Before Queenstown Lakes District Council Independent Hearing Panel

In the Matter	of the Resource Management Act 1991 (**Act**)
And	
In the Matter	of an application for the Inclusionary Housing Variation by Queenstown Lakes District Council to amend the Proposed District Plan

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Evidence Summary of Hamish Anderson on behalf of Ladies Mile Property Syndicate Limited Partnership

(Primary Submission 149)

(Development)

Dated 6 March 2024

Hamish Anderson – Summary of Key Points Arising

1. In summary, my Primary evidence addressed the following matters:

    a. Adverse implications of an Inclusionary Housing contribution on the commercial feasibility of developments; and

    b. Alternative options for achieving affordability objectives.

2. Having considered the Inclusionary Housing issue and the evidence before the panel further, it is my view that the commissioners may benefit from me further expanding on the detail and application of development feasibility models, feasibility being an issue I refer to in paragraph [15] – [22] of my primary evidence. These further comments are based on my real-world development experience delivering large complex master planned residential land and apartment developments.

Development Feasibility Models

3. I consider that it is important to not oversimplify what a development feasibility model actually is. It is much more than a Revenue - Cost = Profit calculation.

4. It is true that in basic terms a feasibility model comprises revenue (sales income), land/ development costs and a resulting profit/ margin. The target development margin is representative of both the investment return and the risk profile of the project.

5. However, from a development funding perspective, the timing that development costs and revenue occur informs the feasibility's cash flow profile. The cash flow profile quantifies the total amount of funding required (debt and equity) over the life of the project, the timing and amount of peak funding, and the availability of profit.

6. It is important to consider, when discussing development cashflow for large multistage developments (the type that will "move the dial" on housing supply in the Queenstown region), that it is typical for the upfront and early stages of a large development to have higher costs and lower sales prices than the later stages. This is a function of timing of land acquisition, lengthy and costly resource consent/design processes, installation of external enabling infrastructure (road, wastewater, stormwater, water supply, and utility upgrades), and large upfront bulk earthworks contracts required ahead of first stage civil construction.

7. From a revenue perspective, the purchaser market tends to factor in the unrealised development vision of a large master planned development and therefore sale prices are generally lower in the earlier stages. As the development vision is delivered and the value proposition of a well-considered master planned development becomes more tangible to the purchaser market, sales values and development momentum tend to improve.

8. These higher upfront costs and lower revenues negatively impact the front end of the cashflow feasibility. It is typical that development profits only become available to the developer in the later stages of development and typically once third-party debt is paid back. Therefore, developers and funders will typically consider development margins, for large multi-stage developments, as an Internal Rate of Return (IRR) as well as a static margin.

9. In my opinion a 5% lot contribution will have a material impact on both static margins and on development cashflow profiles, IRR and the ability to fund and progress developments. The inability to recycle the 5% revenue loss, from early development stages, back into a project will compound funding challenges and affect project viability further.

10. In my experience, when a debt funder is considering funding a development project, the factors I've outlined above, particularly the cashflow profile, will be considered together with development contingencies and the size of the resulting development margin. The contingencies and margin provide project buffer, or resilience, for unforeseen cost increases or changes in market conditions that may occur over the life of the project. The cashflow informed debt funder requirements will also inform the amount of additional equity that the funder will require the developer to inject into the project (typically further equity is injected ahead of debt funding).

11. The main point I'm attempting to get across to the panel is that a 5% reduction in revenue will have a material impact on development cashflow, the resulting development margin, and therefore the project risk and ability to debt fund developments. It will also likely require higher levels of developer equity to be injected into the project. This could prove to be a barrier for some developers.

12. These implications will materially affect development viability which, in my opinion, will lead to stalled development and therefore less land developed for housing. Less developments proceeding will lead to more land banking and less developed lots delivered to the market. This reduction in actively will likely lead to higher house prices and negatively impact the competitive nature of land and development markets.