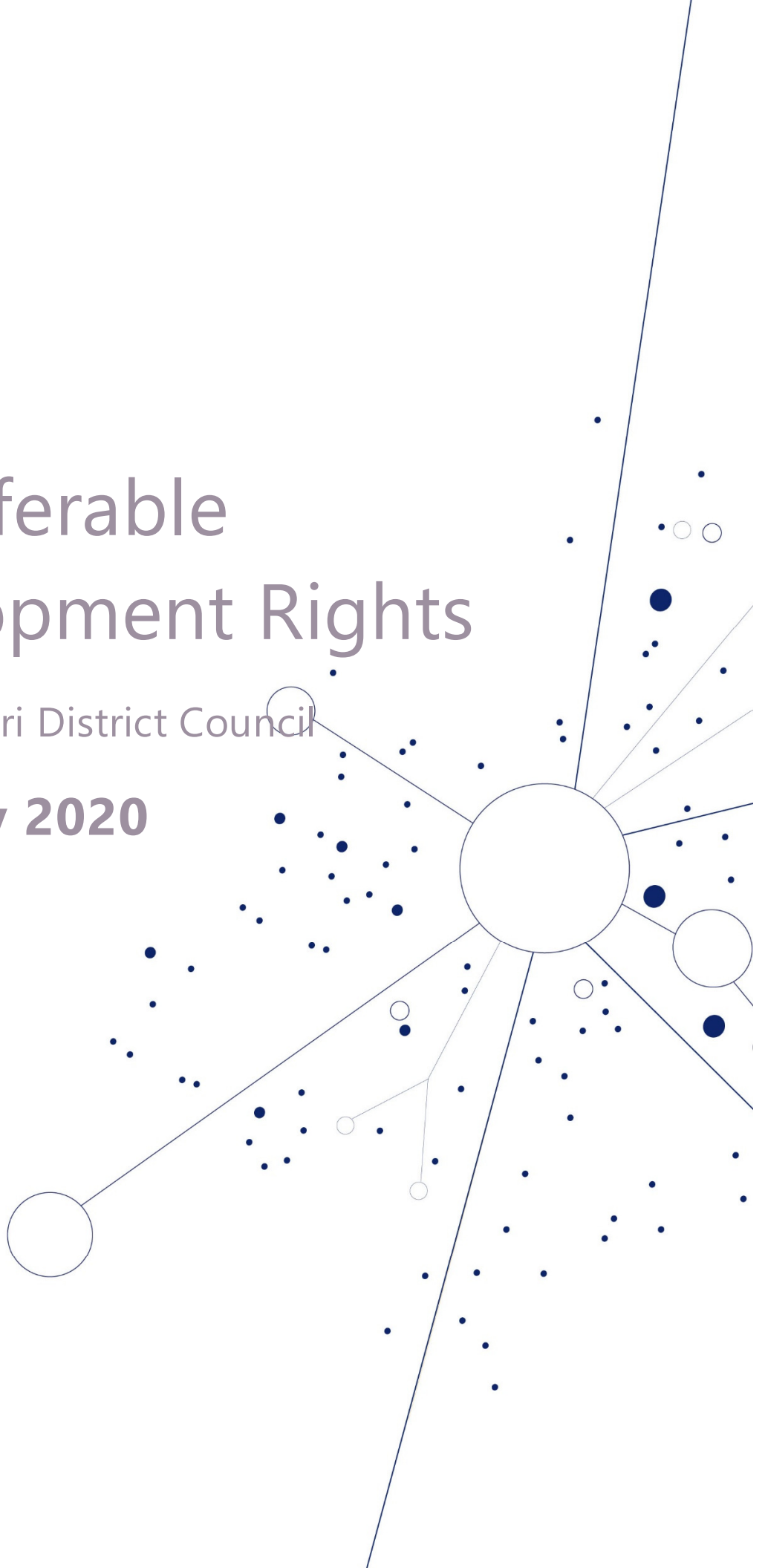


Transferable Development Rights

Waimakariri District Council

January 2020





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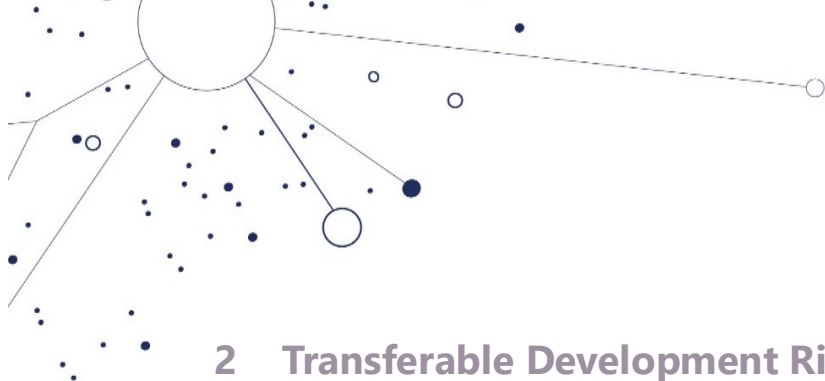


1 Introduction

In accordance with our recent instruction and scope of works from the Waimakariri District Council, we provide our analysis of Transferable Development Rights (TDRs) and commentary on their potential use in the District.

The purpose of this report is to assist with decision making around the District Plan Review, specifically in relation to the potential use of Transferable Development Right as an incentive to landowners for the protection and or enhancement of biodiversity.

This report will look at demand for lifestyle property in the Waimakariri District as well as at districts that implement similar Transferable Development Right incentives, specifically the Auckland and Waikato Districts and the subsequent value implications relative to demand for lifestyle properties in these areas. From this an opinion of the potential demand and value will be drawn.



