Urban Intensification in a Regional New Zealand City

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Abstract

There are many reasons for adopting an urban intensification strategy and many ways of achieving it. For such a strategy to be successful, it must be accepted as a viable choice by the community, Council, the development community and other stakeholders. This requires collaboration. Hastings District Council is an example of a Council looking at urban intensification as a solution to a sustainability issue (the protection of the versatile soils of the Heretaunga Plains once branded the fruit bowl of New Zealand) and have adopted a collaborative approach to the project on many levels:

- Collaboration of disciplines – recognising that for intensification to be successful, all technical disciplines within the Council need to be involved across the projects, and individually at critical stages.
- Collaboration of stakeholders – ensuring the engagement of the numerous stakeholders involved in housing development, while recognising that their issues can conflict and that trade-offs may be required. Many stakeholders already have an opinion of what intensification means. Through listening to these perceptions and collaborating with stakeholders, solutions can be created to address concerns.
- Collaboration of workstreams – recognising that structured workstreams are required to cover a range of topics, all important to the successful achievement of intensification and that these workstreams need to be brought together at the right times.

This paper explores the wide range of factors, their interrelationships, and the range of collaboration required to develop and implement an intensification policy. It is based on the authors recent experiences with Hastings District Council.

Key Words

Housing supply, housing affordability, sustainable management, strategy, urban design, medium density housing, intensification, collaboration
Introduction

As councils across New Zealand strive to accommodate increasing numbers of people into their communities and/or provide housing choice for wide ranging and constantly changing economic conditions and demographic groups, the tools available to them (and the ones they choose) to interact with the housing market become increasingly important.

Councils and in particular their planners have a major role in the delivery of housing and a number of obligations regarding housing stock. Fundamentally their involvement and interaction with the housing market should be focused on ensuring that the housing that is delivered:

- Provides appropriate numbers of houses and a range of housing choice for the needs of the broad demographic and economic aspects of current and future communities; and
- Is of an appropriate standard to ensure satisfactory amenity and living standards;
- Provides a long term sustainable solution that is appropriate to the location, including economic trade-offs e.g. productive capacity versus urban land development.

Clearly, all three aspects (housing affordability/choice, residential amenity and optimised land use) are intrinsically linked. For example, basic economics suggests that building more houses will assist housing affordability, however more houses generally means greater environmental impacts, including economic impacts from lost land to production. Further, the provision of high amenity and living standards generally comes at a financial cost. As such a balanced approach to these requirements is generally required which is likely to result in trade-offs.

Increasingly council planners have faced criticism for the way they have interacted with the housing market. More and more frequently, the planning profession is accused of reducing housing affordability through over-regulation and rigidity, or in other words, not achieving the right balance.

In his introduction to the 9th Annual Demographia International Housing Affordability Survey, the Deputy Prime Minister of New Zealand (Hon. Bill English) claimed that (in New Zealand) land has been made artificially scarce by regulation that locks up land for development.

The New Zealand Productivity Commission (2012) stated that the prevailing approach to urban planning in New Zealand reduces housing affordability in our faster growing cities. The widespread planning preference for increasing residential density, while at the same time imposing restrictions such as minimum lot size and height restrictions, and limiting greenfield development, places upward pressure on house prices across the board. Although difficult to show conclusively, differences in supply responsiveness at the territorial authority level may, in part, reflect the efficiency with which local councils implement and enforce regulations governing the land development and building sectors.

In Australia, the Australian Productivity Commission noted (in 2005) that in many parts of Australia, it appears that regulatory processes could work better to facilitate a more responsive housing market.
In the UK, the Barker Review (2004) noted that too often planning tries to create or constrain the market without taking full account of the information provided by price signals.

Much of the criticism appears to suggest that the planning profession focuses too much on the protection of the environment (in its widest sense, e.g. climate change mitigation, reducing vehicle use, increasing public transport use, protection of natural environments, protection of land for long term economic productive use etc.) and the provision of amenity and living standards, at the cost of housing availability and affordability.

However, it should be noted that whilst all these reports are critical of the planning professions role in the delivery of housing, none suggest that the housing market should be left to its own devices. They recognise the complexities that planning professionals face. For example the NZ Productivity Commission notes that urban planning requires consideration of a wide range of objectives including environmental management and economic development goals... The Barker Review took this point further, recognising the need for the planning profession to engage with the housing market, noting that an unrestrained housing market would lead to very significant negative externalities. Environmental degradation, congestion, substandard housing, abandonment and social exclusion are just some examples. Decisions made by individual players, without co-ordination, would not reflect the social optimum. The market price of land, for example, is unlikely to reflect the full social costs associated with its development. This provides a rationale for intervention through planning to influence the scale and nature of development.

