ATTACHMENTS MINUTES

City Future Committee meeting

Monday, 17 February 2025

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Residential Development Feasibility

17 February, City Future Committee

Tauranga City

Run Sheet

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Section One: Introductions

Veros Team

- Michael Kemeys, Director
- Morgan Jones, Manging Director

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Section Two: What is Feasibility?

What is Feasibility?

1. Sum of the parts (revenue) is greater than individual parts (cost) i.e. 1 + 1 = 3
2. The four determining factors for feasibility are:
   - **Cost**: site specific development costs.
   - **Value**: market value, ability to buy off the plan
   - **Time**: funding, opportunity cost
   - **Risk**: a combination of the above
3. Market driven. The market is not that sophisticated
4. Revenue, revenue, revenue
5. Fundable
6. Non tangible benefits sit with everyone else, not the developer
7. Feasible vs Viable vs Affordable
8. $1 of cost = $1.50 of sale value needed (margin, funding, contingency, GST, etc.)

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Investing – Consumptive, Need and Return Based

Investment	Who	Investment Outcomes	Financial Criteria
Kitchen upgrade	Home owner	More functional Modern Look nice Good for entertaining	Affordability Not return based Consumptive Emotional
New library	Local Government	Community needs Education and recreation Placemaking / identity / transformation / other	Affordability (CAPEX + OPEX) Level of service and need based Own
Subdivision of back yard	Home owner	Free up capital for other uses Financial Limit impact on home	Financial return – realised Return threshold varies but must be net positive
Greenfield subdivision	Large landowner Small developer Large developer	Return Risk and time Opportunity cost	c.30% 100% presales debt cover Often $0 equity
Townhouses	Small developer Builder developer	Return Risk and time Opportunity cost	c.20% for developer >12.5% for integrated builder / developer 100% presales debt cover
Apartments	Large developer Builder developer	Return Risk and time Opportunity cost	c.20% 100-120% presales debt cover 30-40% equity

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Why is Feasibility Important?

1. Investment flows to the best opportunities. Capital is invested where returns are highest and risks are lowest.
2. Financial backing depends on feasibility. Investors and banks need confidence that a project will succeed.
3. Development and construction carry risks. Developers only get paid once a project is completed.
4. Banks have strict lending criteria. Projects must meet financial and risk standards to secure funding.
5. Return on investment is essential. Developers must balance capital investment with speed to minimise risk.
6. Feasibility enables growth. New homes, businesses, and jobs rely on viable developments.
7. Without feasibility, communities suffer. A lack of development leads to housing shortages, economic decline, and affordability challenges.

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Feasibility in different markets

- Feasibility varies across markets and typologies.
- Market cycles typically last 7-10 years. Feasibility depends on where the market is in this cycle.
- Different housing types become viable at different stages of the cycle.
- Those well capitalised can extend trading through wider market conditions.

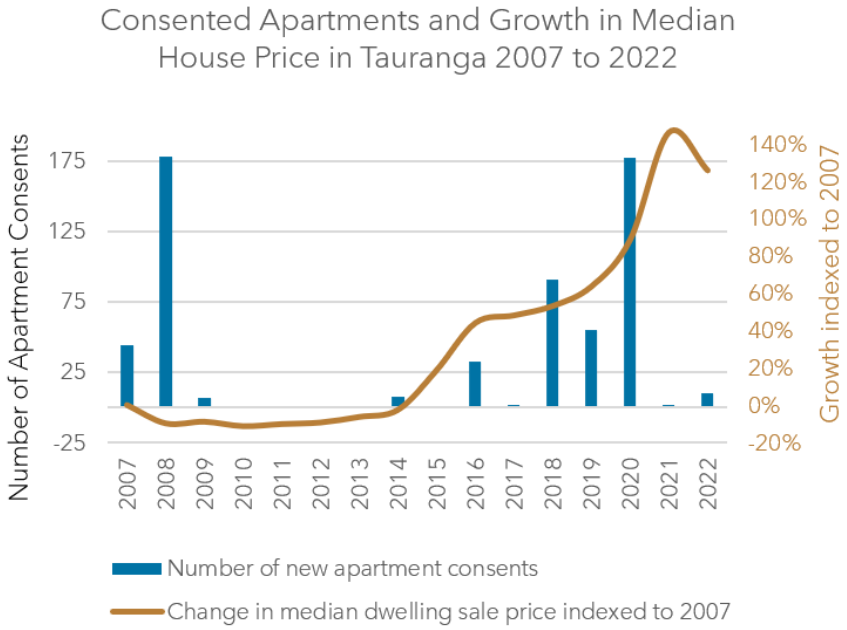

Figure 14 - Tauranga Non Standalone Consent. Source: Stats NZ Infoshare

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Feasibility in different markets (cont'd)

- Presales and debt financing are crucial. Developers often need pre-sold units to secure funding and reduce risk.
- Timing is critical. The property life cycle affects feasibility — projects need to align with market demand.
- Past growth trends provide insights. The 2014-2021 boom was an exceptional period of growth, but future feasibility depends on evolving conditions.
- Markets influence each other. Halo effect of Tauranga of surrounding regional communities.
- The waterfall effect – deliver new at top end, waterfall on existing stock.

