

**Before Independent Hearing Commissioners
In Ngāruawāhia**

Under the Resource Management Act 1991 (the Act)

In the matter of of a submission by Ambury Properties Limited in respect of the proposed Waikato District Plan pursuant to Clause 6 of Schedule 1 of the Act seeking the rezoning of land at Ohinewai

And Ambury Properties Limited (Ambury)
(Submitter)

and Waikato Regional Council
(Further Submitter)

**Statement of evidence of Blair Desmond Keenan for the Waikato Regional
Council – Economics**

13 August 2020

1 Qualifications and experience

- 1.1 My full name is Blair Desmond Keenan. I am an economist at the Waikato Regional Council and have been in this role since 2010.
- 1.2 I hold a Bachelor of Commerce degree with Honours (first class) from the University of Otago and a Master of Science in Applied Environmental Economics (with Distinction) from the University of London.
- 1.3 I have over 25 years of experience as a professional economist.
- 1.4 My relevant experience includes:
- a working as a professional economist since 1994, including in the banking sector, in industry analysis and in resource economics;
 - b experience in local government sector for 10 years, in addition to 4 years in local government policy development for the Department of Internal Affairs; and
 - c resource management economics over my 10 years at the Waikato Regional Council.
- 1.5 My evidence is given on behalf of Waikato Regional Council in relation to the submission seeking rezoning by Ambury Properties Limited (**Ambury** or **APL**) in respect of the proposed Waikato District Plan.

2 Involvement with the proposal

- 2.1 I have reviewed the documents provided by Ambury in support of the proposed rezoning, was involved in the expert conferencing of the economists (11-12 June 2020), and have read the economics evidence provided on behalf of Ambury.

3 Code of conduct

- 3.1 While I acknowledge that I am an employee of Waikato Regional Council, I have read and am familiar with the Code of Conduct for Expert Witnesses in the current Environment Court Practice Note (2014). I have complied with it in the preparation of this summary statement and during expert witness conferencing. I also confirm that the matters addressed in this statement are within my area of expertise, except where I rely on the opinion or evidence of other witnesses. I have not omitted to consider material facts known to me that might alter or detract from the opinions I express.

4 Scope of evidence

4.1 My evidence addresses the following:

- a Response to evidence of Dr Brent Wheeler, Mr Philip Osborne and Mr Tim Heath on behalf of Ambury;
- b The realisation of benefits of the development;
- c Market failure – external costs;
- d Housing supply and demand and affordable housing;
- e The definition of an urban environment;
- f The implications of the Covid-19 pandemic;
- g Response to the Council Officer’s report; and
- h Outstanding concerns.

4.2 I have read the evidence prepared by the other witnesses and am presenting evidence on behalf of Waikato Regional Council.

5 Summary of evidence

5.1 I consider that, if the development of the Ohinewai site occurs as proposed, there would be a significant increase in activity in the local economy. However, I consider that there is considerable uncertainty as to this occurring (including the effects of a pandemic-induced recession), raising questions about the extent to which benefits will be realised, and about the incidence of costs.

5.2 The housing component of the proposal is considered by Ambury to be integral to the development. However, the market is untested in that location, and while I consider that there will be demand for the houses, the market-clearing prices for the respective housing types, the cost of the proposed affordable housing, and the possible emergence of Ohinewai as a ‘dormitory town’ mean that the change to a residential zone carries significant risk of unintended consequences.

6 Response to evidence of Dr Brent Wheeler, Mr Philip Osborne and Mr Tim Heath on behalf of Ambury Properties Limited

6.1 Key issues raised in economic conferencing included the realisation of benefits of the development; possible external costs of infrastructure; local housing market

(supply and demand); the provision of affordable housing; effects on existing proximate businesses; the marginal economic activity arising from the development (as opposed to transfer of activity); and the implications of the Covid-19 pandemic.

- 6.2 Mr Heath's evidence¹ comments at length about the distinction between trade competition and distributional effects. On the basis of this discussion, I consider that the adverse economic effects on competing businesses arising due to the development are likely to be in the nature of trade competition, and do not, *per se*, constitute a reason to oppose this proposal. Therefore, I do not provide any further comment on this matter.

