

BEFORE THE WAIKATO DISTRICT COUNCIL INDEPENDENT HEARING PANEL

IN THE MATTER of Proposed Variation 3, under clause 16A of Schedule 1 of the Resource Management Act 1991, to the Proposed District Plan Change

AND
IN THE MATTER of submissions by Greig Developments No 2 Limited and Harrisville Twenty Three Limited, Tuakau.

**To: The Hearings Co-ordinator
Waikato District Council**

**PRIMARY ECONOMIC AND PROPERTY MARKET EVIDENCE OF ADAM
JEFFREY THOMPSON FOR HARRISVILLE TWENTY THREE LTD**

4 July 2023

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MAY IT PLEASE THE PANEL

1. Executive Summary

1.1 I have completed an economic assessment of economic costs and benefits of the Harrisville submission relief to rezone the land at 23 and 23A Harrisville Road to Medium Density Residential Zone – 2 (**MDRZ – 2**). This is **attached** as **Appendix A**.

1.2 For ease of reference, I have provided the key conclusions below:

- a) The proposal is for the application of the Medium Density Residential Zone to several properties in Tuakau, namely 23A Harrisville Road and RT 551376; RT 655697; RT NA1022/190; and RT NA1024/222 being located on Johnson and Oak Street.
- b) The Waikato District Council currently estimates a shortage of housing under the Proposed District Plan. In particular, there is a total estimated shortfall of 13,750 houses able to be supplied in the sub-\$730,000 bracket. By contrast, there is an estimated surplus of 7,710 dwellings able to be supplied in the \$730,000+ price bracket.
- c) The Proposed Waikato District Plan does not meet the requirements of the NPS-UD with regard to enabling sufficient development capacity.
- d) Council has not evaluated whether there is sufficient supply (quantity and price) to meet demand in Tuakau. It is therefore reasonable to assume that Tuakau has a similar shortage of low-priced dwellings as evident in the wider District.

- e) The proposal would enable master-planned greenfield development that has the potential to provide lower-priced terrace and town houses, in the sub-\$730,000 price range. This would have significant social and economic benefits in regard to improving the social and economic wellbeing for the current and future residents of Tuakau and the wider District.
- f) While there is already a notable amount of greenfield land proposed for residential development in Tuakau, it is important to have a range of land available for development, to account for specific owners that may not wish to develop, and to ensure there are several developers supplying lots to the market at any one time over the life of the district plan. This is required to ensure a competitive land and development market as sought by the NPS-UD.
- g) The proposal would provide additional greenfield land in a central location, 400-500 metres from the town centre. This would have significant benefits relating to reduced transportation costs and it increased opportunity for walking. The sites are therefore optimally located for Medium Density Residential zone.

2. Introduction

2.1 I hold a Bachelor of Resource Studies from Lincoln University (1998), a Master of Planning from Auckland University (2000) and a Dissertation in Urban Economics from the London School of Economics (2014). I have studied urban economics at Auckland University and environmental economics at Lincoln University.

2.2 For the past 21 years, I have provided consulting services in the fields of urban economics, property market analysis and property development advisory. For the past 18 years, I have owned and managed consulting firms that have provided services in these fields.

- 2.3 I have undertaken over 1,000 economic and property market assessments for a range of private and public sector clients.
- 2.4 While not an Environment Court hearing, I confirm that I have read the Code of Conduct for Expert Witness contained in the Environment Court Practice Note 2023 and that I agree to comply with it together with the requirements for evidence as stated in the new Practice Note. I confirm that I have considered all the material facts that I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise, except where I state that I am relying on the evidence of another person.

3. Conclusion

- 3.1 I conclude that the MDRZ – 2 submission relief sought by Harrisville would enable additional housing which is required to meet the districts housing needs over the life of the District Plan. For this reason, the proposal is considered to have significant economic benefits, and no significant economic costs, and is therefore supported from an economic and urban development perspective.

Adam Jeffrey Thompson

4 July 2023

APPENDIX A – Assessment of Economic Costs and Benefits

CLIENT
Greig Developments No 2 Limited &
Harrisville Twenty Three Limited

30/06/2023

Economic and
Property Research

Variation 3 Proposed District Plan

Assessment of Economic Costs and Benefits





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1. Key Points

The proposal is for the application of the Medium Density Residential Zone to several properties in Tuakau, namely 23A Harrisville Road and RT 551376; RT 655697; RT NA1022/190; and RT NA1024/222 being located on Johnson and Oak Street.

