

According to the 2018 Census data growth in the District is resulting in both an aging and younger demographic:

- In 2018 the median age had decreased to 41.4 years, with 21.2% of our population 0-14 years of age (compared with 19.3% in NZ)
- There is a rising number of older people (65+) in the District, with 19.7% of the population made up of +65-year olds (compared with 15.3% in NZ).

It is also predicted that population growth will continue to see an increase in the younger and older populations into the future (WDC, 2020).

Council-led city amenity projects

A number of planned investments, including the Complete Streets Masterplan programme will continue to improve the amenity values within the city core itself, improve accessibility and generate increased demand for the city’s services.

This includes the upgrades to James and John Street as pedestrian priority streets – these are identified as catalyst projects in the Complete Streets Masterplan and have funding to commence through the Long Term Plan.

There are a number of projects under construction and/or investigation which will see improved cultural and civic facilities within close proximity to the inner city including:

- Hundertwasser Art Centre and Wairau Māori Art Gallery – commenced 2020
- Civic Centre Project – new council chambers – commenced 2021

Education

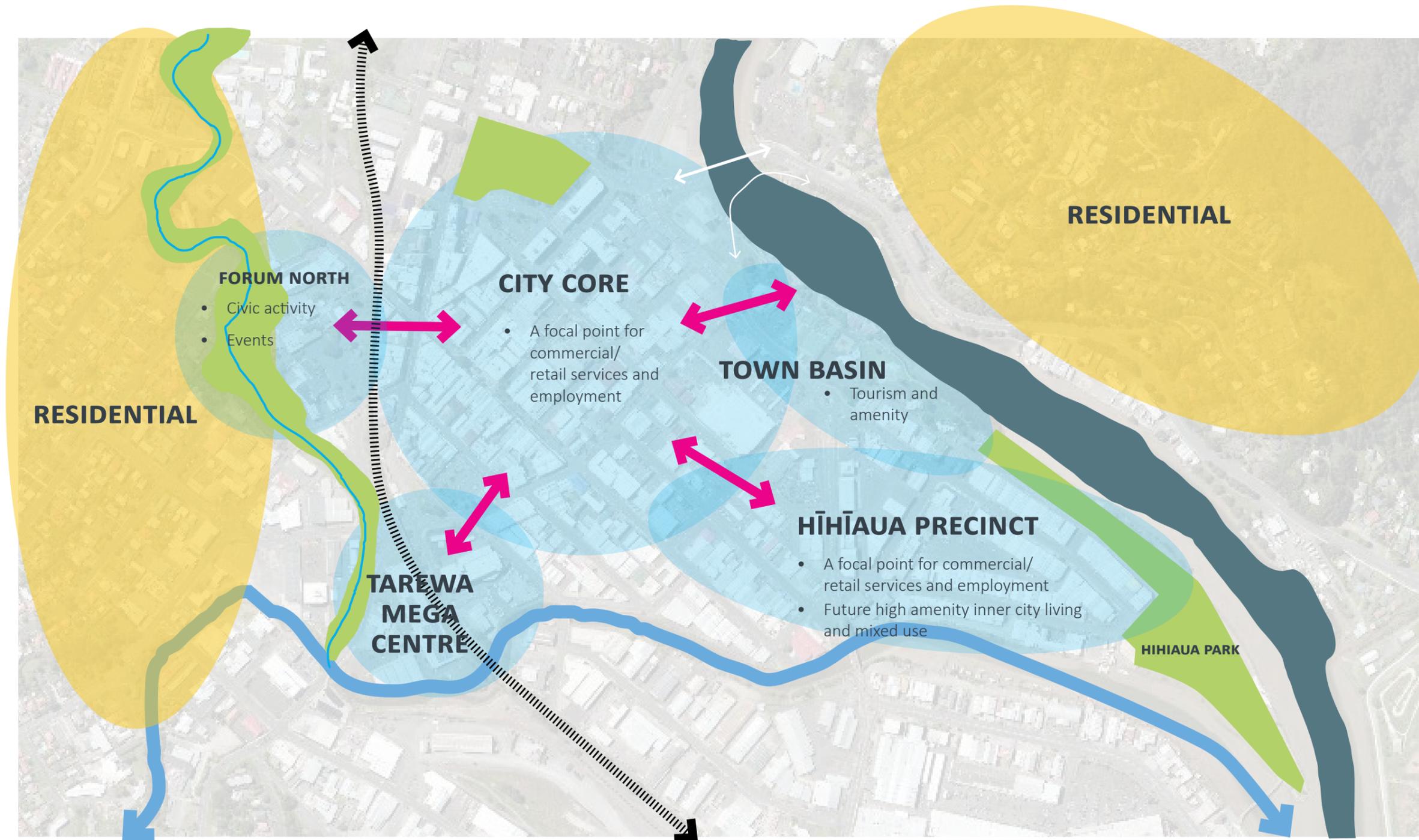
Developments within the tertiary education sector should be considered in terms of the potential for student accommodation to locate within the city centre. Currently potential investment and development in this sector includes:

- The Tertiary Education Precinct/cluster: A collaborative arrangement to build a tertiary campus focused on delivery of Diploma & Degree level education to people in the Northland Region
- Investigation is currently underway for the development of a new Whangārei Boys High Engineering Academy which would see construction of a purpose-built engineering facility that will enable industry-focused training on site for students throughout Northland.
- Hihiaua Cultural Centre- \$3m Govt covid recovery funding for construction.

Transport Investment

Northland’s social and economic opportunities are dependent on its connections, both rail and road. Waka Kotahi New Zealand Transport Agency will implement major safety improvements along the existing statehighway. Waka Kotahi’s focus will also be on assisting Council to implement their Walking and Cycling Strategy and actively manage car parking the city to increase update of public transport, walking and cycling in the city. Waka Kotahi will also support Northland Regional Council with the implementation of their Revised Regional Public Transport Plan.

Understanding the strategic drivers spatially



While there is undeniably an economic case for accommodating the district's strong population growth in the city centre, there are a number of key constraints that are impacting on the viability of realising this.

Key Constraints

Limited housing choice at affordable price points and low supply of multi-unit developments

Supply of multi-unit developments is low across the Whangārei District, with 86% of building consents in 2020 issued for standalone houses and less than 2% for apartments and townhouses (the other 16% is for retirement villages). Supply of existing dwellings is especially constrained in the city centre, with currently only 1% of the District's dwellings located in Whangārei Central. While price points for apartments and townhouses in Whangārei (according to the limited data available) are generally more affordable than comparable urban areas, there is not enough supply to offer housing choice at affordable price points in the District and price points for Whangārei continue to escalate due to constrained supply of all housing types.

Existing residential areas have capacity for growth

Existing residential areas have capacity to absorb growth, and Whangārei has enough land supply for the next 30 years. As outlined in Council's Growth Strategy - Sustainable Futures, Council has sufficient land capacity to meet residential demand over the next 30 years.

City Centre Amenity is slowly transforming

Council are making a concerted effort to improve city amenity with the City Core Precinct Plan, and with Long Term Plan funding, are soon to upgrade two central city streets- John Street and James Street- to high amenity pedestrian priority streets. Until these upgrades, and the wider work programme is delivered over time (which includes further Complete Streets Masterplan projects), central Whangareai amenity remains relatively low and this will impact on the desirability to live in the city centre, especially if there is supply in existing residential areas.

Affordability

Following a general trend since 2016, housing affordability has decreased, as house prices across the district outpace wage growth. While housing affordability is still better than New Zealand comparatively, with no current outlook for house prices to stop rising, combined with the expected growth in Whangārei, without significant increases in the supply of housing, it can be expected that Whangārei will continue to become more unaffordable.

High construction costs

Construction costs and material prices have been extremely volatile following implications of COVID-19. Effects including following the periods of shutdown, and also logistics and import difficulties have resulted in significant increases. These are ongoing, particularly for materials like timber and steel, and estimating a figure for how much these have increased over the past 12 months across the market will be inaccurate.

It appears a degree of cost uncertainty will continue over at least the short term and potentially over a longer time period. Although it is generally anticipated costs will rise over the next 5 years, we would recommend updating costs with the Quantity Surveyor rather than relying on a cost escalation assumption.

Resilience challenges affecting development costs and feasibility

Whangārei central has significant resilience challenges which will impact the feasibility, location, type and extent of new development for this area due to the cost of mitigation measures required to address these risks.





3.0 The Commercial Case

To test development feasibility of a range of residential typologies in the city centre, a model has been prepared based on a Residual Land Value technique. The model has been applied to a range of sites and different typologies have been tested across the city centre. The model assesses a site’s development potential, in simple terms, by comparing the likely costs of development (including addressing issues of resilience) with the potential resale value. From this, the residual land value (the value a developer would pay to acquire the land) is derived to test feasibility.

Steps in the development feasibility analysis include the following:

1. Preparation of an indicative layout

An indicative layout for the lighthouse site has been prepared based on potential built form controls, the key directions of the structure plans and principles of good urban design. This includes provision of areas of open space (both private and public), allowance for key through block links and avoidance of impacts (overshadowing) on adjoining land. For Whangārei city centre, three typologies were tested. These are outlined in the box opposite.

2. Confirmation of model inputs and assumptions

Analysis of current and potential future market conditions has been undertaken to establish likely development costs and revenues to be used in the model. Review of the economic analysis and key drivers of change for the precinct is also undertaken to determine land use mix to be tested.

3. Analysis of options

The Residual Land Value model was then run for different height and gross floor area (GFA) options for the indicative layout. The land use distribution was then refined to test the most feasible outcome for each option. The results of the feasibility analysis are then reviewed to establish the conditions required to support development.

4. Cost Assumptions

Are provided in Appendix 2.

5. Revenue Assumptions

To establish the resale value for new development in the central city, price points have been reviewed for Whangārei, but also for comparable locations such as Orewa and Tauranga city centre, central Hamilton and New Plymouth Central to understand a potential range of values that may be achievable as amenity values in the centre are enhanced through strategic investment. Other comparable locations were considered as there is limited sales evidence for new medium density residential development in Whangārei, especially in the central city.

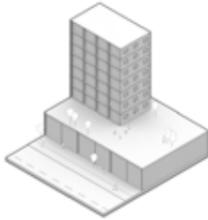
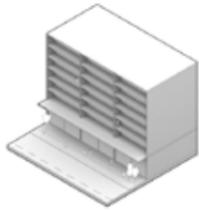
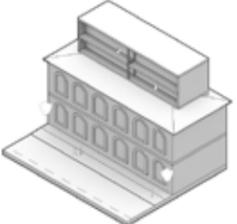
While Orewa and Tauranga price points suggest more optimistic development outcomes, they are provided for comparison only as it may be unlikely that these price points are achievable for Whangārei. The following revenue assumptions, based on the price points from the locations outlined above, have been used. For more detail refer to the Market Assessment provided in Appendix 2.

6. Factoring in costs to address resilience

Due to the issues of resilience experienced across the central city (including poor ground conditions and flooding) the following construction techniques have been factored into the modelling:

- Base isolation is assumed for all developments above four storeys as a development technique to mitigate seismic risk.
- On sites subject to flooding and sea level rise, costs have been factored in to elevate ground floor levels. This includes engineered fill on developments of four storeys and below and floodable partial basement car parking in developments above 4 storeys. Where basement car parking is an appropriate use of the ground floor level, which is not suitable for residential activity, it provides a potential additional revenue stream and can add value to the whole development.

Typologies Assessed

			
Townhouses	Mixed-Use Podium	Shoptop Apartments	Adaptive Reuse
			
Generally a row of houses that share party walls with individual doors that front on to the street or sometimes from shared driveways, usually 2-3 storeys.	Towers that incorporate a block development of up to 4 storeys at their base, this can allow for increased access to sunlight and views surrounding the tower and improve street and open space conditions.	Mixed use residential buildings best used in established centres that require active ground floors, usually ranging between 2 and 6 storeys.	Additional development that is incorporated into the refurbishment of an existing building, particularly used in relation to heritage listed buildings or where character retention is important.

Lighthouse Site - Walton Street

The Walton Street lighthouse site tests the amalgamation of underdeveloped sites in the city centre. Its current uses are commercial, hospitality and parking.

It was selected for the potential to test the viability of medium density residential in the city centre and uses a townhouse typology with parking and private open space in the form of balconies.

The townhouses are arranged in two rows, with three storey units to the rear and two storey units at the front of the site. Individual units range from 100-120m².

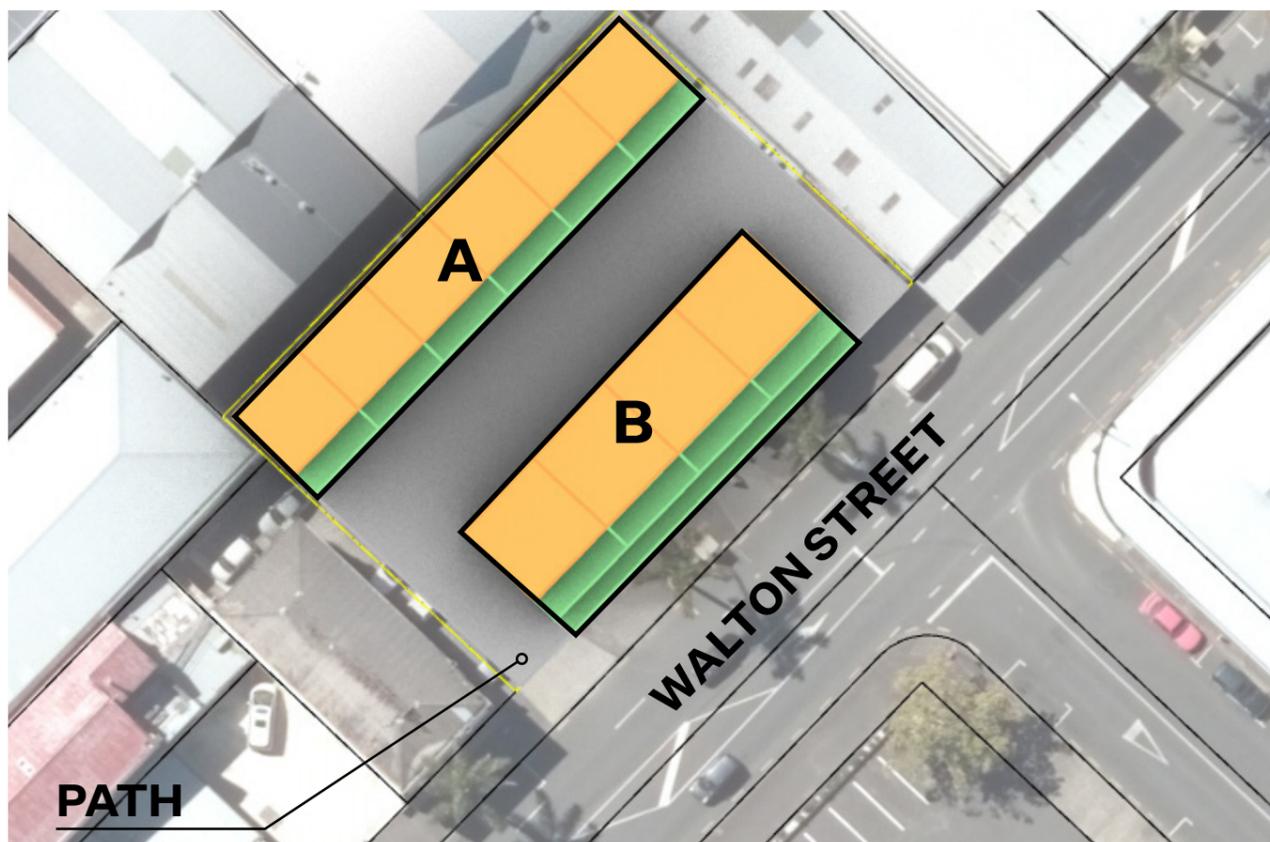
LEGEND

- Private green space
- Residential
- Vehicle circulation



**DEVELOPMENT PRECEDENT
TERRACED TOWN HOUSES**

Generally a row of houses that share party walls with individual doors that front on to the street or sometimes from shared driveways, usually 2-3 storeys.



