



South Dunedin Future Property Advisory Paper Phase 2 Analysis

Phase 2 Report
May 2026



This cover letter provides the required context for our report dated 4 May 2026 which was provided to our client Dunedin City Council. The report draws on a technical report produced by Kia Rōpine, the expert consultant consortium which leads the risk assessment and adaptation planning for the South Dunedin Future project. The report was created to provide commercial insights on the three shortlisted South Dunedin Future (SDF) Programme options (as shortlisted by Dunedin City Council).

Any views provided by PwC in the report are based on objective and fact-based evidence provided to us in addition to our understanding of the market. In addition, while recommendations on what Dunedin City Council should consider in terms of progressing their thinking are included, the report is not provided as a recommendation on which specific option or approach should be taken.

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4 May 2026

Kia ora Jonathan,

In accordance with the Property Consultancy Order dated 28 May 2024 (the Contract) and the variation agreed on 13 April 2026, we **present the Phase 2 Property Advisory Report** relating to the South Dunedin Future (SDF) Programme.

This report **builds on (and should be read in conjunction with) our Phase 1 Property Advisory Paper (March 2025)** and responds to the narrowing of the Potential Adaptation Futures to a shortlist of three, with a focus on the shorter-term interventions that would occur over the next 25–30 years.

The purpose of this paper is to provide commercial insights across the three shortlisted Futures, particularly around the feasibility, sequencing, and funding and financing implications of key early interventions. It also considers the potential market response to redevelopment under each pathway, identifies barriers and enablers, and advises on potential financial tools and partnership models that could support early delivery. Our analysis has been informed by Kia Rōpine's revised technical reports, to which we have responded with specialist commercial and property commentary.

We trust this paper meets your requirements and we look forward to any opportunity to continue to support DCC as the SDF Programme is advanced.

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Since the start of 2025, the RBNZ has delivered cumulative rate cuts of 150 bps, taking the OCR from 3.75% to 2.25%, remaining at 2.25% as at April 2026. This has provided interest rate relief and eased financial conditions. Market liquidity is gradually improving, with capital selectively returning as trading conditions become more favourable. Nonetheless, some activity indicators remain soft; GDP contracted by 0.5% in the year to September 2025 and spare capacity remains. Geopolitical headwinds, particularly the escalation of the U.S. tariff measures and the uncertainty associated with the impacts of the U.S. – Israeli – Iran war, including fuel pricing, continue to cloud the outlook. It is consequently very difficult to have a view on the next 12 months – prior to the Iran war there were strong signs of recovery, however, downside risks are elevated, including from global trade and geo-political tensions; some banks are predicting that the economic recovery in New Zealand might be delayed until 2027. This Document must be read in this context, and the acute uncertainty associated with the economy and markets generally.

In addition, the following should be noted:

- We have not considered the tax or technical accounting implications of the advice in our Document. In some cases, tax can have a material effect on returns. You will need to consult with your tax and accounting advisors on the implications of the advice within this Document.
- Certain numbers included in tables throughout this Document have been rounded and therefore do not add exactly.
- Unless otherwise stated all amounts are stated in New Zealand dollars.
- All figures are exclusive of GST unless stated otherwise.

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Glossary of abbreviations and key terms

Abbreviation	Term
BAU	Business as Usual
BCR	Benefit-Cost Ratio
bps	Basis Points
CBA	Cost Benefit Analysis
CBD	Central Business District
CCO	Council Controlled Organisation
DCC	Dunedin City Council
GDP	Gross Domestic Product
GST	Goods and Services Tax
KR	Kia Rōpine
LGFA	Local Government Funding Agency
NAF	National Adaptation Framework
NHC	Natural Hazards Commission
NPV	Net Present Value
OCR	Official Cash Rate
PPP(s)	Public-Private Partnership
PV	Present Value
RBNZ	Reserve Bank of New Zealand
SDF	South Dunedin Future
STATs	Signals, Triggers, and Thresholds
UDA	Urban Development Authority



Executive summary

Executive summary

Purpose

This report provides commercial analysis and observations on the property-related aspects of the three shortlisted adaptation Futures for South Dunedin (**Futures 3, 4 and 5**). It builds on our Phase 1 report (dated 11 March 2025) and interim supporting memorandums and is intended to support DCC's next phase of analysis in relation to a preferred Future.

A key focus of this report is to inform engagement with Councillors, Central Government and other key stakeholders on the key commercial challenges and actions required to deliver the programme, with particular reference to the property components.

Key commercial considerations

The three shortlisted Futures all require significant public investment before private sector participation in the property-related components is likely to be viable.

We appreciate that, per the Kia Rōpine paper titled Proposed Adaptation Futures for South Dunedin, the commercial rationale for public intervention (infrastructure investment, property acquisition and land preparation) is not to underwrite private asset values. Rather, it is to manage unacceptable community-wide risk, enable urban transformation that the market cannot deliver on its own, and create the conditions under which private investment can follow. The property-related interventions we focus on in this report sit at the interface between public risk management and private market response. Getting the balance right between public expenditure and private participation will be critical to the programme's long-term financial sustainability.

Total programme costs range from \$1.63b (Future 4) to \$2.45b (Future 5) in PV terms. We expect that core adaptation infrastructure (pipes, pumps, stormwater, coastal protection, and land raising where applicable), representing between c. 44% and 58% of total programme costs (in PV terms) depending on the Future, will need to be publicly funded.

The primary opportunity for private sector participation (beyond delivering the publicly funded components) is therefore in land development and new housing delivery, including a scenario where Council de-risks and prepares land, and the private sector delivers housing to the market.

Short-term actions (2025–2050) are broadly common across all three Futures and include pipes, pumps, property acquisition, and planning changes. We understand that this means early investment is largely 'no-regrets' and can be commenced before a preferred Future is confirmed.

The Futures diverge meaningfully in the medium term (2050–2075) when decisions on waterways, land raising, and development density take different paths.

From a purely commercial perspective, **Future 4 (Restore)** appears the most straightforward.

It has the lowest total cost, lowest disruption (69 ha of repurposed land), the highest BCR (0.83), and, critically, does not involve land raising which we consider to be the most commercially challenging intervention being considered.

Key development opportunities

- **The Victoria Road sites** - all of the Futures assume this land (to varying degrees) is developed from 2050, however, in our opinion there is potentially strong merit in bringing this forward to create an early in-project location for displaced homeowners. The land is already Council-owned and we understand it could accommodate 335–840 dwellings depending on the Future and density applied.
- **Forbury Corner** (raised land) under Futures 3 and 5 involves acquiring a material number of properties (1,190 and 1,738, respectively), demolishing improvements, raising the land, and then redeveloping at higher density. This raised land is expected to enable 1,520 and 1,780 houses under Futures 3 and 5, respectively (at a density of 40 houses per hectare). This is commercially challenging. The costs are high ~\$380m–\$445m (non-escalated) for raising alone, the sequencing is long (25+ years to development), and the value created is highly unlikely to exceed input costs. Our view is that the scale of any land raising activity should be minimised where alternatives exist.

Executive summary cont.

Market response to key development opportunities

The densities proposed (40–50 dwellings per hectare (**dph**)) on the key development opportunities represent a step-change from South Dunedin's current density of c.24 dph. This will require the market to deliver and absorb medium-to-high density housing at a scale that has limited local precedent, albeit reasonable national precedent, even in regional and lower value locations similar to South Dunedin.

Potential barriers to delivering these projects include the small local developer pool, uncertainty until a preferred Future is confirmed, affordability constraints, insurance/lending appetite, and the 25+ year lead time on raised land under Futures 3 and 5.

Key enablers include the amenity uplift from green/blue infrastructure, planning certainty once locked in, aggregated Council-owned land parcels, and latent demand from displaced residents.

Funding

The National Adaptation Framework (confirmed in October 2025) does not provide a dedicated funding mechanism for proactive property acquisition. Furthermore, we understand that councils have no explicit legal obligation to protect private assets from natural hazards.