7 Issue 1 – Realisation of benefits of the development

- 7.1 Dr Wheeler emphasises his focus on *net benefits*. This is consistent with standard economic methodology – in particular, benefit-cost analysis. I consider that this is an appropriate approach, although I note that from a decision-maker's perspective, the *incidence* of costs and benefits (that is, to which parties they accrue) is likely to be of interest. For example, if, in aggregate, the benefits were greater than costs, but the costs of the proposal were to fall disproportionately on a particular group, using net benefit as the over-riding criteria would typically disregard issues of 'equity' and 'fairness'. In my view, the multiplier analysis used by Dr Wheeler, and the retail model of Mr Heath are also sound analytical approaches, which, *within the scope of the analysis*, have been appropriately applied.
- 7.2 I note, however, that the scope of the analysis seems to be limited to a 'best-case' scenario (i.e. full implementation of the Masterplan). In my opinion, this limits the usefulness of the analysis, since it does not reflect what could reasonably occur. I consider that an analysis that included other scenarios would have been required to properly understand the potential implications of the plan change proposal. In particular, there are risks in respect of the housing component (where demand may not meet expectations) and the uptake of the remainder (that is, not related to The Comfort Group (**TCG**) itself) of the industrial and commercial component. It would have been useful to consider how these may have affected the realisation of the benefits of development, and hence, the net benefits expected to arise as a result of the development. Given Dr Wheeler's

¹ Paragraphs 4.20-4.30.

warnings against 'spurious accuracy'², I am unsure why there has been such a narrow focus on the possible outcomes.

- 7.3 Both Dr Wheeler³ and Mr Osborne⁴ refer to the benefits of economies of scale that will arise as a result of the consolidation of TCG's activities in one site. I consider the arguments around economies of scale to be reasonable, but note that the relatively isolated location of Ohinewai means that the issue of transport costs for industrial activities is an empirical question (which has not been addressed). While the Ohinewai location may allow these economies of scale benefits to be achieved, it is not clear why they would not have been achieved in other locations.
- 7.4 Dr Wheeler's capital investment analysis is a potentially useful alternative methodology. Dr Wheeler notes that the weights and return estimates are shown in 'Attachment A'⁵. However, it is difficult to interpret the investment schedule that makes up Attachment A. It does not clearly show how the proposal cost of capital was reached, nor the method for the 'risk adjustment' mentioned in Dr Wheeler's evidence⁶. I therefore cannot verify Dr Wheeler's estimate of the proposal cost of capital of 6.73%, and cannot place any weight on this.
- 7.5 There was agreement in conferencing that the development did not solely represent a transfer of economic activity from one location (Auckland) to another (Waikato), and that there was likely to be additional economic activity arising⁷. While there were differences in the *extent* to which the participants considered the activity to be additional, all agreed that there would be new economic activity generated by the development. Nevertheless, it seems likely that the resources and capital that are proposed would have gone *somewhere* (even if it was an entirely different type of investment), and it is the difference between the TCG proposal and the next best alternative that is the measure of the net value of investing at Ohinewai. Indeed, this is the economic concept of 'opportunity cost' that Dr Wheeler incorporates in part 5 of his evidence. However, in determining the opportunity cost for the proposal, Dr Wheeler considers that alternative use of the land as a dairy farm⁸, but does not consider the alternative use of the capital employed.

² In paragraph 5.37 of his evidence.

³ In paragraphs 2.6 and 6.12(b) of his evidence.

⁴ In paragraph 6.4 of his evidence.

⁵ Paragraph 9.18 of his evidence.

⁶ Paragraph 9.17(b).

⁷ See section 2 of the Joint Witness Statement on economic matters.

⁸ Paragraph 5.29 of his evidence.

