

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 Pokeno West, West Pokeno, CSL Trust and Top End Properties Limited, at Munro and Helenslee Roads, Pokeno (the **Submitters**)

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

**PRIMARY ECONOMIC AND PROPERTY MARKET EVIDENCE OF ADAM
JEFFREY THOMPSON FOR THE SUBMITTERS**

4 July 2023

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MAY IT PLEASE THE PANEL

1. Executive Summary

1.1 I have completed an economic and property market assessment of economic costs and benefits for the proposed Medium Density Residential 2 Zone (**MDRZ – 2**) for the residential zoned land at Pokeno West. The land is owned by Pokeno West/West Pokeno, CSL Trust and Top End Properties (the Submitters). The Submitters request the application of the Medium Density Residential Standard/MDRZ-2 over the entirety of their sites (but only the residential zoned part of the CSL Site).

1.2 My Assessment of Economic Costs and Benefits is **attached as Appendix A**. For ease of reference, I have provided the key conclusions from my assessment below:

- a) The proposal is for additional Medium Density Residential Zone land in Pokeno, for CSL/Top End and Pokeno West plan change areas.
- b) The Waikato District Council currently estimate 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 Pokeno. It is therefore reasonable to assume that Pokeno 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 of the current and future residents of Pokeno and the wider District.
- f) While there is already a notable amount of greenfield land proposed for residential development in Pokeno, 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 period 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 on the edge of Pokeno. While this is not within an 800m walking distance, it would provide one of the few notable examples for additional housing density and lower-priced housing in Pokeno, through master-planned development. By contrast, the existing urban part of Pokeno has very limited potential for this type of housing, in a form that is attractive to the market, as seen in the case of Pukekohe which has experienced very little infill development since the AUP became operative. The site would therefore meet the general intention of the MDRS in regard to enabling higher density housing.

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 applying MDRZ 2 across the entirety of the Submitters sites would enable a significant quantity of additional housing which is required to meet the districts housing needs over the life of the District Plan. This will enable the provision of more housing in the affordable price range and meet the requirements of the NPS-UD.

3.2 For this reason, the relief that the Submitters are seeking is considered to have significant economic benefits, and no significant economic costs, and is therefore supported from an economic and property market perspective.

Adam Jeffrey Thompson

4 July 2023

APPENDIX A – Assessment of Economic Costs and Benefits

CLIENT
CSL Trust, Top End Properties Ltd,
Pokeno West

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 additional Medium Density Residential Zone land in Pokeno, for CSL/Top End and Pokeno West plan change areas.

The Waikato District Council currently estimate 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 Pokeno. It is therefore reasonable to assume that Pokeno 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 of the current and future residents of Pokeno and the wider District.

While there is already a notable amount of greenfield land proposed for residential development in Pokeno, 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 period 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 on the edge of Pokeno. While this is not within an 800m walking distance, it would provide one of the few notable examples for additional housing density and lower-priced housing in Pokeno, through master-planned development. By contrast, the existing urban part of Pokeno has very limited potential for this type of housing, in a form that is attractive to the market, as seen in the case of Pukekohe which has experienced very little infill development since the AUP became operative. The site would therefore meet the general intention of the MDRS in regard to enabling higher density housing.

2. Introduction

This evaluation relates to two plan change areas, namely CSL/Top End (179 Helenslee Road, 205 Helenslee Road, Pokeno) and Pokeno West (bounded by Helenslee Road, Munro Road and Huia Road to the east and south-east and by Ridge Road Quarry to the west).

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 Pokeno.

3. Estimated Development Yield Under Variation 3

Figures provides an estimate of the development yield for the proposal sites under the MDRS provisions.

After accounting for the roads, parks and other public areas, which are estimated to account for 45% of the properties, there is approximately 77 hectares of net developable land area. This would enable a total development yield of approximately 2,205 lots. Assuming an average lot size of 350m², and a lot size range of 200-500m², this would equate to a total of 2,205 lots (assuming an indicative equal distribution of lots in the 200m², 350m² and 500m² sizes).