PLAN VIEW



AXONOMETRIC VIEW

Lighthouse Sites - Walton Street

FEASIBILITY STUDY - WALTON STREET

Three options were tested an indicative layout of 2-3 bedroom townhouse developments on Walton Street, all with 10 units and a gross floor area of 1000m² for the entire development.

These included an option with standard/mid-market revenues, an option with upper-end revenues and an option that increases revenues further, in order to understand how high revenues must be to realise a positive residual land value, and therefore a viable development.

The following key points should be noted:

- The table shows that Options 1 and 2 return a negative residual land value and are therefore not feasible. These options utilise mid-market and upper-market price points respectively and suggest these revenues are not high enough to return a positive residual land value and therefore a feasible development.
- Option 3 demonstrates that revenues must be increased substantially to create a feasible development in this location. This suggests that for this scenario, high end development with high revenues would be required in order to make this development feasible.
- Assumes moderate flood and combined earthquake risk and engineered fill to raise ground floor levels.
- Parking is included for some of the rear units.
- Residential average values for each of the options is shown beneath the table in the notes section

Whangarei District Council - Inner City Living
Preliminary development feasibility study



Whangarei District Council - Walton Street

Summary of Options Based on Market Evidence

Option	Option 1: Townhouses*	Option 2: Townhouses upper revenues**	Option 3: Townhouses, increase Rev to provide +tive LV***
Residential GFA	1,000 m2	1,000 m2	1,000 m2
Residential dwellings	10	10	10
Commercial GFA	0 m2	0 m2	0 m2
Retail GFA	0 m2	0 m2	0 m2
Car parking GFA	88 m2	88 m2	88 m2
Car parking spaces	6	6	6
Total GFA (ex access, circulation & carpark)	1,000 m2	1,000 m2	1,000 m2
Sensitivity analysis	Mid market	Upper market	Fixed Costs and 20% profit.
Estimated project duration	2 years	2 years	2 years
Gross realisation (sales in \$m)	\$6.50	\$8.10	\$11.50
Developer's profit (\$m)	20.00%	\$0.91	\$1.62
Net proceeds (\$m)	\$4.56	\$5.69	\$8.08
Total construction costs (\$m)****	\$4.23	\$4.23	\$4.23
Total development costs (\$m)*****	\$6.92	\$6.92	\$6.92
Residual land value (\$m)	-\$2.36	-\$1.24	\$1.16
Residual land value (\$/m2)	-\$2,600	-\$1,300	\$1,300
Land value estimate (\$/m2)	\$1,300	\$1,300	\$1,300

Notes

*Option 1 residential average values estimated at \$6,500/m2

**Option 2 residential average values estimated at \$8,200/m2

***Option 3 residential values estimated for feasible project \$11,500/m2

****Construction costs based on light weight structure and less than 4 levels \$3,850/m2

*****Flood and combined earthquake is moderate risk. Engineered fill assumed to raise groundfloor and mitigate assumed 1m flood/sealevel rise peak. Total contingency allowance 20% includes seismic resilience at 5% on construction costs and contingency on development costs ex finance and land 15%.

Lighthouse Site - John and James Street (A)

This lighthouse site for John and James Street uses an existing at-grade car park on a prominent corner site.

It was selected for the potential to test a comprehensive mixed-use development in the central city.

A mixed-use podium development is the typology tested, with commercial uses in the podium level (the first storey) and residential uses on the upper floors. This site layout creates ample green open space with a central plaza and also provides parking.

LEGEND

- Podium commercial
- Residential
- Green space
- Plaza
- Parking

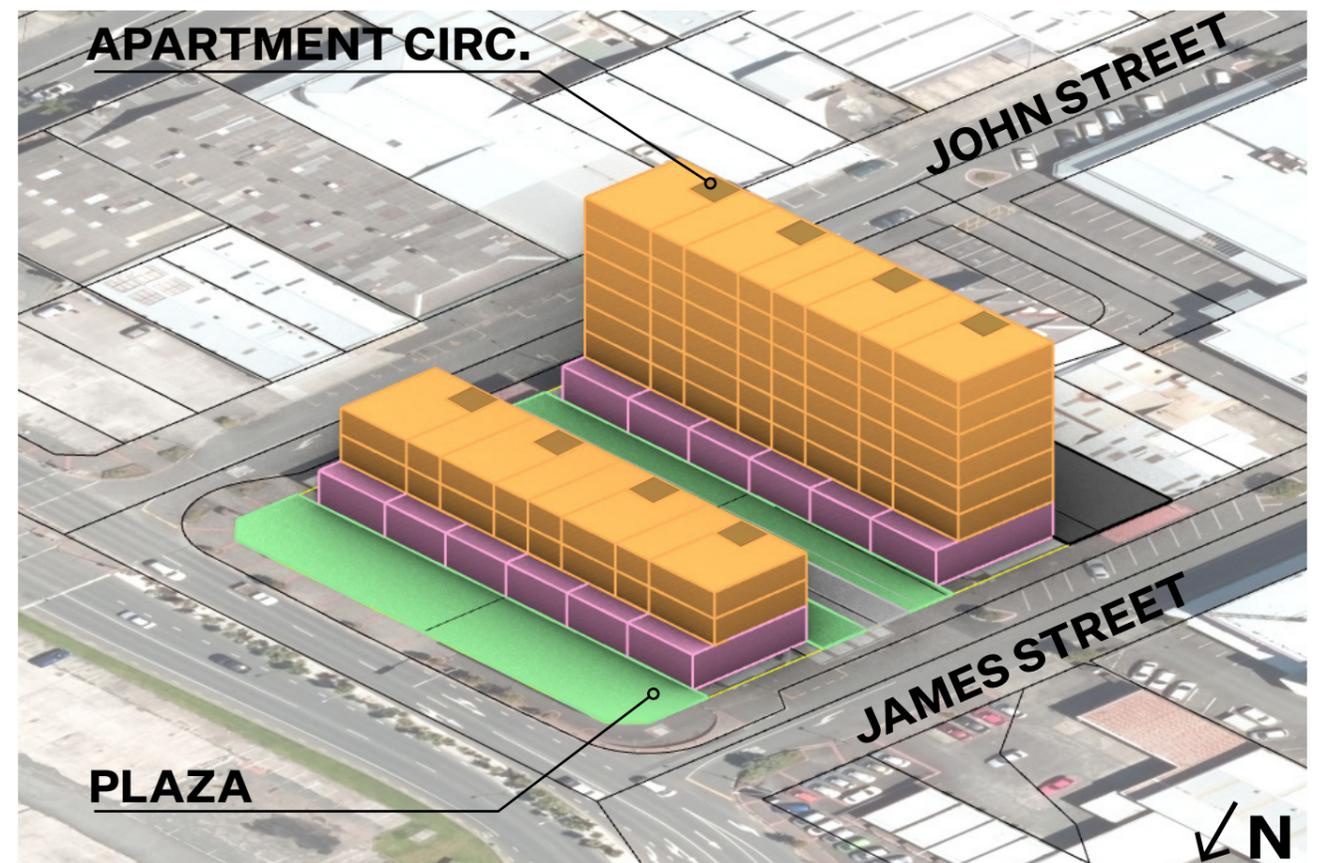


MIXED-USE PODIUM

Towers that incorporate a block development of up to 4 storeys at their base, this can allow for increased access to sunlight and views surrounding the tower and improve street and open space conditions.



PLAN VIEW



AXONOMETRIC VIEW

Lighthouse Site - John and James Street (B)

This lighthouse site for John and James Street uses an existing at-grade car park on a prominent corner site, but tests a different typology for this option.

It was selected for the potential to test a comprehensive mixed-use development in the central city.

For this option, three-storey shop top apartments were tested. This option assumes commercial at the ground floor with apartments on the upper two floors. Provision of parking is also tested.

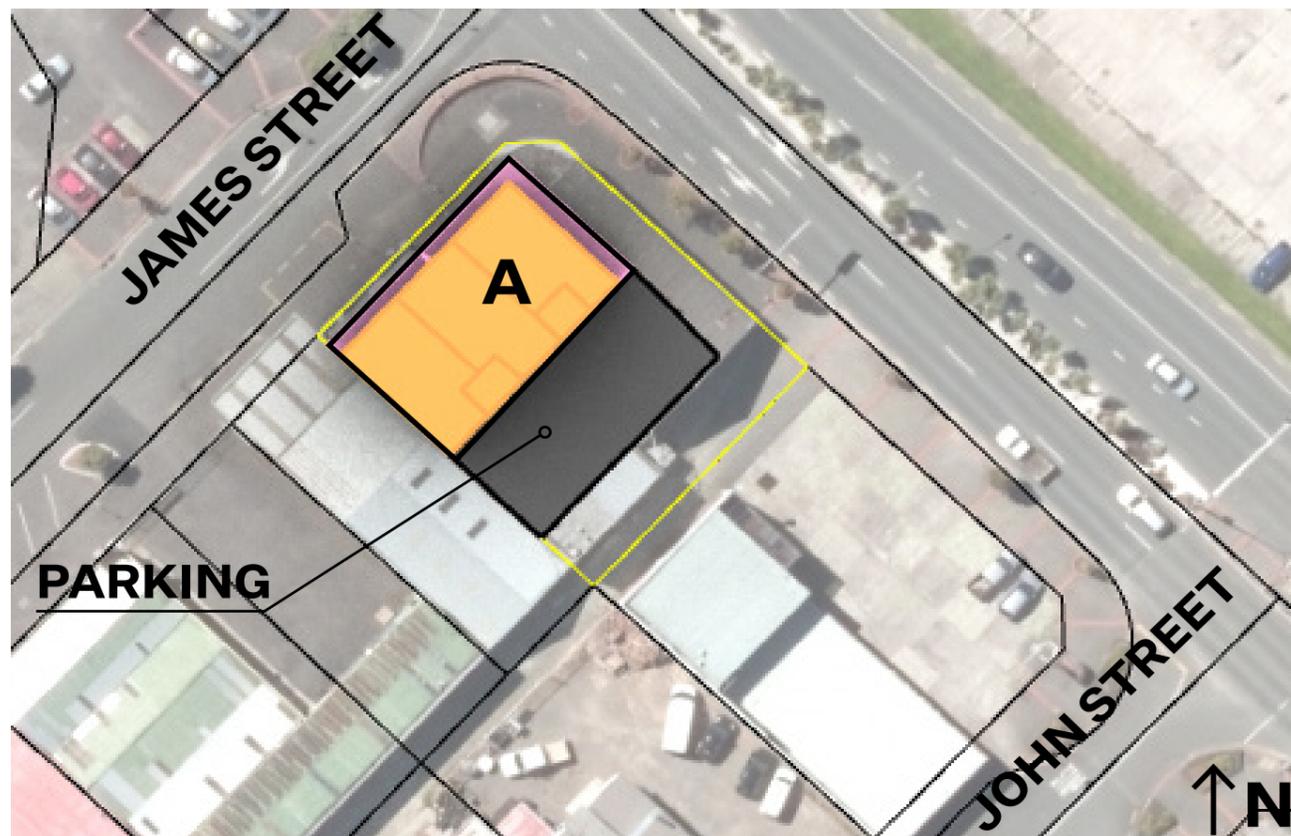
LEGEND

- Podium with commercial
- Residential
- Parking

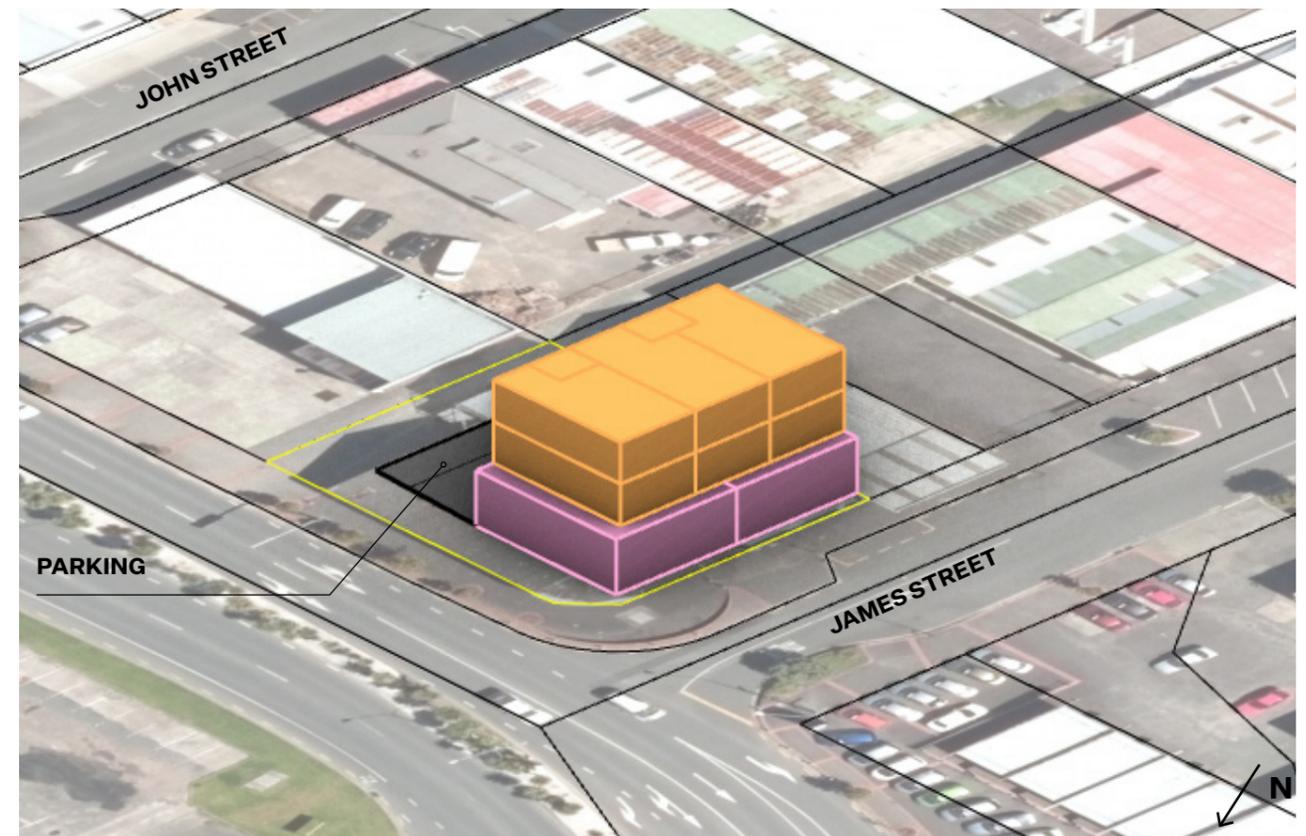


SHOP TOP APARTMENTS

Mixed use residential buildings best used in established centres that require active ground floors, usually ranging between 2 and 6 storeys.



