

**BEFORE A PANEL OF INDEPENDENT HEARING COMMISSIONERS
AT PALMERSTON NORTH**

**IN THE MATTER
AND
IN THE MATTER**

of the Resource Management Act 1991

**of the hearing of submissions on Palmerston
North City Council's Proposed Plan Change I
(Increasing Housing Supply and Choice)**

**STATEMENT OF EVIDENCE OF TIMOTHY JAMES HEATH
ON BEHALF OF KĀINGA ORA HOMES AND COMMUNITIES**

(ECONOMICS)

8 AUGUST 2025

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1. EXECUTIVE SUMMARY

- 1.1 I have been engaged by Kāinga Ora - Homes and Communities (**Kāinga Ora**) to provide evidence in support of its primary and further submissions regarding the Palmerston North City Council's (**PNCC's**) Proposed Plan Change I – Increasing Housing Supply and Choice (**PPCI**).
- 1.2 At a high level, PNCC's capacity assessment takes an overly simplistic approach, relying on a series of shortcuts, none of which appear economically sound.
- 1.3 In relation to Theoretical Capacity, the assessment appears to materially underestimate capacity. Notably, it omits Multi-Unit Development from the Operative District Plan (**ODP**) analysis, which undermines any meaningful evaluation of the relative capacity benefits of the Medium Density Residential Zone (**MRZ**). The assessment of PPCI also excludes sites under 700sqm, despite these being clearly enabled under the MRZ. These omissions directly undercut the estimated capacity enabled by PPCI.
- 1.4 Although these omissions suggest conservatism in the Theoretical Capacity Assessment, Feasible Capacity within the ODP has potentially been significantly overstated. The HBA assumes that all sites exceeding a certain land-to-capital value ratio are both commercially feasible and likely to be realised over the long term. However, applying these ratios to previous feasibility modelling undertaken by Property Economics suggests only a small proportion of these sites are feasible, let alone realisable.
- 1.5 Ultimately, this means it is not possible to determine, from the modelling undertaken, whether PPCI provides sufficient additional capacity to meet the projected demand. In this manner, the results of both the HBA and the subsequent evaluation of PPCI are fundamentally flawed from an economic perspective and not fit for the purpose of evaluating this plan change.

2. INTRODUCTION

- 2.1 My name is Timothy James Heath.
- 2.2 I am a property consultant, market analyst and urban demographer for Property Economics Limited, based in Auckland. I established the consultancy in 2003 to provide property development and land use planning research services to both the private and public sectors throughout New Zealand.

Experience

- 2.3 I hold a Bachelor of Arts (Geography) and a Bachelor of Planning both from the University of Auckland (1993). I have undertaken property research work for 30 years, and regularly appear before Council, Environment Court, and Board of Inquiry hearings on economic and property development matters.
- 2.4 I advise district and regional councils throughout New Zealand in relation to residential, retail, industrial and business land use issues as well as undertaking economic research for strategic planning, plan changes, District Plan development and National Policy Statement on Urban Development 2020 (**NPS-UD**), National Policy Statement on Highly Productive Land 2022 (**NPS-HPL**), and Medium Density Residential Standards 2022 (**MDRS**) capacity modelling and implementation.
- 2.5 I also provide consultancy services to a number of private sector clients in respect of a wide range of property issues, including residential capacity assessments, retail, industrial, and commercial market assessments, development feasibilities, forecasting market growth and land requirements across all property sectors, and economic cost benefit analysis.
- 2.6 Property Economics has, for over a decade, undertaken capacity modelling and quantifying commercially feasible and realisable residential development under the NPS-UD and its predecessor and completed capacity assessments for multiple local councils, central

government agencies (Kāinga Ora, MBIE, MHUD) and for a large number of private clients across local, territorial and regional economic environments.