2 Transferable Development Rights

A Transferable Development Right (TDR) is a means of undertaking a rural subdivision where it is otherwise not permitted by the District Plan. TDRs can be traded between land owners to allow a purchaser the right to subdivide where previously they could not.

TDRs as a market based mechanism that encourages transfer of development from locations where a community supports restrictions on land use to places where the community would like to see further development. TDRs are used various for different reasons as instruments to protect both cultural and natural heritage. In New Zealand TDRs are primarily used to permit subdivision to achieve better environmental outcomes.

The potential intended use of a TDR in the Waimakariri District is as an incentive to a land owner to protect or enhance indigenous vegetation moving the subdivision form a donor site to a receiver site. The property owner would substitute development rights over the part of the property with significant ecological value or that is to be enhanced by planting, for a separate title. The councils preliminary intention is that the greater the area is protected the more TDR rights earned. This is illustrated in the diagram below;

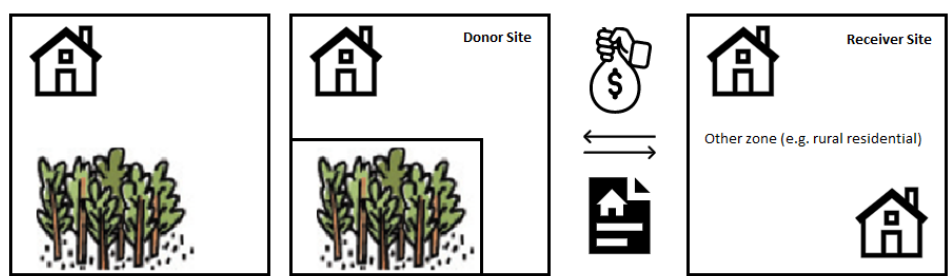


Diagram 1 – Transferable Development Rights

Generally the basic premise is that TDRs are used to promote development in certain areas and restrict development in others. TDRs are implemented and administered in different forms to achieve the desired benefits to their unique localities.

The literature around TDRs is consistent in that for them to effectively serve as an incentive for land owners, the market in which they can be received must be active and there must exist demand for development in the area.



3 Demand for 1-2 ha parcels in the WDC

3.1 Market Overview

The Waimakairi Market has performed strongly over the last 5-10 years, with a significant uplift in value after the Canterbury Earthquakes. This increased demand resulted in a large increase in new development in both the residential and lifestyle markets.

Located to the north of Christchurch City, properties in the district provide an affordable alternative to the higher valued properties in Christchurch, but still within a short commute of the City. The major townships of Rangiora and Kaiapoi continue to expand with development around the periphery, as well as major investment in the rebuild of the commercial areas.

3.2 Lifestyle Market

Latest Real Estate Institute statistics indicate that the lifestyle market nationally has seen a 0.1% reduction in sales in the three months to October 2019 with 1664 sales recorded, compared to 1665 in the three months to October 2018. In the year to October 2019 there have been 6,932 lifestyle properties sold nationwide, which is 3.6% less than the year to October 2018.

In the Waimakariri district there were 347 lifestyle properties sold in the year to October 2019, 1.25% less than in the year to October 2018 when there were 397 sales. The median value of improved lifestyle properties sold in the district for the year to October 2019 was \$720,000. This represents a decrease of 0.7% or \$5,000 on the 2018 median that was \$725,000.

3.3 Demand of Lifestyle Property 1 – 2ha in size.

The land value of 1 -2 hectare properties across the district varies considerably based on numerous factors, none more so than locality. For the purposes of this analysis we have considered the district as a whole but also split the district into three localities as defined by roll boundaries as below;

- **NEW** - North Eastern Waimakariri. The area encompasses land north of the Ashley River and east of the Okuku River.
- **UDS** – A roll approximated area comprising of properties east of Two Chain Road, South of the Ashley River and North of the Waimakariri River.
- **REST** - The rest of the district not in the NEW or UDS area.

