



Property Market Drivers and Constraints Around Achieving Spatial Planning and Urban Design Objectives

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CBRE
CB RICHARD ELLIS

- CBRE is a full service real estate services company providing real estate expertise, execution and advisory
- Our market standing and services capability mean that CBRE is involved in some capacity with most sizeable property investments and development projects undertaken in Auckland

- Some development concepts
- Market drivers and constraints around development
 - Mixed use
 - Business land
- Measure towards achieving desired development outcomes

- Commercially motivated developers seek to develop at a cost which enables the development to be let or sold at a price that attracts sufficient would be users or owners while providing the developer with an adequate return.
- Key Development drivers;
 - User Demand
 - Input Costs
 - Realisation Value
 - Risk

- For a commercial developer user demand has to be Effective Demand
- Effective Demand – market demand that is willing and able to pay for the product developed
- This is different from what might be called vicarious demand where people may share a general wish to see certain types of development occur but where the willingness or ability to pay is missing.

Mixed Use Development

- On site synergy – compatible and complementary uses
 - low quality residential not compatible with professional office
 - some retail has little synergy with either office or residential
- For a commercially successful development each use must stand on its own feet...

Mixed Use Development

- ..But effective demand does not readily exist for all uses in all locations
 - Retail is highly location sensitive and foot traffic dependent
 - Residential is highly dependent on the value of surrounding residential area and lifestyle attractions
 - Office seeks amenity and image
- Many parts of Auckland are not desirable for one or more uses
- Even if effective demand exists demand cycles across uses may not be in sync - hinders vertical mixed use development

Mixed Use Development

- Mixed Use Environments versus Mixed Use Buildings
- More appropriate to focus on developing Mixed Use Environments over time rather than short term focus on Mixed Use Buildings

- Aims
 - Increased employment opportunity and density
 - Transitioning from traditional to emerging industry

- Some incompatibility between these objectives and industrial property market trends
 - Modern industrial premises are less efficient users of land (site coverage typically less than 60%)
 - Industrial premises becoming less labour intensive specially those that are distribution oriented
 - Modern 21,000 sqm warehouse in Penrose operated by 10 workers

Business Land Development

- Council aims imply increasing office uses
 - Greatest employment density (21,000 sqm = c1,500 workers)
 - Multi level
- Impacts on business land
 - Greater visual amenity
 - More efficient land use
 - More economic value add?
- In isolation worthwhile benefits but in the wider context of development and urban fabric aspirations maybe counter productive

Business Land Development

- Dilutory impact on other office locations
 - More difficulty securing office and mixed use development in centres and corridors
 - Latent potential in centres and corridors for office use is significant; provides long term capacity
- Displacement of existing business land uses
 - May have wider adverse impacts on ongoing success and viability of some business precincts
- Transitioning business land uses maybe appropriate in some settings (eg Tamaki Innovation Precinct) but unlikely to be viable as a general aim.

Measures to achieving desired development outcomes

- Optimisation of land use and development regulation
 - parking
 - height and FAR controls
 - urban design evaluation processes
 - closer partnerships
 - Within Council - strategic planning, implementation planning, traffic
 - Between Council and Developer