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Payment and Risk Model

Payment Structure	Who
Gets paid up front (pre-work)	Council (regulatory fees, inspections, levy), Regional Council (regulatory fees)
Gets paid monthly in arrears, or on demand	Planner, Geotech Engineer, Surveyor, Traffic Engineer, Architect, Civil Engineer, Structural Engineer, Landscape Architect, Project Manager, Development Manager, Urban Designer, Cultural Impact Assessor, Fire Engineer, Acoustic Engineer, Façade Engineer, Services Engineer, Interior Designer, Renderer, Archaeologist, NES / Contamination Environmental Scientist, Main Contractor, Contract Sub Trades, Marketing and Brand Creator, Hearing Commissioner, Lawyer, Accountant, Utility Providers, Project Quantity Surveyor, Bank Quantity Surveyor, Project Funders and Financiers, Body Corporate, Insurer, Valuer.
Gets paid at the end, and only if the project is successful – those with the greatest risk	Developer Real estate agent Council DCs (BIFs)

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Rules of Thumb

1. Higher density = higher risk. Higher risk = shorter feasible/ realistic market window.
2. Amenity, amenity, amenity – Development Investment will follow amenity investment.
3. Ease of process from A to B will attract the market to deliver. Village grapevine.
4. NZs regions are one property cycle behind Auckland, and two cycles behind metro Australia.
5. Conversion guide: Construction cost to total development cost (multiply by 1.4 – 1.5) plus land.
6. GST often forgotten by beginners: Sales values inclusive of GST, Cost exclusive of GST.
7. Land is circa 5%-25% (raw) and 30% (super lot ready to go) of development costs for greenfield, circa 20% cost for townhouses, and circa 10% of cost for apartments.
8. Development cost guide for new housing – beware of **construction cost** marketing

Development typology	Cost per sqm (total development cost)
1 level home	$3,300 to $3,600
2 level home	$3,800 to $4,500
2-3 Townhouse, Terraced homes	$5,500 to $6,500
Walk up apartment (3L)	$6,500 plus
5-7 level apartment	$7,500 plus

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Section 3: Greenfield Feasibility

Greenfield subdivision

What: 200 to 500sqm sections. Price point $350,000 to $600,000.

Homes for: Owner occupiers. Renters. Investors. Group Builders.

Who: Land owner (with support), Small, Medium to Large Developers, Group Home Builders. Māori organisations. Local Government. Central Government. Community Housing Providers.

Capital Required: Circa 1/3 the capital and debt of an equivalent apartment project.

Risk: Low-medium. Can be staged. Well known and understood by local market

Timeline: 2 to 4 years.

Market conditions: Able to be delivered in the majority of market conditions, scaling speed and stage size up and down with market. Product adaptable to market conditions.

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Greenfield Development

Key considerations

- High upfront costs – Large-scale developments require significant initial investment.
- Profitability targets – Developers aim for a 30%+ margin or an IRR of 15%+, depending on scale.
- Greenfield growth enabling infrastructure is expensive – Few developers can fund this.
- Limited cost-saving opportunities – our developments have cost $1.8-2.3m/Ha over the past 3-4 years. Variance relates to density and stormwater.
- Land value reset risk – If purchased at peak pricing, higher DCs significantly impact feasibility.

Staging to manage risk

- Time to market: 3+ years (higher risk).
- Subsequent stages: 1 year per stage (lower risk)

Land Use	Value Range	
	Low	High
Dairy	$ 35,000 /Ha.	$ 45,000 /Ha.
Grazing	$ 15,000 /Ha.	$ 30,000 /Ha.
Avocado	$ 150,000 /Ha.	$ 250,000 /Ha.
Kiwifruit – Green	$ 300,000 /Ha.	$ 500,000 /Ha.
Kiwifruit – Gold	$ 1,100,000 /Ha.	$ 1,350,000 /Ha.
Non productive, i.e. swamp	$ 1,500 /Ha.	$ 2,500 /Ha.