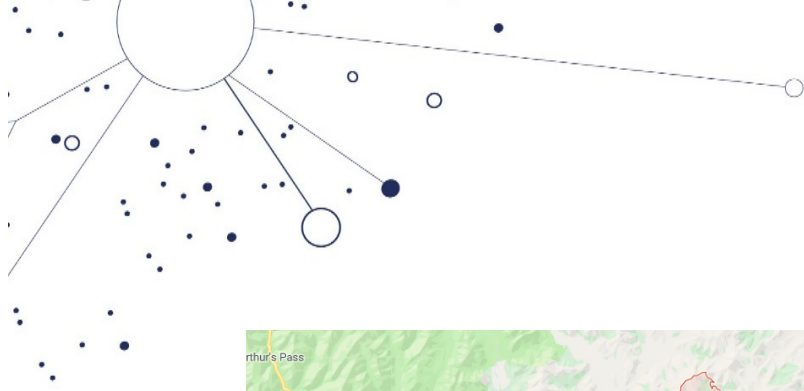


Figure 1 - General District Boundary

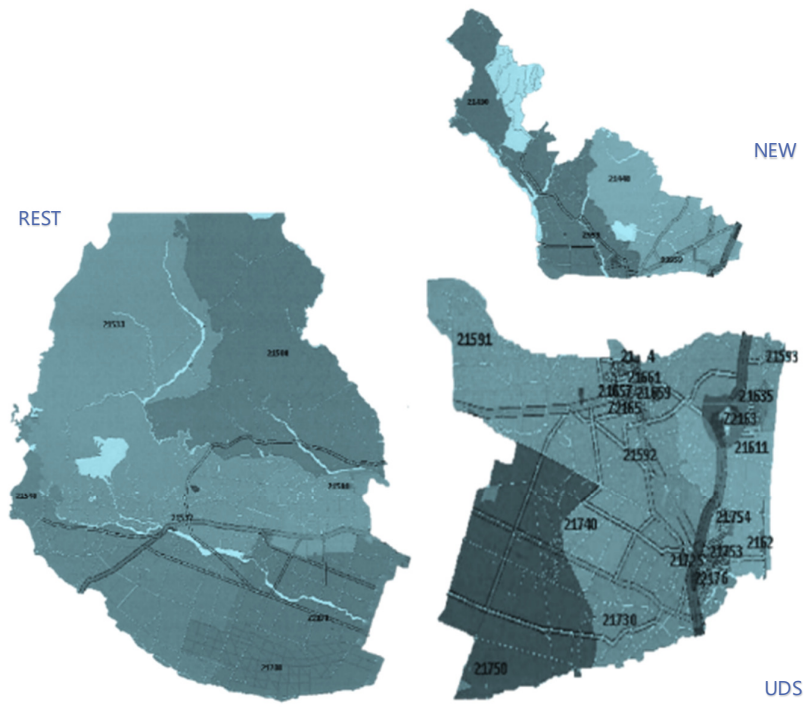
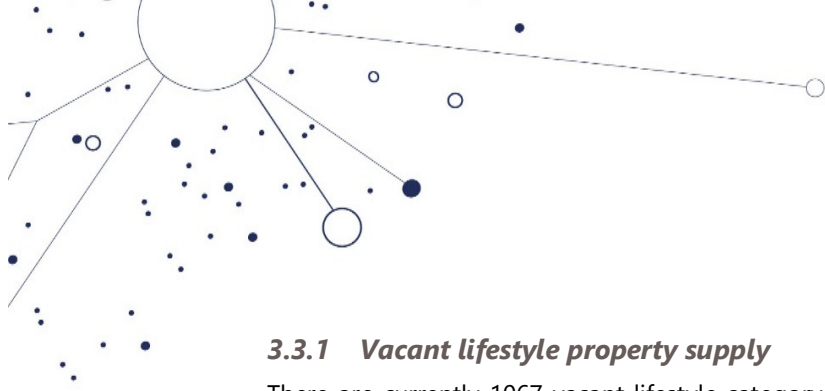


Figure 2 - Study Areas



3.3.1 Vacant lifestyle property supply

There are currently 1067 vacant lifestyle category properties in the WDC that vary in size from 0.2175ha to 30.7561ha in size. Of these vacant lifestyle properties there are currently 117 that range in size from 0.6ha to 2.9ha or 55 between 1 and 2 hectares in size. The majority of these are located in the UDS area where there are 92 leaving 7 in the NEW area and 18 in the REST.

4-5 hectare lifestyle properties are the most prevalent sized land parcels as a result of the current district plans minimum allotment size. There are currently 552 vacant lifestyle properties across the district, 190 in the UDS area, 140 in the NEW area and 222 in the REST.

Taking into account all vacant lifestyle property, there is currently around 10.5 years supply of vacant lifestyle properties in the district, based on a churn of around 100 vacant lifestyle sales per annum.

3.3.2 Sales volumes

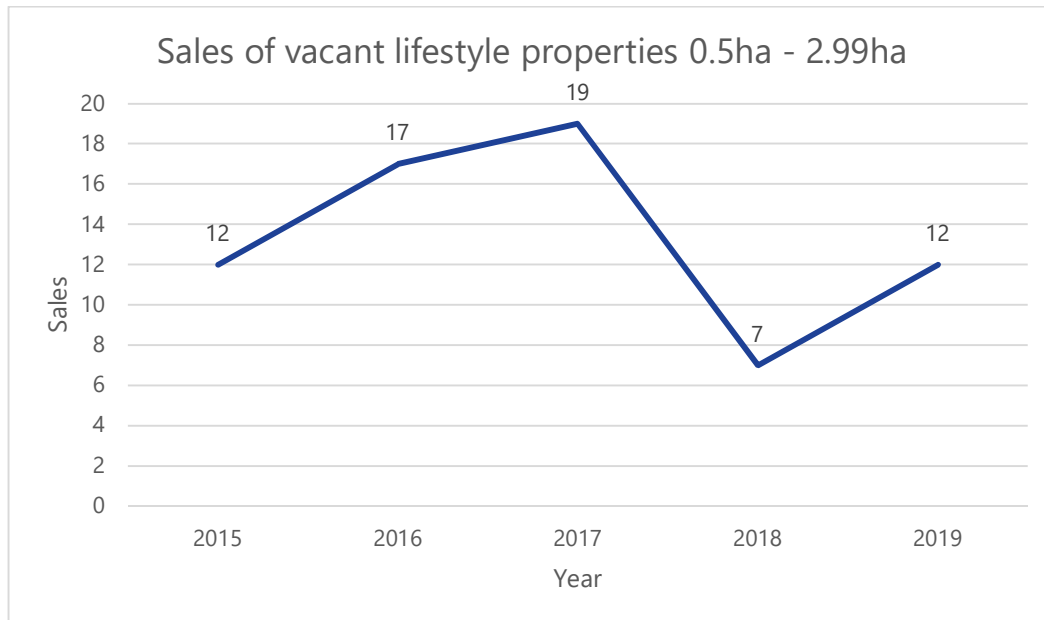
Our research focuses on the property market for small holdings, in particular the market for smaller vacant Rural Residential properties 1 - 2ha in size.

There were 95 sales of vacant lifestyle properties in the Waimakariri District in the year to October 2019 ranging in size from 0.37ha to 26.7335ha with a median value of \$300,000.