Code of Conduct

- 2.7 Although this is a Council hearing, I have read the Environment Court's Code of Conduct contained in the Environment Court Practice Note 2023 and agree to comply with it. I confirm that the issues addressed in this statement of evidence are within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

3. SCOPE OF EVIDENCE

- 3.1 This statement of evidence addresses the recommendations of the Council Officers in relation to the submissions made by Kāinga Ora.
- 3.2 I have reviewed both the Palmerston North Housing and Business Development Capacity Assessment 2023 (amended March 2024) (**HBA**) and the Development Capacity Assessment for Proposed Plan Change 1 (**DCA-PC1**). In my view, the methodology and assumptions applied in both assessments are fundamentally flawed which significantly undermines its credibility and renders the assessments conclusions unreliable.
- 3.3 My evidence covers the following:
- (a) Issues within the Theoretical Capacity
 - (b) Issues within the Feasible and Realisable Capacity

4. OVERVIEW OF THE KĀINGA ORA SUBMISSIONS

- 4.1 In brief, the Kāinga Ora submissions were generally supportive of PCI, however sought specific amendments (in particular with regard to the MRZ chapter provisions as well as the proposed spatial extent of the MRZ), which together sought to better align the PDP with the policy direction and intent of the NPS-UD.

5. THEORETICAL CAPACITY

Housing and Business Capacity Assessment 2023

- 5.1 Although there are several issues with this assessment, the primary concerns I have is with the exclusion of Multi-Unit Development which is a Restricted Discretionary Activity within the Multi-Unit Areas. Clause 3.4.(2) of the NPS-UD informs us that Permitted, Controlled and Restricted Discretionary Activities are all considered as part of Plan Enabled Capacity.
- 5.2 The failure to properly assess this has important consequences for PPCI in that it undermines the ability to evaluate the proposed MRZ. Multi-Unit development is precisely the type of housing this zone is intended to enable and excluding it from the ODP analysis leads to an overstatement of the additional capacity provided by the plan change.

Plan Change 1 Evaluation

- 5.3 The approach used to calculate the Theoretical Capacity of the MRZ is described on page 11 of the DCA-PC1.
- 5.4 The first step in their assessment is to exclude sites under 700sqm and sites with a capital value ratio of less than 0.87. From an economic perspective, neither of these exclusions are reasonable, nor is the inclusion of both consistent with the approach to Theoretical Capacity in the HBA.
- 5.5 The MRZ, as proposed by PPCI, does not have a minimum site size and allows, as a permitted activity, for up to three dwellings per site. This enables both infill and redevelopment on sites of all sizes, particularly those smaller than 700sqm. Consequently, the omission of these sites results in a significant inaccuracy in the modelling.
- 5.6 Furthermore, I see no justification for using capital ratios in determining Theoretical Development Capacity. Capital ratios were used to determine feasible capacity in the HBA. While I consider that approach economically unsound, there is at least some correlation between capital ratios and feasibility.

- 5.7 Applying the same metric to assess theoretical capacity, however, makes little sense. The ratio of improvements to land value has no relevance to what the planning framework enables in terms of development potential.
- 5.8 For these reasons, I consider the Theoretical Capacity Assessment for both the HBA and PPCI are fundamentally flawed.
- 6. FEASIBLE AND REASONABLY EXPECTED TO BE REALISED DEVELOPMENT CAPACITY**

Housing and Business Capacity Assessment 2023

- 6.1 Section 6.4.3. of the HBA report outlines the process by which Council have determined Feasible Capacity for existing residential areas. It would appear that the primary basis for determining feasibility is the land-capital ratio, which they have described as follows:
- (a) “High redevelopment potential” (land value to capital value ratio between 0.87 and 1.0).
 - (b) “Potential redevelopment potential” (land value to capital value ratio between 0.73 and 0.87).
- 6.2 Reportedly, about 60% of sites within the city were determined to have “*market incentives for residential redevelopment*” based on the above ratios. Consequently, Council determined that 7,673 of the 12,789 theoretical capacity was feasible.
- 6.3 They then applied a filter to identify sites that could be realised over the Short Term, with the remaining capacity being realisable over the Medium to Long Term.
- 6.4 In my experience of undertaking capacity modelling, the use of Capital Ratios is inadequate to determine feasibility.
- 6.5 To demonstrate this, I have examined the relationship between land – capital ratios and site feasibility based on the results of capacity modelling Property Economics recently undertook for New Plymouth for