Notwithstanding this framework and funding uncertainty, the programme requires acquisition of between 1,162 and 1,738 properties (depending on the Future) at an estimated cost of between \$450m to \$840m (based on 2025 Capital Values, without escalation applied for future acquisition timing). Acquisitions are the single largest near-term capital commitment of the programme and we assume that this cannot be funded from rates alone. We expect that Central Government co-investment will be essential as, without it, the programme may not be deliverable at the anticipated scale via DCC's balance sheet.

At this stage, we expect that realistic funding sources are likely limited to DCC borrowings, Central Government co-funding, targeted rates (potentially, and supplementary only), sale/rezoning of Council-owned assets, and development contributions on future housing.

While Council will benefit from property value increases on its own assets, much of the benefit and value created through the programme will accrue to private property owners. Combined with the cost of climate infrastructure and acquisitions where the land cannot be directly monetised, the value creation potential should be viewed as a means to partially offset what will ultimately be a net cost to the public sector.

Delivery entity

The scale, complexity, and multi-decade duration of the programme likely exceeds what DCC can deliver through its existing structures. A dedicated delivery entity (CCO or joint Council/Crown vehicle, such as an urban development agency (**UDA**)) with commercial capability, ring-fenced governance, and (importantly) a mandate to hold and transact property at pace, is likely to be required.

This entity does not need to be established immediately, but DCC will need to resolve the delivery entity question before large-scale property acquisition commences.

Priority actions for DCC to consider

Based on the analysis contained in this report, we have identified seven top-level priorities for DCC to consider; they are presented in the table overleaf.

Executive summary cont.

Priority actions for DCC to consider

- 1 **Develop a property acquisition funding strategy.** This should model likely acquisition costs against Council borrowing capacity, test Crown co-funding opportunities and identify the funding gap that needs to be addressed, together with other sources that could be leveraged.

- 2 **Establish acquisition pricing methodology.** This will need to reflect a transparent, equitable, and defensible approach before acquisitions commence and will need to consider any legal nuance associated with acquisitions for public works vs other uses e.g. land raising for future redevelopment.

- 3 **Prioritise Victoria Road.** Based on the fact this land is largely vacant (but for existing sporting use) and already owned by Council, we suggest accelerating planning, zoning, infrastructure assessment, and feasibility to bring parts of this land to market as the first development precinct and to accommodate relocations early in the programme.

- 4 **Commission feasibility studies.** This includes residual land value modelling on Victoria Road and land raising sites (F3/F5) to understand value, cost, and inform pricing / tenure decisions.

- 5 **Address the delivery entity question.** Assess the CCO / UDA options for a dedicated commercial delivery vehicle (will be required ahead of land acquisitions, and in any case will need to be established relatively early to build a dedicated council delivery team).

- 6 **Engage with the development market and key stakeholders.** This includes developers, CHPs, iwi, banks, insurers, Natural Hazards Commission, in order to test appetite for new property development (where supported by the climate infrastructure investment), understand requirements, and build relationships ahead of delivery.

- 7 **Review of Council-owned assets.** Identify surplus or underperforming property that could be divested or rezoned to generate (ring-fenced) capital for the programme.

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Overview of shortlisted Futures

Overview of the three shortlisted Futures

Introduction

This section provides a brief summary of the three shortlisted adaptation Futures for South Dunedin, which form the basis for the commercial analysis and observations in this paper. Kia Rōpine (KR), the alliance engaged to advance the South Dunedin Future project, has provided the following reports that we have relied upon for the technical details (including costs and comprehensive description of each Future):

- Proposed Adaptation Futures for South Dunedin – Overview (dated 31 March 2026)
- SDF Proposed Adaptation Futures for South Dunedin - Economic Report (dated 2 April 2026).

For clarity, our comments on the South Dunedin Future project contained within this report are from a commercial and real estate perspective only.

The three shortlisted Futures have been advanced by DCC and KR from a longlist of seven potential Futures based on technical and economic analysis, and community feedback. A brief summary of each shortlisted Future follows.

Future 3 – Protect (Keep the land dry – raise land and pump water)

Future 3 relies primarily on ‘hard’ infrastructure to manage water, with a focus on pipes, pumps, and targeted land raising. Significant pipe and pump investment occurs in the short-term to reduce flood exposure. Over the medium term, property acquisition enables land raising and the creation of green space in lower-lying areas. Community feedback viewed this Future as a balanced and cost-effective approach, although there was some uncertainty relating to land raising.

Future 4 – Restore (Make space for water – waterways and wetlands)

Future 4 takes a balanced approach, blending engineering and nature-based solutions through a network of waterways, wetlands, pipes, pumps and coastal protections. Short-term actions include major pipe and pump upgrades, property acquisition in higher groundwater areas and rezoning. Over the medium term, a network of waterways would be constructed alongside green space, stormwater storage and harbour-side coastal protection. Acquired land is transitioned to green space or higher density housing. Community feedback considered this option cost effective and proactive, offering resilience without widespread relocation, although clarity was sought in relation to timelines.

Future 5 – Reshape (Move out of harm’s way – raised land and green spaces)

Future 5 combines open waterways, green infrastructure and land raising to support resilient urban transformation. Short-term interventions broadly mirror Future 4, with major pipe and pump upgrades, property acquisition, stormwater storage and planning changes, while land raising and medium-density housing are progressed over the medium term. Community feedback viewed this option as promising but challenging, with concerns focused on land raising, timeframes, support for affected residents, and displacement and the loss of community and commercial areas.

	Future 3 “Protect”	Future 4 “Restore”	Future 5 “Reshape”
Primary approach	Hard infrastructure; raise land and pump water	Waterways, wetlands, pipes, pumps and coastal protection	Open waterways, green infrastructure and raised land development
Land raising	Yes, 38 ha	No	Yes, 44.5 ha
Open waterways	No, 0 km	Yes, 3.5 km	Yes, 3.5 km
Properties acquired & buildings demolished	1,190	1,162	1,738
Total repurposed land	c. 81 ha	69 ha	102 ha
Coastal protection	2.1 km seawall (harbourside)	2.1 km seawall (harbourside)	1.5 km seawall / inland coastal bund
Estimated cost (PV)	c. \$2.10b	c. \$1.63b	c. \$2.45b
Estimated benefits (PV)	c. \$1.34b	c. \$1.35b	c. \$1.34b
BCR	0.64 (range: 0.54 – 0.75)	0.83 (range: 0.71 – 0.98)	0.55 (range: 0.46 – 0.64)
Long-term residual risk	Slightly lower (land raising benefit)	Slightly higher (no land raising)	Slightly lower (land raising + additional waterway capacity)

Overview of the three shortlisted futures cont.

Future 3 – Protect



KEY:



Future 4 – Restore



Future 5 – Reshape



Summary

The proposed short-term actions (2025-2050) are largely common across all three shortlisted Futures covering ‘pipes and pumps’ type work, property acquisitions and planning changes.

The material divergence across the shortlisted Futures does not emerge until the medium term (2050-2075), when decisions are required on waterways, coastal protection, land raising and development density. This suggests early investment is largely pathway-enabling and “no-regrets”, rather than committing DCC to a single future from day one.

DCC is taking an adaptive planning approach, where interventions are sequenced over time and guided by signals, triggers and thresholds (**STATs**). This provides flexibility to adjust the timing, scale and mix of interventions as conditions change, rather than locking into one fixed pathway at the outset.

Evolution from our Phase 1 bookend analysis

The three shortlisted Futures sit, as anticipated in our Phase 1 report, between **the two bookend scenarios** we tested in that earlier analysis. The table below positions the shortlisted Futures relative to the Phase 1 bookends to illustrate how the analysis has evolved.