The Waikato District Council currently estimates a shortage of housing under the Proposed District Plan. In particular, there is a total estimated shortfall of 13,750 houses able to be supplied in the sub-\$730,000 bracket. By contrast, there is an estimated surplus of 7,710 dwellings able to be supplied in the \$730,000+ price bracket.

The Proposed Waikato District Plan does not meet the requirements of the NPS-UD with regard to enabling sufficient development capacity.

Council has not evaluated whether there is sufficient supply (quantity and price) to meet demand in Tuakau. It is therefore reasonable to assume that Tuakau has a similar shortage of low-priced dwellings as evident in the wider District.

The proposal would enable master-planned greenfield development that has the potential to provide lower-priced terrace and town houses, in the sub-\$730,000 price range. This would have significant social and economic benefits in regard to improving the social and economic wellbeing for the current and future residents of Tuakau and the wider District.

While there is already a notable amount of greenfield land proposed for residential development in Tuakau, it is important to have a range of land available for development, to account for specific owners that may not wish to develop, and to ensure there are several developers supplying lots to the market at any one time over the life of the district plan. This is required to ensure a competitive land and development market as sought by the NPS-UD.

The proposal would provide additional greenfield land in a central location, 400-500 metres from the town centre. This would have significant benefits relating to reduced transportation costs and it increased opportunity for walking. The sites are therefore optimally located for Medium Density Residential zone.

2. Introduction

This evaluation relates to two properties, namely 23A Harrisville Road and RT 551376; RT 655697; RT NA1022/190; and RT NA1024/222 located on Johnson and Oak Street, Tuakau.

The evaluation provides background analysis for an appeal on the District Plan and the MDRS.

In particular, this report provides an evaluation of the costs and benefits of a proposed residential zone, consistent with the MDRS provisions, for the two properties (“the proposal”).

The report evaluates the economic costs and benefits relating to the supply of residential land within Tuakau.

3. Economic Assessment

3.1 Housing Supply & Demand

The main purpose of an economic assessment for a district plan review, in regard to housing, is to evaluate whether there will be a sufficient supply of housing (by price, type and location) to meet demand. This is reflected in the provisions of the NPS-UD.

Market Economics has undertaken a study of whether there will be sufficient housing supply to meet demand for the Council¹ (the “HBA report”). Figure 76 on page 112 of the HBA report provides the estimates of whether there is sufficient supply to meet demand for each price bracket. This is provided below for reference.

Figure 1:
Housing Supply and Demand in Waikato District – Long Term

Under \$300k	Current Estate	Sufficiency				Sufficiency %			
		2046 Max Profit	2046 Max Dwellings	2046 Cheapest Dwellings	2046 Average All Scenarios	2046 Max Profit	2046 Max Dwellings	2046 Cheapest Dwellings	2046 Average All Scenarios
Under \$300k	9,192	5,891	5,891	5,741	5,840	61%	61%	62%	61%
\$300k-\$440k	8,516	7,424	7,424	3,734	6,190	54%	54%	77%	62%
\$440k-\$580k	4,304	3,137	3,137	53	2,070	59%	59%	101%	73%
\$580k-\$730k	1,865	411	151	1,609	350	88%	96%	146%	110%
\$730k-\$880k	533	170	190	1,100	490	118%	120%	217%	152%
\$880k-\$1.02m	236	923	1,013	313	750	329%	351%	178%	286%
\$1.02m-\$1.17m	225	5,054	5,024	484	3,520	1424%	1417%	227%	1022%
\$1.17m-\$1.31m	215	3,195	3,165	45	2,140	1014%	1005%	113%	712%
\$1.31m-\$1.45m	113	1,343	1,493	37	930	845%	928%	79%	616%
\$1.45m-\$1.75m	82	66	66	66	70	55%	55%	55%	53%
\$1.75m-\$2.05m	41	33	33	33	30	55%	55%	55%	60%
\$2.05m+	31	22	22	22	20	58%	58%	58%	62%
TOTAL	25,353	6,300	5,840	6,030	6,040	86%	87%	87%	87%

Source: Housing Development Capacity Assessment 2017, Future Proof Area – Waikato District, Hamilton City and Waipa District. July 2018, Market Economics, page 112.