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Development Feasibility

1. Land Value reflects increased DC/Enabling works
2. DC's of $2m/Ha consistent with HCC forecast for Peacocks
3. Doesn't include City Wide DC
4. Land value would not support Gold Kiwifruit conversion, but significant uplift on other land uses
5. If DC's come down Land Value goes up by the same equivalent
6. 25 Dwelling per Hectare

Revenue	**Per Lot**	**Per Ha.**	
Sales Value	325,000	8,125,000	
GST 15%	42,400	1,060,000	
Projected revenue (excl GST)	**$ 282,600**	**$ 7,065,000**	
Development costs (excl GST)			
Land	30,000	750,000	14%
Earthworks	12,000	300,000	6%
Enabling Works Package (DC Recoverable)	80,000	2,000,000	37%
Local subdivision cost	44,000	1,100,000	20%
Utilities (power, gas, fibre)	6,000	150,000	3%
Council Fees and Charges	3,000	75,000	1%
Professional Fees	16,000	400,000	7%
Other Costs and Contingency	3,000	75,000	1%
Marketing and Sales	10,000	250,000	5%
Financing Costs	14,000	350,000	6%
Total Development Costs including Land	**$ 218,000**	**$ 5,450,000**	**100%**
Gross Profit	**64,600**	**1,615,000**	
Gross Development Margin	**30%**	**30%**	

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DC Impact on Land Value

Location	WBOP – New Greenfield Areas	Wairakei (B)	Peacock (current)	Peacock (2027)	Rototuna North
Density (dwelling/Ha)	25	22	16.5	20	20
Average Site Area	260m²	295m²	395m²	325m²	325m²
Sales Value ($/m²)	$ 1,350	$ 1,300	$ 1,200	$ 1,300	$ 1,300
Sales Value per Lot	$ 351,000	$ 383,500	$ 474,000	$ 422,500	$ 422,500
Sales Value per Ha.	$ 8,775,000	$ 8,437,000	$ 7,821,000	$ 8,450,000	$ 8,450,000
Less GST 15%	-$ 1,144,565	-$ 1,100,478	-$ 1,020,130	-$ 1,102,174	-$ 1,102,174
Nett Sales Revenue per Ha.	$ 7,630,435	$ 7,336,522	$ 6,800,870	$ 7,347,826	$ 7,347,826
Less Development Margin 30%	-$ 1,760,870	-$ 1,693,043	-$ 1,569,431	-$ 1,695,652	-$ 1,695,652
Nett Development Cost + Land	$ 5,869,565	$ 5,643,478	$ 5,231,438	$ 5,652,174	$ 5,652,174
Development Cost per Ha.	$ 2,200,000	$ 2,000,000	$ 1,800,000	$ 2,000,000	$ 1,800,000
DC per Lot (Local)	$ 120,000	$ 18,409	$ 60,000	$ 100,000	$ 65,000
DC per Lot (City Wide)	$ 30,000	$ 30,000			
DC's per Ha. (incl. City Wide)	$ 3,750,000	$ 1,065,000	$ 990,000	$ 2,000,000	$ 1,300,000
Subtotal Development Cost	$ 5,950,000	$ 3,065,000	$ 2,790,000	$ 4,000,000	$ 3,100,000
Residual Land Value	**-$ 80,435**	**$ 2,578,478**	**$ 2,441,438**	**$ 1,652,174**	**$ 2,552,174**

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Section 4: Intensification Feasibility

Intensification

- Two primary housing types - Apartments and townhouses.
- Different risk profiles. Townhouses are lower risk, apartments higher risk.
- More complexity than Greenfield.
- Tauranga's market is still developing. Low current demand for intensification.
- Townhouses will lead intensification growth for next 10-20 years.
- Limited local expertise for apartment development, including:
  - Developers
  - Construction contractors
  - Professional/technical specialists
  - Council planning teams
- Demand is expected to grow over time.

Estimated Reasonably Expected Development	Short Term Years 0-3	Medium Term Years 4-10	Long Term Years 11-30	Total Years 1 -30
Detached Dwellings	1,420	3,100	4,990	9,510
Attached (Horizontal)	860	2,120	4,270	7,250
Attached (Vertical)	120	380	1,740	2,240
Total RER for PC33	2,400	5,600	11,000	19,000

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Housing Types and Demand

- High demand for standalone housing typologies. 80%+ of housing stock over last 10 years has been Greenfield, this is slowly changing
- All housing demand has dropped off since the end of 2021
- Current market conditions are better than last year (just!)
- We are not expecting demand to increase until the back end of 2025 at the earliest.
- Greenfield will be the first to pick up and only once the market has confidence that house values are rising will the intensification market pick back up
- Townhouse developments which commence early in the rising market cycle will take on greater risk, requiring more equity if not 100% equity to commence
- Apartments are unlikely to commence until the top of the market cycle
- Apartments in the CBD will be very difficult while the Elizabeth Towers are vacant (or reconsidering the outcome). 120 units is 4-5 buildings the scale of Vantage or Latitude
- Non market housing often does better in times when market housing is not performing

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Infill Townhouses and Terraces

What? 60 to 100sqm homes. 1-3 bedrooms. Price range $550k to $1m.