PLAN VIEW



AXONOMETRIC VIEW

Lighthouse Sites - Walton Street

FEASIBILITY STUDY - JOHN AND JAMES STREET

Three options were tested on two indicative layout schemes. Option 1 and 1a had a scheme layout of two apartment blocks with a max height of 7 storeys, whereas Option 2 had a scheme of a single 3-storey apartment block.

Option 1 and Option 1a consists of 64 residential apartments with a gross floor area of 5,720sqm and mixed use located on the ground floor spaces with a gross floor area of 1,760sqm. Option 2 consists of 6 residential apartments with a gross floor area of 470sqm and mixed use located on the ground floor with a gross floor area of 275sqm.

Testing of these schemes included options with standard/mid-market revenues, upper-end revenues and an option that increases revenues further to understand how high revenues must be to realise a positive residual land value, and therefore a viable development.

The following key points should be noted:

- Option 1 and 1a assume that car parking is achieved at the basement level as well as at grade. By including car parking at the basement level, it optimises the base isolation/seismic resilient construction that the site requires due to the seismic resilience. Whilst Option 1a still includes seismic resilience, it is at a lesser amount.
- The table shows that Option 1 and Option 1a return a significant negative land value and are therefore not feasible. These options utilise mid-market and upper-market price points and suggest these revenues are not high enough to generate a positive land value and therefore a feasible development.
- Option 2 is a smaller scheme and whilst it includes a cost for base isolation/seismic resilient construction, car parking is achieved at grade with access off John Street.
- The table shows that Option 2 utilising the upper-market price points still returns a negative land value and is therefore not feasible. Option 2 would need to utilise residential revenues of \$16,500/sqm to achieve a positive land value and subsequently a feasible development. However, this high price point cannot be supported by any market research.

Whangarei District Council - Inner City Living
Preliminary development feasibility study



Lighthouse Site - Whangarei District Council - James & John Street

Summary of Options Based on Market Evidence

Option	Option 1: max 7 levels, base isolated construction	Option 1a: max 7 levels, seismic resilient construction	Option 2: 3 levels max, no base isolation		
Residential GFA	4,619 m ²	4,619 m ²	380 m ²		
Residential dwellings	64	64	6		
Commercial GFA	711 m ²	711 m ²	111 m ²		
Retail GFA	711 m ²	711 m ²	111 m ²		
Car parking GFA	1,735 m ²	1,735 m ²	210 m ²		
Car parking spaces	58	58	7		
Total GFA (ex access, circulation & carpark)	6,040 m²	6,040 m²	602 m²		
Sensitivity analysis	Market	Market	Upper revenues	Upper revenues	increase Rev to provide +tive LV
Estimated project duration	2 years	2 years	1.5 years		
Gross realisation (sales in \$m)	\$39.94	\$39.94	\$44.56	\$4.38	\$7.42
Developer's profit (\$m)	20.00%	\$5.59	\$6.24	\$0.61	\$1.04
Net proceeds (\$m)	\$27.95	\$27.95	\$31.20	\$3.07	\$5.20
Total construction costs (\$m)	\$36.18	\$36.18	\$36.18	\$2.62	\$2.62
Total development costs (\$m)	\$61.36	\$59.05	\$58.54	\$4.68	\$4.52
Residual land value (\$m)	-\$33.41	-\$31.10	-\$27.35	-\$1.61	\$0.69
Residual land value (\$/m²)	-\$7,300	-\$6,800	-\$6,000	-\$2,200	\$900
Land value estimate (\$/m ²)	\$910	\$910	\$910	\$910	\$910

Notes

Flood and combined earthquake is moderate risk

*Engineered fill assumed to raise groundfloor and mitigate assumed 1m flood/sealevel rise peak

**Base isolation includes allowance for partial basement carpark to mitigate assumed 1m flood/sealevel rise peak

Lighthouse Site - Adaptive Re-use

The adaptive re-use of an existing commercial building for residential purposes is a model that is already being successfully implemented in the city centre.

“Adaptive Re-use” refers to changing the use of an existing building (or part of a building) from its current or previous use into another use. This usually involves converting the internal upstairs space within a commercial building into an apartment or apartments.

Adaptive reuse projects provide an opportunity for mixing retail, commercial, and residential spaces. Existing buildings frequently have modular structural framing and floor layouts, both of which may be easily adapted to commercial and residential use. For example, a spacious room with high ceiling heights makes a dramatic living space that can be turned into a loft-style dwelling by adding a mezzanine floor.

The benefits of converting under utilised commercial space include the generation of income potential through rental of residential space, lower rates as a residential space, and lower construction costs than building new.

What makes this a more viable development opportunity

- Construction is usually cheaper and faster than a new build development. Colliers have noted that a residential conversion would cost around \$4,000per/m² vs \$6,000per/m² for a new development.
- Re-use of an existing building will save demolition costs. This includes the cost of demolition and cost of disposal of materials.
- Less materials required for construction. For example, a building with sound structural foundation will not require new materials for foundations vs a new build development.
- Floor to floor heights in office buildings are usually higher in office/commercial spaces so conversion would leave higher ceilings than a new build
- Structurally, commercial buildings can typically carry heavier live loads than residential buildings (3-5kPA v 1.5kPA) and thus should adequately provide for residential usage.
- Opportunity to add/extend the building within the boundary to provide additional units, i.e. a rooftop development. This has potential to provide greater income opportunities through additional rentals (although this does require a separate planning application)
- Sustainability. Re-usage of a building and materials can greatly mitigate the carbon footprint of a building. There is also a savings in the cost and reduction of the environmental impact of demolition. Preserving existing buildings can act as ‘carbon reservoirs’ versus the impact of greater landfill pressure and demand for finite raw materials for new building products that come with new building developments.
- An existing building will not have to deal with same requirements regarding flood risk as a new development does, which can significantly reduce design costs.

Risks and hidden costs

While a conversion may cost less in terms of \$ per m², new developments have less unknown, and you are ‘starting from scratch’ with a new build.

An existing building may be subject to old building codes/standards and will have to be upgraded to meet current requirements. This can add cost and time to development.

This is part of the ‘hidden costs’ of a conversion of a building. These can include:

- Weather-tightness issues which may become apparent during upgrade of a building. For example, the addition of HVAC systems which may require additional penetrations.
- There can be issues with the structural integrity of an existing building
- Asbestos and other contamination – existing buildings, pending their age, often have asbestos which increases cost and time for removal. Roofs, and old drainage (earthenware) pipes are particularly susceptible to asbestos presence.
- Sound insulation between floors needs to be higher in residential units than commercial



4.0 Development Economics

The results of the development feasibility assessment demonstrate that development of new residential developments (apartments, town houses or shop top housing) is challenging in current market conditions and that adaptive reuse of underutilised commercial spaces is currently the most viable option for creating inner city living opportunities.

All options tested for new developments in the inner city indicate that it is difficult to achieve the target of a 20% developer profit, unless very high revenues are used in the modelling to offset high construction costs. This suggests that under current market conditions, with elevated construction costs and costs associated with mitigating resilience risks, dwellings would need to be sold at a premium in order to produce a viable development. Currently these premium price points are not likely to be achieved in the city centre.

The Market Assessment (included in Appendix 2) demonstrates that there is some evidence of high-end apartments achieving higher than market averages in locations of higher amenity. An example of this is in areas close to waterfront however, the sample size for these types of sales is low and is unlikely to represent sale prices achievable in the wider city centre, due to the amenity value of the waterfront. The modelling undertaken on Council-owned land, close to the waterfront, indicates that even with maximising the density achievable on the site and factoring some revenue from leasing of car parks, high end sale prices (closer to prices achieved in areas in the Auckland region, such as Orewa) would still be required.

In the short to medium term, there is evidence that the conversion of under-utilised commercial spaces is a more viable option. This is mostly due to the lower construction costs associated with conversion of an existing space. Promoting this type of development will have long term benefits for the city centre by enhancing its vibrancy and increasing its reputation as an attractive place to live. This will in turn also support the long-term improvement of amenity values in the city centre, making construction of new developments a more viable option long term.

To stimulate development in the city centre and to create some momentum for growth in the inner city, further investigation is required into how Council could work with the development sector to achieve viable outcomes on Council owned land. The results do demonstrate that the continued focus on investment in the quality of the urban realm and in services to support inner city residents, such as public transport, active transport links and open space is critical to the success of achieving inner city residential development. It also demonstrates that creating affordable housing options within the city centre is going to be difficult to achieve without direct government intervention and working in partnership with side Kāinga Ora.

5.0 Council's role

Identification of potential areas and levels of intervention

The desktop market assessment, development feasibility analysis, and stakeholder engagement undertaken as part of the Business Case preparation clearly demonstrates that without some degree of Council intervention the realisation of residential development opportunities in the inner city is challenging within current market conditions.

Evidence suggests intervention is required to address the following key challenges:

Improvements to amenity values and vibrancy within the inner city to support its attractiveness as a place to live and the acceptance of the higher prices required to achieve development feasibility

Increasing awareness and action by landowners who are holding on to vacant commercial sites with potential for redevelopment into residential apartments

City wide initiatives that can reduce the infrastructure costs and risks to development including addressing carparking constraints and addressing issues of flooding and resilience.

Council has a range of tools and levers available that can be used to catalyse the local property and development market in the inner city. This includes actions that can be undertaken across all of Council's function, from policy development and consenting to infrastructure provision and utilisation of Council's property assets. To realise the potential for inner city living development in Whangārei an integrated approach is required across Council.

The actions identified across Council's different functions sit within a continuum of increasing levels of intervention and investment, as shown in the table below.

Based on a review of the potential interventions outlined above the following areas of focus are recommended.

Policy and Strategy Changes

As noted in earlier sections of this report, the Whangārei District Growth Plan and District Plan have already been developed and amended to support an increase in residential development within the inner city of Whangārei. This includes the recently proposed Urban and Services Plan Change which introduces the City Centre Zone as encouraging the development of the centre as a vibrant place to live as well as work and visit. The development feasibility analysis undertaken as part of this assessment demonstrates that the proposed District Plan rules allow for significant densities and yields to be achieved on inner-city development sites. It is the increasing cost of development and low revenues, rather than any density requirements or design rules, which is affecting feasibility of residential development.

Whilst decreasing development contributions and rates is often used as one way to encourage development, due to the infrastructure needs of the city and district, it is not a recommended intervention. Whilst this may attract some level of investment the resulting infrastructure burden creates long term funding shortfalls. The development feasibility analysis and stakeholder consultation undertaken suggests that these costs are only a small proportion of the costs that are making development in the inner city challenging. Addressing site constraints, such as flooding and factoring parking into developments are larger costs to be addressed.

It is therefore recommended that focus is now given to facilitating change through other non-statutory policies and strategies which have more indirect implications for the viability of inner city living development opportunities. This includes promotion of inner city residential development through the following policy and strategy areas:

- **Climate Action Plan** – to increase developer confidence and ensure inner city residents are safe it is recommended that their needs are factored into the finalisation of the Climate Action Plan. As outlined earlier in Section 2, ensuring that strategies are embedded within the Action Plan so that the inner city does not fall into the category of an exclusion zone or high risk area where development is discouraged will be critical to achieving the aims of the Whangārei District Growth Plan
- **Blue Green Network Strategy** – as flooding is a key cost to development within the inner city a focus on strategies that improve the city's flood resilience should be given. Communication of these strategies to the development sector will encourage developer and investor confidence in the viability of inner city locations for investment.
- **Walking and Cycling Strategy** – to support reduction in the demand for car parking from inner city residential development a continued focus and prioritisation of improvements to walking and cycling networks through and to the inner city should be adopted.

Development advocacy and facilitation

This assessment indicates that the current opportunities for residential development within the city centre involve conversion of underutilised commercial spaces within the city centre. Council can play a role in encouraging and facilitating the conversion of these spaces. This involves the active promotion of the outcomes sought within the City Centre Precinct Plan with local landowners and potential developers. Council can play a role in bringing landowners and developers together and demonstrating the economic benefits of residential conversion. Council could adopt a case management approach for private development opportunities that are identified that would see Council working alongside landowners through the development process.

Property asset optimisation

Council does own a number of strategic sites within the city centre, much of which are currently used for carparking. The use of these assets to support inner city living outcomes should be considered. This involves ensuring that the Council owned assets are optimised by either ensuring high utilisation of the spaces to generate potential revenue that can be reinvested or investigation of partnering with the private sector to achieve development of strategic sites for mixed use outcomes.

Investing in improvements in amenity and services to support inner city residents.

The review of existing market conditions and development feasibility analysis undertaken suggests that for the development of new residential development in the inner city to become viable achieving higher price points for apartments or town houses are needed. Council can play a role in improving amenity values in the inner city to support the achievement of higher values. This will need to be balanced with seeking opportunities for affordable housing in the inner city.