The numbers in Figure 1 highlighted in red show a shortfall, i.e. where there is insufficient housing supply to meet demand. In the column ‘2046 Average All Scenarios’ there is a total estimated shortfall of 13,750 houses able to be supplied in the sub-\$730,000 bracket. By contrast, there is an estimated surplus of 7,710 dwellings able to be supplied in the \$730,000+ price bracket. By implication, the Waikato District has a shortfall of low-priced dwellings, which will lead to significant adverse social and economic effects (e.g. financial strain, homelessness, health issues, reduced economic growth, increasing wealth gap and related social imbalance, etc.).

The 2021 HBA² does not provide any estimates of the total District shortfall, however in aggregating various figures provided for individual towns, the shortfall over the long term equates to approximately 8,000 dwellings under \$700,000. This similarly demonstrates insufficient low-priced housing.

¹ Housing Development Capacity Assessment 2017, Future Proof Area – Waikato District, Hamilton City and Waipa District. July 2018

² NPS-UD Housing Development Capacity Assessment Future Proof Partners, 30 July 2021 – final

The modelling presented by Market Economics does not enable further insight into the underlying reasons for the insufficient supply of low-priced dwellings, and similarly does not present any recommendations for how to resolve this core challenge facing the District. In some instances, non-economists incorrectly conclude that housing supply and prices are not influenced by land supply under District Plans and are related only to the market. This is incorrect as many cities have abundant low-priced housing, for example, Christchurch City had low-priced housing up until a few years ago.

Greenfield housing is generally 20-30% lower in price than infill housing, due to the economies of scale of development and lower raw land price per dwelling. In some instances, it can be over 50% lower in price, when comparing the same types of dwelling. By contrast, infill housing is generally significantly more expensive to develop and requires a high sale price. The shortage of low-priced housing is likely due to a disproportional reliance on infill over greenfield development. This is attributable to the Waikato being comprised predominately of small rural towns and rural properties, and therefore does not support ongoing infill housing to the level seen in large cities, in which case a premium is paid to be in the central location to avoid lengthy commutes.

The HBA report does not provide any specific estimate of whether there is sufficient supply in Tuakau to meet demand, by price, however it is reasonable to assume, for the purposes of the District Plan review and related processes, that all locations across the Waikato have a shortage of low-priced dwellings, in the sub-\$730,000 bracket.

3.2 Variation 3 & MDRS

Variation 3 applies the MDRS to the residential zones of Pokeno, Tuakau, Huntly and Ngaruawahia. Additional residential capacity modelling has been undertaken by Market Economics (the same consulting firm that completed HBA report). The results are presented in the report entitled Residential Capacity Modelling, Medium Density Residential Standards and Qualifying Matters, Waikato District, June 2023, M.E Consulting (the “MDRS report”).

The MDRS report provides estimates of the commercially feasible capacity (supply) for a range of scenarios. It however does not provide estimates of supply by dwelling price, or compare this to demand (by dwelling price) as completed for the HBA report, as required by the NPS-UD (e.g. Policy 1, s.3.23, s.3.27). As such, the MDRS report does not provide a sufficient evidential basis for determining whether Variation 3 to the District Plan will result in any additional housing to meet demand, which would require the same methodology used in the HBA report, and with specific results provided for Tuakau.

As a general comment, while the MDRS enables higher density housing around centres (e.g. three or more levels) and three dwellings per lot, this does not necessarily result in any significant increase in housing supply. For housing to be built it must be of a type and price that is in demand in a particular location. For example, in the case of Tuakau, it is not possible to develop \$900,000+ apartments or \$1,100,000+ terrace houses, if the maximum price paid for these are \$500,000 and \$700,000 respectively. This is because there will be insufficient profit for a developer for the development to be commercially feasible.