7.6 I accept the Ambury evidence that TCG's current locations are no longer fit for purpose, and that *some* change will occur⁹. Mr Osborne notes that the Ohinewai site "...is considered to *better* satisfy the key industrial locational criteria..."¹⁰ (emphasis added). The word 'better' suggests there may have been other sites that meet TCG's criteria to *some* extent, which would have been useful analysis to include in order to understand the opportunity cost of the chosen site.

8 Issue 2 – Market failure – external costs

8.1 While unanticipated costs of development are the concern of TCG as the developer, there are two reasons why these need to be considered: the extent to which they represent *external* costs; and the possibility that they affect the success of the development and result in outcomes different to those anticipated by the Ambury expert witnesses.

8.2 'External' costs are those that accrue to someone other than the agent that has created them. In this case, there are potential external costs related to the additional transport, water and wastewater infrastructure that may be required as a result of the development. Dr Wheeler makes the point that it is possible to charge such infrastructure costs back to the developer (or the property owner/occupier)¹¹. This point was, in effect, agreed as part of issue five of the Joint Witness Statement on economic matters: "*Agreed – provided infrastructure costs internalized and born by developer then not an issue.*"¹²

8.3 I do not agree that these infrastructure costs necessarily "...arise through growth as a general phenomenon and are not a particular result of the APL application...". Consequently, I also do not agree that it can be inferred that "...[s]uch costs then cannot be held to be costs imposed by the APL proposal"¹³. In order to avoid market failure and achieve economically efficient outcomes, agents need to bear the costs that arise in the course of their activities. In that case, APL should bear the additional costs of infrastructure (for example, the costs of linking to road, rail, water and wastewater networks) that arise because of the Ohinewai development. If that was *not* the case, there would have been no need to point out the funding mechanisms that can be used to achieve this (as

⁹ As noted, for example, in paragraphs 3.1 and 4.5 of Mr Osborne's evidence.

¹⁰ Paragraph 4.8 of his evidence.

¹¹ Paragraph 10.7(a) of his evidence.

¹² Section 6 of the Joint Witness Statement on economic matters, pages 4-5.

¹³ See paragraphs 10.7(b) and 10.8 of Dr Wheeler's evidence.

mentioned in paragraph 8.2 above, and as Dr Wheeler does in paragraph 10.7(a) of his evidence).

- 8.4 I note that Mr Osborne provides specific construction assumptions about costs¹⁴. It is not clear whether any sensitivity analysis of these costs was undertaken.
- 8.5 In response to concerns about the possible effects of business failure of 'impeded development' (that is, if the development does not eventuate, will the public be left facing costs that they would not otherwise have), Dr Wheeler notes that staged development will mitigate this risk¹⁵. I agree that this will reduce the potential magnitude of external costs that may be borne by ratepayers in such an event, but it is not clear that this removes such costs altogether. For example, given the lead time to plan for and integrate the development with existing network infrastructure, there may be significant public cost accrued ahead of the success or failure of the development.

9 Issue 3 – Housing supply and demand, and affordable housing

- 9.1 The evidence from Ambury asserts that provision of housing on-site is fundamental to the TCG proposal, and that TCG's development of the site would not proceed without the residential component¹⁶. While the provision of affordable housing for TCG workers is given as a key rationale for this¹⁷, most of the dwellings are envisaged to be for non-TCG workers. These would be available on the open market, and it seems reasonable to assume that the returns generated from the sale of these houses will be an important component of the commercial viability of the proposal.
- 9.2 Mr Heath notes there is a shortfall in the supply of housing in the area – in particular, the shortfall in 2046¹⁸. However, the Housing and Business Development Capacity Assessment prepared by Future Proof, as required by the National Policy Statement on Urban Development Capacity (**NPS-UDC**) indicates that there is sufficient residential capacity in the Waikato District in the short and medium term. Moreover, it indicates that, with additional anticipated capacity, there is ample capacity in the long term. Hence, meeting a 'shortfall' does not appear to be a reason to support the proposed residential development at Ohinewai. Table 11 from the Future Proof Capacity Assessment is reproduced below.

¹⁴ Paragraph 8.4(h) of his evidence.

