

13 July 2016

NPS Urban Development Capacity
Ministry for the Environment
PO Box 106483
Auckland City 1143

SUBMISSION ON THE PROPOSED NATIONAL POLICY STATEMENT ON URBAN DEVELOPMENT CAPACITY

The Dunedin City Council (DCC) welcomes the opportunity to make a submission to the Ministry for the Environment to inform the amendment to the Proposed National Policy Statement on Urban Development Capacity (NPS-UDC).

The DCC conditionally supports having an NPS on urban development capacity if the relief sought in this submission is provided.

This submission provides comments on the following elements:

- Problem Definition and Objectives as outlined in the consultation document
- The content of the draft National Policy Statement
- Other related matters.

Please note this draft submission was approved by the Council's Planning and Regulatory Committee on 12 July 2016, and is subject to formal ratification by the full Council on 1 August 2016.

Background

The DCC is responsible for meeting the current and future needs of communities for good quality local infrastructure, local public service and performance of regulatory functions in a way that is most cost effective for households and businesses, under the Local Government Act 2002.

The DCC has been identified as a local authority that only needs to comply with objectives and policies in the "OS/PA" group. The DCC supports this assessment and notes that this submission primarily relates to the objectives and policies which apply to this group.

The DCC conditionally supports having an NPS on urban development capacity if the relief sought in this submission is provided. The DCC regularly undertakes development capacity assessment and has mechanisms in place through its Spatial Plan and proposed district plan to meet the objectives and most of the policies of the proposed NPS. The DCC's plans and strategies, however, place more emphasis on considering how to provide development capacity in a way which promotes environmental, economic, social and cultural well-being and sustainability. Many of the DCC's comments reflect the view that urban development should not be promoted as an 'end-in-itself.' The DCC suggests that broader recognition should be given in the NPS to promoting good urban development and the principle of long term inter-generational environmental and economic sustainability in the document.

The DCC suggests that the NPS needs to place equal emphasis on encouraging support for urban development and on avoiding urban development that may have irreversible and significant adverse effects on communities and lead to development that is economically or environmentally unsustainable. This outcome is particularly important for lower growth areas,

where the key issue related to urban development is more likely to be ensuring the long-term affordability of the pattern of urban development rather than the relatively small impact that urban land supply has on housing affordability in a low growth city.

The DCC requests consideration of several amendments detailed below in relation to each of the Proposal's objectives. Requested additions are indicated via underline, deletions via ~~strikethrough~~.

A. Problem definition as outlined in consultation document

Dunedin City Council Supports

The DCC supports the recognition of the importance of the quality of urban environments in terms of attracting people (p.20) and the recognition that without good planning "cities can become victims of their own success, burdened by rising traffic congestion and house prices and poor quality environments" (p.21). The DCC also supports acknowledgement of the important role that local authorities play in the success of urban areas. There is strong support for the statement that local authorities must consider the needs of the whole community and the impact that planning decisions will have on future generations and for the acknowledgement of the risk of decisions that protect current, local interests, at the expense of broader community outcomes and future generations.

The DCC also supports the discussion around providing for business needs that recognises that there can be an oversupply of business land that can lead to unfunded infrastructure and struggling town centres. The recognition of the need to protect industrial land from incompatible land uses and land uses that may drive up the cost of land is also welcomed. Shifts to "higher value" commercial activities can in fact reduce employment opportunities and economic opportunities for the city, as retail activities offer fewer jobs at good salary levels and economic returns for cities, compared with many industrial activities. The DCC submits that in some cases, resisting, rather than facilitating, spatial change is necessary to achieve productivity growth.

The experience with recent proposed plan changes that sought to shift industrial uses away from industrial land on the waterfront to enable 'higher value' uses by providing greenfield land for industrial activities, resulted in a number of the issues identified in the NPS:

- The industrial activities did not want to shift as their operations (due to locational relationships with other suppliers and better access to markets, as well as the capital investment in their assets);
- The re-zoned land was not taken up by any industrial activities over a long period and therefore there was no development to fund the infrastructure expansion necessary, and the lack of infrastructure also made the area difficult to market;
- In the waterfront area, due to the plan change enabling more sensitive activities, existing industrial activities submitted that their continued operation would be threatened by reverse sensitivity effects.