In general, there will be some additional capacity from infill/redevelopment near town centres, however for smaller rural towns this will tend to be limited to 1-2 level stand alone and terrace houses, with very little 2-3+ level terrace houses and apartments being in demand (given the urban nature of this type of housing). Further, there will be little demand for three dwellings per title, as this configuration is generally only attractive to a well-funded rental investor (for the reasons that most households cannot afford two additional rental dwellings, banks are not presently offering mortgages for three dwellings per title due to difficulty disposing of such properties, and the rental return from additional dwellings is typically only sufficient to cover the

cost of capital, which is unattractive to most investors that are seeking capital gain from land). In general, the MDRS will result in only minor increases in housing supply in small rural towns, as it enables urban type housing. The MDRS report does not address these practical market considerations, rather only puts forward a number of plan-enabled and commercially feasible supply scenarios.

The MDRS report identifies various supply scenarios under which there are substantial increases in commercially feasible capacity, when compared to the operative plan. For example, Table 5-29 (page 51) provides an estimate of 19,300 additional dwellings to be commercially feasible in Tuakau, comprised of 8,100 redevelopment/infill and 11,300 greenfield. Approximately two thirds of these are terraced houses or apartments, and only one third are stand-alone homes. These dwelling types are, as mentioned, in relatively low demand, with historic building consents showing terrace houses comprise 6% of demand and apartments comprise 5% of demand, and by contrast stand-alone comprising 89% of demand (over the past 5 year period). As broad context, Tuakau has 1,700 dwellings currently, so it is unlikely to realise any significant infill or redevelopment capacity, at the levels indicated by the MDRS report commercially feasible capacity scenarios.

In addition, the uptake of terrace/duplex dwellings has been assessed in Pukekohe following the AUP becoming operative (2016-2021), as it provides a comparable benchmark for future terrace house uptake rates resulting from the Medium Density Residential Zone taking effect in a rural location such as Tuakau. The key conclusion from this analysis is that terrace houses accounted for approximately 37 or 2% of total residential dwellings (1,780 dwellings) consented over the same period. This demonstrates that despite the Mixed Housing Suburban, Mixed Housing Urban and Mixed Use Zones enabling high density development, it has not resulted in a high level of take up in the market, due to the preference for stand alone homes.

I note in this regard Ms Fairgray expressed a similar view in her evidence (however this is not accounted for in her capacity estimates):

“The modelling shows that the Waikato district urban towns have lower demand for higher density residential development, and it is not an established pattern of development within these towns. The feasibility analysis estimates it has low commercial feasibility for private, profit-driven developers with any activity instead more likely to be provided by other parts of the market (e.g. social housing), if it occurs.” (para 82)

The MDRS has a useful function for master-planned greenfield development, namely it allows for greater flexibility for master-planning to include a diverse range of housing, in terms of lot size, dwelling size, type and price. For small rural towns, this is particularly relevant, and the greatest opportunity for this type of housing would be in master planned developments rather than through infill or redevelopment of existing properties. This would increase the potential for developers to respond to, and meet, the District’s low-priced housing shortage identified in the HBA (page 112).

There are notable examples of high intensity greenfield developments across Auckland, providing modest terrace and town houses, in the sub \$730,000 price bracket, and these are typically in medium-large master-planned developments that offer economies of scale to achieve the lower price points. For Tuakau, and Waikato more generally, to enable such developments, requires 5+ medium-scale greenfield developments, so that at any one time there are several competing developments on the market. This incentivises developers to diversify and compete on price and quality.

The typical sale price of a new dwelling in Tuakau over the last year period was \$800,000+, with only 32% being sold in the sub-\$800,000 price bracket, and only 9% sold in the sub-\$700,000

bracket. While this may have been impacted by the supply of suitable development land, it does indicate that it is not a straightforward task for Tuakau to provide new dwellings in the price bracket that is required to meet unmet demand. It is critical to note here that unless houses are able to be supplied at a price that can respond to the unmet demand, they will not be supplied (e.g. it is not possible to sell \$1 million + houses to purchasers that can only affordable \$500,000, \$600,000 or \$700,000, and it would therefore not be built in any large quantity). The challenge therefore is for Tuakau, and other small rural towns (Huntly, Pokeno and Ngaruawhaia) to provide lower priced dwellings to meet the district wide shortage. This can be achieved only through increasing supply, and in particular on greenfield land.