Table: Phase 1 'bookends' vs. Phase 2 shortlisted Futures

Metric	Phase 1: Option 2 (Bookend lower)	Future 3 "Protect"	Future 4 "Restore"	Future 5 "Reshape"	Phase 1: Option 7 (Bookend upper)
Properties subject to relocation / demolition	750	1,190	1,162	1,738	3,750
Residential land lost	c. 31 ha	c. 81 ha (total repurposed)	69 ha (total repurposed)	102 ha (total repurposed)	c. 145 ha
Primary approach	Pipes and pumps	Hard infrastructure; raise land and pump water	Waterways, wetlands, pipes, pumps and coastal protection	Open waterways, green infrastructure and raised land development	Large-scale retreat
Indicative cost range	'Hundreds' of millions*	c. \$2.10B (PV)	c. \$1.63B (PV)	c. \$2.45B (PV)	'Billions**

*Relating to estimated land acquisitions only based on Rating Valuations.

For clarity, the KR cost estimates include property acquisition costs for 1,190, 1,162 and 1,738 properties in Futures 3 to 5, respectively, across residential, commercial and social property assets.

Key observations of the evolution from bookends to the shortlisted Futures

- The shortlisted Futures cluster closer to the lower bookend.** The three Futures involve the relocation/demolition of c. 1,190, 1,162 and 1,738 properties (Futures 3 to 5, respectively), materially closer to Option 2 from KR's earlier analysis (rather than c. 3,750 homes lost under the original large-scale retreat scenario). A lower amount of relocations / demolitions is consistent with our Phase 1 finding (with reference to international case studies) that suggested managed relocation programmes are typically targeted at a relatively small number of properties proportional to the overall market in the 'affected' area.
- The 'unfeasible' upper bookend has been eliminated.** Our Phase 1 analysis concluded that Option 7 would require density levels akin to Auckland CBD-fringe housing (assuming the same number of houses were to be retained in South Dunedin), which was unlikely to be socially, environmentally or economically feasible for South Dunedin. The shortlisting process has appropriately narrowed toward more achievable outcomes (both financially and socially).
- Managed relocation is no longer the primary differentiator.** Under Phase 1 bookends (which we commented on from a commercial perspective), the defining variable was the extent of managed relocation (targeted vs. extensive). Under the shortlisted Futures, the number of buildings demolished is broadly similar across Futures 3 and 4 (Future 5 anticipates around 40% more property acquisitions than Futures 3 and 4, or c. 500 properties which is still significant but is materially less than the difference between the original Option 1 and Option 7 which was c. 3,000). The key differentiators have shifted to:
 - How repurposed land is used** - raised and redeveloped land, waterways and wetlands, or green space.
 - The extent of coastal protection provided** and the residual risk this leaves for retained land and future investment.

This shift is significant from a commercial perspective because it means the property strategy debate is now less about the extent of acquisitions required between the options (albeit noting the absolute amount of acquisitions proposed is still significant) and more about risk i.e how this can be reduced and how value can be generated from the land use change that occurs. This will influence future funding options, development partnerships, and cost recovery opportunities.

Commercial insights across the three Futures



Commercial insights across the three Futures

Commercial context and the role of public intervention

The three Futures rely on planning changes, property acquisition and land-use transition. However, while councils, on behalf of the community, are responsible for managing risks posed by natural hazards, the Kia Rōpine paper titled Proposed Adaptation Futures for South Dunedin notes that councils do not have an explicit legal obligation to protect privately owned assets from natural hazards. Private asset owners remain responsible for understanding and managing risks to their own assets.

This is important in the context of the analysis in this section because, while the Futures necessarily involve significant Crown and/or Council intervention in the form of infrastructure investment, property acquisition and land preparation, the commercial rationale for that intervention is not to underwrite private asset values. Rather, it is to manage unacceptable community-wide risk, enable urban transformation that the market cannot deliver on its own, and create the conditions under which private investment can follow.

The property-related interventions we focus on in this section (land acquisition, land raising, and development) sit at the interface between public risk management and private market response. Getting the balance right between public expenditure and private participation will be critical to the programme's long-term financial sustainability.

National Adaptation Framework context

The National Adaptation Framework (**NAF**, October 2025) sets the Government's approach to climate-driven natural hazards across four pillars:

- risk and response information,
- roles and responsibilities,
- investment in risk reduction, and
- cost-sharing before and after events.

Its intent is to reduce long-term natural hazard risk while keeping overall societal costs as low as possible.

For South Dunedin, this creates a material funding and delivery tension. All three Futures require early public investment and significant property acquisition to transition higher-risk areas to lower-risk uses. However, the NAF does not explicitly resolve how private property acquisition should be funded in these circumstances, and councils do not have an explicit legal obligation to protect privately owned assets from natural hazards.

Funding gap and delivery risk

This creates a key commercial uncertainty for DCC, i.e. who pays for the land-use transition?

While the Futures depend on acquiring and repurposing land, the current national policy position does not provide a clear funding pathway for large-scale private property acquisition. This means DCC will likely need to explore a mix of funding tools, cost-sharing arrangements, development partnerships and value-capture mechanisms to deliver the preferred Future without placing the full burden on rates or private property owners. We provide some observations on this matter and potential tools in Section 5 of this report.

Commercial insights

The following pages provide commercial observations across the three shortlisted Futures including on feasibility, sequencing, and the implications of key early interventions under each Future, including comments on value creation and development opportunities.

In short, we consider what the early (first c. 25 years) property-related interventions are and the key commercial challenges and opportunities associated with them.

Commercial insights across the three Futures cont.

Short-term alignment

A key commercial observation is that the short-term interventions across all three Futures appear broadly consistent, covering pipes and pumps, and stormwater infrastructure. This commonality means that these early activities largely reflect a 'no-regrets' investment, i.e., they are needed regardless of which option is ultimately pursued over the medium-to-long term. This makes the case for funding commitments relatively more straightforward as there are limited trade-offs and downside risks to consider.

There also appears to be a degree of commonality across some of the property acquisitions to prepare for future infrastructure and planning amendments to restrict development in higher risk / lower lying areas, while enabling development in 'safer' areas. This is particularly the case for Futures 3 and 4, however, there is a materially higher number of property acquisitions contemplated under Future 5.

Key early development opportunities

Three key development opportunities emerge across the shortlisted Futures, comprising the **Victoria Road sites**, the **Forbury Corner raised land** and the **Forbury Park site**. These opportunities have different commercial considerations and also vary at times across the Futures (e.g. the Victoria Road development assumes a different number of sites and approach to density under each Future).

Victoria Road

Victoria Road is identified as a primary development opportunity for new residential housing across all three Futures. This land includes development to medium density (40 dwellings per hectare) under Futures 3 and 5, or high density (50 dwellings per hectare) under Future 4.

From a commercial perspective, this opportunity is significant given the areas considered. Under Futures 3 and 5 there is 8.4 hectares of land which provides capacity for c. 335 dwellings at medium density. Under Future 4, there is 16.8 hectares of land included (Tahuna Park and Hancock Park in addition to the golf course), which at a high density would provide capacity for 840 homes; this could accommodate a majority of the displaced residents (under Futures 3 and 4).

Further, the land comprising the Victoria Road opportunities is already in Council ownership and is elevated and so there are potentially significant avoided costs compared to acquiring similar amounts of land elsewhere in South Dunedin, potentially having to demolish existing improvements and then investing in interventions such as land raising.

Victoria Road could therefore serve as a key commercial and equity lever within the project. Under all three Futures, rezoning of some (or all) of the Victoria Road sites is anticipated in the short-term, with development occurring in the medium term. DCC may, however, see merit in considering Victoria Road as a short-term development opportunity - both to realise value that could help fund the programme, and to provide a relocation pathway for households displaced by acquisition.

A cash buyout alone may not enable all affected residents - particularly lower-income households, renters and highly leveraged owners - to remain in South Dunedin, especially as demand concentrates within a limited pool of lower-risk land. Council ownership of the Victoria Road land provides DCC with a range of tools to help address this gap and deliver broader equity and housing outcomes alongside market-led development. Some practical mechanisms for doing so, and the commercial considerations involved, are discussed on the following page.

Deploying the site with a social equity lens may reduce the financial return vs what could otherwise be realised through a purely market-led development approach. However, this trade-off may be a legitimate consideration for DCC if the equity case provides a defensible basis for accepting a lower monetary return.



Commercial insights across the three Futures cont.