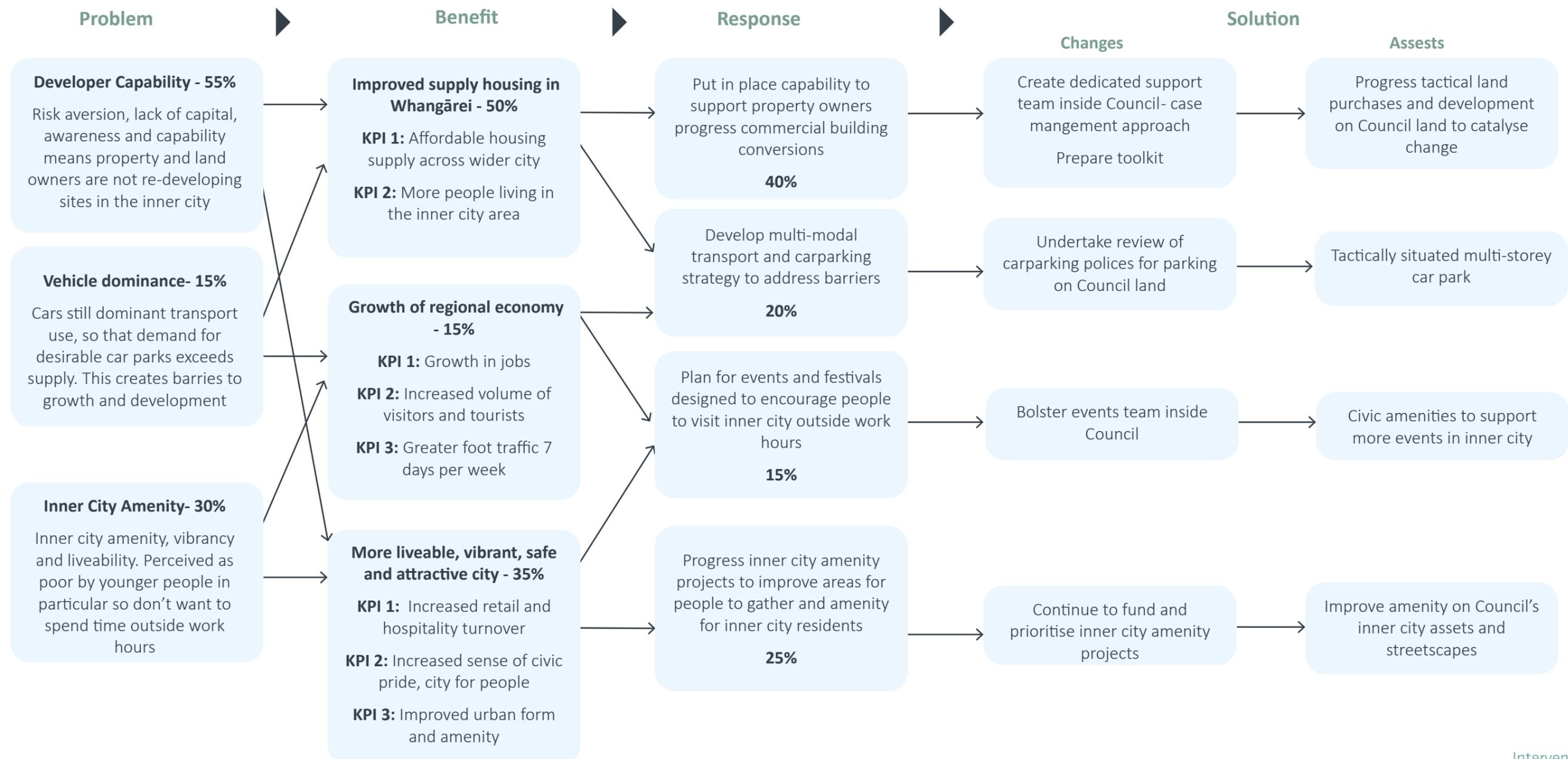
	Engage	Support	Change	Facilitate	Invest
Policy and strategy	Increase awareness of Council's policies that support and promote the development of inner-city residential opportunities	Provide support to developers navigating the policy context	Make adjustments to planning policies needed to address areas best suited to inner city residential development identified E.g. enabling increased density through District Plan changes	Investigate how inner-city residential development can be supported by other policies and strategies under development E.g. ensuring the development of resilience strategies include provisions to improve development opportunities in the inner city and needs of inner-city residents	Develop more targeted policies and strategies that focus on addressing inner city living development and the needs of inner-city residents
Approvals Process	Engage with the private sector to increase awareness of approval requirements and where information and support can be sourced.	Provide direct support for housing developers navigating the approvals process. E.g. adoptive a case-management approach	Make internal process changes that establish efficiencies in consent and approval processes.	Review fees and any costly information/process requirements for inner city residential development proposals	Consider targeted reduction in fees/costs for inner city living consents and approvals
Property development and asset management	Engage with the property sector and other landowners, including the regional council to identify opportunity sites and how under-utilised sites can be used to support inner city outcomes.	Provide support to the development sector to realise opportunities E.g. play a role in bringing parties together	Continue Council's assets to provide support for inner city residential and identification of Council property that could be used for housing	Acquire, assemble and dispose of feasible development parcels to be used for housing development in the inner city	Work directly with the development sector (or partnership models) to undertake housing developments in the inner city on Council land
Infrastructure and service provision	Assist potential developers understand Council's plan for improved infrastructure provision in the inner city	Engage with the development sector to ensure anticipated developments are factored into Council's planning.	Enable and prioritise infrastructure investment to realise development potential in the inner city	Consider how the cost of infrastructure provision can be managed without impacting house prices in the inner city.	Directly invest in infrastructure that supports inner city residential development E.g. Resident parking areas, permits and inner-city amenity projects
Rates and contributions	Engage with the investment sector to demonstrate the use of the rates and EC's to support residential development in the inner city.	Support the development sector understand the recent changes to rates and contribution requirements.		Consider the funding of revenue collected through rates and EC's to support inner city amenity and infrastructure improvements	Consider short term reductions in EC's that could be accommodated for increases that support provision of housing in the inner city
Community engagement + events	Engage with the community to encourage inner city living as a viable and attractive housing option.	Manage community facilities and events in a way that supports the needs of an increasing inner-city population	Plan for and encourage an increase in diversity in events in the inner city to encourage increasing vibrancy in the inner city	Increase the number of events in the city centre to bolster inner city vibrancy	Invest in new community facilities and services in the inner city that make it an attractive place to live.

Intervention Logic

To further understand and interrogate the interventions Council can adopt to support inner city residential development the development of the business case has included an intervention logic technique (Treasury, New Zealand, 2019)

This is an approach that is used widely in New Zealand and Australia for strategic decision making and involves identification of the issue or problem to be addressed and the interventions required to maximise the benefits sought.

An intervention logic mapping workshop was held with Council and industry stakeholders to identify the issues that need to be addressed and interventions. The summary of the results of the workshop are summarised in the investment logic map. This process has been used to feed into the recommended interventions that form part of the business case.





6.0 Recommended interventions

Work with the private sector

1. Put in place capability to support property owners progress conversion of underutilised commercial space.

Put in place capability to support property owners progress conversion of underutilised commercial space.

- It is recommended that processes are put in place to support property and landowners, or even speculative investors understand the opportunity that exists within the inner city for residential development. This is consistent with the toolkit approach that Council has already identified as a project to progress and could include the following:
- Preparation of a guide and/or webpage that provides a step-by-step guide as to how to undertake a residential conversion project and also to understand from the outset the feasibility of the project.
- Preparation of case study examples of how an inner-city conversion project has been progressed, the likely cost profile, key learnings and tips
- Establishing a case management approach, allocating dedicated staff to work alongside applicants as they progress through the process. This will ensure they get adequate information at critical stages and have point of contact within Council for assistance.
- It is recommended that Council continue to work with landowners in the city centre to understand where the opportunities for inner city conversion exist. This includes identifying those spaces that are underutilised or are located in strategic locations and could achieve a good mixed use outcome. Where a concentration of opportunities exist, Council could prioritise investment in adjoining amenity and engage with the landowner to demonstrate how investment in the city centre will support outcomes on their site.

2. Identify and promote conversion opportunities

It is recommended that Council continue to work with landowners in the city centre to understand where the opportunities for inner city conversion exist. This includes identifying those spaces that are underutilised or are located in strategic locations and could achieve a good mixed use outcome. Where a concentration of opportunities exist, Council could prioritise investment in adjoining amenity and engage with the landowner to demonstrate how investment in the city centre will support outcomes on their site.

Optimise Council's Assets

3. Review Council's Property Portfolio

Council could also investigate development opportunities on Council owned land to create some momentum for growth in the inner city. Due to the difficulty demonstrated in achieving feasible development projects this would require further investigation into how Council could work with the development sector to achieve an outcome on these sites or whether they could be used to provide supporting infrastructure, such as new local parks or urban spaces.

4. Integrate the needs of inner-city residents in Council's Car Parking Policy review

To improve amenity values in the inner city and to ensure the changing parking needs of an increasing inner city resident population are factored into policy, the needs of inner-city residents should form part of the review of Council's car parking policy. To support development opportunities, the ability to secure off-site resident parking opportunities will mean this is removed from the site requirements and provide short to medium term solutions whilst improvements to public transport and active transport links are made.

Improve Inner City Amenity

5. Continue to progress inner city amenity projects to improve areas for people to gather and amenity for inner city residents.

A number of planned investments, including the City Streets programme will continue to improve the amenity values within the city core itself, improve accessibility and generate increased demand for the city's services.

6. Invest in strategies to improve the appearance of vacant premises

Whilst the market assessment demonstrates vacancy rate of commercial spaces have improved in the inner city the visibility of these spaces creates a perception of a poor performing centre and potentially discourages investment. It is recommended that Council work with landowners to decrease the visibility of these spaces. This could include forming agreements to use the spaces to display local art or Council publications or working with landowners to consider offering short term lower rents to support the development of local industries.

Improve Connectivity

8. Continue to improve walking and cycling connections

A continued focus on improving walking and cycling connections through and to the city centre will support the attractiveness of the inner city as a place to live. It will make it a viable option for wanting to live close to where they work and within walking distance to surrounding land uses such as the waterfront and education facilities. Improving connections will also remove the reliance of inner-city residents on private vehicles overtime and increase the vibrancy of the centre.

9. Work with the Northland Regional Council to support improvements to the public transport network

Improvements to the public transport network will also support inner city living development by making it a viable place to live whilst retaining connections to employment, education and other areas of the city.

Address Resilience

8. Continue to improve walking and cycling connections

A continued focus on improving walking and cycling connections through and to the city centre will support the attractiveness of the inner city as a place to live. It will make it a viable option for wanting to live close to where they work and within walking distance to surrounding land uses such as the waterfront and education facilities. Improving connections will also remove the reliance of inner-city residents on private vehicles overtime and increase the vibrancy of the centre.

10. Integrate the Requirements of the Climate Action Plan with the objective of achieving inner city living opportunities.

To increase developer confidence and ensure inner city residents are safe long term it is recommended that their needs are factored into the finalisation of the Climate Action Plan. It is recommended that strategies are embedded within the Climate Action Plan to ensure that the inner city does not fall into the category of an exclusion zone or high risk area where development is discouraged.

11. Undertake a Risk Assessment in the city centre.

Ensuring the findings of the Business Case, Council investment and other city centre investment are taken into consideration when deciding on the location prioritisation of the Risk Assessment.

Appendix 1: Alignment to existing strategies and policy

The strategic direction for the Whangārei district, including the central city is set through the following strategies, policies, and programmes established by the Whangarei District Council, the Northland Regional Council and Central Government.

Together, these strategies, policies and programmes shape the broad objectives for the Whangārei district. Enabling inner city living to occur in central Whangārei is consistent with these strategies which seek to attract residents to the city centre to boost the economic viability, vitality, vibrancy and safety of the city centre. The business case will support the direction of these strategies by establishing an evidence base for increasing Whangārei inner city living, identifying the key risks, benefits and barriers to facilitating it.

Sustainable Futures: Whangarei District Council Growth Strategy 2020 (Draft)

Sustainable Futures sets out Council's plan to manage Whangārei District's growth over the next 30 years and provides a clear strategic picture for how the district should develop. It fulfills Council's requirements to meet the National Policy Statement Urban Development 2020 by providing an integrated framework that supports future decision making to ensure the right infrastructure is provided for at the right time.

Council's Housing and Business Development Capacity Assessment has identified that it will need to accommodate between 12,000 -20,000 new homes and 520-560 hectares of business land in the next thirty years to meet the growth needs of the district. Council have established they have enough land and infrastructure to meet this need across urban areas and key growth nodes.

Sustainable Futures sets out the following strategic drivers, which reflect the key issues the district will face over the next thirty years:

1. Sustained growth and development – Whangārei is one of the fastest growing districts in New Zealand
2. Successful economy – including economic recovery from COVID-19
3. Housing needs – enough land and infrastructure, but limited housing choice and severe unaffordability
4. Changing climate and natural hazards- as a coastal district with a central city fronting the Hatea River
5. Resilient infrastructure – infrastructure must keep pace with growth and development and must be resilient
6. Transport choice – must be provided to ensure ease of movement and goods around, into and out of the district
7. Natural Environment – continued development puts pressure on the natural environment
8. Port and Marine industry – the expansion of Northport and the Navy base is moving to Whangārei
9. Community resilience – growth must be managed to ensure resilience is built in coastal and growing Māori communities.

It also sets the following performance goals:

- 80% of people will have 30-minute travel time or less to their place of work or education.
- 70% or more of new residential building consents are located within our urban area or growth nodes. 2% annual average increase in jobs.
- 10% or more new residential building consents are apartments and townhouses.

- 15% improvement in housing affordability, based on the HAM first home buyer measure.
- 1.5% annual increase in inner city residents for the first 5 years, then 5% annual increase

Whangārei City Centre Plan 2017

Whangārei City Centre Plan (The City Centre Plan) is a shared strategic vision for the city centre over the next 30 years. It sets out five key outcomes and seven transformational moves to deliver upon Council and the community's shared vision of a vibrant, busy and well-designed city centre. The City Centre Plan will inform future land use planning of the City Centre through the District Plan and identifies strategic sites, key street upgrades, open spaces, connections, entrances and city gateways, as well as bylaws and policies that require resolution. It identifies the need for a detailed precinct plan for the city core, the knowledge hub, and the waterfront to guide the future land use planning, guide development and identify key future projects in these precincts.

They five key outcomes are:

OUTCOME 1: Experience

In thirty years the city centre will be a busy and vibrant city centre with a range of retail, entertainment, arts and cultural facilities that offer a unique and authentic experience.

OUTCOME 2: Connectivity

In thirty years the city centre will be an easily accessible and safe city centre that is well connected to our surrounding district centres.

OUTCOME 3: Living

In thirty years the city centre will be a vibrant city centre community with a choice of homes, services and amenities to meet resident's changing needs.

OUTCOME 4: Employment and Education

In thirty years the city centre will be a dynamic and innovative city centre which attracts success through job creation, knowledge and economic transactions

OUTCOME 5: Design

In thirty years the city centre will be renowned for its exciting, unique and well-designed buildings and spaces for work and relaxation.

The City Centre Plan identifies the following seven transformational moves needed to deliver change:

1. Develop an experience focused pedestrian-friendly city core
2. Create a balanced movement network for pedestrians, cyclists and vehicles
3. Identify strategic development sites to be catalysts for change
4. Enable inner city living to create a vibrant urban community
5. Ensure quality design is delivered across all our public spaces and private development.
6. Maximise the use of our waterfront as a key destination and focus for redevelopment
7. Create attractive entrance ways at key locations to promote the city centre and its identity

City Core Precinct Plan (Adopted May 2019)

The City Core Precinct Plan (CCPP) guides the development of a 25ha area located in central Whangārei, adjacent to the Town Basin waterfront. It is bound by Dent Street to the north, Walton street to the east and the railway line to the west. It includes the main shopping street – Cameron Street and retail is the main activity in the area. It is adjacent to the waterfront precinct and Laurie Hall Park – the central area’s largest green open space is located here. The City Core is well-served by bus routes.

The CCPP is the second city centre precinct plan to be delivered (after the Hihiaua precinct plan DATE) and aligns with the key outcomes in the Whangārei City Centre Plan. It contains recommendations for improving the quality of the public realm in the city core. It identifies six drivers:

1. Reinforce easy navigation
2. Nurture the city character
3. Support diversity
4. Encourage active edges
5. Ensure connections
6. Develop a quality public realm

It identifies three work programmes, supporting projects and actions to deliver public realm improvements. These include the identification of strategic sites. The programmes are:

1. Complete Streets
2. Waterfront to City Core Visitors
3. Wayfinding and Connections

The Complete Streets Masterplan (2020)

The Complete Streets Masterplan (CMP) is a streetscape and design manual that sets a 30 year vision for the revitalisation of the central city streets and spaces, with a focus on the city core. It was identified in the 2019 CCPP as a key action and delivered in 2020. It delivers a suite of design principles and outlines plans for 19 streets within the city core by identifying the purpose, character and typology of each space and street. Two of these streets – James and John Street pedestrian priority streets- are identified as catalyst projects and Council is currently seeking the community’s feedback on funding these projects in the Long Term Plan.

Operative District Plan - Urban and Services Plan Change

Council has recently proposed the Urban and Services Plan Change as part of the rolling review of the District Plan. This plan change includes proposals to create new zones in Whangārei’s urban area.

- Regional Policy Statement 2018 (regional form/sprawl, regionally significant infrastructure i.e. utilities, electricity, strategic communications, strategic transport networks)
- The operative District Plan
- Whangārei City Centre Plan
- Blue/Green Strategy
- Open Spaces Strategy

- Walking and Cycling Strategy
- Weekend and Night-time Economy Strategy
- Alfresco dining policy
- Whangārei 20/20
- City Core Precinct Plan, Hiaua Precinct Plan, Waterfront Precinct Plan (TBC) and the Knowledge Hub Precinct plan)
- Making great places to shape our future – an urban design strategy for Whangārei District
- Northland Regional Council Long Term Plan 2021-2031

Whangārei City Centre Through the City Centre Plan and City Core Precinct Plan, our Council and community have created a shared vision for a vibrant, busy and well-designed city centre. These plans recognise that a successful city centre is a fundamental aspect of a thriving District economy. To deliver change, the plans focus on the delivery of the following transformational moves:

1. Develop an experience focused pedestrian-friendly city core
2. Create a balanced movement network for pedestrians, cyclists and vehicles
3. Identify strategic development sites to be catalysts for change
4. Enable inner city living to create a vibrant urban community
5. Ensure quality design is delivered across all our public spaces and private development.