Figure 2:
New Dwelling Sale Price Tuakau April 2022-2023

Price Bracket	Stand Alone	Terrace	Apartment	Total
Less than \$600,000	0%	0%	-	0
\$600,000-\$700,000	5%	5%	-	9%
\$700,000-\$800,000	18%	5%	-	23%
\$800,000-\$900,000	36%	0%	-	36%
\$900,000 plus	32%	0%	-	32%
Total	91%	9%	0%	100%

Source: CoreLogic

There is a total of approximately 240 hectares of greenfield land in Tuakau under the Proposed District Plan (Appeals version). When accounting for natural constraints of 30% (e.g. wetlands) and public areas such as roads and parks of 40% this equates to a total developable land yield of around 100 hectares. This is sufficient for around 2,500 dwellings, at an average lot size of 400m². Given recent uptake rates of around 60-70 dwellings per annum (based on Building Consent data), and accounting for historic land supply constraints and the recent increase in demand in rural towns, this indicates annual demand of 150-200 dwellings is reasonable in Tuakau (13-17 years). This is insufficient to ensure a competitive land and development market, as this land is likely to be controlled by a small number of owners, some of whom may not wish to develop (particularly if they are long term farm owners which is often the case).

In summary, based on the HBA report, and the more recent MDRS report, it is apparent that Tuakau (and the wider District) will not have sufficient housing capacity to meet demand, and additional greenfield land is necessary, in particular greenfield land that has the MDRS provisions applied, to enable smaller lots and dwellings and lower price points.

3.3 Residential Zoning for the Proposed Sites

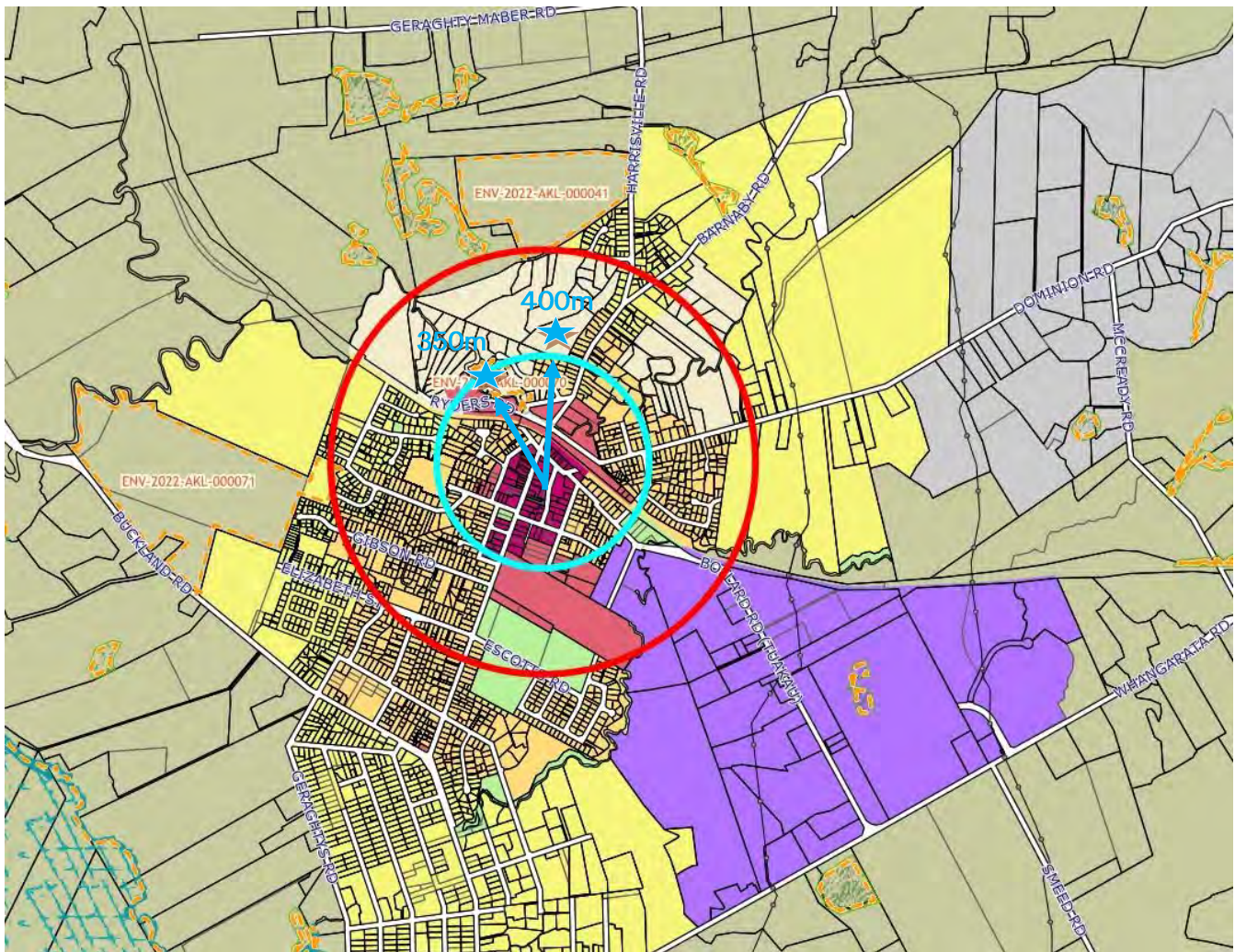
The proposal sites form part of a proposed rural lifestyle zone, located immediately to the north of the Tuakau town centre. This is shown in Figure 3. The distance between the proposal sites and the town centre is 400-500 metres, which is a short walking distance. Figure 3 also illustrates a 400 metre and 800 metre walkable catchment from the town centre, for reference.