Dunedin City Council Does Not Support

In terms of the discussion on constraints, the document correctly recognises that planning decisions often respond to groups in the community that are the most vocal or well-resourced in consultation processes. However it fails to identify that often these are developers or development advocacy interests. Often, the most poorly represented are future rate-payers who don't understand the relative costs and benefits of different types of development.

The assumption that current planning decisions “emphasise the status quo” also does not accord with the consents granting statistics and outcomes in Dunedin. The DCC questions whether this assumption is based on a thorough analysis of consents data.

The DCC disagrees that a key example of decisions responding to outspoken groups, at least in the Dunedin context, is plans not providing enough development opportunities to meet demand for housing and therefore contributing to increased housing prices. The DCC also disagrees with the statement that decision-makers need to “*better understand that constraints on development to protect and manage precious natural and physical resources, such as heritage, landscapes and amenity values, comes at a cost*”.

The DCC is well aware of the constraints on development and the cost of protecting resources, but also of the benefits of adaptive reuse of heritage buildings. The experience in Dunedin is that protection and reuse of heritage buildings are not achieved at the expense of community access to housing and employment.

The DCC’s experience with developing and implementing a regeneration plan for the Warehouse Precinct heritage area near the CBD was positive. This project was equally successful in creating new spaces for housing and employment as it was in protecting and using heritage buildings. Heritage buildings are very attractive to the Dunedin market for both office and residential spaces. The result was new high quality and high return commercial spaces from what were essentially derelict heritage buildings, with a relatively low level of investment from the DCC supporting some of the additional costs associated with working with heritage buildings. This project has increased tourism opportunities, uplifted the amenity of this part of the city significantly, and has provided a high-profile opportunity to market the city.

A recent analysis of the return on investment showed that for a \$1.1m council investment in grants and amenity upgrades, the city has leveraged \$52m in private investment.

Finally, the DCC notes that the consultation document lacks discussion around changing demographics. The DCC suggests that commentary on how changing demographics may affect urban development demand long term and how the conflict between short terms demand versus long term demand should best be managed, would be useful.

B. Content of Proposed NPS

Definition of urban development

The DCC submits there is a need to define “urban development” including:

- at what density land use becomes urban, especially with regard to residential and industrial areas, which can vary significantly in the density of their development and what type of public infrastructure (vs private infrastructure) is provided. The DCC recommends that rural residential and large-lot residential that is not serviced by reticulated public infrastructure be excluded from the definition. The DCC also suggests that industrial areas (rural industry) not connected to public reticulated infrastructure networks also be excluded;
- that urban development is clearly defined to include infill/intensification of existing urban areas, brownfield redevelopment, as well as greenfield development.

Note: References to public reticulated infrastructure are intended to include public water, storm water and waste water networks.

Short, medium and long term

The DCC questions the need to identify long term (15-30 years) development areas in district plans as the Council's experience is that this will create pressure for these to be developed out of sequence and too early. It is suggested that medium term should be extended to 15 years. This is the basis for areas identified in district plan and has been the approach in the proposed Dunedin City District Plan (2GP). This reflects the time-horizon of a district plan accounting for a plan change period for a full review of a plan.

The DCC also suggests that stronger support should be given to the use of Spatial Plans developed under the Local Government Act to identify longer term urban development needs (15-30 years), with district plans focusing on short to medium term needs (up to 15 years). The LGA is the only legislation that enables integrated planning to connect how infrastructure will be provided and funded (including all council provided facilities) with strategies for providing urban development capacity. The NPS cannot be truly implemented through District Plans alone given its requirements to clarify "the provision of adequate infrastructure, existing or likely to exist" in terms of the definition of development capacity. This is not something that can be achieved other than in an LGA strategy/plan.

Development capacity

The concept of development capacity as defined and used in the proposed NPS is not clear about the application of a methodology that includes a discounting approach to be applied to 'theoretical' capacity vs. 'real' (achievable) capacity. The approach taken in Dunedin's 2GP has been to calculate theoretical capacity and then apply a discounting factor.