¹⁵ Paragraphs 10.9 and 10.10 of his evidence.

¹⁶ Paragraph 3.9 of Mr Osborne's evidence and paragraph 2.3 of Mr Heath's evidence.

¹⁷ See paragraph 6.10 of Mr Osborne's evidence.

¹⁸ Section 6 of his evidence.

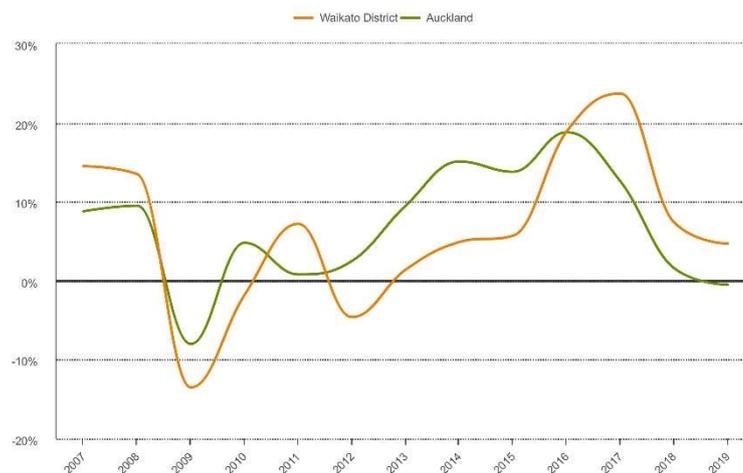
Table 11. Waikato Housing Sufficiency

Term	Demand		Capacity				Sufficiency
	Base demand	Demand + margin	Capacity (current market)	Capacity (future projection)	Anticipated capacity	Total Capacity	
Short term (2021)	2,606	3,127	5,610	6,987	-	6,987	✓
Medium term (2026)	5,923	7,108	7,630	9,440	4,000-5,000	13,440-14,440	✓
Long term (2046)	16,891	19,425	8,690	13,062	12,000-15,000	25,062-28,062	✓

Source: Housing and Business Development Capacity Assessment 2017, pg 24, Future Proof.

9.3 During conferencing there was disagreement in respect of housing demand, and whether this matters¹⁹. House price data for the Waikato District shows a significant rise in recent years, lagging Auckland patterns. This is illustrated in the chart below, showing the changes in Auckland and Waikato District house prices.

Annual percent change in house prices



Source: Infometrics

¹⁹ Section 11 and 12 of the Joint Witness Statement on economic matters, pages 7-8.

- 9.4 Anecdotally, there is evidence of demand for housing spilling over from Auckland, reflected in a large increase in house prices in the Waikato District in the last few years as Auckland buyers look for more affordable options. Realestate.co.nz is quoted in news reports²⁰ as noting that people "...can have the Waikato lifestyle and also continue to have a corporate job [in Auckland]." This is consistent with the evidence of Mr Quigley – at least in respect of Te Kauwhata²¹, with homebuyers continuing to "...work away...school their children in Auckland, socialise away, and shop away." While these behaviours may occur less frequently at Ohinewai due to the location adjacent to potential jobs, there is still a possibility that they will occur to some extent.
- 9.5 Nevertheless, to the extent that such behaviours *do* occur at Ohinewai, my earlier concerns about a lack of demand for housing at Ohinewai may be overstated, with Auckland (or Hamilton)-based workers a potential market for the bulk of housing to be developed there. To the extent that this is the case, this may give rise to other costs of commuting from what would effectively be, at least partially, a 'dormitory town' as discussed in Ms Hackell's evidence.
- 9.6 While there may be an argument that workers for other employers in the Ohinewai development will take up housing there, this is not a given (and cannot be compelled to occur). If market trends for Aucklanders to move into the Waikato District in search of cheaper housing continues, there is a potential risk that local workers may be outbid by higher-income workers from Auckland (or, indeed, Hamilton). In addition, the effect of the current Covid-induced recession on the housing market is unclear (see below for more on this point).
- 9.7 I note, in relation to the additional transport that this may imply, that given the way gross domestic product (or expenditure) is measured, this would add to estimates of additional economic activity (but may not be economically efficient).
- 9.8 It is noted that TCG intends to create affordable housing for its workers, but there is little information to determine how affordability is defined, nor how this might be achieved. Affordability is often defined as some ratio of prices and incomes, and housing costs of 30 percent of gross disposable income is commonly used as a threshold of affordability. Based on that, workers would need a gross household income of \$60,000 or more to meet this definition of affordability²².