Homes for: First home buyers, renters, investors, downsizers. single income no kids household, double income no kids household.

Who: Small – Medium Developers, Builder developers. Central government. Community housing providers.

Capital Required: Based on 7 units, $1.1m working capital (cash). $3.5m debt. Circa 5 pre-sales required to secure financing

Risk: Low to medium. Speed critical to deliver tight margin. IRR typically mid-20's%. Scope for funding sector to support more development based on end rental value at a lower ICR ration (traditionally 1.5×) rather than presales, which can hamper speed.

Timeline: 2 years. All money out the door until settlement. Limited scope to stage.

Market conditions: Difficult in the current market. Proven formula, but soft pre-sales market in the current and foreseeable future. FOMO needed. Rising market and projected capital growth needed.

Potential Returns : $500k to $1m pre-tax profit

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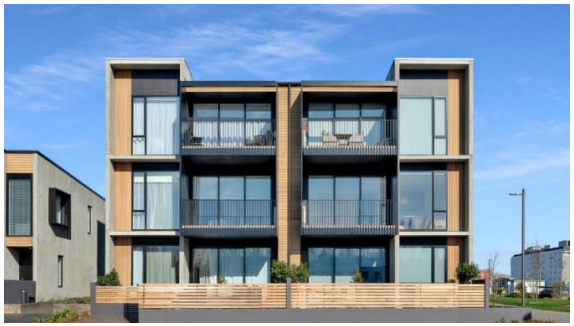
Small Apartment / Walk Up

What: 55 to 130sqm homes. 1-3 bedrooms. Price point $750k to $2.5m.

Homes for: First home buyers. Renters. Investors. Downsizers. SINKY. DINKY.



Who: Small – Medium Developers. Builder Developers. Central Government. Community Housing Providers.

Capital Required: Based on 12 units, $2.5m working capital. $5m debt. Circa 8 pre-sales required for debt cover.

Risk: Medium-High. Low to moderate consenting risk. Design and programme risk. Consenting risk less than 5 years ago.

Timeline: 3-4 years. Limited scope to stage.

Market conditions: Difficult in the current market. Requires high capital and a pre-sales market to succeed. This typology took hold and was highly successful in Australia metros in the 1980s – where step up from small, basic existing homes to apartments provided significant benefits and quality of life.

Potential Returns: $1m to $2m pre-tax profit

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Apartments

What: 50 to 250sqm apartments. 1-3 bedrooms. Price point $750k to $2.5m (90% of the market in this range)

Homes for: Owner occupiers. Renters. Investors. Downsizers. SINKY. DINKY. Retirees. Executive letting. Holiday home.

Who: Medium to Large Developers, Builder Developers

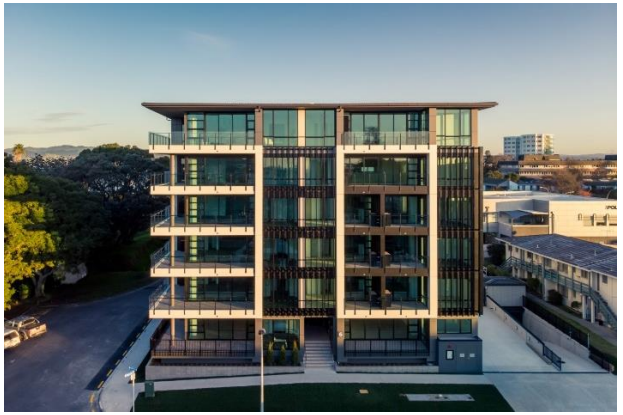
Capital Required: 28 units, $8m working capital and $15m+ debt.

Risk: High. Consenting risk. Main contractor capability and appetite. Sales risk. Structural foundation risk. Settlement risk. Requires presales of 20+ units to obtain debt cover or second tier debt.

Timeline: 3-5 years. All money out the door until settlement. No scope to stage.

Market conditions: Difficult in the current market. Unique location and point of difference needed. FOMO needed. Rising market and projected capital growth needed. Window only 20% of a market cycle.