In the 2GP the theoretical capacity is made up of:

1. the number of vacant sites
2. the infill capacity of the vacant sites (calculated by dividing the land area by the minimum site size plus a factor to provide for roading and other infrastructure)
3. the infill capacity of sites that already have a dwelling on them.

In general, only a portion of any theoretical capacity will be available on the market for development. The DCC therefore, translates that theoretical capacity into a more realistic estimate of real capacity by applying a discounting formula:

- Vacant sites created through greenfield development/subdivision less than 10 years old = 100% counted
- Vacant site older than 10 years = 80% counted
- Vacant infill = 10% counted
- Infill = 2% counted

This formula, while not entirely 'scientific' or modelled overtime, was based on detailed local knowledge, consents information, and observations of the market. However, local authorities could be encouraged to come up with local models that were evidence-based by tracking the market for sites against similar factors.

The proposed NPS seems to provide for this type of refinement approach through the use and definition of the word "sufficient". However, this is not clear as it does not reflect a Plain English interpretation of the word sufficient and could cause confusion. The DCC submits that instead, the NPS should clarify within the term development capacity itself, at least at a high level, how this should be calculated to be reasonably available capacity vs theoretical capacity. If capacity is calculated appropriately there is no need to create a 20 or 15% 'margin for error', which will likely only discourage a thorough analysis of capacity as the margin for error would be seen to allow for poor analysis. The DCC's experience in the 2GP has been that developers are reliant on councils identifying land appropriately. Time and money can be

wasted by developers exploring sites only to find that they cannot be developed economically due to the presence of hazards, due to slope or lack of availability to the market.

The DCC submits that the wording "provision of adequate infrastructure, existing or likely to exist, to support development..." is unclear as to who is responsible for providing and/or funding that infrastructure. The DCC submits that development capacity should be defined as:

"Development capacity means in relation to residential and business land, the capacity of land for urban development, taking into account the following factors:

- The zoning, objectives, policies, rules and overlays that apply to the land; and
- The provision of adequate infrastructure, existing or likely to exist, to support the development of the land, having regard to –
 - ~~The relevant proposed and operative regional policy statements, regional plans and district plans; and~~
 - ~~Any relevant management plans and strategies prepared under other Acts.~~
- clear rules, agreements, and/or mechanisms being in place to ensure that adequate infrastructure can be provided within the period the capacity is calculated for, to support the development
- the likely availability of land to the market
- any constraints that may make the development of the land impractical or unachievable such as the presence of hazards, poor access to sunlight, poor climatic conditions, slope, lack of amenity."

The third and fourth original bullet points should either be deleted or be expanded to include the full range of mechanisms that might ensure this (which can include private development agreements as well as other mechanisms).

Objectives

Overall, the DCC supports the intent of OA1 and OA2, although some changes are suggested. The DCC submits however, that OA3 is not necessary nor does it add value. Development and change are not inherently 'good things' that needs to be promoted. Change invariably creates stresses on communities as it often disrupts social networks, and people's relationship to place. While change may be necessary to enable broader positive effects to be realised, these adverse effects should always be considered and mitigated as far as practicable. The DCC suggests that clarification is required around a more meaningful outcome that change is designed to enable.

The DCC submits that the NPS should include an objective promoting the efficient use of land and infrastructure, and minimisation of the long term costs to ratepayers of development and ensuring that development is economically, socially and environmentally sustainable in the short to long term. The DCC also notes that the discussion document does not address issues around demographic change in New Zealand nor economic shifts that affect the need for different types of commercial and industrial land, both of which will affect our long term housing and commercial land needs. As experience in other countries has shown, over expansion of urban development, and consequential increased costs per ratepayer associated with maintaining new infrastructure and facilities created as a result of growth, can quickly become unaffordable where a population declines or shifts to a lower income profile.

As a small low-growth city, the risks for Dunedin are more likely to be around the long term economic sustainability of development and this is something that should be reflected in the NPS.