²⁰ <https://www.stuff.co.nz/life-style/homed/residential/122048520/kiwis-property-love-buffers-housing-market-from-covid19>.

²¹ See paragraph 8.2 of his evidence.

²² A house price of \$400,000, a 20 percent deposit (i.e. \$80,000), and a 30-year mortgage at a 4 percent interest rate would require monthly payments of around \$350. This would be affordable, according to this definition for households with gross disposable incomes of \$1,200 per week, or around \$61,000 per annum. Assumptions about the size of deposit, the starting price, and the average interest rate over the period of the loan are arguably very conservative, and the income required may in fact be significantly higher than this.

9.9 While Mr Osborne notes TCG workers “...typically earn lower wages...” it is not clear whether this would meet the above definition of affordability. Moreover, this affordability equation could be altered by various mechanisms (for example, Mr Osborne notes that shared equity and rent-to-buy schemes are a possibility²³). Nevertheless, without knowing details, it is not possible to determine the extent to which ‘affordable’ housing may be offered. Given this, it is difficult to know how many low-income people would be living and working at Ohinewai, and what happens to the affordable houses if they are not taken up by TCG workers (presumably they would be offered to the market).

10 Issue 4 – Definition of urban environment

10.1 I have been asked to give my opinion as to whether the development at Ohinewai could be considered part of the Huntly urban environment to provide guidance as to how the National Policy Statement on Urban Development (**NPSUD**) may apply in respect of the proposal. The NPSUD defines an ‘urban environment’ as follows:

urban environment means any area of land (regardless of size, and irrespective of local authority or statistical boundaries) that:

- a is, or is intended to be, predominantly urban in character; and
- b is, or is intended to be, part of a housing and labour market of at least 10,000 people.²⁴

10.2 My comments in this section focus on part B of this definition.

10.3 A labour market (like any other market) comprises two sides – supply and demand. Data from the Census (2018) indicates that the working age population (ie age 15-64) for ‘Huntly Rural’ statistical area was 1,470²⁵. Huntly town is divided into two statistical areas – East and West – which have working age populations of 2,877 and 1,890 respectively. So together Huntly and its rural hinterlands have a working age population of 6,237.

10.4 However, not all members of the working age population are typically engaged in the labour market. Some people are engaged in education, some are retired, and others may work in roles that are not recognised as being part of the labour force. For the Waikato Region as a whole, around 70 percent of the working age

²³ Paragraph 4.4 of his evidence.

²⁴ National Policy Statement on Urban Development, page 8, Section 1.4 Interpretation.

²⁵ Huntly Rural covers the area between about Rangiriri down to Taupiri, excluding Huntly township.

population was part of the labour force in 2019. Applying that proportion to the three Huntly statistical areas would imply a labour supply for that area of 4,366 (70 percent of 6,237). Even adding several thousand potential extra workers at Ohinewai, this is not particularly close to the NPSUD threshold of 10,000.

- 10.5 On the demand side of the labour market, there is little evidence of thousands of unfilled jobs in the area. As an indicator, the number of jobs advertised on the Trade Me website on 30 July 2020 was 177 for the whole of the Waikato District. While this is only a rough indicator, it is clear that even with several thousand potential jobs at Ohinewai, the demand for labour is again well short of 10,000.
- 10.6 Neither the supply-side nor the demand side of the labour market suggests that Huntly and its environs come close to the NPSUD threshold that would meet the criteria of an urban environment.
- 10.7 The *total* population of the three statistical areas of Huntly East, Huntly West and Huntly Rural came to just over 10,000 (10,182 according to 2018 Census data), suggesting the housing market criterion of the NPSUD 'urban environment' may be satisfied.