There are of course other practical considerations in terms of the existing uses for this land (golf course, Tahuna Park and Hancock Park) and managing the impact of the loss of this public land on the community, notwithstanding that there will be significant new green spaces created in other parts of South Dunedin to offset this.

Key commercial considerations for DCC in relation to the Victoria Road opportunities include:

- **Zoning:** rezoning of the land is both a prerequisite and a key value creation opportunity for DCC. The financial value of this land under the current zoning 'Recreation' is minimal. However, rezoning to residential would immediately increase the value of the land, which DCC could then leverage (via future sale / divestment) to help fund the programme.
- **The infrastructure:** (e.g. three waters) required to unlock development to the density anticipated. Consideration needs to be given to the cost of this infrastructure and the party who would deliver it (i.e. whether this would be Council or the land developer). While Council could create significant value by rezoning the land for medium density development, this value would be offset by the costs to develop the requisite site infrastructure (i.e. it could be incurred by Council directly or deducted from the price of the land when sold by Council if the purchaser / developer is required to deliver the works). We recommend DCC investigate the extent of infrastructure investment that would be required to unlock these sites as they are a key opportunity for new housing in South Dunedin.
- **Geotechnical considerations:** the ability of the land in this location to sustain the density and type of housing envisaged. Per above, due diligence on ground conditions could form part of the next phase of analysis.
- **Feasibility:** the feasibility of development to the densities envisaged is critical as imposing non-feasible density requirements on developers can be destructive to land value. On the basis the development of this land (at present) is scheduled for 2050+, feasibility is not a near term consideration, but delivery of housing by a third party will ultimately hinge on market demand and sufficient margin for private developers to attract developer participation (and sufficient infrastructure capacity as detailed above, which needs to be understood in the short-term).

- **Development partners:** related to the feasibility point, on the basis DCC is not a developer, consideration needs to be given to who it would partner with to develop the land and under what conditions – for example, Council may wish to procure certain outcomes on this land e.g. a proportion of social or affordable housing in addition to market based housing. Any approach which requires 'non-market' outcomes typically requires structuring through a development agreement. Council could also explore opportunities to partner with the developer(s) and share in the revenue or profit from the development of the land (i.e. a joint venture). While this isn't necessarily a near-term consideration, the community may wish to understand the type of housing that is likely to be developed and whether there will be affordable options. Giving clarity to the market (developers) and residents on this will be important for the social licence of the delivery entity.
- **Timing:** timing is a critical consideration. At present, we understand that rezoning of this land is expected in the short-term, but development is not planned until the medium term (2050+). On the basis DCC (or the entity that ultimately delivers the programme) is acquiring the land required for the infrastructure interventions from c. 2027 onwards, then there will be a near-immediate need for replacement housing by displaced residents (acknowledging that some residents may continue to rent post sale of their property, until it is required, but that housing will ultimately be demolished at some point). Given Council already owns the Victoria Road sites, and they are effectively vacant (notwithstanding the existing sporting uses), their development (or perhaps development of one of the three Victoria Road lots) could be brought forward to accommodate relocation of residents within South Dunedin much earlier in the programme. This would of course mean that the previous points (re infrastructure, rezoning, geotech, and feasibility) would need to be prioritised in the short-term.
- Another consideration relating to this point is the ability to swap land with residents at a low cost. For example, DCC could offer land on Victoria Road (which it already owns) in exchange for owners' land within the areas subject to acquisition. This lowers (or removes) the land cost component within relocate / rebuild 'equation' which may materially improve the feasibility and efficacy of a managed relocation programme but creates an opportunity cost for DCC (the alternative being to sell the land at full market value). There is of course complexity here in relation to how such a programme would be structured that would need to be worked through.

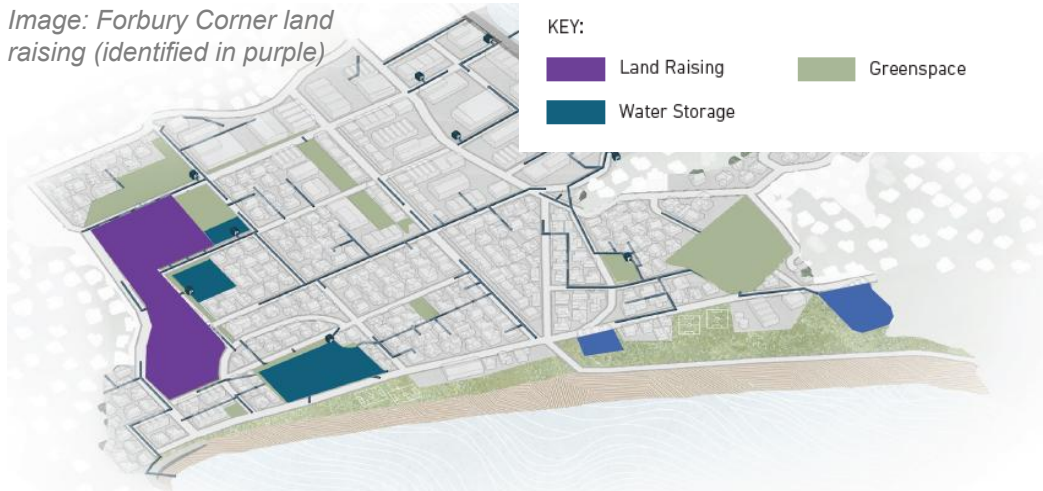
Commercial insights across the three Futures cont.

- **Should all three sites (the golf course, Tahuna Park and Hancock Park) be included in all three Futures?** At present, only Future 4 includes all three sites and the total 16.8 hectares of land. Notably, this scenario does not include any land raising. If the additional development lots were included in Futures 3 and 5 (and high density was targeted) DCC could (potentially, subject to wider engineering considerations) materially reduce the amount of land raising required under those scenarios while still providing the same amount of land / capacity for new housing.
- We recommend DCC completes a **fresh scan of all Council owned property in South Dunedin to understand what other land could be leveraged for new housing**. This may be more commercially feasible than having to acquire (and potentially raise) private land.

Forbury Corner – land raising

Under Futures 3 and 5, significant land is identified for raising and subsequent development. This requires the acquisition of individual properties and then demolition of the existing improvements to make way for the raising works and future development.

Image: Forbury Corner land raising (identified in purple)



From our perspective, land raising is one of the most commercially significant and challenging interventions being considered as part of the shortlisted scenarios for the South Dunedin Future Programme. We have provided previous advice to DCC in relation to the challenge of the land raising intervention in the context of Cost Benefit Analysis (**CBA**) and provide the following observations from a commercial perspective:

- **Cost:** the land raising reflects a significant cost. This relates to both the physical land raising works (which are significant at c. \$380m to \$445m (non-escalated) for Futures 3 and 5, respectively - \$10m per hectare), and the acquisition costs for the individual properties within the area identified for land raising. This approach requires improved properties (with existing houses and other improvements) to be acquired (presumably at 'market value' – separately discussed below), with the improvements then demolished in order for the land raising works to be completed. This will reflect a significant write off in value and would result in material costs being incurred before any future development value can be realised. The use of materials from demolition as backfill for the land raising may be a way to reduce costs but we expect this would be at the margins (in terms of any cost savings) and may introduce contamination issues.
- **Complexity:** the acquisition of individual properties within the area identified for land raising is a complex and time consuming process, which would involve negotiated buyouts with many individual owners. Consideration would need to be given as to whether this was a compulsory process (i.e. if the land raising is considered a public work) or voluntary process. This point is likely to require further legal advice; if the land is to be acquired, raised and then resold as development land to third parties then it is unlikely to be considered a public work (vs say properties being acquired to make way for waterways / stormwater management). There is the added complexity, noting in our earlier advice, as to the timing of the acquisitions and associated value of the assets, noting that, as the anticipated impacts of a changing climate become more prevalent, one might reasonably expect property values for low lying / affected assets to decline.
- **Timing:** development of the raised land cannot commence until first, the individual properties required are acquired (noting for example that under a voluntary process this may be challenging if buyers are not willing to participate) and second, the land raising works are completed. This is likely to create a long lead time between the capital outlay required to acquire the properties and when the value of the resulting development land can be realised. As such, there is a time-value-of-money impact to consider.