As our population increases, we will need more houses. We expect to need an additional 20,000 homes over the next 30 years. But it’s not just about the number of homes, we also need to ensure that new homes built in the District meet our communities needs in terms of affordability, housing types, location and quality. The Growth Strategy encourages housing diversity and choice. Examining our changing demographics and household composition we can start to predict what types of housing people will need in the next 20 or 30 years.

Northland regional council LTP investment- water resilience

- \$500m of funding and grants to those most in need so they can buy water tanks, guttering and spouting, in partnership with other funders.

Climate change resilience – undertake adaptive pathways planning, write and begin implementing a zero-carbon transition plan. \$2m over next three years

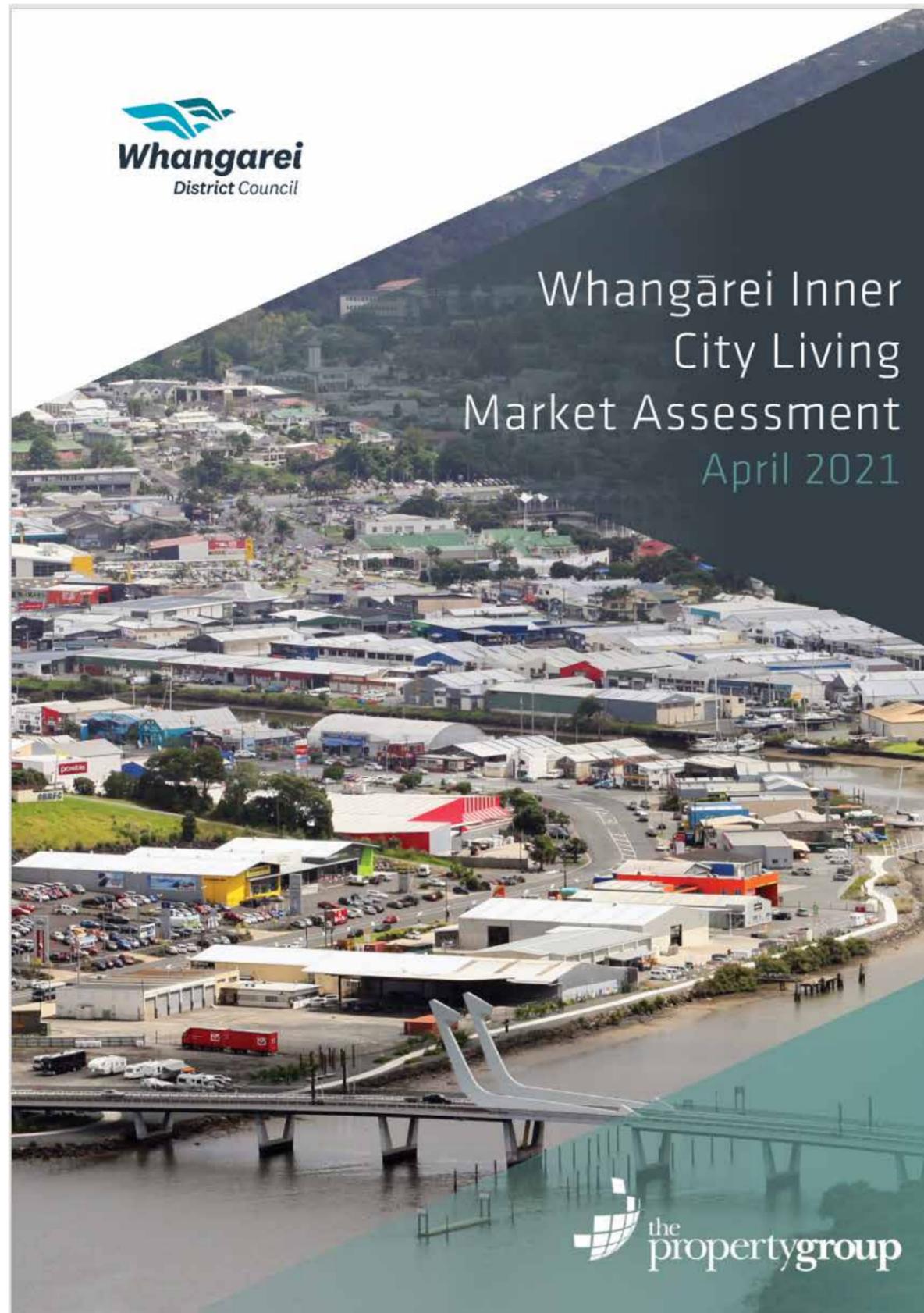
Flood mitigation – Tarewa Rd flood wall to reduce flooding to road and shops.

Increasing CityLink bus services

- We’re proposing more frequent buses on main arterial routes once bus lanes have been added and upgraded (by Whangareei District Council) to encourage people to move from cars to buses. During peak hours, buses would run every 15 minutes instead of every 30 minutes, and off-peak buses would run every 30 minutes instead of once an hour. Increasing these services will cost approximately \$4.2M over three years, but with a 54% subsidy from Waka Kotahi NZ Transport Agency. The cost to the ratepayer is significantly reduced, totalling \$437,000 in 2022/23 and \$644,000 and \$851,000 in the two subsequent years

Oruku Landing conference and events centre (four star hotel, apartments, restaurants and shops, conference and events centre) – 1.2m a year from 2023 to contribute to Northland’s economic development by helping fund the internal fit out of the events centre

Appendix 2: Market Assessment



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Quality control

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			Name/Position	Signature
01	22 April 2021	Preliminary draft for client review	Ruth Allen Urban Regeneration	

Executive Summary

The Property Group Limited (TPG) has been engaged by Whangarei District Council (Council) to prepare a business case for inner city living (residential development) in the Whangārei city centre. This market assessment has been prepared to support preparation of the business case. The purpose of the market assessment is to identify the current residential and commercial market in the town centre and to review the likely demand into the future.

The key findings of the market assessment and analysis include:

- Strong district residential growth and demand

Whangārei District's population is projected to continue to grow by an estimated 1.6% per annum over the next 10 years reaching about 115,000 people by 2031, and 144,000 by 2051. The number of dwellings in the District is projected to increase from 41,500 homes today to over 48,000 homes by 2031, and 61,000 by 2051.

- Limited small to medium sized housing stock available

There is currently limited availability of apartments, townhouses, or retirement units in Whangārei compared to similarly sized New Zealand cities. This suggests that there is currently an area of unmet demand for diversity of the housing stock including smaller dwelling typologies to accommodate, smaller household sizes and affordable price points.

- Increasing issues with housing affordability

Northland and Whangārei are following the New Zealand trend recent housing affordability in the Region is diminishing.

- High vacancy rates for retail and commercial office space in the city core

Whilst the retail sector has seen a marginal increase in both employment and contribution to GDP, the growth in the sector has not reflected a significant increase in retail operations in the city core. Investment and investor activity in this market is relatively subdued, with investors looking for higher yields or conversely looking to invest in other more stable commercial sectors.

- The need to integrate improvements to inner city amenity values and opportunities for residential development.

Achieving an increase of inner-city residential development will increase the demand for convenience retail in the city centre. However, the lower amenity generated by the existing high vacancy rates may in turn discourage the attractiveness of it as a residential location. Consideration of increasing amenity values and the potential for retail in the city centre is a key factor in encouraging inner city living opportunities.

- A number of planned investments in the wider District could provide opportunities to stimulate inner city living opportunities.

A number of planned investments, including the City Streets programme of works, upgrades to the State Highway network, and the development of the Hundertwasser Art Centre will improve the amenity values within the city core itself, improve accessibility and generate increased demand for the city's services. These projects should be considered in terms of how inner-city living opportunities can be stimulated through this investment.

1. Introduction

The Property Group (TPG) has been engaged by Whangarei District Council to prepare a business case for inner city living in the Whangārei city centre. This includes consideration of a range of residential dwelling typologies that could be developed in the city centre from residential apartments, mixed use developments to town houses. The purpose of the business case is to identify what the opportunities for inner city living are in the city centre, any barriers that exist to this type of development, and what interventions are required to support the development of inner-city living opportunities.

As part of the development of the business case it is important to understand the current market drivers behind inner city living development. This includes both an understanding of the current residential market trends as well as anticipated levels of growth and demand for inner city living.

The market assessment has been prepared as a background document to support development of the business case.

Scope of the Market Assessment

The market assessment aims to provide an understanding of the current market for residential and commercial development within Whangārei and particularly in the town centre. It also provides some indication how this may change into the future based on future directions for growth.

The objectives of the market assessment include the following:

- To identify the key drivers for demand for inner city living within Whangārei
- To review and quantify the current residential and commercial land uses within the central Whangārei
- To identify drivers and developing trends in relation to inner city residential and commercial development.

Report Structure

Following this introduction, this report provides an overview of the results of the assessment in the following sections.

- Section 2, The Strategic Context: Puts the assessment into context by providing a review of relevant plans and policies and what they mean for inner city residential development
- Section 3, The economic profile: Analyses of economic growth, investment, population and business floorspace projections
- Section 4, The Whangārei Residential Market: Analyses trends in the residential market to establish current and future demand for this sector
- Section 5, The Whangārei Commercial Market: Analyses trends in the commercial, retail, and accommodation to establish current and future demand for these sectors
- Section 6, Development cost assumption: Outline of development costs including, construction costs and other direct costs and other assumptions.

2. Strategic Context

The strategic direction for the future of the Whangārei District, including the central city is set through the following strategies, policies, and programmes established by the Whangarei District Council.

Together, these strategies, policies and programmes shape the broad objectives for the Whangārei district. Enabling inner city living to occur in central Whangārei is consistent with these strategies which seek to attract residents to the city centre to boost the economic viability, vitality, vibrancy and safety of the city centre.

Sustainable Futures: Whangarei District Council Growth Strategy 2020 (Draft)

Sustainable Futures sets out Council's plan to manage Whangārei District's growth over the next 30 years and provides a clear strategic picture for how the district should develop. It fulfills Council's requirements to meet the National Policy Statement Urban Development 2020 by providing an integrated framework that supports future decision making to ensure the right infrastructure is provided for at the right time.

Council's Housing and Business Development Capacity Assessment has identified that it will need to accommodate between 12,000-20,000 new homes and 520-560 hectares of business land in the next thirty years to meet the growth needs of the district. Council have established they have enough land and infrastructure to meet this need across urban areas and key growth nodes. However, it has identified that there is limited housing choice across the district and there is a need to increase the supply of smaller to medium density dwellings to accommodate population needs.

Sustainable Futures sets out the following strategic drivers, which reflect the key issues the district will face over the next thirty years:

- Sustained growth and development – Whangārei is one of the fastest growing districts in New Zealand
- Successful economy – including economic recovery from COVID-19
- Housing needs – enough land and infrastructure, but limited housing choice and severe unaffordability
- Changing climate and natural hazards- as a coastal district with a central city fronting the Hatea River
- Resilient infrastructure – infrastructure must keep pace with growth and development and must be resilient
- Transport choice – must be provided to ensure ease of movement and goods around, into and out of the district
- Natural Environment – continued development puts pressure on the natural environment
- Port and Marine industry – the expansion of Northport and the Navy base is moving to Whangārei
- Community resilience – growth must be managed to ensure resilience is built in coastal and growing Māori communities.

It also sets the following performance goals which are relevant to inner city living:

- 80% of people will have 30-minute travel time or less to their place of work or education.
- 70% or more of new residential building consents are located within our urban area or growth nodes. 2% annual average increase in jobs.
- 10% or more new residential building consents are apartments and townhouses.
- 15% improvement in housing affordability, based on the HAM first home buyer measure.
- 1.5% annual increase in inner city residents for the first 5 years, then 5% annual increase

Whangārei City Centre Plan 2017

The Whangārei City Centre Plan (The City Centre Plan) is a shared strategic vision for the city centre over the next 30 years. It sets out five key outcomes and seven transformational moves to deliver upon Council and the community's shared vision of a vibrant, busy and well-designed city centre. The City Centre Plan will inform future land use planning of the City Centre through the District Plan and identifies strategic sites, key street upgrades, open spaces, connections, entrances and city gateways, as well as bylaws and policies that require resolution. It identifies the need for a detailed precinct plan for the city core, the knowledge hub, and the waterfront to guide the future land use planning, guide development and identify key future projects in these precincts.

They five key outcomes are:

OUTCOME 1: Experience- In thirty years the city centre will be a busy and vibrant city centre with a range of retail, entertainment, arts and cultural facilities that offer a unique and authentic experience.

OUTCOME 2: Connectivity- In thirty years the city centre will be an easily accessible and safe city centre that is well connected to our surrounding district centres.

OUTCOME 3: Living- In thirty years the city centre will be a vibrant city centre community with a choice of homes, services and amenities to meet resident's changing needs.

OUTCOME 4: Employment and Education- In thirty years the city centre will be a dynamic and innovative city centre which attracts success through job creation, knowledge and economic transactions

OUTCOME 5: Design- In thirty years the city centre will be renowned for its exciting, unique and well-designed buildings and spaces for work and relaxation.

The City Centre Plan identifies the following seven transformational moves needed to deliver change:

1. Develop an experience focused pedestrian-friendly city core
2. Create a balanced movement network for pedestrians, cyclists and vehicles
3. Identify strategic development sites to be catalysts for change
4. Enable inner city living to create a vibrant urban community
5. Ensure quality design is delivered across all our public spaces and private development.

6. Maximise the use of our waterfront as a key destination and focus for redevelopment

7. Create attractive entrance ways at key locations to promote the city centre and its identity.

City Core Precinct Plan (Adopted May 2019)

The City Core Precinct Plan (CCPP) guides the development of a 25ha area located in central Whangārei, adjacent to the Town Basin waterfront. It is bound by Dent Street to the north, Walton street to the east and the railway line to the west. It includes the main shopping street – Cameron Street and retail is the main activity in the area. It is adjacent to the waterfront precinct and Laurie Hall Park – the central area's largest green open space is located here. The City Core is well-served by bus routes.

The CCPP is the second city centre precinct plan to be delivered (after the Hihiaua precinct plan DATE) and aligns with the key outcomes in the Whangārei City Centre Plan. It contains recommendations for improving the quality of the public realm in the city core. It identifies six drivers:

1. Reinforce easy navigation
2. Nurture the city character
3. Support diversity
4. Encourage active edges
5. Ensure connections
6. Develop a quality public realm.

It identifies three work programmes, supporting projects and actions to deliver public realm improvements. These include the identification of strategic sites. The programmes are:

1. Complete Streets
2. Waterfront to City Core Visitors
3. Wayfinding and Connections.

3. Economic profile – Drivers for Change

The following section of this report provides a high-level overview of the economic profile of the Whangārei District to identify the key drivers for change and demand that will influence opportunities for inner city living.

Population growth and demand

Whangārei District’s population of approximately 98,300 (at 2020), is growing at around 2.4% per annum which is faster than the national average of 1.9% (Whangārei District Annual Economic Profile 2019) (refer to Figure 1). Recent growth now makes Whangārei New Zealand’s 12th largest city.