Potential returns: $3.5m $4.5m pre-tax profit



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What You See (is Half the Storey)

Bask
- 7 Sites – 15 years to amalgamate
- 12+ months to obtain consent
- 12+ months to secure presales for funding
- Construction price inflation while trying to obtain presales
- Commercial arrangement with the contractor

Park Terraces
- Plan B executed
- Developers spent $250k on Plan A prior to Veros stepping in
- Majority (95%) sold to third party investment company
- $50-100k more than houses were selling across the road

Latitude
- 12 months over programme
- 24 months getting presales
- 2 other developments fell over to support presales
- Higher contractor risk profile
- Additional capital ($m's) injected into project to enable commencement

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When something goes wrong

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Section 5: Not for Profit Development

Public, Social, Community Housing

1. Different investment model
2. No development margin needed
3. No tax
4. Kainga Ora standard metrics – analysis in 2025 Reset Plan showed 12% cost premium over market (likely higher), excluding land.
5. But “feasible” means – end home is worth at least than sum of costs and debt serviceability.
6. In some cases have been long term land owner (Accessible)
7. Mixed model – developer build and lease (SOHO) and CHP lease
8. Funding access (cashflow businesses – no sales revenue)
9. Government cycle variability
10. Papakāinga
11. Iwi / Māori Trust – Nga Potiki / Mangatawa

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Section 6: Can Council Influence Feasibility?

What Levers Do You Have?

Process (influences Time, Cost, Risk, Sentiment)

- Planning & Regulatory Support
- Make the planning rules and framework easy (great work in this space in last 5 years)
- Ensure the planning team, development engineers, inspectors, reviewers, consent officers have a **enabling culture**, partner with those developing/investing, are supportive (as opposed to ultra risk averse), well resourced and understand the private sector.
- Case management **partnership** approach for large projects / active market participants. Don’t be the impediment to development.
- Adjust to the market – when feasibility is hard and marginal (2009 to 2013 and 2022 to now), don’t encumber cost and risk on investment.

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What Levers Do You Have?

Financial (influences cost, sentiment)

- DC's (or requiring direct developer funding of infrastructure) are the main direct impact councils have on feasibility
- Consider adjusting development contributions (DCs) to encourage specific developments (e.g., commercial CBD, apartments, community housing).
- Offer targeted incentives for higher densities and better land use.
- Use balance sheet to fund major infrastructure projects (e.g., Te Papa, Tauriko West, Te Tumu).
- DCs – per unit vs per hectare. Incentivise higher densities and better utilisation of land.

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What Levers Do You Have?

Investment in infrastructure & amenity (influences value, risk)

- Invest in amenity (open space, streetscape, community spaces and facilities) to enhance desirability.
- Development will follow amenity, council must lead investment

Other:

- Facilitate and collaborate rather than just regulate—local government has financial leverage (balance sheet, tax, GST advantages).
- Co-fund or underwrite pilot projects to prove feasibility and attract market investment.

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Key takeaways

Feasibility: Key Takeaways

Overall

1. Cyclical market – feasibility is challenging at this point in the market cycle and in the short-term.
2. Housing typologies will enter and exit at different stages of the market cycle. A balanced long term growth strategy is crucial for diversification.

Greenfield

1. Large greenfield development takes time and cost to plan and deliver infrastructure to enable growth. Cost have increased significantly over the last 5 years.
2. Raw land values need to reset to accommodate increased cost of infrastructure/DC's.
3. New infrastructure funding models are required.

Intensification

1. Density is not simple – different markets require different solutions – one size does not fit all.
2. Tauranga housing has been built on a group builder model, and will take time to adopt to alternative models.
3. Demand for alternative housing outcomes will follow investment in amenity e.g. Kulim Park. Without amenity demand will not materialise.

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Section 7: Infrastructure Capacity for Intensification

Basis of constraint maps

- Tauranga is a growing city and infrastructure planning for watersupply, wastewater and stormwater is ongoing (BAU) and regularly reviewed
- Assessment based on 2022 population predictions / spatial allocations – assuming 37% of growth in the next 10 years is through infill/intensification (4,105 of the 11,250 dwelling units projected)
  - Largely assumed to be in Te Papa
  - Smaller amounts in other suburbs, especially wider Otumoetai and Mount/Arataki areas.
- Assessment is being reviewed every three years in line with the Long Term Plan review
- A higher percentage of infill/intensification might also increase the amount of investment needed to manage the additional demand