Commercial insights across the three Futures cont.

- **Value creation:** once the land is raised, it will become lower risk and is likely to have a materially higher value than the existing (pre raising) land, albeit noting there may be some 'perception' risk or stigma for some time. The value created could be further increased if South Dunedin more broadly benefits from other interventions implemented over the same time period. There is potential to create value via land raising, however any value created will be offset by the cost to acquire the individual properties within the land raising area (which will include the value of the existing improvements) and the physical costs of the land raising work. Per the high level, illustrative analysis below (originally outlined in our memo dated 12 March) it appears highly improbable that the value of the development land post raising would be higher than the acquisition and improvements costs.

Description (note all figures are plus GST)	Total	\$/sqm of land area
Land area	400 sqm	n/a
House acquisition price	\$400,000	\$1,000
Acquisition fees (legal, valuation, etc.)	\$20,000	\$50
Total acquisition cost	\$420,000	\$1,050
Demolition / removal cost	\$50,000	\$125
Raising land	\$400,000	\$1,000
Total acquisition and development cost	\$870,000	\$2,175
Development margin	Nil assumed	n/a
Required sale price to break even (raised, vacant, residential lot)	\$870,000	\$2,175

In today's dollar terms, we do not expect that a 400 sqm vacant section would sell anywhere near \$870,000 plus GST and so, all else equal, this does not represent value creation, and would instead be a material project cost. The metrics would change (improve) if the value of the houses in South Dunedin depreciated in real terms as a result of the water inundation risk; this is expected to eventually occur, but it may not occur for some time.

On this basis, our view is that, from a purely commercial and financial perspective, land raising should be reserved as an option of last resort (or at least minimised in scale) as it will likely be more affordable to relocate people to greenfield areas in other parts of Dunedin or to leverage existing Council-owned land in South Dunedin (e.g. the Victoria Road sites) which do not require acquisition of properties and large-scale write off of existing improvements and may not require the same level of investment (land raising) to be developable.

- **Delivery and partnerships:** a final key commercial consideration for the land raising intervention is who raises the land and then who delivers the future housing development. Our view is that private developers would be unlikely to be interested in completing the land raising directly (particularly if the costs cannot be fully recouped through the resale of development lots) and, as such, this intervention would likely need to be Council or Crown-led (for example, materially de-risked for a developer) as part of the wider package of interventions delivered under each Future. DCC could then sell the block development land to a development partner (or partners) who would complete the work required to sell individual lots (or build and sell individual houses). DCC could use a development agreement or similar structured transaction to ensure the right outcomes are delivered in terms of density, design and timing, and could also use these structures to share in revenue or profits from development. Per our earlier point, private partners will only be willing to participate where there is a sufficient margin (profit) to compensate them for the risk taken.

Note: we assume that if the land raising was not pursued (or was scaled back) then some residents in those areas may still need to be relocated to make way for the green space proposed in this location under Future 4.

Commercial insights across the three Futures cont.

Forbury Park – conversion to stormwater / green space

Under all three of the shortlisted Futures, Forbury Park is converted for stormwater management. We appreciate a site of this scale may be required to provide the stormwater capacity needed however, in the context of the previous points, if this land (which totals c. 11.7 hectares) could be used to accommodate some housing, for example, this might offset the requirement for commercially challenging interventions such as land raising. Similar to the Victoria Road sites, this land is already owned by Council and could be used to facilitate nearer term relocation within South Dunedin (subject to its suitability for development).

Image: South Dunedin with Forbury Park and Victoria Road land indicatively identified in orange



We acknowledge there are technical requirements identified for stormwater capacity on this site but recommend DCC test whether a mixed-use outcome (partial housing, partial storage) is technically viable.

Sequencing and funding implications

The implementation of interventions across all three Futures follows a similar pattern, significant capital expenditure upfront (infrastructure investment and property acquisitions) with the opportunity for value creation and potential cost recovery occurring over the medium and longer term.

The economic analysis completed by KR demonstrates this, noting the Benefit-Cost-Ratios (**BCRs**) over the short-term time horizon are low (0.23 to 0.36), improve moderately over the medium term (0.80 to 1.33) and increase considerably over the longer term horizon (ranging from 8.86 to 14.58) as positive factors such as avoided damages begin to compound. That said, the **overall BCRs** across the three shortlisted Futures only range from 0.55 to 0.83.

This creates a fundamental (albeit not unique for infrastructure) funding challenge where Council (or the Crown) would need to commit significant capital early with returns being long-dated and with some significant elements being non-monetised (e.g. future land receipts). Key commercial implications include:

- **Property acquisition:** this is required at scale across all three Futures (1,190, 1,162 and 1,738 for Futures 3, 4 and 5, respectively). Acquisition of improved properties is required and buildings then need to be demolished to make way for the various interventions which results in a significant write-off in value. The total cost of acquisitions has been estimated at \$590m, \$450m and \$840m for Futures 3 to 5, respectively, within the CBA - these values are stated on a 2025 Capital Value basis, without escalation applied for future acquisition timing. This reflects a significant capital sum that would be required relatively early in the programme. The property acquisitions will require a clear strategy and pricing that reflect the current level of risk but will also need to provide a level of certainty for owners (and renters).

The acquisition costs represent a significant capital commitment for DCC. Without new funding support or other revenue (e.g. from other property sales) we expect an investment of this scale (even if spaced over 10-15 years) would create material financial constraints for DCC when considered alongside the infrastructure costs.

Commercial insights across the three Futures cont.

- **Securing development partners:** redevelopment of housing in lower risk areas of South Dunedin is a key feature of all Futures. This will require partnership with scale developers but also the creation of “investable” propositions by DCC for those developers i.e. at least partially de-risked land parcels with clear planning settings, sufficient infrastructure capacity and, ultimately, a market where there is demand from buyers – DCC has a significant role to play in helping underpin ongoing demand in South Dunedin - which will in large part hinge on the successful implementation of other parts of the SDF programme that reduce risk, make South Dunedin a “safer and better” place to live and provide confidence for investors in the location (which include the displaced homeowners).
- **Central government support:** at a minimum, the Crown will be involved from the perspective of protection of its existing assets in South Dunedin (housing, schools and other key infrastructure assets), which are significant. DCC will need to explore other Government funding routes to support the programme. Funding of property acquisitions will likely be a key commercial hurdle for DCC, as the National Adaptation Framework currently provides no certainty of Crown commitment.

Summary comments

From a purely commercial perspective, **Future 4 appears to be the most straightforward on the basis it has the lowest total cost (in NPV terms), the lowest amount of disruption (by amount of retreated land) and does not involve any land raising - which from our perspective, is likely the most challenging element from a funding, financing and feasibility perspective.**

Victoria Road is identified across all three Futures as the primary location for new residential development on lower-risk land, with development contemplated from 2050.

Victoria Road presents the earliest opportunity to deliver new housing supply within South Dunedin and could facilitate earlier relocations for residents in higher-risk areas - providing a tangible 'landing place' that supports voluntary participation in property acquisition programmes.

Progressing planning framework changes and infrastructure servicing for Victoria Road should be treated as a priority, given it is common to all three Futures (albeit the amount of land included varies) and does not depend on the final preferred Future decision.

Property acquisition is a critical enabler across all three Futures, but there is a tension to be managed between timing and equity. From a purely financial perspective, acquiring properties earlier - when actual or perceived risk is higher and values may be lower – may be cheaper for the acquiring entity. It may also be the case that if risk increases over the shorter term, before significant adaptation investment is made, property values may decrease below current levels. However, this must be balanced against achieving equitable outcomes for property owners and maintaining their willingness to participate in what (we assume) is intended to be a voluntary programme. The question of compulsory acquisition is also relevant: Public Works Act processes provide a clear pathway where land is required for infrastructure-related interventions (pipes, pump stations, waterways), but the legal basis is less straightforward for land required for land raising or broader urban transformation purposes. This distinction will need to be worked through carefully, particularly for Futures 3 and 5 where large-scale land assembly is required to enable raised-land development.