Growth in the Whangārei District is mostly associated with net migration rather than a natural increase. Of those people moving to Whangārei, the majority are moving from Auckland (Stats NZ, 2018). People moving out of Auckland are largely doing so due to pressures (housing costs, traffic, amenity) created by Auckland’s population increase, which is largely driven by immigration.

This migration from Auckland is a key consideration when considering demand for inner city living opportunities. To be considered as a feasible alternative to the Auckland housing market, inner city living opportunities will need to provide an affordable alternative with high amenity and with good access to the city’s key attractors including emerging employment opportunities and the natural environment.

Residential demand in the inner city

Despite the sustained period of growth, few residents currently live in the city centre. The Whangārei City Centre Plan (2017) reports that only 290 people are currently resident in the city centre, of which 65% are working age, 21% are seniors and 14% are children.

This can be partly explained by the currently limited number of dwellings available in the city centre to absorb this growth but also suggests that people moving into the district are seeking dwellings in the outer suburbs. To further analyse whether there is unmet demand for inner city living it is important to understand the changing population profile and also the other factors that will make the inner city an attractive place to live.

Population projections

Based on the Whangārei District’s Proposed Growth Model 2021-2051, the district’s population is projected to grow by an estimated 1.6% per annum over the next 10 years (slightly lower than the existing high – growth rate of 2.4%), reaching about 115,000 people by 2031, and 144,000 by 2051. The number of dwellings in the District is projected to increase from 41,500 homes today to over 48,000 homes by 2031, and 61,000 by 2051.

According to the 2018 Census data growth in the District is resulting in both an aging and younger demographic:

- In 2018 the median age had decreased to 41.4 years, with 21.2% of our population 0-14 years of age (compared with 19.3% in NZ)
- There is a rising number of older people (65+) in the District, with 19.7% of the population made up of +65-year olds (compared with 15.3% in NZ).

It is also predicted that population growth will continue to see an increase in the younger and older populations into the future (WDC, 2020).

Despite a shift towards smaller household sizes, detached houses on larger “full” (typically 700-1000m²) sections or ‘half’ (typically 350-500m²) are still the dominant housing typology in Whangārei and most new development is greenfield development on the fringe of the urban area. Additionally, very few consents have been issued for apartments, townhouses, or retirement units compared to similarly sized New Zealand cities. This suggests that there is currently an area of unmet demand for diversity of the housing stock including smaller dwelling typologies to accommodate, smaller household sizes and affordable price points.

For inner city living opportunities to provide for the younger and older groups of the population and meet this unmet demand, access to age-related services in the city centre will be a key consideration. For example, provision of aged care/health facilities within easy access to the city centre and employment and educational opportunities for the younger population.

Capacity for residential growth

As identified in Section 2 of this report, Council’s Growth Strategy – Sustainable Futures, confirms that the District has sufficient capacity to meet residential demand, over the next 30 years and that by allowing for this growth in the urban areas and key growth nodes infrastructure can be provided to support these areas of growth.

As shown in Figure 2 below, several areas of the District have been identified to accommodate the predicted population growth (Sustainable Futures, 2020). This includes both infill and urban intensification within existing urban areas as well as several suburbs on the outskirts of the city including Marsden Point/ Ruakaka, Hikurangi and Waipu.

Although many new homes are expected in central areas, including 1,200 along Port Road north through Regent, Kensington and Whau Valley plus 1,200 in Kamo and 2,500 in Maunu, the availability and development of land on the city's outskirts is key to achieving the target growth numbers of new homes.

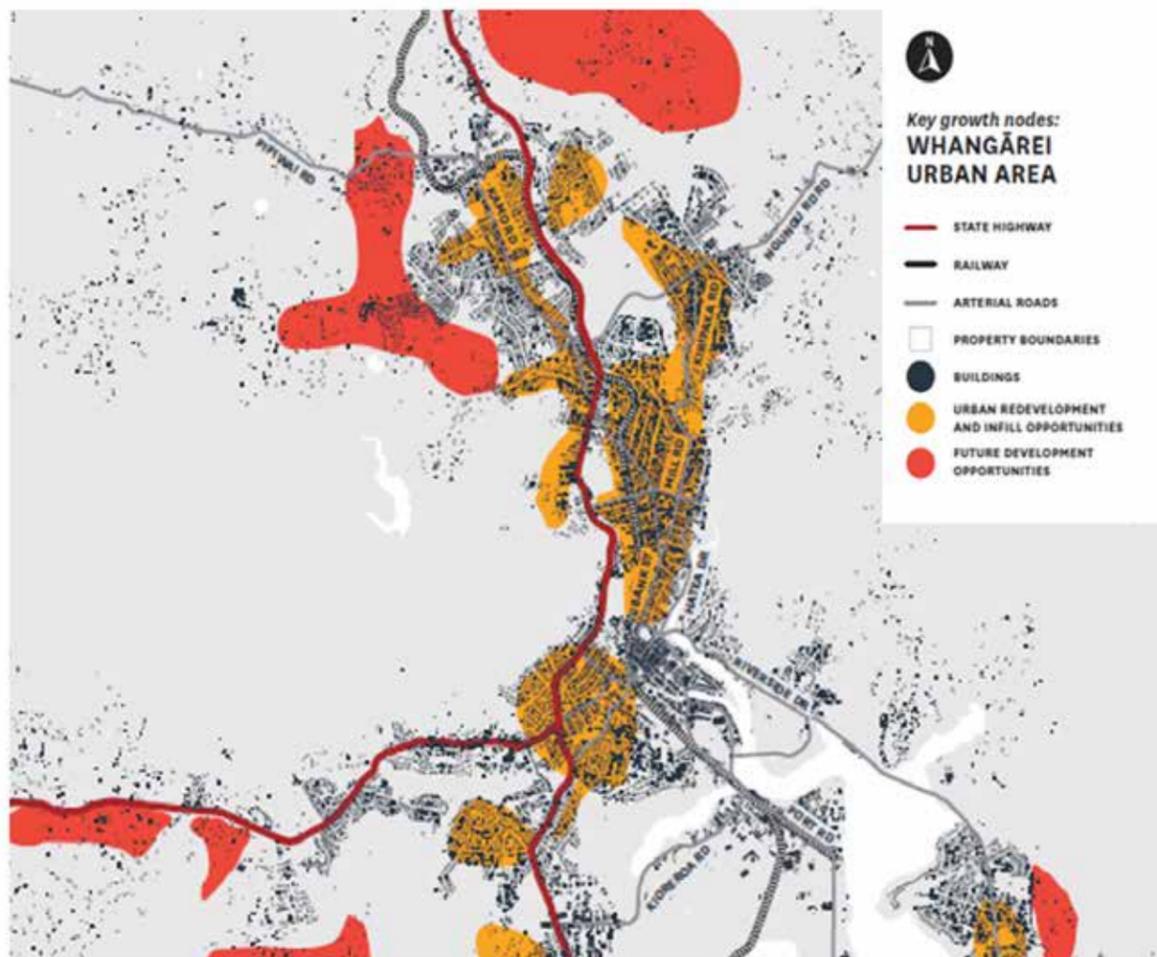


FIGURE 2 WHANGĀREI GROWTH NODES (SOURCE: SUSTAINABLE FUTURES, 2020)

Projected long-term future supply for housing is split between the different parts of Whangārei District as follows:

- About 40% of the supply for housing will be provided in the Rural Area, which include a number of rural villages and the majority of the District's coastal environment.
- Approximately 37% of demand will be accommodated within Whangārei City, which comprises the District's main urban centre plus adjacent greenfield areas;
- Meanwhile 23% of the future demand is projected to be accommodated within Ruakaka/Marsden Point, which is a rapidly-urbanising area near the south head of Whangārei Harbour

The residential growth anticipated at Marsden Point and Ruakākā is associated with the expansion of Northport activities and an anticipated demand in this location from commercial occupiers. Ultimately this area could

eventually become a satellite city to Whangārei with between 15,000 and 34,000

residents plus about 840 hectares of industrial and 200 hectares of commercial land (WDC, 2019).

This is a key consideration when thinking about inner city living opportunities. The market for homes in the inner city will need to provide a point of difference to those provided in the outer suburbs including Marsden point. The proximity of living close to the inner city and its amenity and services will be a key factor in achieving a successful inner city residential market. This is also a key consideration for the growth of the commercial sector in the inner city as many potential investors

Growth industries and employment

Whangārei District has an annual Gross Domestic Product (GDP) of approximately \$4.5 billion. This is about 1.5% of the national GDP. For the year to March 2019, economic growth was 1.8%. This was slower than New Zealand as a whole, which is growing at around 3% per annum. This reflects a similar trend over a ten-year timeframe, where Whangārei District's economic growth averaged 2.2% per annum, compared to an average of 2.5% per annum for the national economy.

The profile of Whangārei District's (the District) economy by broad sectors is as follows:

- Primary sector (agriculture) accounted for the smallest proportion of GDP in Whangārei District with 6.6% compared with 6.4% in the national economy
- Secondary sector (manufacturing and logistics) accounted for the largest proportion of GDP with 30.4% in Whangārei District, which is higher than in the national economy 18.8%. Petroleum & Coal Product Manufacturing is the largest industry in Whangārei accounting for 11.3% of the total economy.
- Tertiary sector (service sector) accounted for GDP of 29.8% compared with 35.9% in the national economy
- Quaternary sector (research and development) accounted for GDP of 17.5% compared with 24.9% in the national economy.

Agriculture, Forestry and Fishing made the largest contribution to the region's economic growth between 2018 and 2019 with an increase of 5.9%. This equated to 0.37 percentage points of the District's total growth of 1.8%.

The next largest contributors to economic growth were, retail trade, 0.22 percentage points, and construction, 0.20 percentage points.

Employment

Total employment in Whangārei District was approximately 40,750 in the year to March 2019. This increased by 1.7% from a year earlier compared to an overall employment growth in New Zealand of 1.9% over the same period.

The broad sector split of employment in Whangārei District is as follows:

- Primary sector accounted for 6.6%- compared with 5.9% in New Zealand
- Secondary sector accounted for 22.5%- compared with 19.8% in New Zealand
- Tertiary sector accounted 41.4%- compared to 43.2% in New Zealand

- Quaternary sector accounted for 29.5%- compared with 31.1% in New Zealand.

Among broad industries, Health Care and Social Assistance was the largest employer in Whangārei District in 2019 accounting for 15.7% of total jobs. The second largest was Construction (10.9%) followed by Manufacturing (10.3%). These industries also accounted for most new jobs in the region. Hospitals (except Psychiatric Hospitals) were the largest creator of jobs, generating an additional 134 positions, followed by Aged Care Residential Services, which added 70 jobs over the same period.

Self-employed workers accounted for 18.7% of the workforce in Whangārei District in 2019, which was a higher rate than in the national economy (16.2%). A total of 7,611 workers were self-employed in Whangārei District in 2019.

TABLE 10 – WHANGĀREI DISTRICT INDUSTRIES BY JOB CREATION 2019-2020

Industry	Northland Region		Filled Jobs	
	2019	2020	Change	Annual Growth
Construction	8,115	8,583	468	5.80%
Public Administration and Safety	3,363	3,747	384	11.40%
Health Care and Social Assistance	9,369	9,554	185	2.00%
Retail Trade	7,309	7,457	149	2.00%
Professional, Scientific and Technical Services	3,987	4,100	113	2.80%
Education and Training	6,233	6,331	98	1.60%
Transport, Postal and Warehousing	2,855	2,918	63	2.20%
Arts and Recreation Services	1,153	1,179	26	2.20%
Rental, Hiring and Real Estate Services	2,036	2,060	24	1.20%
Other Services	2,996	3,011	14	0.50%
Wholesale Trade	2,303	2,314	11	0.50%
Electricity, Gas, Water and Waste Services	879	885	6	0.70%

Financial and Insurance Services	804	810	6	0.70%
Mining	199	195	-4	-1.90%
Accommodation and Food Services	4,656	4,645	-11	-0.20%
Administrative and Support Services	2,855	2,843	-11	-0.40%
Information Media and Telecommunications	515	491	-25	-4.80%
Manufacturing	7,050	7,007	-43	-0.60%
Agriculture, Forestry and Fishing	8,223	8,046	-176	-2.10%
Total	74,898	76,175	1,277	1.70%

As outlined above the Construction, Public Administration and Safety, Healthcare, and Retail are the industry that created the most jobs in the District.

It is important to note that the retail sector and the accommodation sector, which are key to driving inner city revitalisation, are currently in decline or showing low to marginal growth.

Change in the retail sector

Whilst the retail sector has seen a marginal increase in both employment and contribution to GDP, the growth in the sector has not reflected a significant increase in retail operations in the inner-city precinct. Investment and investor activity in this market is relatively subdued, with investors looking for higher yields or conversely looking to invest in other more stable commercial sectors.

The inner-city retail market is constrained by availability of parking, buildings with seismic issues and high operating expenditure in some places. Whilst there is a strong retail offering within the Cameron Street Retail Strip there are other areas of the central city that continue to maintain low vacancy levels.

Based on site observations and discussions with local industry representatives, vacancy in the central city precinct retail premises is very location focused, our key observations are as follows:

Central Cameron Street strip retail and the shopping mall continues to experience low vacancy levels, with a number of high value retail customers filling these premises on a long-term basis. This is also reflected by premium rental levels achieved in this area when compared with more secondary central city locations.

The Strand Arcade continues to have high levels of vacancy and a number of short-term transitional type tenants – this is largely as a result of limited parking and high operating expenditure associated with the infrastructure. Rental levels in this location reflect the difficulty in attracting quality tenants.

Rathbone Street is currently well occupied, along with the upper end of James Street and John Street with vacancy levels rising as you move away from Central Cameron Street. Vines street retail occupancy remains mixed with a number of older buildings remaining vacant. Rental levels in these locations are secondary to central Cameron Street.

In 2016, a Northern Advocate survey of the central city precinct including 10 main streets and The Strand Arcade found 50 empty shops, compared with 40 when the count was conducted in the previous year.

Evidence suggests that high vacancy levels in various central city locations is being exacerbated by increasing opportunities for retail outside of the city core. This is reflected by Bulk retail premises outside of the central city precinct, continuing to experience high occupancy rates, with waiting lists for some premises. Bulk retail in these outer city areas also benefits from generous levels of free parking. The growth in bulk retail premises is however constrained by the availability of new development. This increase in retail demand in the outer suburbs is also reflective of the pattern of residential growth in the outer areas.

Achieving an increase of inner-city residential development will increase the demand for convenience retail in the city centre. However, the lower amenity generated by the existing high vacancy rates may in turn discourage the attractiveness of it as a residential location. Consideration of increasing amenity values and the potential for retail in the city centre is a key factor in encouraging inner city living opportunities.

Further analysis of the market values of existing retail spaces in the inner-city precinct is provided in the following Section 4 of this report.

Inner city commercial spaces

The Whangārei office market appears mixed and fragmented. There appears to be an undersupply of prime office space and an oversupply of secondary and older office space. As a result, there is less demand and a higher level of vacancy for secondary office space.

In addition, demand for smaller office spaces appears to be high, as workplaces move toward more flexibility and staff spending more time working remotely. This trend is evident in the Whangārei office market with strong demand for footprints of less than 300sqm, with lower levels of interest and demand for larger footprints reflected by higher vacancies for these spaces.

As previously mentioned in this report, Whangārei is constrained by the availability of carparking. This too has a sustained impact on the commercial office market, with quality offices with poor levels of parking struggling to lease. The availability of carparking creates locational preferences and has resulted in tenants looking to relocate to outer city locations which are more accessible.