their PDP hearings. The results are shown in Table 1 below. This highlights that although there is a positive relationship between the capital ratio and feasibility, it is not in itself a definitive indicator, as feasibility depends on a wide range of commercial development factors (i.e. construction costs, sale prices, etc).

6.6 *Table 1: Site Feasibility Rates by Capital Value from Property Economics New Plymouth Capacity Assessment*

Capital Ratios Site Feasibility	Under 0.73	0.73 - 0.87	Over 0.87
General Residential Zone	5%	7%	13%
Low Density Residential Zone	9%		
Medium Density Residential Zone	13%	40%	62%
Residential	8%	27%	44%
City Centre Zone	53%	75%	84%
Local Centre Zone	23%	24%	41%
Mixed Use Living	49%	89%	90%
Town Centre Zone	4%	10%	18%
Commercial	38%	64%	67%
Total	9%	30%	48%

Source: Property Economics

6.7 Notably, the Palmerston North City HBA assumes that all capacity on sites with capital ratios above 0.73 is feasible. However, as shown in Table 1, our assessment of residential capacity in New Plymouth found that only 7% of sites with ratios between 0.73 and 0.87 were feasible, and just 13% of those above 0.87 in the General Residential Zone. In the MRZ the spread was more pronounced (13%-62%).

6.8 Even where the existing house contributes little to the overall site value, redevelopment is not always viable. In many cases, it is simply not worth subdividing a site in a low amenity location for a single extra dwelling.

6.9 If we had assumed that all sites with Capital Values of over 0.73 were feasible in New Plymouth, we would have overestimated the actual level of feasible capacity by over 330%. Consequently, I am concerned that the Palmerston North HBA has vastly overstated its feasible capacity.

Proposed Plan Change I Evaluation

- 6.10 The application of Capital Value ratios, although wholly unfit for purpose and inaccurate, is at least an attempt at calculating feasibility. The assessment for PPCI takes an entirely different approach to feasible capacity.
- 6.11 At this stage, the Council have relied upon the average annual number of building consents issued in each SA2 to assess feasible capacity. In effect, they've simply projected historical consenting trends forward for the Medium Density areas.
- 6.12 Although assessing historical consent trends is often undertaken as part of the assessment of reasonably expected to be realised (**RER**) capacity, it is not appropriate to apply this to the calculation of Feasible Capacity.
- 6.13 Moreover, the purpose of the assessment was to evaluate the benefits of the proposed plan change. Simply projecting forward consent numbers based on past activity assumes nothing will change. It retains the status quo and ignores the objective of the plan: to enable a shift in development patterns and increased capacity. Consequently, this approach risks significantly underestimating the potential contribution of the medium-density areas, and by extension, the potential benefits of Kāinga Ora's submission.

7. CONCLUSION

- 7.1 Having examined the Council's capacity assessments for both the HBA and PPCI, I am unable to determine whether or not there is sufficient housing supply within Palmerston North City under either the ODP or PPCI.
- 7.2 The oversimplifications and shortcuts have resulted in significant inaccuracies in the modelling approach from an economic perspective. A proper site-by-site assessment of feasible capacity needs to be undertaken that accounts for some level of the individual site attributes.

7.3 Consequently, in my opinion, the assessment of feasible and by extension, realisable capacity in the existing HBA and DCA-PCI is neither accurate nor fit for purpose for sound decision making.

Tim Heath
8 August 2025