As planning professionals, we have a professional responsibility to promote the sustainable management of natural and physical resources. In the context of engagement with the housing market, the challenge we face (in a broad sense) is finding the right levels and approaches to interact with and intervene in the housing market with a focus on achieving the right balance between:

- Housing supply and demand, particularly with a focus on sustaining housing affordability;
- Ensuring appropriate residential amenity and living standards; and
- Ensuring environmental protection and sustaining the long term land based production economy.

It seems clear that a lot of the criticism that the planning profession has recently faced relates to our understanding of housing supply, demand and affordability and our ability to provide for these, whilst ensuring appropriate residential amenity and living standards and environmental protection. As noted by Kate Barker (Barker Review, 2004), an unrestrained housing market would lead to very significant negative externalities, hence it is taken as a given that the planning profession has a role to play in the functioning of the housing market.
Urban Intensification

Within New Zealand, many councils have seen urban intensification or the “compact city model” as the preferred approach to achieving the right balance between housing supply and affordability, environmental protection and amenity and living standards. Urban intensification constitutes development at higher densities than currently prevail within an existing urban area. As noted by the Auckland Regional Growth Strategy (2005): Historically, New Zealand’s urban housing market has been dominated by owner-occupied, detached dwellings built on relatively large sites, until the 1960’s the norm was the “quarter acre section”, although since then sites have decreased in size, particularly in the major cities, such as Auckland.

Over the last few decades, the majority of the larger urban areas of New Zealand have taken action to encourage or require urban intensification. Potential benefits of urban intensification can include:

- Protection of valuable and sensitive land resources;
- Reduced reliance on private transportation and reduced pollution;
- Greater opportunities for social interaction and support;
- More efficient provision of infrastructure (3 waters, transport, social);
- Public investment benefits;
- Greater housing choice;
- Lower maintenance burden;
- Increased security;
- Lower operating costs.

Risks of Urban Intensification

There are numerous potential advantages associated with urban intensification, however there are also a number of potential risks, many of which are associated with people’s perceptions of intensification. It is important to recognise the potential risks so they can be effectively managed in the design and delivery of higher density housing. The risks of higher density living can be summarised as follows:

- A risk that potential house buyers will not view higher density housing as an acceptable housing choice;
- A risk that developers will not view higher density housing as a viable product;
- A risk that banks and investors will not view higher density housing as a viable investment;
- A risk that potential neighbours and host communities will view higher density housing as an unacceptable neighbour;
- A risk that elected members will view supporting higher density housing as politically sensitive and thus subsequently that council will view higher density housing as an unacceptable development form.
The above risks are clearly inter-related and cyclical: If the market has negative perceptions of higher density housing, higher density housing becomes a risky venture. The developer risk is further perpetuated by a risk-averse position adopted by banks. Bank’s reluctance to lend at higher debt ratios result from the risk involved in the resale of the product, due to existing perceptions about the product in the market in the first place and so on.

It is considered that in a broad sense, the risks associated with higher density housing generally arise from perceptions of higher density housing. As such addressing these perceptions is an important first step in minimising risk.

In terms of minimising risk, and consistent with the premise that perceptions are a significant risk, Breheny (1997) suggested that when considering the potential benefits of intensification, three tests should be adopted:

1) Acceptability: will the community affected accept it? (i.e. can perceptions be addressed);
2) Feasibility: will the housing product provided be considered as a feasible housing option? (i.e. can the housing product compete within the housing market); and
3) Veracity: will the environmental benefits be delivered? (i.e. will it contribute to the sustainable management of resources).

Hastings District Council – Case Study

In line with Breheny’s recommendations, Hastings District Council has approached the development of its intensification policy focusing on addressing these three tests and have developed a number of workstreams accordingly.

This paper explores how Hastings District Council has recently investigated (and is continuing to investigate) options available to them as a local authority to achieve an appropriate balance within the Hastings housing market.

Background

The Hastings District Council, Napier District Council, and Hawke’s Bay Regional Council jointly adopted the Heretaunga Plains Urban Development Strategy (HPUDS) in August 2010. HPUDS is a strategy for the integrated urban development of the Heretaunga Plains for the years 2015 to 2045. HPUDS identifies a preferred scenario for the growth of the Heretaunga Plains, that being that the Heretaunga Plains will follow the compact city model and will focus on a high proportion of future development being within the existing urban boundaries. This scenario requires a major shift in approach to ensure the long term sustainability of the Heretaunga Plains versatile soils by controlling the outward expansion of existing urban areas and new greenfield development by requiring urban intensification within appropriate areas.
Hastings Medium Density Strategy – Stage 1