More positively, Northland as a region is experiencing solid economic and population growth which is driving increased enquiry from traditionally Auckland centric business looking to relocate to reduce costs.

Nationally there has been a trend of yield compression, largely as a result of the low interest rate environment. The number of investment sales in Whangārei is low and insufficient in number of accurately support a decrease in yields. The expectation is that yields have likely sharpened by 0.5% in the past 12 months and currently range in the region of 6.5% to 9.5%. This

maybe conservative but without the evidence to support sharper yields there is some uncertainty here (Telfer Young, April 2021).

Hospitality and the accommodation sector

Prior to the COVID-19 pandemic the accommodation market in Whangārei had been in a growth phase with increased overall guest nights, increases in the average length of stay, and overall occupancy.

While the tourism industry has been dampened by the impacts of the COVID-19 pandemic, the accommodation sector has been supported by the emergency and transitional housing shortage which is impacting many central and provincial parts of New Zealand.

Further analysis of the nightly rates and occupancy rates of existing accommodation sector in Whangārei is provided in the following Section 4 of this report.

Planned and potential investment

Alongside population and economic growth, it is important to also consider planned investment in the Northland Region more generally that may also impact on the viability of inner city living in Whangārei.

Where investment either improves the amenity values within the city core itself, improves accessibility to and from the city centre or generates increased demand for the cities services this should be considered in terms of how inner-city living opportunities can be stimulated through this investment.

The following planned infrastructure investment projects can be considered:

Education – Developments within the tertiary education sector should be considered in terms of the potential for student accommodation to locate within the city centre. Currently potential investment and development in this sector includes:

- The Tertiary Education Precinct/cluster: A collaborative arrangement to build a tertiary campus focused on delivery of Diploma & Degree level education to people in the Northland Region
- Investigation is currently underway for the development of a new Whangārei Boys High Engineering Academy which would see construction of a purpose-built engineering facility that will enable industry-focused training on site for students throughout Northland.

Streetscape enhancements- The Complete Streets Masterplan (CMP) is a streetscape and design manual that sets a 30-year vision for the revitalisation of the central city streets and spaces, with a focus on the city core. It was identified in the 2019 CCPP as a key action and delivered in 2020. It delivers a suite of design principles and outlines plans for 19 streets within the city core by identifying the purpose, character and typology of each space and street. Two of these streets – James and John Street pedestrian priority streets- are identified as catalyst projects and Council is currently seeking the community's feedback on funding these projects in the Long Term Plan.

Cultural and civic facilities- There are a number of projects under construction and/or investigation which will see improved cultural and civic facilities within close proximity to the inner city including:

- Hundertwasser Art Centre and Wairau Māori Art Gallery- This key project, expected to open by mid-2020, will receive up to \$1.5 million of IGR funding from Council. Other funding contributors include Whangaree District Council, Central Government, the

Lotteries Commission, Foundation North, the Lottery Grants Board as well as charitable trusts, pledges and donations. Located in the town basin in the heart of Whangārei, it will showcase works by the artist Friedrich Hundertwasser as well as contemporary Māori art

- Civic Centre Project – new council chambers – commenced January 2021
- New sports hub: Planning to purchase land for a major new sportshub (WDC LTP)
- New sports hub: Planning to purchase land for a major new sportshub (WDC LTP)
- Oruku Landing conference and events centre – \$60m Govt Covid response recovery funding for the events centre component. Other components are a hotel and apartments.
- Hihiaua Cultural Centre- \$3m Govt covid recovery funding for construction.

Transport projects – Currently a number of improvements to the State Highway, the rail network and the airport are under investigation and construction. This includes: SH1 Whangārei to Port Marsden – 22km upgrade, Jan 2020-Dec 2028 (investigation phase)

- SH1 Whangārei to Welsford safety improvements (design phase – construction to begin early 2021 for Northern section)
- Kiwirail investment – West Auckland to northland rail improvements for freight
- Future Whangārei Airport Expansion – Ruatangata land purchased (December 2020).

- A sustained period of population growth across the district, which is expected to continue, will drive continued demand for new residential development. Whilst the majority of growth can be accommodated within the outer residential areas, Council’s strategic policies and plans seek to absorb some of this growth through inner city living opportunities.
- The majority of population growth to date is due to net migration mostly from Auckland. To be considered as a feasible alternative to the Auckland housing market, inner city living opportunities will need to provide an affordable alternative with high amenity and with good access to the city’s key attractors including emerging employment opportunities and the natural environment.
- There is currently an area of unmet demand for diversity of the housing stock including smaller dwelling typologies to accommodate, smaller household sizes and affordable price points.
- For inner city living opportunities to provide for the younger and older groups of the population and meet this unmet demand, access to age-related services in the city centre will be a key consideration. For example, provision of aged care/health facilities within easy access to the city centre and employment and educational opportunities for the younger population.
- Whilst the retail sector has seen an increase in both employment and contribution to GDP the growth in the sector has not reflected an increase in retail operations in the inner-city precinct. Current high levels of vacancy in some locations is detracting from the amenity values needed to drive inner city living development opportunities.
- There appears to be an undersupply of prime office space and an oversupply of secondary and older office space. As a result, there is less demand and a higher level of vacancy for secondary office space.

4. Residential Market Assessment

To identify recent and potential pricing trends for inner city residential sales and rentals a review of recent sales across comparable markets has been undertaken.

District wide residential sales

The Whangārei house prices have continued to increase over the past 5 years, with a limited supply of new residential listings and increased demand which has driven property prices to its market peak at the time of researching this report. The median house sale price for all dwellings within the District for the previous three months (December-February) and how this compares to other regions is as follows:

- Whangārei District \$666,692.00
- Kaipara District \$669,333.00
- Tauranga City \$927,022.00
- Hamilton City \$746,909.00
- Auckland Region \$1,233,385.00

(Quotable Value, <https://www.qv.co.nz/property-trends/residential-sales-prices>).

The following assessment demonstrates continued high demand in the residential market up to early April 2021, properties continue to sell quickly with the overall average days for a property to sell being lower compared to 12 months previously.

COVID-19 does not appear to have been negative for the Whangārei market and even negative effects resulting from the change in LVR regulations moving back to 40% have not materialised. Both may have increased demand for property investments in Whangārei with some Auckland investors seeking lower cost alternatives.

It should be noted the medium and long term impacts of COVID 19 on the property market and demand for commercial and residential development is yet to become fully clear. The assessment provided in this report is based on market conditions in April 2021.

Inner city residential Sales

There are a limited number of residential units within Central Whangārei and sales data for the location as a standalone suburb isn't available.

Based on engagement with local landlords of inner-city apartments within the market value and rental values are currently in the range of \$600-\$650 for a 'high-end' two-bedroom inner city apartment.

To obtain an overview to understand and anticipate values in central Whangārei we've looked at data for Whangārei District as a whole and focussed on three of the larger central suburbs. We have also looked at other comparable markets (Orewa, Tauranga central, Hamilton Central and New Plymouth Central) to understand potential range of values that may be achievable as amenity values in the centre are enhanced through strategic investment, These have a greater amount of evidence and also provide a more reliable indicator as the data is based on a greater number of transactions.

The table below shows the median price for all dwellings, houses, apartments and flats in these locations.

TABLE

Median Price (\$)				
Whangaree area	All Dwellings	Houses	Apartments	Flats
Whangārei District	\$639,000	\$663,000	\$1,579,000	\$434,850
Kensington	\$606,000	\$638,000	\$303,000	\$476,500
Regent	\$635,000	\$815,500	N/A	\$538,500
Avenues	\$613,000	\$613,000	N/A	\$459,500
Comparable Markets	All Dwellings	Houses	Apartments	Flats
Orewa	\$1,186,000	\$1,295,000	\$1,115,000	\$850,000
Tauranga City	\$858,500	\$870,000	\$809,500	\$735,000
Hamilton Central	\$677,000	\$753,000	\$650,000	\$716,000
New Plymouth Central	\$779,000	\$1,005,000	\$777,000	\$598,000

The following tables are an assessment of Standalone, Townhouse and Apartments gross sale prices for each Suburb. The standalone and town house evidence is obtained from Property Guru and sales within the past 12 months. Figures are gross sale prices per square metre of building area. The figures are given as a range with account of outliers in the data. Properties in each suburb range in terms of location, quality and size.

TABLE 3: RECENT SALES FOR STAND-ALONE HOUSING – PROPERTY GURU

Standalone Homes	
Precinct	Analysed Gross Sale Price (\$/sqm)
Kensington	\$ 3,100 - \$7,630 (average \$4,805)
Regent	\$2,370 - \$7,140 (average \$4,429)
Avenues	\$1,840 - \$7,289 (average \$4,448)
Comparable Market	
Orewa	\$3,314 - \$29,457 (average \$6,758)
Tauranga City	\$2,300 - \$9,857 (average \$5,188)
Hamilton Central	\$3,950 - \$5,950 (average \$5,518)
New Plymouth Central	\$1,673 - \$13,461 (average \$4,260)

TABLE 4: REC

Non-Standalone Dwellings (Flats, Townhouses, Units)	
Address	Analysed Gross Sale Price (\$/sqm)
Kensington	\$3,290 - \$7,400 (average \$4,848)
Regent	\$\$2,520 - \$6,050 (average \$4,478)
Avenues	\$ \$2,850 - \$6,010 (average \$4,160)

TABLE 5: REC

Apartments	
Comparable Market	Analysed Gross Sale Price (\$/sqm)
Orewa	\$4,524 - \$20, 914 (average \$8,112)
Tauranga City	\$2,805 - \$9,113 (average \$5,825)
Hamilton Central	\$4,700 - \$7,831 (average \$6,252)
New Plymouth Central	\$2,892 - \$5,789 (average \$4,329)

The number of apartments in the District appears comparatively low. Although we have not seen any specific data to support this it seems to stand out in the transaction evidence and also from our discussions with local real estate agents. Their commentary suggests demand is high if product is available. There are pockets of supply and demand appears strong including for high end, much larger units, which can be seen in several developments in the suburb of Riverside.

The below tables based on the few recent apartment transactions and also discussions with agents of anticipated sales prices for ‘average’ sized apartments, excluding car parks. Incidentally if a car park were to be added to the below at additional \$50,000 should be expected.

TABLE 5: RECENT SALES FOR UNITS PLUS ANTICIPATED VALUES – VARIOUS

Apartments	
Bedroom Typology	Whangārei District Gross Sale Price
1 Bedroom	\$290,000 - \$350,000
2 Bedroom	\$360,000 - \$460,000
3 Bedroom	\$450,000 - \$520,000

There is also some evidence of higher values being achieved in areas of high amenity. For example, there have recently been some apartments (3 bedrooms and 145sqm) sold in Riverside (opposite to CBD area over river) that have all sold for over \$1 million.

TABLE 6: RECENT SALES FOR UNITS PLUS ANTICIPATED VALUES – VARIOUS

Apartments	Whangārei District Sales Price
Bedroom typology	(\$/sqm)
1 Bedroom	\$6,000 - \$8,500
2 Bedroom	\$6,000 - \$8,500
3 Bedroom	\$5,500 - \$7,500

Resi

An overview of the median price points for rentals are shown in the tables below. The data is categorised by dwelling type, including detached houses and flats.

TABLE 8: MEDIAN RENTAL PRICE –TENANCY.GOV.T.NZ, 2021

Medium Market Rental			
Property Type	Kensington	Regent	Avenues
	\$/week	\$/week	\$/week
Apartments			
One Bedroom	\$325	\$313	No Data
Two Bedrooms	No Data	\$345	\$410
Flats			
One Bedroom	No Data	\$240	\$295
Two Bedroom	\$380	\$390	\$350

Houses			
Two Bedrooms	\$400	\$388	\$420
Three Bedrooms	\$485	\$505	\$450
Four Bedrooms	\$580	No Data	No Data

TABLE 8: COMPARABLE MEDIAN RENTAL PRICE –TENANCY.GOV.T.NZ, 2021

Medium Market Rental for Comparable Markets				
Property Type	Orewa \$/week	Tauranga City \$/week	Hamilton Central \$/week	New Plymouth \$/week
Apartments				
One Bedroom	\$430	n/a	\$350	\$280
Two Bedrooms	\$575	\$490	\$460	\$390
Three Bedrooms	\$630	\$695	\$530	n/a
Flats				
One Bedroom	n/a	\$450	\$320	n/a
Two Bedroom	n/a	n/a	\$360	\$340
Houses				

One Bedroom	\$400	n/a	n/a	n/a
Two Bedrooms	\$525	\$490	\$490	\$400
Three Bedrooms	\$600	\$590	\$550	\$495
Four Bedrooms	\$753	n/a	n/a	n/a
Five+ Bedrooms	\$764	n/a	n/a	n/a

Housing Supply

Despite the capacity of land supply, commented on in the Economic section above, the supply of housing is comparatively low considering Northland is one of the nation’s fastest growing regions by population.

There are pockets of small private developments across the city but few of the large scale developments required to satisfy current or anticipated demand.

Kainga Ora intend to provide 220 new homes in Whangārei. There is no defined timeframe. They have built 31 new homes in the district since November 2017 and works are under way for 37 new two, three and four-bedroom homes in Kāinga Ora’s Puriri Park Road, Maunu. More homes are also planned for Puriri Park Road in Maunu.

There is a general shortage of housing stock across the whole city and for all typologies. There is significantly more demand than supply. The shortage of stock, plus low interest rates and general positive economic indicators is encouraging developers and investors to provide new developments, including through in fill developments and a more intensive use of land.

In general new supply is significantly below what is required to meet demand in the short and long terms. This is especially the case for apartments and smaller units.

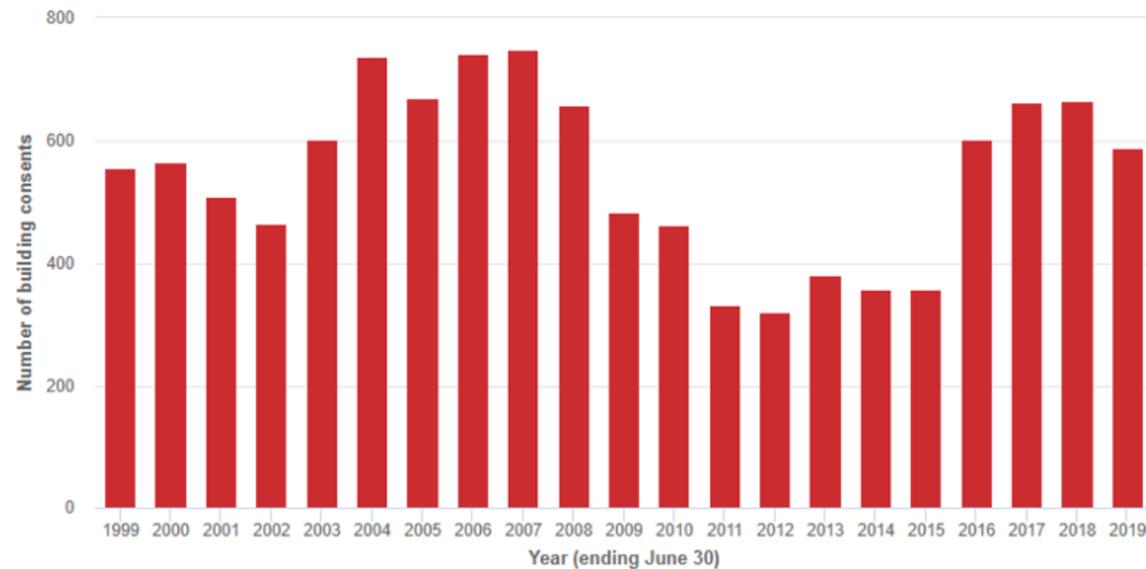
Building Consents

The graph below shows the history of the new residential building consents since the year 1999. This table provides an overview of when developments were brought online and the dwelling types. This also reflects the market demand for new houses, albeit with a likely time lag.