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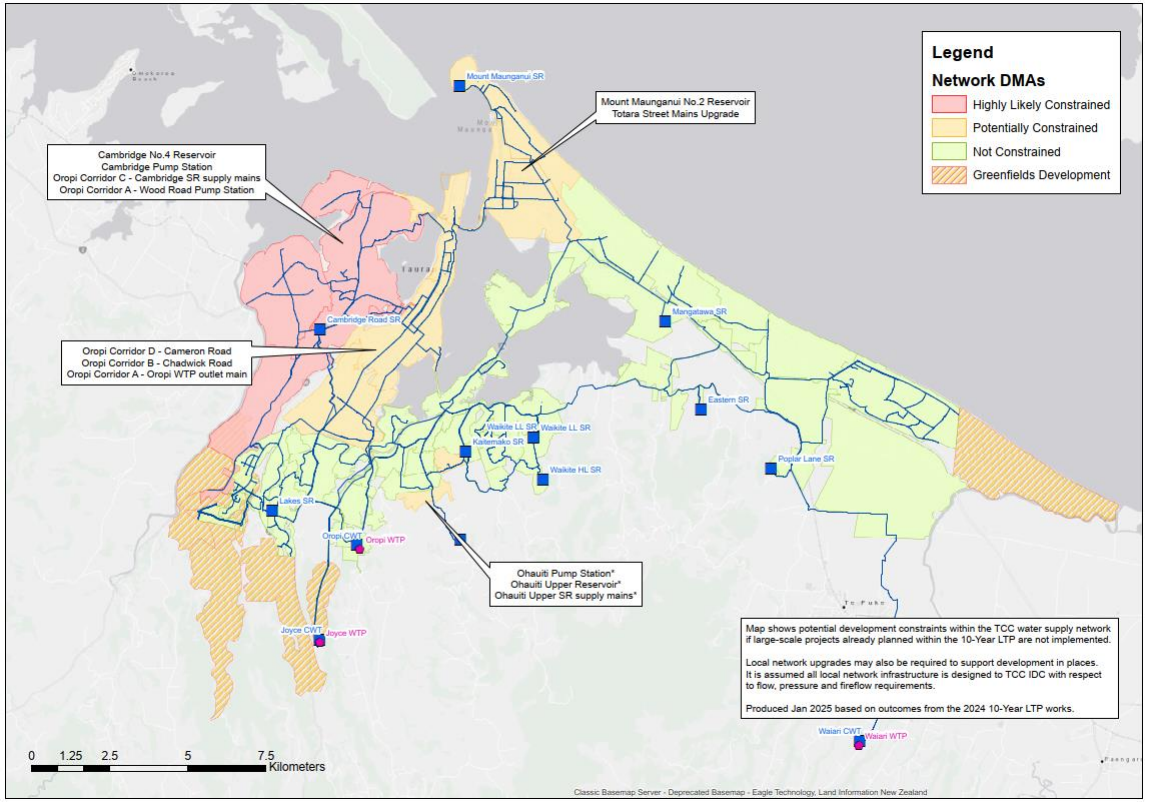
Watersupply

Potential development constraints within the TCC water supply network, if large scale projects already planned within the 10 year LTP are not implemented



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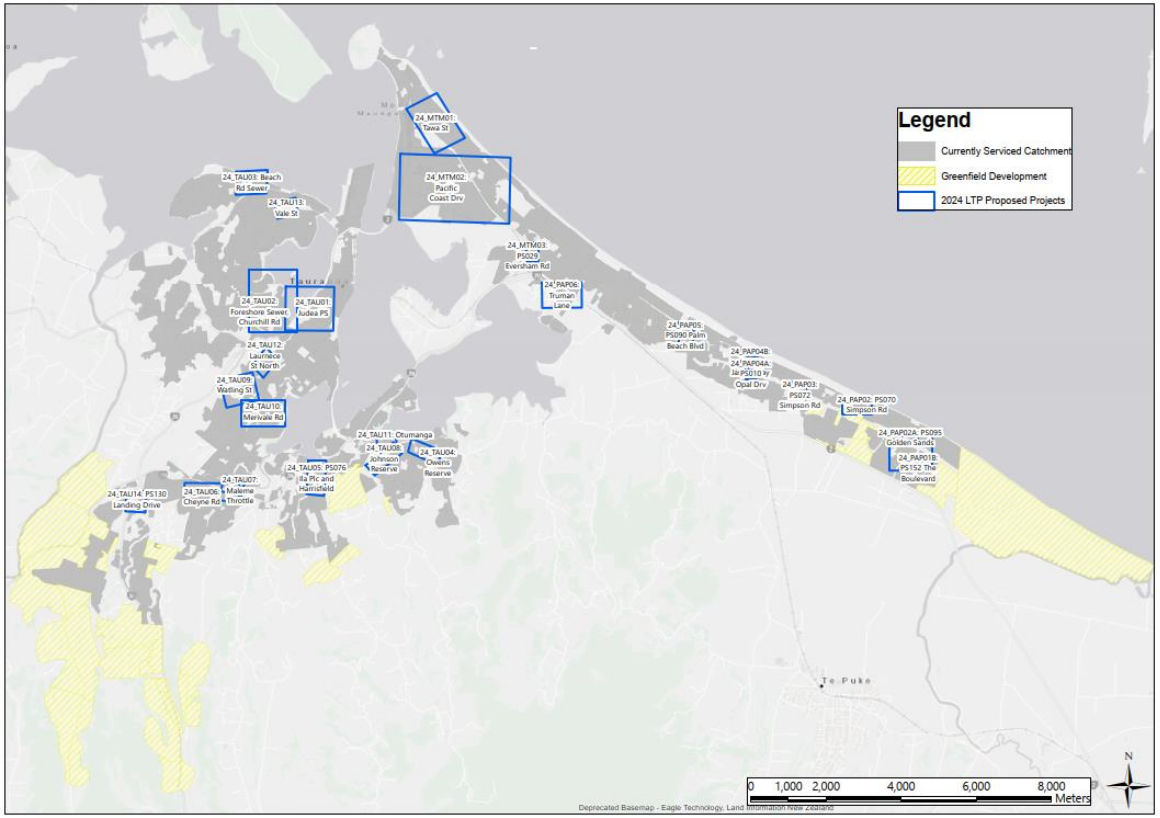
Wastewater (strategic network)