It is evident in the Proposed District Plan Appeals Version that there is Medium Density Residential zone proposed within an approximate 800 metre distance of most of the town centre, as is conventional, and lower density General Residential Zone land beyond this. There are areas of Large Lot residential zone land to the immediate north and north-east of the town centre. This is less conventional as it forgoes the accessibility and transportation efficiencies. It is reasonable to conclude that at least part of this land, including the proposal sites, would have significant economic benefits if zoned Medium Density Residential, as it would improve the accessibility and

transportation efficiencies of the town. Nevertheless, infill/redevelopment should similarly be supported, even if it only yields a small number of new dwellings. Ms Fairgray appears to reach the same conclusion in general, regarding the economic benefits of locating higher density residential adjacent to town centres, although she notes some reservations about the extent given the size of the towns, in her evidence, in particular:

“In my view, the appropriateness of a location for higher density development is a key initial consideration. I consider that, within the Waikato District economic context, any higher density residential development is most appropriate within and immediately adjacent to a commercial centre.” (para 72)

Figure 3:
Site Location Proposed District Plan Appeals Version (Distance to Town Centre)



Source: Waikato District Council

4. Economic Costs & Benefits

Section 32 of the RMA requires economic costs and benefits to be evaluated. The key economic benefits are:

- A net increase in low-priced dwellings in Tuakau;

- Supports master-planned developments that enable increased housing diversity (type and price);
- Supports a competitive land and development market;
- Supports more diverse demographic structure; and,
- Leads to additional economic activity and employment from the increase in dwelling construction and household operation.

These benefits from intensification (as sought by the MDRS) would not otherwise be achieved through infill/redevelopment capacity, or in the Large Lot zone, as new master-planned developments are significantly more able to produce high intensity housing in a form that is attractive to, and taken up by, the market, in part due to its more competitive price, competitive price, in small-medium scale rural towns (e.g. Pukekohe infill/redevelopment has not been able to realise notable infill/redevelopment – only 37 dwellings - since 2016).

For the reasons outlined, I consider the proposal would make an important contribution to ensuring sufficient capacity to meet demand, as required under s31(1)(aa) of the RMA. The NPS-UD requires demand to be met across the full range of price points, which is currently identified as a key issue in the HBA 2021 (although not specifically addressed in the MDRS report). The provision of sufficient capacity, or to put it more simply the availability of low-priced dwellings, is a central part of a well-functioning urban environment, and a requirement to attract and retain a population, and should therefore be attributed significant weight in the overall consideration of any land use policy.

There are no economic costs from the proposal.

5. Conclusions & Recommendations

The Council's economic evaluation of the MDRS provides an estimate of plan-enabled and commercially feasible capacity, as a result of Variation 3. However, it does not evaluate whether this capacity is likely to be realised, or able to meet demand. There is therefore no basis to determine the extent to which Variation 3 will address the shortfall of low-priced housing as estimated in the HBA.

The proposal would enable additional housing which is required to meet the districts housing needs over the life of the District Plan. For this reason, the proposal is considered to have significant economic benefits and no significant economic costs, and is therefore recommended for approval.