Residential building consents

Whangarei District Council

export 



Source: Statistics New Zealand, Building Consents Issued: September 2017 and earlier issues. Compiled and presented by [.id](#) (informed decisions).

The graph shows a trend for an increasing number of building consents leading up to 2008, however, this trend did not continue due to the Global Financial Crisis (GFC). Development slowed in much of Whangārei until 2016 when it started to bounce back, with the number of consents increasing close to the 2004-2008 levels. Interestingly this bounce back was much slower to materialise relative to the larger New Zealand cities including Auckland and Wellington.

Housing Affordability

The housing affordability index is the ratio of the average current house value to average annual earnings. A higher ratio, therefore, suggests that average houses cost a greater multiple of typical incomes, which indicates lower housing affordability (i.e. a lower index is more affordable).

Affordable housing is important for people’s well-being. For lower-income households, high housing costs relative to income are often associated with severe financial difficulty, and can leave households with insufficient income to meet other basic needs such as food, clothing, transport, medical care and education. High outgoings-to-income ratios are not as critical for higher-income earners, as there is sufficient income left for their basic needs.

The graph below demonstrates the affordability of housing in Northland Region and New Zealand by comparing average current house values with average annual earning. The trend for Housing affordability in Whangārei District follows that of Northland closely. It shows that Northland is following the New Zealand trend and generally indicates that recent housing affordability in the Region is diminishing, as is the trend in the nation.



FIGURE 4: HOUSING AFFORDABILITY 2006-2020 – INFOMETRICS QUARTERLY ECONOMICS MONITOR

Risk assessment

The effects of COVID-19 over the past twelve months are still unknown. In the short term it appears to have been a factor in supporting higher prices in the Whangārei District. The long-term consequences are not clear and whether the growth in house prices continues or declines as a result may well be linked to the consequences to the wider economy. With a continuation of a low interest rate environment a significant drop in house prices appears unlikely in the short term as long as stock is available to satisfy occupier and investor demand.

Unemployment in Whangārei District was 4.6% in December 2020 (Infometrics). The rate is down from 5.2% twelve months previously, which continues the general downward trend since the GFC. It remains to be seen if this will change because of the impacts of COVID-19 and long term consequences on the economy.

The number of building consents issued stepped up in 2016, this may decrease because of the impact of COVID-19 in line with the trends seen during the GFC including a general trend of banks looking to decrease lending for riskier projects.

The housing affordability index, as shown in Figure 4, has stepped up since 2016. The Index Value has increased from a figure of just under 5 to just under 6, meaning housing is now less affordable than 2016. This follows the general trend in New Zealand with house prices growing faster than incomes. This follows a period prior to 2016, when from 2008 to 2015, housing in Northland and Whangārei was becoming more affordable.

Although the housing affordability index hasn’t increased in Northland as much as the national average we would expect the potential growth in unemployment and the continuing trend for house price increases to move this indicator in the same upward trajectory as experienced since 2016.

5. Commercial Market Assessment

This section of the report provides a description of the current dynamics of the office and retail sectors within the Central Whangārei area. The focus of this section is on recent sales and rental activity, sale price per Gross Floor Area (GFA) rates, face rental levels and the outlook for the various markets.

Office Property Overview

Capital values

Analysis of recent sales indicated the following per square metre rates, this is based on the gross sale price per gross floor area of building.

TABLE 9: CAPITAL VALUES – TELFER YOUNG AND VARIOUS, 2021

Precinct	Capital Values (\$/sqm)
Whangārei Central – Prime	\$1,750 - \$5,000
Whangārei Central – Secondary	\$1,000- \$2,500

Rental values

There is a wide range of negotiated rents for prime space. This is also likely a result of the varied nature of market in a similar fashion as commented on in the above section. Whilst typical prime rents for space with a standard base fitout would be expected in the region of \$230 to \$240 per square metre, there are a number of comparables at significantly higher levels especially for space of less than 300 square metres. Also comparables for prime office space for larger footprints exist below \$200 per square metre.

These are Net Face Rents that do not include adjustments for any incentives negotiated by landlords to secure tenants, such as rent-free periods, rent reductions or rent abatements and fit-out contributions.

Prime rents have marginally increased over the past year, secondary rents have remained steady. The table below details average rental ranges per square metre for the different types of space in central Whangārei.

TABLE 10: GROSS FACE RENTAL VALUES – TELFER YOUNG AND VARIOUS, 2021

Precinct	Net Face Rent (\$/sqm)
Whangārei Central – Prime	\$165 – \$350

Whangārei Central – Secondary

\$90 - \$165

Analysis of the average rate of return for office space is 6.5% – 9.5% and is calculated by the gross rental divided by the gross sale price.

Risk assessment

Factors that will place downward pressure on the commercial market, include changes to the wider national economy:

- Employment slumps and increased demand for businesses to work from home because of the COVID-19 pandemic
- Inflationary pressure, resultant interest rate increases and therefore reduced investor confidence.
- Availability and future availability of car parking

Retail Market Assessment

Retail in Whangārei, much like retail in the wider Northland region, has been volatile for at least the past 18 months. More recently this has been attributable to COVID-19, however, the trend was established prior to the outbreak. Retail in Central Whangārei, both prime and secondary, is struggling and rental growth is expected to be static at best into the near future.

Prime face rents 10 years ago were in the region of \$600 per square metre for traditional shaped shops. Now \$600 for the same locations may be achieved but only for optimally sized space being entirely within the 'Zone A' space i.e. less than 6m deep the frontage. Recent evidence supports rents closer to \$300 per square metre for the traditionally shaped shops in prime locations with the greater, average depths. To retain the highest rental rates, and also to keep tenants happy with smaller shop requirements some units have been reduced in size with tenants retaining the optimal sections only and the rear remaining vacant or leased at much reduced rates.

The general trend of decreasing prime rents does not appear to have changed over the last 12 months. An extended leasing period should be expected as should the payment of generous incentives for any reasonable lease length to a tenant with reasonable covenant strength. A number of significant rent reductions have been agreed at lease expiry as landlords would rather keep a tenant than risk long vacancy periods. A number of shops located in prime locations have been vacant for several years.

Current face rent are detailed in the below table.

TABLE 11: GROSS FACE RENTAL VALUES – TELFER YOUNG AND VARIOUS, 2020

Precinct	Gross Face Rent (\$/sqm)
Whangārei Central – Prime	\$250 - \$600

Whangārei Central – Secondary

\$100 – \$250

As with office investments there are few recent retail investment sales to support investment yields. Analysis and general opinion for prime space indicate rates of between \$3,000- \$6,000 per square metre per retail unit, based on the gross sale price per gross floor area. Analysis of retail rates of return across the central district indicate investment returns ranging from 6%- 8.5%.

Risk assessment

The retail sector already operates in a small margin environment due to high levels of competition. The sector is likely to experience continued downward pressure from the increased online presence that has is likely to have been exacerbated from the Covid-19 lockdown periods. Any increase in unemployment and likely reductions in spending will have further negative effects. It is likely the downward trend of the retail sector will continue without holistic changes, there has been very little retail development in Whangārei in recent years.

Accommodation

The New Zealand tourism sector had been in a growth phase in recent years, with international visitors reaching a record 3.9 million in the year end July 2019, up 2.8%.

Whilst the tourism industry has been dampened by the impacts of the COVID-19 pandemic, the accommodation sector has been supported by the emergency and transitional housing shortage which is impacting many central and provincial parts of New Zealand. The accommodation sector in Whangārei is small and benefits from the wider tourist attractions offered by the Northland Region.

The above statement is supported by accommodation occupancy statistics for January 2021 indicating occupancy levels of 64.5% for the Whangārei District which compares to the New Zealand average of 52.4% during the month of January. The level of occupancy for Whangārei in January 2021 is up slightly on the longer-term average prior to the COVID-19 pandemic, which was 57.6% in January for the period of 2017-2019 and 19.5% for June over the same period.

Hotel and Motel Sales

There have been a small number of accommodation offerings sold in Whangārei in recent times. The number of sales is insufficient to establish sale price trends.

Hotel and Motel Supply

In the Northland Region new hotel and motel supply has generally been well absorbed in recent years because of buoyant trading conditions, however, there has been a limited new supply of hotels/motels in Whangārei in recent times.

Accommodation Rates

The table below summarises the nightly rates for hotels and motels in Whangārei on the basis of the Star Rating. The below rates are quoted on an inclusive of GST, if any, basis.

Rating	Number of Guests	
	2	4
3 Star	\$100 - \$150	\$160 - \$200
4 Star	\$140 - \$225	\$190 - \$240
5 Star	\$200 - \$250	\$250 - \$320

TABLE 1: RATES PER NIGHT FOR MOTELS IN WHANGĀREI (VARIOUS PUBLICLY AVAILABLE ONLINE SOURCES)

We have also considered the rates paid for Airbnb accommodation across the Kāpiti Coast which ranges from \$100- 400 per night depending on the location, quality of amenities, and the number of guests. These rates exclude any additional cleaning costs and are quoted on an including GST, if any basis.

Pre-COVID-19

In the Northland Tourism Organisation (RTO) area, for the year ended August 2019, compared with the previous year, the following statistics were recorded (StatsNZ, 2019). The data relates to the Far North District, Kaipara District and Whangārei District.

- Guest nights rose 4.5% to 90,907
- International guest nights fell 10.0% to 26,284
- Domestic guest nights rose 11.9% to 64,623
- The average length of stay rose from 2.22 nights to 2.30 nights
- The overall occupancy rate rose from 18.3% to 19.2%
- The occupancy rate, excluding holiday parks, was 32.5% in August 2019
- Accommodation capacity, excluding holiday parks, fell 0.4%.

The above key findings indicate that the accommodation market in the district appeared to be in a growth phase pre CVOID-19.

Risk assessment

Factors that will place downward pressure on the accommodation market include:

- Inflationary pressure and resultant interest rate increases, and therefore reduced investor confidence
- Delays in the COVID-19 vaccination programme.

6. Development costs assessment

Introduction

The purpose of the development cost review and the rates noted below is to identify indicative construction costs within the Whangārei market to inform the preliminary financial feasibility and modelling of the development options. The cost information is based on the market sectors identified by TPG and as generally commented on in this report. The costs below are broad and based on generic assumptions of the site and proposed buildings. They assume a median build quality and average floor sizes. They will require refinement as the build options are further defined. Any site-specific conditions, including those that may onerously affect the due diligence, method of construction or materials will need to be assessed with the feasibility studies and included in addition to the below as the individual projects are defined and assessed.

It should be noted development costs, and particularly construction costs, are currently volatile while consequences of the COVID-19 epidemic fully feeds through to the market. The below indicative costs are based on current development estimates as of early 2021, however, these estimates are themselves heavily caveated and subject to update, availability of materials and cost updates at the time of instruction. They will likely be influenced by pre COVID-19 prices and therefore a degree of cost escalation might be considered, however, any factor on this is currently unknown and potentially will be until the economy normalises. Further comment is included in the Cost Escalation section below.

Construction Costs

Once the project is further defined including detail around occupier use, building type, floor areas, number of levels, location, access etc are available, a refined build cost will be provided for the feasibility studies which will incorporate site-specific issues. The following rates are indicative and for guidance only. They are build rates for construction above ground on a gross floor area basis. Rates are exclusive of the following:

- Goods and Services Tax
- Demolition
- Remediation and removal of contaminated materials, including in demolition and earthworks
- Site works, earthworks and site infrastructure costs
- Service connections
- Foundation costs
- Car parking
- Resource consent fees
- Council development costs (contributions)
- Professional Fees
- Legal costs
- Finance costs
- Contingency
- Developers Profit
- Land purchase

Specification enhancements for 'Iconic', 'Gateway' or the like projects are excluded from the rates noted above.

Approximate Build Rates

- Retail: \$1,850 - \$2,550 per square metre (Ground level of three-level building, shell construction, excludes tenant fitout, fittings, hot water, HVAC and sprinklers)
- Office: \$3,250 - \$4,000 per square metre (Ground level of three-level building, basic finish, excludes fit-out and sprinklers)
- Apartments: \$3,800 - \$5,000 per square metre (Two levels above commercial use)
- Apartments: \$3,600 - \$4,800 per square metre (Three to four levels including ground)
- Town Houses: \$3,000 - \$4,300 per square metre (Three levels including ground)

Site establishment

Site establishment is not included within the above. The cost is site specific and will vary dependent on a number of factors including location, accessibility and surroundings.

Construction within a city centre development will require additional costs for site establishment and temporary works above a more suburban or rural location. Brownfield sites are also likely to incur additional costs relative to a greenfield site.

Development contributions

Council's Development Contributions are set by the Whangarei District Council 2018 Development Contributions Policy. The relevant Development Contribution zone is 'Whangārei City' and the various Development Contributions for residential developments are summarised as follows:

TABLE 12: WHANGAREI DISTRICT COUNCIL CONTRIBUTIONS FOR RESIDENTIAL DEVELOPMENTS

Whangārei City Levies 2018 – Per Housing Unit Equivalent (HUE)	
Parks and Reserves	\$1,964
Transport and Roding	\$7,768

Wastewater	\$3,175
Water	\$6,649
Libraries	\$338
Total	\$19,894

Council may apply a pro-rata development contribution rate to an additional dwelling, if the dwelling is less than 100 square meters of gross floor area (GFA), recognising the lower level of impact generated by the additional dwelling

A non-residential subdivision will attract development contributions for each new allotment created at the rate of one non-residential HUE per new allotment. Credits will be applied when a construction or Land Use activity takes place on the lot.

Non-residential land use will attract development contributions based on the demand a proposed new building or activity will place on Council's network infrastructure. It is noted that Council does not require contributions for Community Infrastructure from non-residential development as Council considers that non-residential Land Use impacts are at such a low level that it is administratively inefficient to require contributions.

Resource Consent

Planning compliance, including resource consent costs will be dependent on the site the specifics. As a general rule of thumb resource consents (exclusive of Development Contribution Fees) could be considered to generally be in the region of 0.05% to 0.1% of the gross development value. This will be dependent on the project and its complexities but assumes no part of the development is materially contrary to the unitary plan.

Legal fees

Legal Fees inclusive of Surveying and Subdivision Fees will be dependent on the site. Costs for complex sites will require to be incorporated within site specific project business plans.

Cost Escalation

Construction costs and material prices have been extremely volatile following implications of COVID-19. Effects including following the periods of shutdown, and also logistics and import difficulties have resulted in significant increases. These are ongoing, particularly for

materials like timber and steel, and estimating a figure for how much these have increased over the past 12 months across the market will be inaccurate.

It appears a degree of cost uncertainty will continue over at least the short term and potentially over a longer time period. Although it is generally anticipated costs will rise over the next 5 years we would recommend updating costs with the Quantity Surveyor rather than relying on a cost escalation assumption.

Land Costs

High-level land values have been indicated by Telfer Young Limited as being in the region of \$2,000 per square metre for prime central Whangārei locations, falling to circa \$700 to \$800 per square metre for secondary sections with limited frontage or back ally locations.