Wastewater upgrade projects of the strategic network in the current LTP



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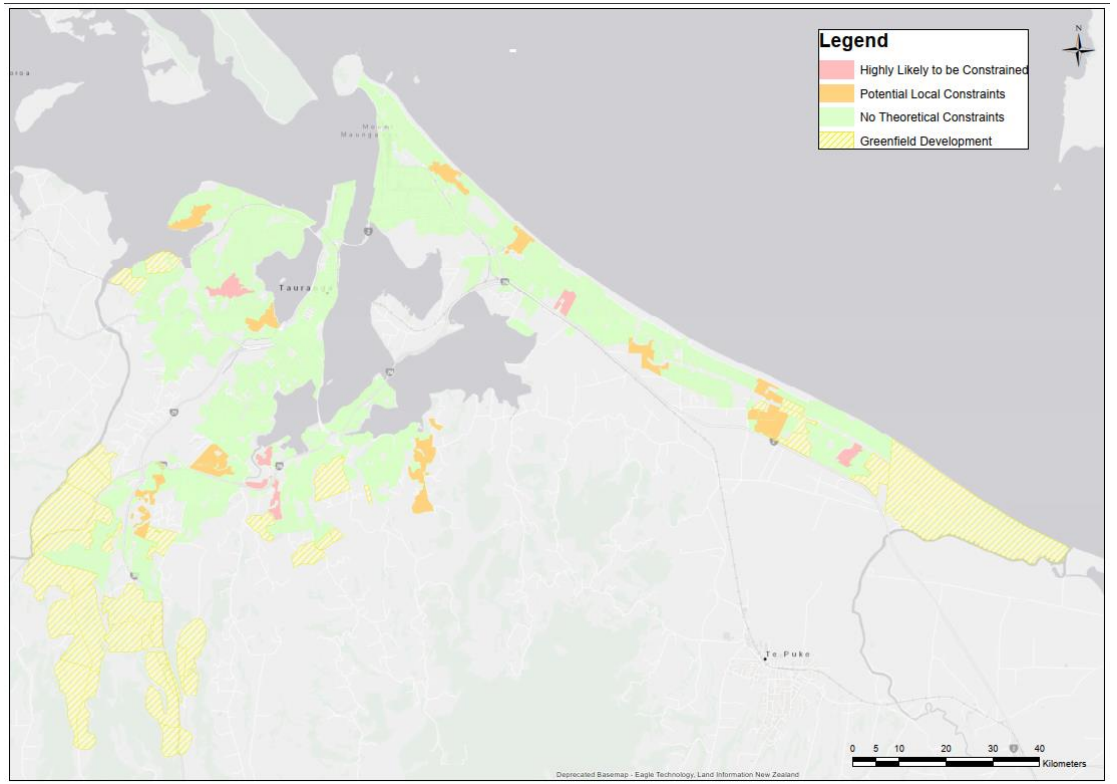
Wastewater (local network)

Potential local wastewater network constraints based on the 2024 LTP population forecast for 2034, if not addressed through the local network upgrade programme, which forms part of the LTP