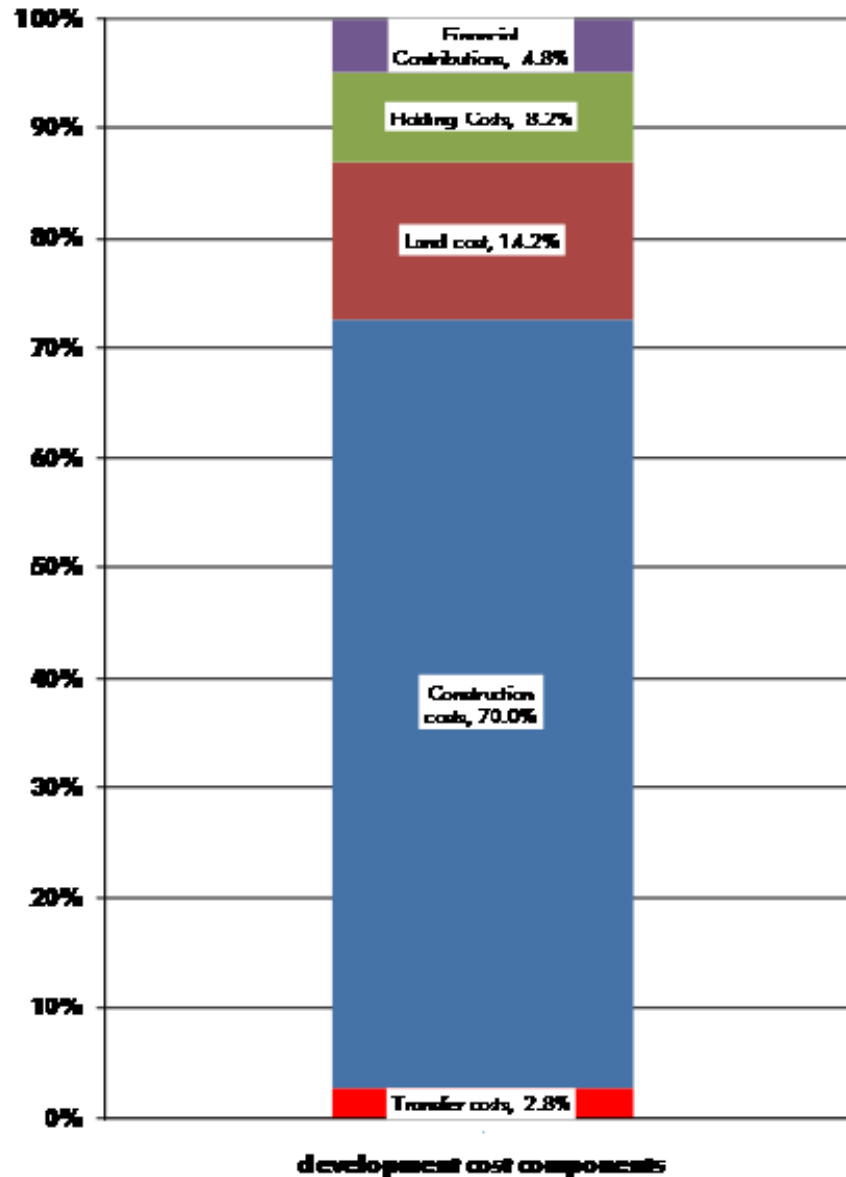
- These will harmonise market and regulatory processes and assist the delivery of desired spatial form but...

- Will not overcome situations where effective market demand is lacking to support development

Measures to achieving desired development outcomes

- Either focus only on areas where effective market demand supports development and let market evolve naturally or intervene
- Possible Interventions
 - Development and Operating Costs within Council control

Contribution of Different Components to Total Development Cost



development cost components

- Example of a 3,500 sqm hypothetical mixed use development of apartments and retail. approx \$13 million development.
- Development contributions are 4.8% of total development costs.
- Impact on development feasibility
 - Lowest for high value commercial
 - Somewhat higher for low value commercial
 - Highest for high density residential especially in locations of higher land cost where value of finished product is lower

■ Rates

- Outside of CBD accounts for 6% to 8% of total occupancy costs for retail and office
- Not considered large enough to make a difference for office occupiers
- But for a retailer moving from an out of centre LFR location into a town centre it could make a material difference

Measures to achieving desired development outcomes

- Either focus only on areas where effective market demand supports development or intervene

- Possible Interventions
 - Development and Operating Costs within Council control
 - Market based land use policies and incentives
 - Unconventional Models of Development Economics

Measures to achieving desired development outcomes

- Unconventional Models of Development Economics
 - Transformational Development and Regeneration Premium
- Conventional development models require short term commercial return
- Where effective demand does not readily support development conventional development models don't work
- Need developers with
 - patient, non risk averse capital
 - long term time horizons
 - sites of sufficient size in appropriate locations
 - vision and resolve to produce something outstanding enough to be transformative and able to produce a regeneration premium