Following on from HPUDS, HDC undertook Stage 1 of a Medium Density Strategy. The key objectives of this work were to:

- Identify forms and examples of housing typologies for medium density development that are appropriate to the character and physical conditions of the District's primary urban centres;
- Determine the physical capacity of the existing urban areas to accommodate the HPUDS intensification targets from 2015 – 2045 and in doing so, identify physical constraints and any associated costs associated with mitigating these constraints;
- Identify and assess the fundamental financial conditions necessary for the market to accept the HPUDS intensification targets and in doing so, identify the existing financial and market and market constraints and any potential or likely interventions required to overcome these conditions;
- Identify likely patterns of medium density development under existing conditions (financial and regulatory), and an aspirational pattern of medium density of development to ensure HPUDS targets can be achieved taking account of infrastructural constraints and requirements, costs, required financial and market conditions over study timeframe and the likely timing of any potential interventions required.

Hastings Medium Density Strategy – Stage 2

In response to the preferred scenario of HPUDS and building on the work of Stage 1, Hastings District Council is now in the process of developing (note: this project is ongoing) a medium density strategy.

The purpose of this strategy is to articulate a comprehensive and coherent approach to the intensification (through medium density housing development) of a number of identified “host neighbourhoods”. The strategy is to provide guidance to the community, developers etc. and to assist in the achievement of the intensification targets of HPUDS. The medium density strategy is designed to be an intensification toolkit which provides a number of tools that all contribute to the achievement of the HPUDS targets. It is anticipated that this strategy will be utilised to inform future district plan, long term plan and asset management plan reviews and will provide guidance to the Hastings development community. The Strategy is focused around eight individual yet integrated workstreams, namely:

- Managing greenfield land supply – exploring the relationship between greenfield residential development and intensification. In particular, the effects on housing affordability caused by restricting greenfield development.
- Changing perception and capability – exploring perceptions of medium density housing and providing recommendations of how to manage with negative perceptions and build capability and confidence within the development community.
• Medium density ready services – explore infrastructure capacity within host neighbourhoods to ensure there is capacity to support intensification.
• Responsive and effective regulation – reviewing and modifying the district plan to better provide for medium density housing, while ensuring quality development.
• Promoting quality design and amenity – assessing the character values of the host neighbourhoods and developing design guides which recognise and respond to existing character.
• Building local amenity and open space – reviewing public open space provision servicing the host neighbourhoods and considering whether it is suitable to provide for anticipated intensification.
• Socially integrated development – explores the social and demographic structures of likely medium density housing development and provides recommendations of what facilities are required to support them.
• Cost competitive development – exploring the potential levels of demand for medium density housing and looking at what interventions are available to Council to make medium density housing more competitive within the general housing market.

From the outset of the project, it was understood that there are a number of relationships and interdependencies between the workstreams. As such it is fundamental to ensure a good understanding of each workstream and to be aware of what is required from which workstream before tasks can be advanced in other workstreams. The following diagram identifies (at a high level) some of the key inter-relationships:
The following table demonstrates how the Hastings Medium Density Strategy workstreams align with the tests recommended by Breheny:

<table>
<thead>
<tr>
<th>Hastings Strategy Workstream</th>
<th>Breheny Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing greenfield land supply</td>
<td>Feasibility</td>
</tr>
<tr>
<td>Cost competitive development</td>
<td>Feasibility</td>
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<tr>
<td>Medium density ready services</td>
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<td>Responsive and effective regulation</td>
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</tr>
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<td>Changing perception and capability</td>
<td>Acceptability and Feasibility</td>
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**Conclusions so far**

Whilst this project is still ongoing, the following conclusions have been reached to date:

**It is important to address the prevalent perceptions of medium density housing as part of the strategy and before development occurs.**

Perceptions of medium density housing are generally negative from most stakeholders however there are signs of some demographic groups recognising the benefits. In a regional area such as Hastings, medium density housing needs to be targeted at all areas of the community to be successful. As such, significant education of a wide range of stakeholders (including planners, elected members, estate agents, architects, developers, valuers, mortgage lenders) involved in the delivery of medium density housing is required to ensure that as medium density housing enters the housing market it does so on an even playing field with traditional development.

Much of the negative perceptions of medium density housing stem from an uneven distribution of perceived benefits versus effects. I.e. often the benefits of medium density housing are cited as being sustainable management benefits, which often have less visible or community benefits. In terms of the potential negative impacts, these are very much localised to the host neighbourhood and are generally visible. Redressing this perceived imbalance is important.

In addition, it is also important to make sure that medium density housing or intensification is not mistaken for affordable, low cost or social housing. In this regard, terminology is very important. A starting point is to give consideration to ways of rebranding medium density housing.