Attracting private sector investment into the programme will require a credible return proposition. Profit motivation is the fundamental driver of private capital participation. Where total programme costs materially exceed monetised benefits (as is currently the case across all three Futures on a whole-of-life BCR basis), the private sector will not participate in the programme at a whole-of-system level.

The primary opportunity for private sector participation would therefore appear to be in land development and new housing delivery - where Council (or the delivery entity) de-risks and prepares development-ready land, and the private sector delivers housing product to the market at a margin. The core adaptation and trunk infrastructure (pipes, pumps, waterways, land raising, coastal protection) will (based on current analysis) need to remain publicly funded.

Commercial insights across the three Futures cont.

Short-term commercial actions to consider

- Test how early the Victoria Road development sites can be unlocked, including due diligence on infrastructure capacity / requirements under the proposed densities, geotechnical studies, and community engagement (noting the existing uses for this land).
- Run a robust feasibility study on the Victoria Road sites to understand value potential post rezoning and after considering enabling costs.
- Run a similarly robust feasibility study for the land raising proposed under Futures 3 and 5 to fully understand the investment required in this land relative to the likely end value, and with consideration to other options for relocation to other parts of Dunedin (for both residents displaced by the other infrastructure requirements in South Dunedin and those residents who might not be able to remain in the proposed land raising areas if the land were not raised).
- Further develop the property acquisition strategy – a significant volume of acquisitions is required under each Future – this will need to consider timing, pricing, funding, and engagement with owners and renters.
- Seek legal advice on the acquisition strategy (including use of the Public Works Act) to test the nuance in relation to land required for public works such as stormwater infrastructure vs those acquired for land raising.
- Test whether Forbury Park can accommodate any housing alongside the stormwater infrastructure.

4

Market response assessment

Housing typologies and densities

This section considers how the market is likely to respond to the interventions proposed under the three shortlisted Futures. This includes how the market (including developers) might respond to the housing density being considered, together with identification of key barriers to, and enablers of, redevelopment.

All three Futures consider new residential development at densities materially higher than the current average for South Dunedin. We previously (within our Phase 1 report) estimated the existing density at around 24 dph. The densities targeted under each Future within the main redevelopment areas (Forbury Corner raised land and Victoria Road lots) ranges from 40 to 50 dph, which represents development to almost twice the density that currently exists in South Dunedin. While these redevelopment sites only make up part of the overall South Dunedin market, they are significant, totalling some 16.8 hectares under Future 4, and up to 52.9 hectares under Future 5. There is around 46.4 hectares of redevelopment land under Future 3.

Future	Redevelopment land	Indicative capacity	Housing lost	Net increase
Future 3	46.4 hectares	1,856 dwellings	1,190	666
Future 4	16.8 hectares	840 dwellings	1,162	(322)
Future 5	52.9 hectares	2,116 dwellings	1,738	378

Note: this table presents potential redevelopment yield on the Victoria Road and Forbury Corner lots only; more infill housing is likely to occur in other parts of South Dunedin over the forecast period (i.e. where single houses are replaced with two or more new units).

Commercial observations

- The **density** proposed on the redevelopment lots reflects a step change in density from the predominantly standalone house / cross lease unit development that is typical of the area (albeit noting there has been infill terrace house development occurring over the last 5-10 years). 40 to 50 dwellings per hectare typically reflects terrace housing / townhouses, often built to two or three storeys and can include low rise apartment buildings of three or four storeys (albeit typically at 50 units per hectare or higher).

- A key consideration is the **appetite of displaced residents to relocate** from standalone housing to higher density living. Over the relatively long timeframes being considered (25+ years), this may not be a major issue in terms of the market adjusting to higher density; this transition to higher density is already occurring across New Zealand. Given the timeframe between property acquisitions and then when the redevelopment lots are ready for market (currently 2050+), displaced residents would not be able to relocate immediately into these areas in any case, and may need to relocate to other parts of South Dunedin or the wider Dunedin market in the interim.
- Housing tenures** - a key question for DCC is what housing outcomes it wants to achieve on the redevelopment land i.e., whether the objective is purely market housing, or whether a proportion of social and affordable housing is required. This has direct implications for land price and transaction structure. If DCC seeks affordable or social outcomes, it will need to accept a lower residual land value (or provide subsidy) and use structured transactions such as development agreements to mandate those outcomes. This is particularly relevant given South Dunedin is a lower socio-economic area; if existing residents' homes are being acquired at prices reflective of climate risk (i.e., at the lower end), they may not be able to afford market-priced housing in the new developments without some form of assisted funding pathway. Balancing cost recovery on the land with equitable housing outcomes for the community will be a central tension in the delivery model. DCC should also consider the extent of existing social housing (and other publicly owned property) that is subject to proposed acquisition under each of the Futures.
- Feasibility** - for development feasibilities to be market attractive at 40–50 dwellings per hectare, there will need to be demonstrated demand for higher-density typologies at price points that support multi-level construction costs. While the passage of time may solve for this - as the market adjusts to higher density living (which makes sense given the area's proximity to the CBD and amenity) - ultimately, delivery hinges on end-purchaser demand and achievable sale rates and values at the point the land comes to market. If demand is uncertain or price points do not support feasible development, developers will either not participate or will require Council to de-risk the proposition (e.g. through underwriting pre-sales, reducing land cost, or staging releases to manage supply). Council should monitor market indicators over time and be prepared to adjust density, typology, and tenure mix in response to actual market conditions rather than locking in assumptions today for development that is potentially 25+ years away.

Barriers to redevelopment

We have identified the following barriers that may constrain market-led delivery of development being contemplated under the three shortlisted Futures and have provided comment on the actions DCC could consider to mitigate these barriers.

Investment appetite and market confidence

- The Dunedin market is relatively small, with a limited pool of developers capable of delivering medium-to-high density product at scale (albeit the depth could increase, potentially materially, over the next 25 years). Attracting private investment over any time horizon will require clear evidence from Council (and potentially Central Government) that the adaptation programme is funded, committed, and progressing before the private sector will commit to large scale development plans that are tied to outcomes from the programme (i.e. infrastructure works). **DCC action to consider:** engage with the existing developer community (locally and nationally, including iwi and Community Housing Providers) to test appetite and understand requirements for attracting investment. Construction sector capacity is also a potential constraint (but the scale of development also presents an opportunity for larger scale players to enter the market). That said, over a medium-term time horizon, the scale of housing redevelopment considered (c. 850 - 2,000 homes) is likely to be manageable by local players.
- Uncertainty about which Future is ultimately selected may suppress private investment until a preferred option is confirmed and the planning framework and funding is locked in. We appreciate that, over the early years of the programme, there is a significant component of 'no-regrets' works that does not lock DCC into any particular Future, however there are some material differences (particularly Futures 3 and 5 vs Future 4 in terms of land raising) which could create uncertainty. **DCC action to consider:** DCC is already committed to and communicating a clear decision timeline for selecting the preferred Future and is clearly signalling the 'no-regrets' short-term actions that are locked in regardless.
- Property values in South Dunedin are likely to exhibit downward pressure (which could be 'slow' or 'rapid') until the market is satisfied that adaptation interventions are demonstrably mitigating risk. Any form of acquisition is likely to become cheaper over time (under a status quo / do nothing scenario) as risk perception increases but this has significant equity implications (particularly if significant investment follows property acquisitions). **DCC action to consider:** establish a transparent acquisition pricing methodology up front that balances fiscal responsibility with equity issues for current residents.

Timing and sequencing

- Under Futures 3 and 5, development on raised land cannot commence until land raising is complete (indicatively post-2050 for Forbury Corner). This creates a 25+ year lead time between initial property acquisition and new housing delivery - a timeframe that is challenging to align with conventional development financing. **DCC action to consider:** structure land releases in stages when land is ready and bring forward new development where possible. Consider where land raising could be minimised under these options.
- The Victoria Road sites (which have a shorter lead time being vacant and in Council ownership) still require planning, zoning, and infrastructure to be in place before development and will need to be sequenced to align with relocation demand. There are also existing uses (e.g sports clubs) which would need to be engaged with. **DCC action to consider:** prioritise one of the Victoria Road sites as the first development precinct and accelerate planning, zoning and enabling infrastructure to bring to the market in alignment with the first tranche of acquisitions. It is acknowledged that this would involve a programme alteration.