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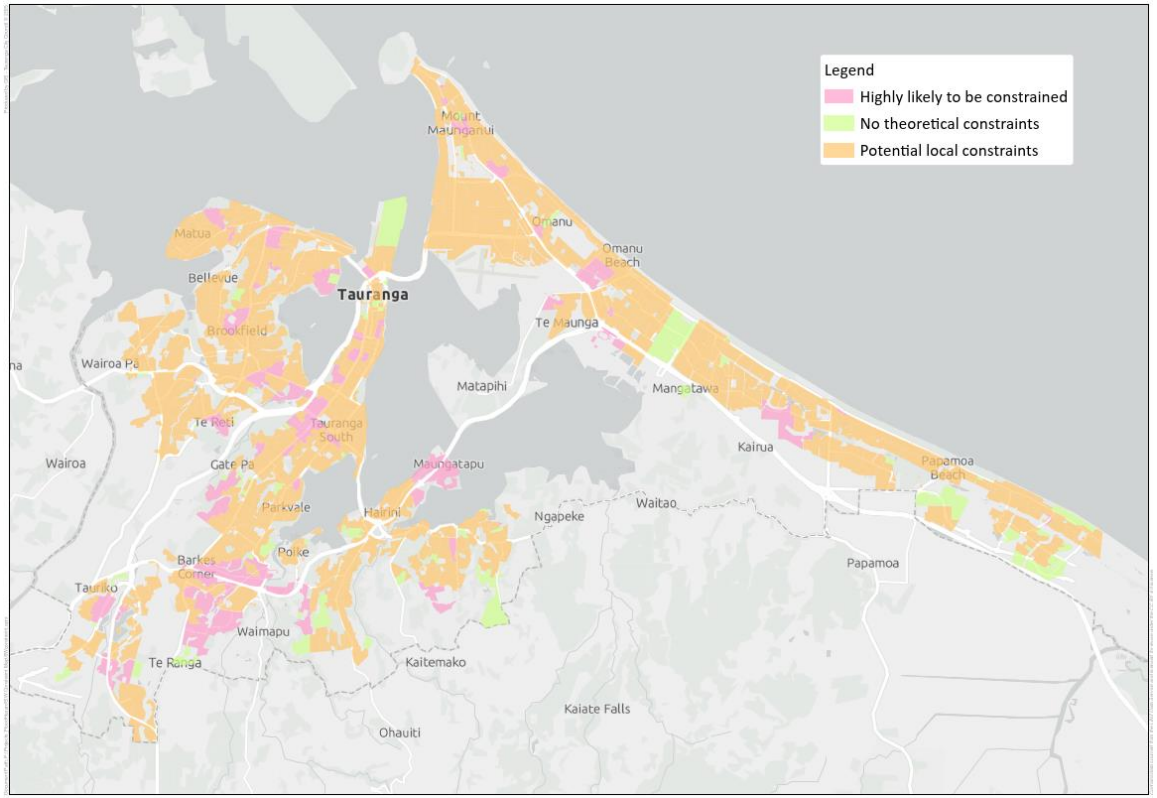
Stormwater (primary network)

Potential stormwater primary network constraints



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Summary conclusions

Currently only limited actual constraints to intensification in Tauranga based on current growth allocations:

Watersupply

- Local upgrades for intensification normally minor and usually not a hindrance
- Larger-scale projects can require slightly larger upgrades, but not usually unreasonable
- Strategic network upgrades biggest risk for potential future constraints

Wastewater

- Occasional current constraint for intensification/infill – Local wastewater network upgrade programme in LTP as a response
- Strategic upgrades to wastewater network and treatment plants needed to meet current LOS and further intensification/infill will increase pressure to deliver these projects.

Stormwater

- Primary network largely not up to standard, which requires on-site mitigation. Usually do-able but adds to cost of development.
- Specific mitigation measures might also be required for developments in floodable areas.

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Auckland's situation

- Auckland has experienced a significant increase in intensification over the last 10 years
- Initially it was perceived that this could be accommodated within their water networks without significant issue
- In recent years the cumulative effects of intensification have exceeded capacity of their networks and exceeded the ability to invest in a number of parts of the city
- Higher community expectations for save swimmable beaches contribute to having to take a stronger stance on new connections
- WaterCare are now saying 'no' to a number of developments, even refusing to provide connections to some consented developments
- Should levels of intensification significantly increase beyond currently assumed levels in Tauranga we potentially have similar issues to address
- We know from studies of large scale regeneration options in parts of Te Papa that this scale of development would generate very high infrastructure investment requirements – in the hundreds of millions

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