**We need to recognise and redress the local/external cost and benefit imbalance between greenfield development and intensification.**

When considering the costs and benefits of housing, it is useful to think in terms of:

- External costs and benefits – costs and benefits that generally apply to the wider community and/or environment; and
• Local costs and benefits – costs and benefits that generally apply to the end user (e.g. owner/developer).

The external benefits of greenfield development include generally lower-than-otherwise local land costs and higher-than-otherwise land prices around the fringe of the city (benefit to land owners near the fringe but only if further expansion is possible).

The external costs of greenfield development include:

• The loss of the option of rural production (beyond payment received by incumbent farmer) which is a cost borne by the local economy and employment market;
• Higher infrastructure costs created by the need to provide new infrastructure, which is generally shared across the wider community;
• the extra vehicle congestion, emission and accident costs (although possibly offset by the higher fuel taxes also paid), and
• The lower amenity value of the rural environment.

The external benefits of intensification include the lower-than-otherwise infrastructure costs generally resulting from greater capacity usage, the potential for more/better public transport, and the potential for greater social interaction.

The external costs of intensification include a number of potential social issues resulting from higher proportions of people living in confined areas.

The market for greenfield development is likely to be perpetuated by the uneven localised costs (low) and benefits (high) of that type of development as opposed to the external costs (high) and benefits (low). For intensification to be successful, it is important to consider methods of intervention to better allocate the localised and external costs and benefits of greenfield development so that intensification can be competitive. For example, development (both greenfield and intensification) should pay the true costs of their infrastructure requirements.

**The planning profession needs to understand the economics and demographics of the local housing market prior to determining any intervention needs.**

An understanding of the local specific (e.g. site development costs, acquisition costs etc.) and wider economics (e.g. relative market competitiveness with traditional greenfield) of the area are fundamentally important. If medium density housing cannot be financially competitive with traditional greenfield development then it is unlikely to be feasible. However, over regulation of greenfield development will lead to reduced housing affordability, potentially across the whole housing market. A good monitoring programme and an understanding of what to monitor and action when required to redress imbalance is fundamentally important.

An understanding of what demographic groups medium density housing is best suited to is also important because housing choices and community facilities should be suited to the likely community
needs and requirements. There is a lot of research of intensification projects across New Zealand and wider that can be utilised to identify patterns and trends which can be utilised within a local context.

**Good design and site layout is critical to ensuring the acceptance of medium density housing, the avoidance of negative perceptions, the provision of amenity; and the feasibility of medium density housing as a viable housing option.**

Good design is fundamental to successfully developing medium density housing. Therefore care and effort is required to ensure any design guidance is appropriate. For example:

- Residential amenity and living standards can be quantified but it is important to recognise that it is a case by case basis. An understanding of the local area is necessary to be able to develop the right design guidance.
- Guidelines are more successful if the range of perceptions is well understood. Before drafting guidelines, one needs to listen to stakeholders to understand their perceptions and then develop guidelines that respond to those perceptions.
- Design guides require a degree of flexibility as in the reality of development, trade-offs are often required. However, too much flexibility can lead to inappropriate amenity and/or living standards. An understanding of what is important and where flexibility should be provided is important. Development scenario testing should inform the development of design guides.
- Generic typologies do not work between sites but with imaginative variations, can work within sites. One needs to understand the site dimensions and peculiarities of previous development. One also needs to understand the local character and its ability to assimilate new types of development. Design guides need to respond to these aspects.

**Collaboration is the key to success**

As discussed above, planners are frequently accused of causing a housing affordability problem, yet the accusers generally recognise that the planning profession has a critical role to play in the housing market. To be able to successfully find the right balance between environmental protection, housing supply and affordability requires

- Collaboration of disciplines – for intensification to be successful, a wide range of technical (and other) inputs need to be involved across the projects, and individually at critical stages. Necessary inputs include housing economics, infrastructure capacity analysis, urban design, planning strategy, housing valuers, developers and so on. Collaboration of these inputs is the only way that a successful outcome can be achieved. The reason for this is that an integrated approach is needed and an integrated approach cannot be achieved without collaborative input into strategy development and collaborative effort in strategy implementation.
- Collaboration of stakeholders – ensuring the engagement of the numerous stakeholders involved in housing development, while recognising that their issues can conflict and that trade-offs may be required. Many stakeholders already have an opinion of what
intensification means. Through listening to these perceptions and collaborating with stakeholders, solutions can be created to address concerns.

- Collaboration of workstreams – recognising that structured workstreams are required to cover a range of topics, all important to the successful achievement of intensification and that these workstreams need to be brought together at the right times.
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