The DCC submits that OA2 should be combined with OA1 to recognise that while capacity needs to be met, there are many ways to meet that capacity. Some of the solutions may contribute to the long term economic and social sustainability of communities and some may

offer short term gains but significant long term costs, especially for future generations. Furthermore, while New Zealand is currently facing issues related to too little capacity in many cities, in other parts of the western world over-supply or poorly planned supply has created equivalently significant problems. This has been particularly evident in the housing crashes, and local government bankruptcies that have occurred in the US.

The DCC proposes new wording which reads:

"Adequate residential and business development capacity is provided for through;

- (i) district plans and other plans and strategies which enable the demand to be met in a way that supports the purpose of the Act and;
- (ii) effective and efficient urban areas that enable people and communities to provide for their social, economic and cultural well-being."

The DCC broadly supports objectives OB1 and OC1. However, OD1 as currently worded is opposed. The Council suggests that OD1, similar to OA3, reads as if urban development is an end in itself and always a positive thing. Urban development, if not well planned, can have significant adverse on social, economic and cultural wellbeing (OA1), as well as not supporting the purpose of Part 2 of the Act with regard to sustainable management of natural and physical resources. The DCC is neutral on OD2, although has some concerns if this is interpreted to mean (as indicated by current definition of sufficient) that capacity must cater to housing wants (market wants) rather than housing needs. This is likely to result in an economically and environmentally unsustainable form of development. Demand is always high for low density residential development in greenfield locations, which can create unaffordable long term costs to ratepayers, if the primary pattern of development where more efficient use of land is an option.

The DCC also notes there are no objectives that discuss the need for urban development to achieve environmental sustainability. It could therefore be argued that the NPS does not reflect the most critical component of the Purpose of the Resource Management Act.

Policies

The DCC supports PA1 and PA2 in principle, but submits that there is a need to change the wording of PA2 to read:

"Local authorities must identify existing or new land areas that will provide sufficient development capacity to meet the short, medium and long term needs of the community in plans and strategies prepared under the Resource Management Act and Local Government Act".

The DCC proposes that the following text be added to PA3:

"When considering the effects of urban development, decision-makers must:

- Recognise and provide for the contribution that urban development will make to the ability for people and communities and future generations to provide for their social, economic and cultural wellbeing.
- Provide sufficient development capacity, whilst maximising the positive effects of development, and minimising the adverse effects of development.
- Have particular regard to the positive effects of urban development at a national, regional and district scale, as well as its local effects.
- Consider the long term costs and affordability to ratepayers of urban development and ensure that development is designed to be economically sustainable."

The DCC also submits the addition of a new policy:

"PA4: Local authorities must support, as far as practicable, the realisation of development by developing rules, agreements, or other mechanisms to ensure land release and infrastructure can be provided to enable the actualisation of development capacity".

C. Is there anything else that would contribute to better understanding the supply and demand of development capacity?

The DCC strongly encourages further data collection and analysis to better understand the nature of the problem of housing affordability and its causes, as well as to better understand the housing market more broadly. Additional data collection which would be useful includes:

- the sizes of houses and sites created through greenfield development and their sales data for the first 10 years of 'life'- to track what part of the housing market (based on affordability) most new greenfield houses are being created for and how house prices rise;
- the value of development (building consents data) and land value vs sales to see how profitable house development of different types is and how affordable houses are based on type and location;
- national data collection on owner-occupied vs rental occupied and location of owners to see where property investment is coming from;
- national data collection of vacancy rates of buildings in residential and business areas.

Other related matters:

Dunedin City Council strongly encourages the NPS to identify methods that would ensure land is put to the market in a timely way and prevent land banking. This is essential not only to creating development capacity, but also for effective infrastructure planning. The Council uses and supports the use of transitional zoning, rather than direct zoning of land. This enables more land than is required to be identified and provides for a 'use it or lose it' type approach. Land that is not used within the period identified is removed and land where there is market commitment can be developed instead.

Dunedin City Council also supports the use of incentive funding for re-development that enables protection and long term use of heritage buildings or other existing strategic assets of the city where development would provide high benefits to the city in terms of social or economic wellbeing.

For further information please contact Anna Johnson, City Development Manager at anna.johnson@dcc.govt.nz or by phone on 03 477 4000.

Yours sincerely

Dave Cull
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