Risk allocation

- There is limited precedent in New Zealand for this scale of coordinated public-sector land agglomeration and preparation being followed by private-sector development delivery. The closest comparator would be Christchurch post-earthquake, where Crown-led land remediation preceded private development. **DCC action to consider:** engage with the agencies that led the Christchurch property acquisition and regeneration programmes to fully understand lessons learned and explore partnership options.
- Insurance and mortgage availability and cost (premiums / excess levels) will be a critical determinant of development feasibility. If insurers and lenders are reluctant to support new development in South Dunedin, this will materially impact both developer appetite and end-purchaser financing. **DCC action to consider:** continue to engage with banks, insurers and the NHC to understand their risk appetite and view on the shortlisted Futures.

Barriers to redevelopment cont.

Affordability

- Medium-to-high density construction is inherently higher cost per square metre than traditional detached housing, and development can be more difficult to stage (which increases risk). Achieving affordable price points on raised land (where the cost of land preparation must also be absorbed) will be extremely challenging without (likely) some form of subsidy, cross-subsidy, or cost write-down on the land component. Households that are bought out may not be able to afford the cost of building a brand new home elsewhere in South Dunedin. **DCC action to consider:** commence robust feasibility testing (residual land value modelling) on development lots (in particular the shorter term prospects like the Victoria Road sites) to understand the value that could be unlocked and the value impact (trade-off) of embedding requirements in relation to, for example, affordable housing or the timing of delivery. A more robust analysis on the financials of the land raising (likely end value vs input costs) is also recommended given this is a critical element of Futures 3 and 5.
- South Dunedin currently provides a high proportion of Dunedin's affordable rental housing. Any relocation or redevelopment strategy must account for the need to maintain affordable housing supply both during transition and in the long-term housing mix. This may need to be built into the overall planning framework or be applied to the major development land blocks that DCC controls. **DCC action to consider:** consider an inclusionary zoning policy for development of Council land or within new scale developments. Per above, test feasibility to understand the value implications (price trade-offs) of imposing these requirements upon developers, and the consequential subsidy required from Council/Central government.

Funding and financing of infrastructure

- If DCC cannot fund the infrastructure interventions proposed under the shortlisted Futures (pipes, pumps, stormwater, land preparation, etc) then private sector development simply will not follow. **DCC action to consider:** in the next phase of work, develop a clear funding strategy that tests Council's borrowing capacity, targeted rates, development contributions and other potential funding sources (e.g. Central Government). We comment on some options to consider in Section 5.

Enablers of redevelopment

We have also identified a range of enablers that would support market-led delivery of development being contemplated under the three shortlisted Futures and have provided comment on the actions DCC could consider to support these enablers.

Amenity uplift

- The green space, waterways, and blue-green infrastructure contemplated under all Futures (particularly Future 4) could materially enhance the amenity of South Dunedin, supporting higher property values and making denser typologies more palatable to the market. This would be a favourable outcome given South Dunedin's close proximity to the CBD area, where higher density is logical. **DCC action to consider:** identify and communicate the key 'anchor' or 'catalyst' projects that can be used to build market momentum and confidence (similar to Christchurch post-earthquake).

Planning certainty

- Once the preferred Future is confirmed and planning settings are locked in (rezoning, density provisions, and fast-track consenting, for example), this reduces a major source of risk for developers. The market will need certainty to participate, including a commitment that delivery will not materially change once developers have committed significant capital in their own planning costs. **DCC action to consider:** progress rezoning and fast-track consenting provisions through a Plan Change, as soon as the preferred Future is confirmed, and provide developer certainty through long-dated and "locked-in" planning settings (similar to the CBD "Blueprint" in Christchurch post-earthquake).

Infrastructure investment

- Similar to planning certainty, the significant stormwater and groundwater infrastructure investment in the short-term is a prerequisite for redevelopment but also a major confidence signal which will demonstrate Council's commitment and materially reduce risk for subsequent private sector investment. However, unlike planning, the infrastructure will require significant funding to deliver. **DCC action to consider:** per the barriers section – develop a clear and deliverable infrastructure funding strategy.

These barriers and enablers are high level and early considerations for DCC. We recommend that DCC considers and then defines what success looks like in terms of private sector participation e.g. *private developers competing to deliver housing at price points which allow displaced residents to relocate within South Dunedin, underpinned by sustained market demand for a "safer and better" South Dunedin.*

Aggregated land parcels

- The proposed acquisition programme will create large, consolidated landholdings that can be master-planned and offered to the market as development-ready parcels. This is a significant advantage over typical infill development where land assembly is a key constraint and developments typically comprise four-to-eight new homes and compromised master-planning. This approach will provide significant capacity and allow for relocation of residents within South Dunedin (potentially en masse). Another potential upside is that releasing large tracts of land can support affordability by increasing supply and keeping prices lower than would otherwise occur in a supply constrained market. This may require Council to impose timing requirements on the land developers to limit land banking. **DCC action to consider:** for Council-owned land, consider the use of development agreements with clear timing requirements (e.g. sunset clauses), albeit acknowledging that this will have likely have (negative) pricing implications.

Demand

- There will be latent demand created by displaced residents who wish to remain in South Dunedin and we expect additional demand will be generated, in time, when the infrastructure investment delivers on making South Dunedin "safer and better". Given the suburb's proximity to the CBD, the combination of these factors is likely to be supportive for pricing. There will be a sensitivity to consider in relation to pricing, in terms of the cost of new housing vs the value of existing housing, however, we expect the significant infrastructure investment and demand from relocation will underpin housing demand and therefore pricing, which is fundamental for the feasibility of investment from the private sector. Per the barriers section, there is a risk that new housing on raised or rezoned land is priced beyond what displaced residents can afford - this is both a market risk and an equity issue. **DCC action to consider:** once the preferred Future has been identified and there is clarity on the properties that are likely to be required, consider building a profile on the owners and understand the proportion of households likely to be affected and the proportion of owners vs renters and what their requirements are likely to look like if / when displaced.

5

Financial tools and partnership models

Funding property acquisitions

This section provides our preliminary observations on potential financial tools and partnership models that DCC could consider to support early delivery of the property-related elements of the programme. Our focus is on the property acquisition and development components which include how DCC would approach acquiring, preparing and then releasing land for redevelopment, and the tools and partnerships that could be used to support this.

The funding and financing for the core climate related infrastructure investment (\$724m, \$1,220m and \$1,287m for Futures 4, 3 and 5, respectively) is a separate and significant workstream and will require its own detailed strategy, likely involving a combination of Council borrowing, targeted rates, Central Government support and potentially private investment (subject to return parameters). We touch on this briefly but our focus is on the property-related components of the programme.

Funding property acquisitions

The property acquisition programme represents between \$450m and \$840m (based on 2025 Capital Values, without escalation applied for future acquisition timing) in capital for c. 1,160 – 1,738 properties. This is the single largest near-term capital cost in the programme and is a prerequisite for the significant land-use change proposed (for both infrastructure investment and new housing areas).

Potential funding sources are detailed in the adjoining table.

We recommend DCC:

- Develops a specific property acquisition funding strategy as a prioritised next step. This should consider Council's borrowing capacity against the property acquisition cost / profile under each Future and test the funding gap that would need to be closed. DCC can then consider how that gap might be met using a combination of the tools in the adjoining table.
- Undertakes a review of its assets across the city and identifies any surplus or underperforming assets that could be divested, rezoned, or otherwise improved to generate capital (which would need to be ring fenced) to support the programme.