The majority of the lifestyle property sales in the district are either between 4-5 hectares in size or between 0.25ha and 0.6ha. This is as a result of the current subdivision minimum allotment size for rural zone, or smaller in the Residential A and B zones that average around 2500m² and 5000m² respectively.

To establish the demand for lifestyle property between 1 – 2 hectares we have looked at properties that have sold between 0.5 hectares and 2.99 hectares to obtain sufficient sales information as we assume that a potential purchaser would also consider properties slightly smaller or larger to the desirable size.

In the district over the last 12 months to October 2019 there have been 12 market sales of properties 0.5ha to 2.9ha in size across the district. In the preceding 12 months to October 2018 there were 7 sales of vacant properties 0.5ha to 2.9ha in size and 19 in the preceding 12 months to October 2017.



Graph 1 – Sales of Vacant lifestyle properties 0.5ha – 2.99ha

3.3.3 1-2 hectare parcels land values

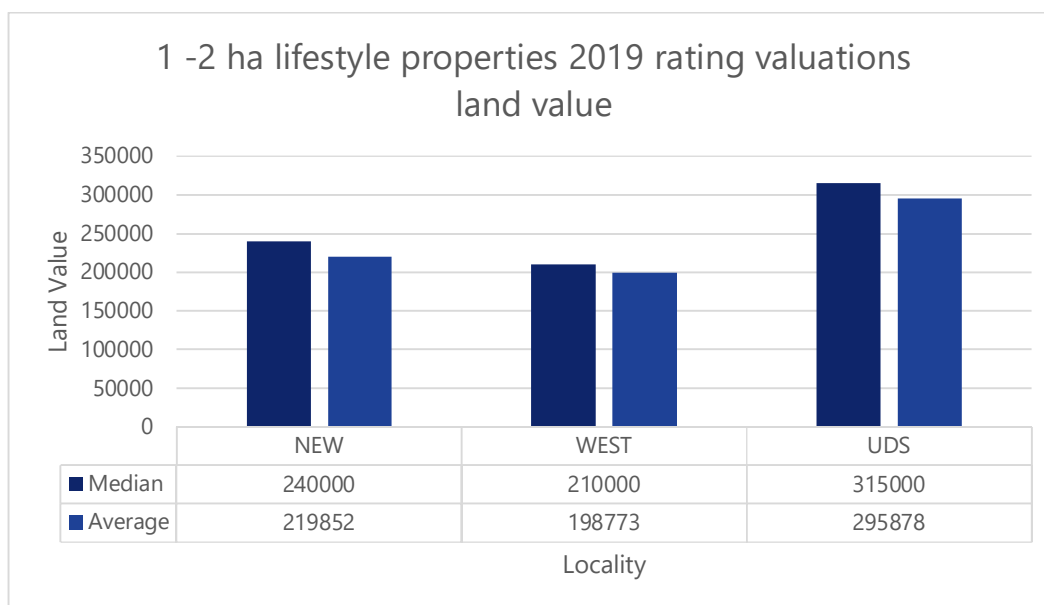
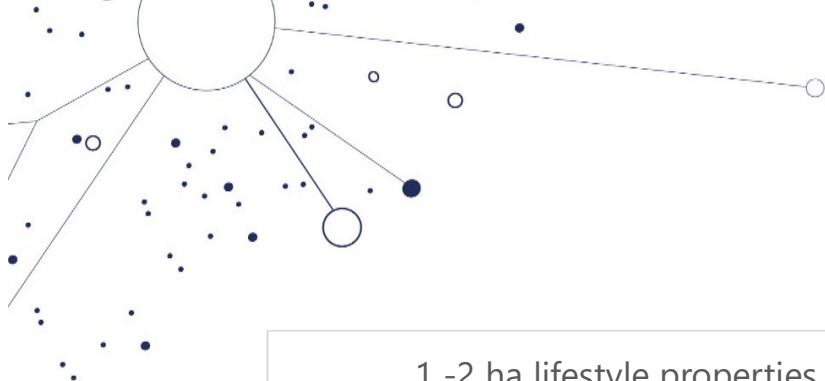
The Districts rating valuations have been utilised to derive a median and average land value in the designated study areas. This analysis included both improved and vacant lifestyle properties across the three localities of which there were 61 lifestyle properties 1-2ha in size in the NEW area, 75 in the WEST area and 518 in the UDS.

These values are as at the 1st of August 2019.

The median 2019 rating land values in the NEW locality was \$240,000, with the WEST area having a median of \$210,000 and the UDS \$315,000.

The average 2019 rating land values in the NEW locality was \$219,852, \$198,773 in the WEST and \$295,878 in the UDS.

This is illustrated on the graph below.



Graph 2 – 1-2ha land values.

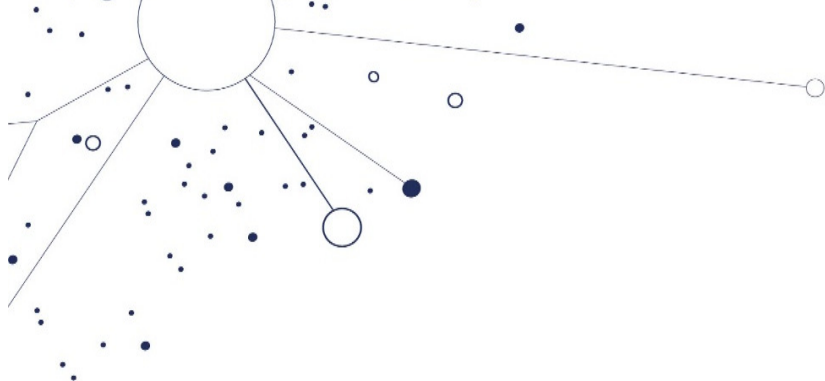
Land values of developable parcels of land between 1-2has in size of lifestyle category in the WEST locality range in value from \$126,000 to \$280,000. In the NEW locality there these parcels range from \$140,000 to \$295,000. In the UDS area where there is the greatest concentration of 1-2Ha lifestyle properties the range of values from \$160,000 to \$400,000.