**Figure 1:
Proposal Indicative Development Yield**

	Value
Gross Land Area (Ha)	208
Gross Developable Area (Ha)	141
Net Developable Area (Ha)*	77
Development Yield	
200m ²	735
350m ²	735
500m ²	735
Total Lots	2,205

Source: UE, Birch Land Development

*55% of gross developable area

4. Economic Assessment

4.1 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.

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

Figure 2:
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 2 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.

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

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

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 Pokeno 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.

4.2 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, s3.23, 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 Pokeno.

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 Pokeno, 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 14,600 additional dwellings to be commercially feasible in Pokeno, comprised of 3,800 redevelopment/infill and 10,800 greenfield. Approximately two thirds of these are terraced houses or apartments, and only one third are stand-alone homes. These however, as mentioned, are in relatively low demand, with historic building consents showing terrace houses comprise 5% of demand and apartments comprise 0% of demand, with stand-alone comprising 95% of demand (over the past 5-year period). As broad context, Pokeno

has approximately 1,760 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 my primary evidence on behalf of CSL Trust & Top End Properties Limited (dated 11 February 2021) I estimated the plan enabled infill capacity under the operative and proposed District Plan (Figure 26). Under Scenario 3, based on an average lot size of 300m², I estimated capacity of 345 infill dwellings within the existing Pokeno urban area. While this does not translate directly to the MDRS capacity, it does indicate that a relatively small level of capacity can be expected.

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 Pokeno. 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 Pokeno, 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 Pokeno over the last year was between \$1,000,000 and \$1,100,000, with only 12% being sold in the sub-\$900,000 price bracket, and only 3% sold in the sub-\$800,000 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 Pokeno 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 Pokeno, and other small rural towns (Huntly, Tuakau and

Ngaruawhaia) to provide lower-priced dwellings to meet the district-wide shortage. This can be achieved only through increasing supply and in particular of greenfield land.

Figure 3:
New Dwelling Sale Price Pokeno April 2022-2023

Price Bracket	Stand Alone	Terrace	Apartment	Total
Less than \$800,000	3%	-	-	3%
\$800,000-\$900,000	9%	-	-	9%
\$900,000-\$1,000,000	28%	-	-	28%
\$1,000,000-\$1,100,000	49%	-	-	49%
\$1,100,000 plus	12%	-	-	12%
Total	100%	0%	0%	100%

Source: CoreLogic

There is a total of approximately 250 hectares of greenfield land in Pokeno 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 105 hectares. This is sufficient for around 2,600 dwellings, at an average lot size of 400m². Given recent uptake rates of around 200-300 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 400-500 dwellings is reasonable in Pokeno (5-7 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 Pokeno (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 at lower price points.