Table: Land acquisition funding and financing tools

Tool	Observation
Council borrowing (debt)	A key tool for Council. However, the quantum involved is significant and would, we expect, test DCC's borrowing capacity and credit metrics. DCC would need to demonstrate to the Local Government Funding Agency (LGFA) or other lenders that the programme is financially sustainable in the long term, which is challenging when there are significant costs short-term with benefits being many years in the future (and not being fully monetised at present).
Central government funding	It would appear that the costs of the programme, as currently presented, would be difficult for DCC to fund in isolation. The National Adaptation Framework (NAF) does not provide an explicit funding mechanism for property acquisitions and signals a focus on a beneficiary pays model. However, the 16 key actions from the NAF do include reference to the \$1.2bn Regional Infrastructure Fund for climate resilience projects, proactive management of risk to Crown assets, developer levies, and cost sharing principles pre and post climate events. DCC should consider the extent to which any of these avenues could support selected property acquisitions.
Targeted rates	A targeted rate could contribute to funding over time (with varying rates for South Dunedin vs the wider city, potentially). However, noting the lower socio-economic context of South Dunedin and the relatively small number of direct beneficiaries relative to the cost of the programme, a targeted rate could create a significant affordability burden and equity risk, and negatively impact prices and demand. Furthermore, this would likely be politically challenging from a ratepayer perspective. Targeted rates could be used as a supplementary approach alongside other channels. Development levies are another option but will ultimately flow through to the pricing developers require for end product, and underlying land value.
Holding income	Acquired properties could be rented until the land is required, generating holding income to partially offset acquisition costs. We commented on this approach in our Phase 1 report. While this could provide some material income to offset acquisition costs, it is complex. While DCC is already a community housing landlord, this approach would require a scaling up of these activities, with additional management, maintenance, insurance, compliance, vacancy, and tenant transition costs to manage.
Sale or leveraging other DCC assets	DCC could fund (or partially) fund the acquisitions by selling other Council-owned property or surplus land. That said, while this is an option, we do not think it would be a material fundraising tool and selling assets to fund purchases that do not provide a return will deteriorate the balance sheet. Council could also create value on land it already owns via rezoning (similar to the Victoria Road land) and then sell or leverage the increase in value. This would be an approach to self-funding with Council's existing balance sheet and converting low or underperforming assets to higher and better uses. Land swaps should also be explored.

Development delivery structures

Development delivery structures

Once the land (e.g. the Victoria Road sites) has been prepared for development, there are a range of structuring options DCC could consider to procure new housing.

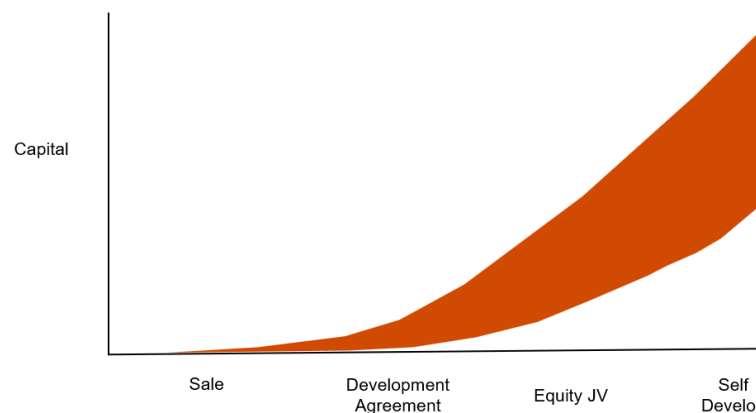
Table: Development delivery structures

Transaction structure	Description	Use case
Land sale	Land is sold to developers at market value with no constraints on development outcomes (e.g. type of housing, timeframes for delivery) other than those required by the underlying zoning.	Market housing. This is a low risk and low cost structure for Council with limited capital investment required in the transaction structure (other than the land-enabling costs prior to sale, which is assumed to be the same across all structures). However, there is no control or influence over social outcomes.
Ground lease	An alternative structure to a straight sale is a ground lease where DCC would lease the land to developers for a fixed period of time, potentially with an upfront payment for the land from the developer rather than an ongoing rent.	We expect there would be very limited appetite for this structure in the context of market housing, particularly where there are ample freehold alternatives. That said, a ground lease structure could materially reduce redevelopment costs and help facilitate relocations.
Land sale with development agreement	Council sells the land under an agreement which embeds contractual obligations for the developer in relation to density, housing types, price points, design, or timing of delivery. This approach requires marginally more capital and risk from Council than a straight land sale.	Can be used for mixed tenure developments where Council wishes to see affordable outcomes alongside market housing, for example, or where it needs certain outcomes within a particular timeframe e.g. to meet relocation requirements. Land price might be reduced where Council requires non-market outcomes.
Joint venture (JV)	Council could contribute the land as equity into a JV with a development partner to deliver houses. Returns would be shared on a proportional basis.	Could be used where Council wishes to share in development upside or where scale requires a joint approach. This approach requires materially more capital and risk appetite.

Transaction structure	Description	Use case
Self develop	Under this model, Council would develop the housing itself. Council would be exposed to full development risk and would require capital sufficient to deliver a significant number of new homes, and in-house capability.	Where there is no market appetite. On the basis DCC is not a developer, we expect that there would be limited interest in this option. Furthermore, there is limited precedent for this approach in Australasia.
Mixed model	Within each development parcel, Council could use a mix of structuring options.	We expect this is the most realistic outcome e.g. with some land sold for market housing with other parts sold to developers but requiring certain outcomes to be delivered under a development agreement.

For the first tranche of development sites (e.g. Victoria Road), we recommend DCC consider the delivery model (or mix of models) early and engage with the development market on these. This will help to clarify planning in relation to housing outcomes, infrastructure requirements, and potential land receipts for Council that could be used to offset project costs.

Chart: Council capital requirements by structuring option (conceptual)



Delivery entity

This section considers who delivers the property-related interventions and how these might be funded. This includes potential financial tools and partnerships that could support the early delivery of the adaptation programme.

The delivery entity question

A key consideration is what entity is best placed to lead the urban regeneration and development components of the programme. Our Phase 1 report identified three potential models as follows:

Table: Delivery entity options

Model	Description	Key considerations
DCC-led	Council directly manages the programme including acquisitions, demolition and land preparation, and partners through its existing structures.	More straightforward than the establishment of a new entity (no setup costs) and has direct political accountability, but may lack the commercial acumen, risk tolerance and capability / ability to deliver and transact at this scale.
Council controlled organisation (CCO)	A separate entity is established with its own governance, a ring-fenced balance sheet, and a commercial mandate.	Provides independence from the core Council mandate (BAU matters) and a clearer commercial focus on the SDF programme – quicker decision making. May be more easily able to attract specialist talent. However, embeds set up costs, governance complexity, and is still ultimately Council funded.
Urban Development Authority (UDA)	A statutory entity with specific development powers (e.g. land acquisitions, ability to supersede Council planning), and access to Crown balance sheet.	A UDA would be the most powerful and potentially effective model for a complex regeneration programme but would require a partnership with central government or enabling legislation to achieve. There may be less local control under a central government mandated entity.

The type of delivery entity that is selected is critical as it will determine:

- The ability to partner with and attract private sector investment.
- How risk is allocated between the public sector and private sector.
- The ‘mandate’ of the entity delivering the programme and the speed and flexibility of its decision-making (perhaps one of, if not the, most important ingredient for successful delivery, and confidence from the private sector to invest in South Dunedin’s future).
- Access to funding and financing.

Given the scale, complexity and long timeframes involved with the South Dunedin Future programme, our view is that a CCO or UDA-type model is likely to be more effective than direct delivery by DCC. The key ingredients for such an entity to be successful include a clear mandate, in-house commercial and technical capability, the ability to transact and a balance sheet (at least a level of balance sheet) to do so. This entity does not need to be established immediately but DCC will need to resolve the delivery entity question before any large-scale property acquisition commences.

For clarity, regardless of how Council engages on delivery of new development (either with the private sector or alone), we expect that a separate delivery entity will be required for the climate adaptation infrastructure to provide the necessary separation from Council’s core functions on what would be a bespoke and complex delivery project.

Ngā mihi