4 Comparative District analysis Of Transferable Development Rights.

The practise of using TDRs in New Zealand to incentivise land owners to protect ecological areas is currently limited to the North Island in areas that have development pressure. Both literature and sales evidence suggests that for TDRs to work as a successful incentive, demand for land in the area of development must be active. It is evident that the more active the market the greater the demand and therefore the greater the cost a potential TDR purchaser will be willing to pay.

Our research has identified three districts that include tradeable TDRs as a tool to permit the development of land in their respective district. These include the Auckland, Western Bay of Plenty and the Waipa Districts. Other areas such as Whangarei, Kaipara, Thames-Coromandel, Hastings and Rotorua use in-situ lot subdivision to incentivise land owners to protect ecological features but these titles are not transferable.

Below is a table adapted from a paper prepared by the Biodiversity Collaborative Group in February 2018 that looked at the differences in TDRs in the Auckland, Waikato and Western Bay of Plenty areas.



District Plan	Auckland	Western Bay of Plenty	Waipa
Name of the Process	Transferable rural subdivision	Transferable protection lot	Environmental benefit lot
Protected area	Mapped SEA	Mapped Significant Ecological Feature or Certified	Mapped SNA in rural zone or Certified
Receiver area	Countryside Living Zone	Lifestyle Zone	Rural Zone < 1km of urban areas or Large Lot Zones
Minimum area	Indigenous vegetation 5ha for 1, 10ha for 2, 15ha for 3 lots; plus 10ha for extra. Wetland 0.5ha for 1 lot, 1 ha for 2 lots	Variable of Forrest type 3ha – 5ha or 0.5ha for wetland	Whole of feature
Insitu cap	3 lots for indigenous vegetation, Nil for wetland	5 lots	1 lot
Receiver cap	Indigenous vegetation unlimited; Wetland 2 lots	No cap (subject to zone subdivision rules)	Rural zone only 1 lot, LLZ unlimited
Protection of all protected area	Yes	Yes	Yes
Ecologist	No	Yes	Yes
Activity Status	Restricted discretionary	Controlled < 2 lots Restricted discretionary > 2 lots	Discretionary
Simultaneous Donor – Receipt	Yes	No	Yes; joint application
Expiry	None stated	5 years	None stated

Table 1 – Transferable Development Rights Provisions for Auckland, Waipa and Western Bay of Plenty.

There are notable similarities and differences between the three Districts. All three districts differentiate between vegetation types with all valuing the protection of wetlands higher. All three districts also recognise the benefits of restricting insitu subdivision that creates development close



to the protected area in favour of TDRs and also all require all of the natural resource to be protected irrespective of whether it is relied on to generate the TDR.

Differences between the districts of note includes the Auckland District not requiring Ecologist certification whilst the other two do, Auckland and Waipa having no expiry on the TDR whilst Western Bay of plenty requires the TDR to be utilised within 5 years and the differing activity status that TDRs have across the districts. In Auckland the activity is restricted discretionary, Western Bay of Plenty it is Controlled or restricted discretionary dependant on size whilst in Waipa it is discretionary.

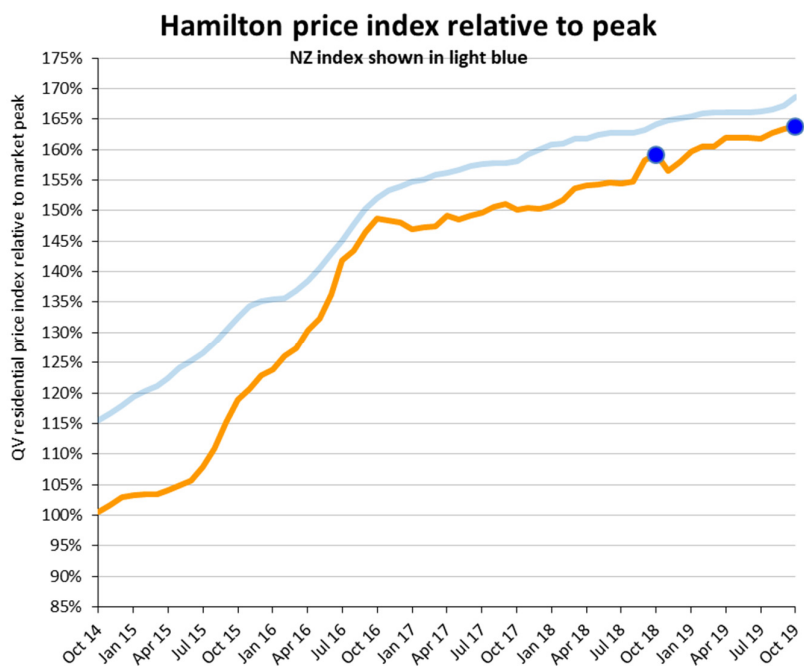
4.1 Waikato

4.1.1 TDRs use in the district

TDRs are available in the Waipa District to the south of Hamilton and are still able to be traded in the former Franklin District area. The Franklin territory was abolished in 2010 when it was split between Auckland and the Waikato with the TDR still currently able to be utilised. The Hauraki District Council has historically administered Franklin District Plan since 2010.