4.3 Residential Zoning for the Proposed Sites

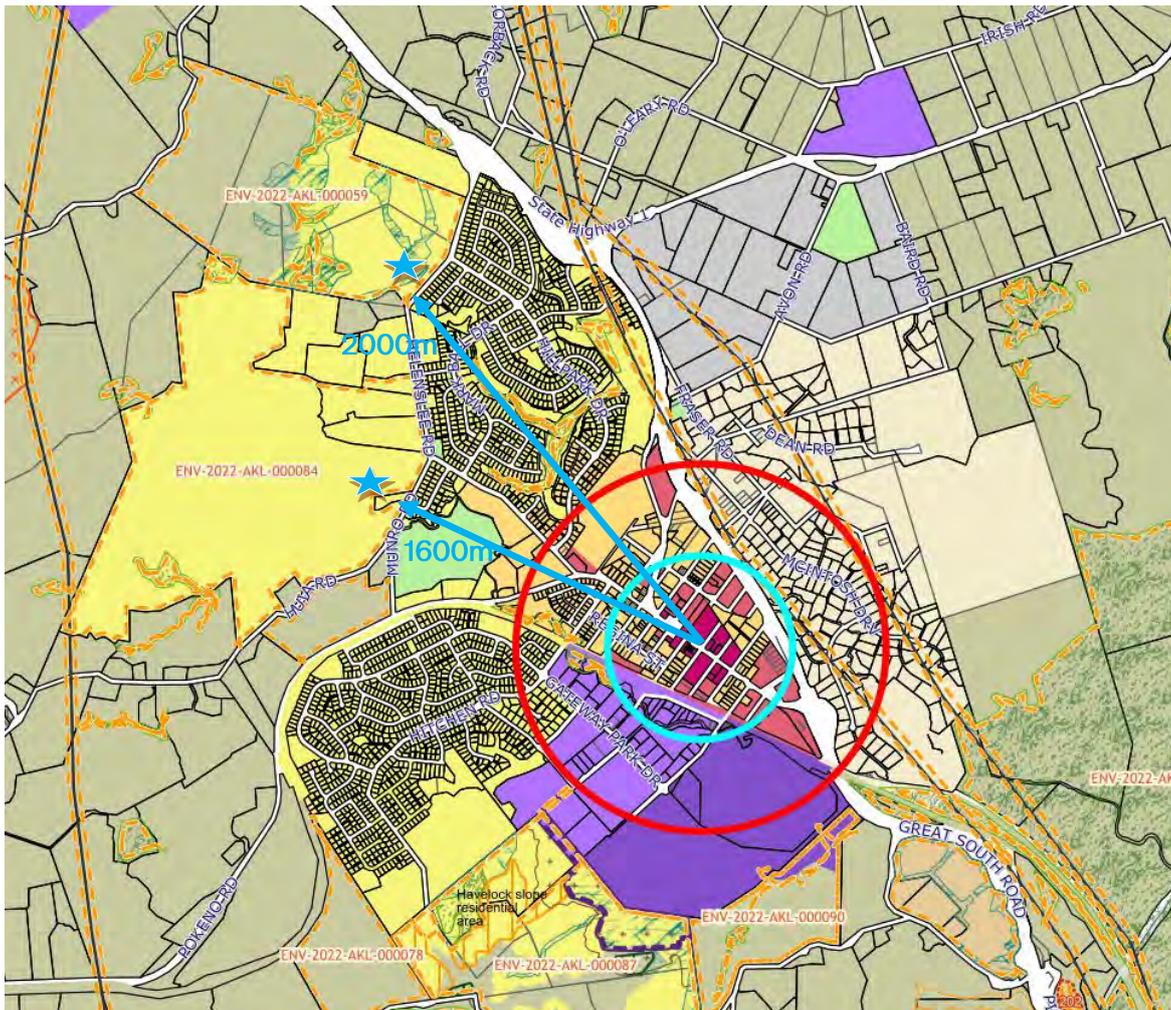
The proposal sites form part of a proposed general residential zone, located to the north-west of the Pokeno town centre. This is shown in Figure 4. The distance between the proposal sites and the town centre is approximately 1,000-2,000 metres. Figure 4 also illustrates a 400 metre and 800 metre walkable catchment from the town centre, which is constrained by State Highway 1 to the east, and the railway to the west, which limits the amount of Medium Density Residential Zone land in Pokeno (as applied in terms of walking distance from the centre).

It is evident in the Proposed District Plan Appeals Version that there is Medium Density Residential zone proposed within an approximate 800 metre distance north of most of the town centre, and lower density General Residential Zone land beyond this. However, in smaller rural towns such as Pokeno and Tuakau, the optimal location for Medium Density Residential Zone land is greenfield land, as it would enable an overall greater density than infill development. Nevertheless, infill/redevelopment should similarly be supported, even if it only yields a small number of new dwellings. As supported by Policy 5(b) of the NPS-UD, it is therefore reasonable to conclude that at least part of this General Residential Zone land, in particular the larger greenfield sites (including the proposal sites), would have significant economic benefits if zoned Medium Density Residential, as it would address the shortage of affordable housing in Pokeno by enabling higher density master-planned developments. 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 4:
Site Location Proposed District Plan Appeals Version (Distance to Town Centre)



Source: Waikato District Council

5. 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 Pokeno;
- Supports master-planned developments the 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, 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.

6. 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.