11 Issue 5 – Implications of the Covid-19 pandemic

- 11.1 Participants in economic conferencing generally agreed with the proposition that the Covid-19 pandemic creates substantial economic uncertainty. Moreover, there is general agreement that, at some point, this uncertainty will subside, and will not affect the economic case for development at Ohinewai.²⁶
- 11.2 However, while Dr Wheeler suggests that this uncertainty unambiguously *increases* the need for this development²⁷, I consider that it means that a more comprehensive analysis, including alternative scenarios would have been appropriate.
- 11.3 For example, if demand for uptake of the industrial or housing component of the development is significantly lower over the medium term, does this increase the risk of stranded residents or investments (with consequently higher than necessary infrastructure costs)?

²⁶ See section 3 of the Joint Witness Statement of experts in relation to economics, dated 12 June 2020, pages 2-3.

²⁷ See paragraph 11.2 of his evidence.

12 Response to the Council Officer's report

- 12.1 In respect of the Section 42A report by Chloe Trenouth, I have the following comments in relation to 'economic effects':
- a I agree that existing capacity assessments, undertaken to meet the requirements of the NPS-UDC do not appear to indicate a shortfall in housing in this area²⁸. I also agree that the residential component is not required to meet the requirement of the NPS-UDC²⁹.
 - b I agree that there are questions over the extent of demand for housing in this location³⁰. However, noting the strength of the housing market in the Waikato District generally in recent years, and projections for continuing growth in the Auckland and north Waikato/Hamilton populations, along with on-site employment, I consider that there is likely to be adequate demand for the housing.
 - c Given this expectation of sufficient demand, and the applicant's stated purpose of providing affordable housing for its workers, I agree with Ms Trenouth's recommendation that "...an objective (at least) be added to the plan provisions to require the provision of affordable housing in the structure plan area"³¹, along with a clear definition of what 'affordable' means.
 - d I agree that, assuming the development proceeds as envisaged, and that external costs are managed, the industrial development will provide net benefits to the local economy³² (s42A, paragraph 134). For the reasons outlined in this evidence, however, I consider that the magnitude of these benefits is less clear.

13 Outstanding concerns

- 13.1 While I consider that the methods applied in the economic analyses of Dr Wheeler, Mr Heath and Mr Osborne are sound, given the uncertainty of the current and medium term situation, in my view, their evidence does not provide a full picture of the possible economic effects of the development at Ohinewai.
- 13.2 While this might not be such an issue if the decision was in relation to resource consents for specific activities, I note that the nature of the decision (to change

²⁸ See s42A report, paragraphs 109-110.

²⁹ See s42A report, paragraph 114.

³⁰ For example, see s42A, paragraph 116.

³¹ See s42A report, paragraph 122.

³² See s42A report, paragraph 134.

the district plan by zoning rural land for urban activities) means there is much less certainty about the actual activities that may be possible at this site, and that it would be appropriate to provide a wider consideration of different outcomes that might arise.

13.3 The key statutory provision that imposes a requirement for economic analysis of such matters is section 32 of the Resource Management Act 1991. Amongst other things, this requires an evaluation report that must:

examine whether the provisions in the proposal are the most appropriate way to achieve the objectives by—

- i identifying other reasonably practicable options for achieving the objectives; and
- ii assessing the efficiency and effectiveness of the provisions in achieving the objectives; and
- iii summarising the reasons for deciding on the provisions³³.

13.4 There is little evidence of the identification of 'reasonably practicable options'. The emphasis of Dr Wheeler on the importance of 'opportunity cost' is appropriate, since this is defined as the cost of *not* doing the next best option. I remain concerned that there has been little evidence presented of other options, and am therefore not convinced that opportunity costs have been adequately evaluated.

Blair Desmond Keenan

13 August 2020

³³ Section 32(1)(b) of the Resource Management Act 1991.