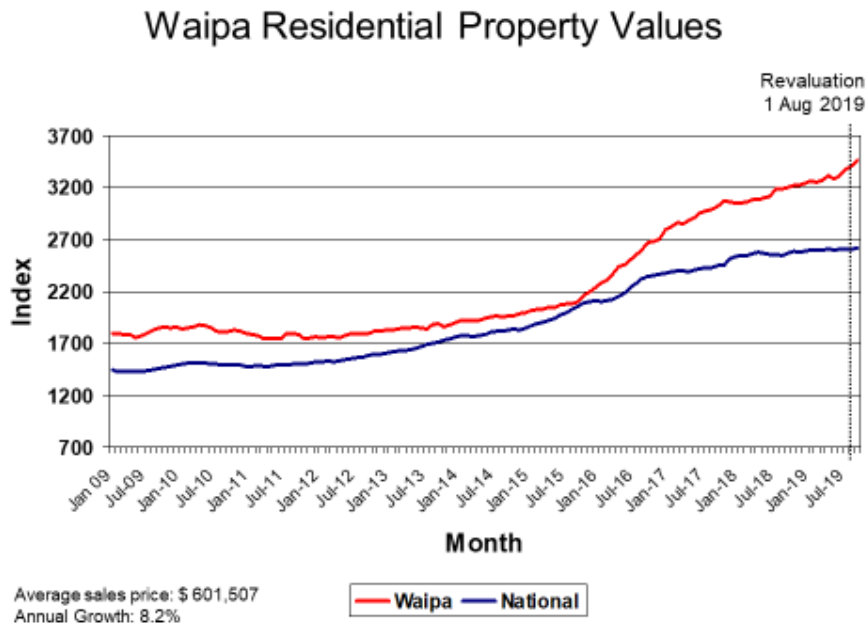
The Waikato district has generally experienced relatively strong growth over the past 5 years. This is illustrated in the graph 1 below where the Hamilton residential price index has generally shadowed that of the national index over this period.

On Graph 2 is the Waipa districts increase over the last 10 years. This broadly illustrates growth in the district considerably greater than that of the national average, especially over the last 4 years.





Graph 3 – Hamilton Residential price index



Graph 4 – Waipa residential price index

4.1.2 Market evidence

We have acquired some word of mouth sales evidence of the sale of two TDRs in the Franklin part of the Waikato Region by State Highway 2 near Pokeno. These sales took place in May 2017 and the contract prices for these TDRs were \$105,000 +GST and \$95,000 + GST. 1-2ha values in this area at this time were around \$400,000 - \$430,000 and the market was relatively strong with values increasing through late 2016 to 2017.

The TDR to 1-2 hectare parcel value ratios for these two transactions (using \$415,000 as the average value of a 1-2 hectare parcel) are 0.253 and 0.229 respectively, or 25.3% and 22.9% of the value of a 1-2 hectare parcel.

The surveyors contacted reaffirmed these value levels for TDRs stating that most were now being exchanged for approximately \$120,000 to \$140,000 + GST with 1 -2 hectare site values now being in the \$500,000 - \$530,000 after a period of strong growth. This produces TDR to value ratios of 0.233 to 0.272, or 23.3% to 27.2% of the value of a 1 -2 hectare parcel.

In the Waipa District TDRs are able to be traded. We have further evidence of a transaction of a TDR in this area for \$30,000. The cost of the entire subdivision in this instance was including surveyor, development contributions, legal of Inclusive of additional cost the total is around \$60,000 - \$70,000 but was considered a below market transaction at the time. The purchaser



informed us that they were fortunate to get a list of TDR holders in the area and that they found someone highly motivated to sell.

1 -2 ha values in this area at the time of this transaction was complete around late 2013 early 2014 were around \$280,000 to \$320,000 in a market experiencing values that were gently trending upward at this time – the market after this time experienced a significant lift in the area. Purchasing the TDR for \$30,000 produces a TDR to value ratio of around 0.094 to 0.107, or 9.4% to 10.7% of the value of a 1-2 hectare parcel.

The aforementioned purchaser of this TDR was of the belief that this was a below market transaction and stated that TDRs were selling for around \$50,000 at the time of the last market peak in 2008 when 1 – 2 hectare parcels were transacting for around \$220,000 - \$260,000. The TDR to value ratio, using \$240,000 as the average value of a 1-2 hectare parcel in 2008, is estimated at 0.208 or 20.8% of the value of the land. This purchaser also pointed out that there were few areas in which TDRs could be utilised (relative to soil type) and that this had negative effect on the value of TDRs.

We have found two TDRs advertised for sale in the Waikato region that both state that the Transferable right is able to be utilised in the entire Waikato area. The asking price for these TDRs are \$120,000 + GST and \$150,000 + GST. These asking prices are for the TDR only with all other costs associated being additional. Values of 1-2 hectare properties throughout the region vary considerably but the majority of 1 -2 hectare in desirable localities range in value from \$350,000 to \$700,000.

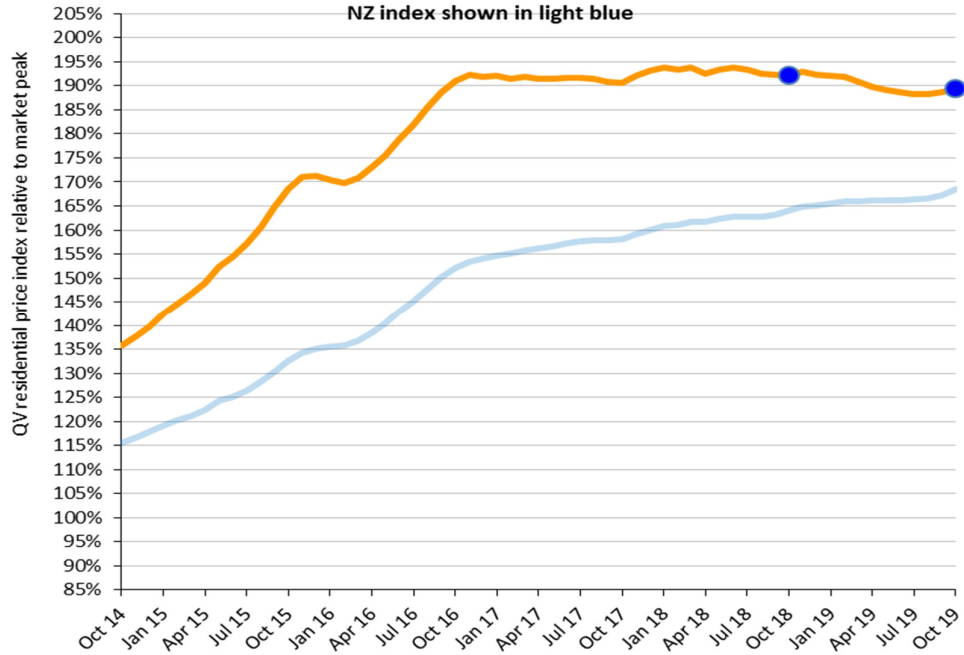
4.2 Auckland

4.2.1 TDRs use in the district

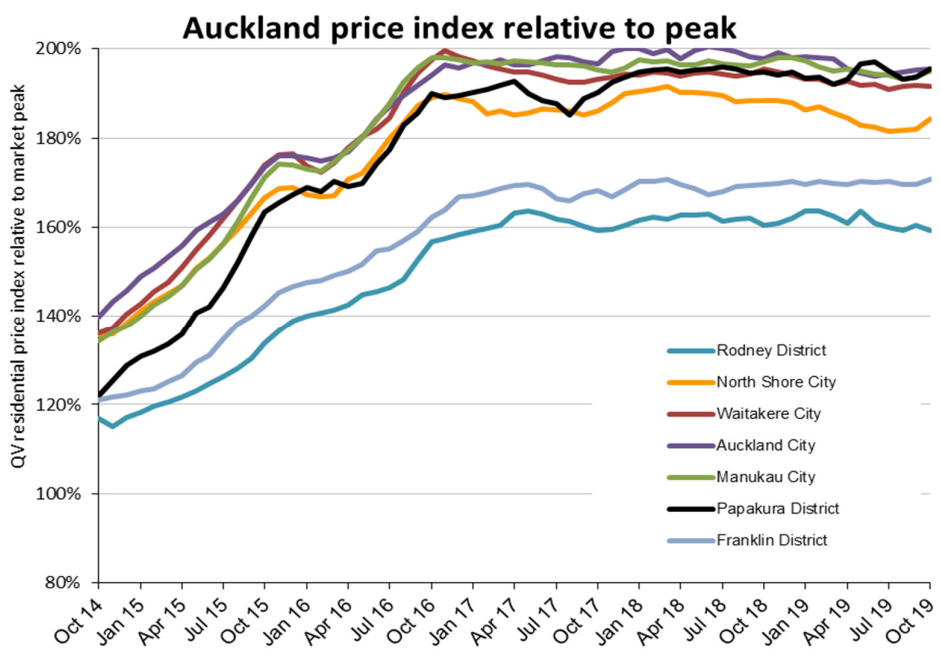
TDRs are able to be traded in the Auckland District with the development right able to be received in the Countryside Living zone of which there is a lot in the Rodney area and in Franklin to the south. Previously in the district prior to the current unitary plan TDRs could be received into all rural land. This change has brought about a reduction in the number of TDRs being utilised in the district with one surveyor we contacted stating that they now facilitate around 10 TDRs a year as opposed to 30 - 40 under the previous district plan.

Value growth and demand for property in the greater Auckland area has been well documented over the past 5 years with values increasing in the 'super city' significantly since early 2014 through to late 2016. Since late 2016 the value levels have remained relatively stable with a slight reduction in levels recorded in some areas, particularly in the North Shore. This is illustrated below on graphs 5 and 6.

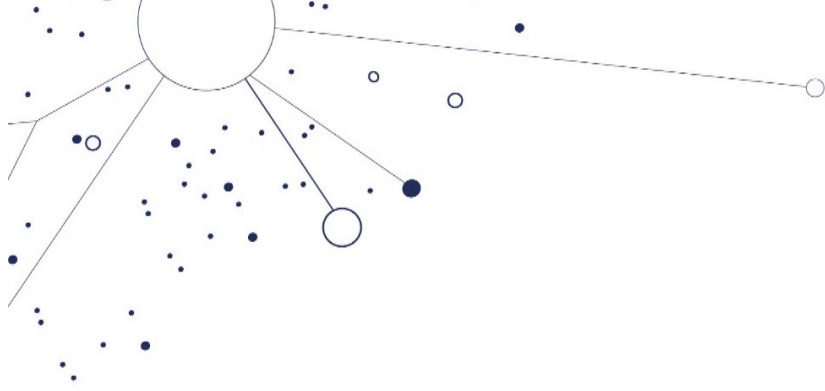
Auckland price index relative to peak



Graph 5 – Auckland residential house price index



Graph 6 – Auckland Residential house price index by district/city



4.2.2 Market evidence

TDRs are actively advertised on the market in the Auckland District via surveyors. Surveyors work as the facilitator of the deal between the TDR holder and TDR receiver as a means to obtain the right to survey the property when the deal goes ahead.

The surveyors contacted indicated that the value of TDRs being transacted in the Rodney area was between \$160,000 and \$180,000 for properties with 1-2 hectare property values around \$700,000 to \$800,000. The TDR to land value ratio in this instance, assuming a TDR cost \$170,000 and the Land value is \$750,000 equates to 0.227 or 22.7% of the value of the land.

There is a TDR currently actively advertised on the market in the Auckland region that is asking for enquires over \$200,000 for a development right able to be utilised in the country living zone of Auckland district.

Evident in this market since the unitary plan restricted the utilisation area of TDRs is subsequent reduction in their value. Previously under the old district plan when there was a larger area where TDRs could be utilised in more desirable areas that resulted in TDRs being exchanged for around \$250,000. These TDRs were being received into areas where 1-2 hectare land values were estimated around \$850,000 with TDR to land value ratios around 0.29 or 29% of the land value.

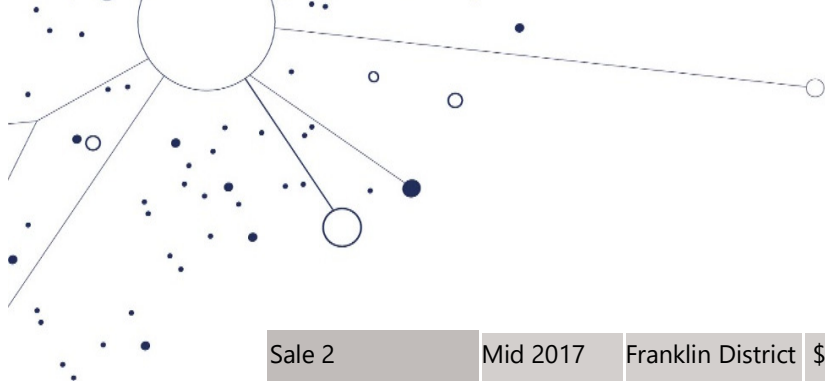
5 Conclusion

Integral to the success of establishing a TDR system that is effective and serves as an incentive to land owners to protect the unique ecological features of their property, the market must be active.

It is our opinion that there is sufficient activity in the Waimakariri district for a TDR incentive scheme to be successful. There are on average around 100 sales of vacant lifestyle category properties in the district of which around 13- 15 are between 0.5 to 2.99ha in size. This number of sales in the district illustrates that demand for this size and type of property exists and indicates an active market that has experienced relatively steady value growth over a prolonged period of time.

After speaking with a number of surveyors and acquiring market evidence in the Waikato and Auckland areas it is clear that there is a relationship between land value and the cost at which TDRs are exchanged for. The below table derived from word of mouth sales accounts helps to illustrate this relationship.

Sale	Transaction date	Location	Approx. 1-2ha land value	TDR Cost	TDR/LV
Sale 1	Mid 2017	Franklin District	\$415,000	\$105,000	0.253



Sale 2	Mid 2017	Franklin District	\$415,000	\$95,000	0.229
Sale 3	Early 2014	Waipa District	\$300,000	\$30,000	0.100

Sale three in the above table is considered to be well below the market price that the purchaser believed that TDR was worth estimated that the true market value should be around \$60,000. At market level this produces a TDR/LV ratio of 0.20.

This sales evidence is supported by surveyor's accounts that suggest TDR to land value ratios in the 0.2 to 0.3 range. Our evidence and research also suggests that the ratios will be higher in higher land value areas suggesting that purchasers would be willing to pay more to 'unlock' greater monetary return.

After consideration of the available sales evidence, on the market evidence and speaking with surveyors, we estimate that similar ratios would be achieved in the Waimakariri District assuming that the market for TDRs was well established and the demand for lifestyle property remained constant. We estimate that the value of TDRs in the district would be in the \$50,000 - \$80,000 range with the majority of the demand for these being in the higher value UDS area.

6 Report Conditions

Data

Data utilised for this report has been taken from Quotable Values own database. Where third party information has been used this is stated accordingly.

Purpose

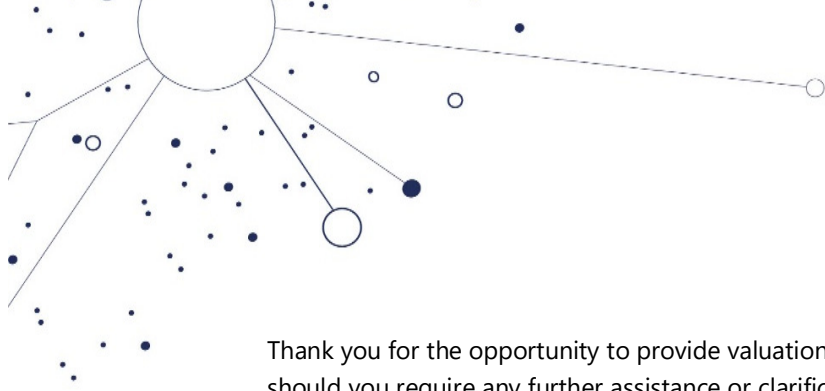
This report has been completed for the specific purpose stated and is not to be used for any other purpose. No responsibility is accepted in the event that this report is used for any other purpose.

Third Parties

Our responsibility in connection to this valuation is limited solely to the client to whom the valuation is addressed. No other party may rely on this valuation.

Publication

Neither the whole nor any part of this valuation or any reference thereto may be included in any document, circular or statement without our approval of the form and context in which it will appear.



Thank you for the opportunity to provide valuation services. Please do not hesitate to contact me should you require any further assistance or clarification.

Yours faithfully,

Quotable Value

A handwritten signature in black ink, appearing to read 'Kris Rodgers'. The signature is stylized with a large, sweeping initial 'K' and a long, horizontal tail stroke.

Kris Rodgers

Area Manger

