

UNDER the the Resource Mangement Act 1991 ("RMA")
IN THE MATTER of Taupō District Council

**REBUTTAL STATEMENT OF PHILIP MARK OSBORNE ON BEHALF OF
TAUPŌ DISTRICT COUNCIL**

15 May 2020

1. INTRODUCTION

- 1.1 My full name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd, based in Auckland.
- 1.2 My qualifications and experience are set out in my statement of evidence dated 22 April 2020 (**EIC**).
- 1.3 I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2014 and that I agree to comply with it. 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.

2. SCOPE

- 2.1 My rebuttal evidence is in response to the economic evidence of Mr Kevin Geoffrey Counsell filed on behalf of The Proprietors of Hauhungaroa No. 6 (**The Proponents**). I have also reviewed the evidence of Stephen Sanderson for the Proponents.
- 2.2 The evidence of Mr Counsell addresses three key issues with regard to the potential economic impacts resulting from the proposed private plan change including:
- The potential level of District and Local housing demand and the associated propensity for this proposal to result in a redistribution of expected demand
 - The need for demand to be assessed with a motivated proprietor
 - The potential economic costs and benefits associated with the proposal

3. ECONOMIC EVIDENCE

- 3.1** As identified above there are several issues raised in Mr Counsell's evidence that pertain to the potential economic impacts of PCC36 that are appropriately considered under the RMA as of relevance to the Taupō community. Given that several of these issues have been addressed in my EIC I will endeavour to only address any additional matters raised by Mr Counsell.
- 3.2** In paragraphs 26 to 39 of his evidence Mr Counsell addresses the issue of sufficiency of residential development capacity within the District and its ability to meet projected future demand. While not contesting projected demand, the primary focus of this section of his evidence appears to be the adoption of medium population projections in my EIC rather than those indicated as 'high' by Statistics New Zealand.
- 3.3** Notwithstanding the potential post-Covid environment, the Property Economics Report and my subsequent EIC also identified the 'higher than expected' population growth figures within the District as identified in the 2018 census and subsequent 2019 "Suitable indications of future population change from 2013" provided by Statistics NZ. There are, however, two important factors relating to the application of the high growth rate that are key in assessing future housing demand.
- 3.4** The first point is that the key driver of housing demand is clearly households rather than population. While changes to household size and structure may alter the size and typology of demand, they are unlikely to have a significant impact on the level of demand. Empirically, unlike the Statistics NZ projections which projected a decreasing average household size, between the 2013 and 2018 censuses the average household size over that period within Taupō (and in fact NZ) rose.
- 3.5** This resulted a lower rate of growth in households than suggested by population growth within the District over the 5-year period. Essentially, while population grew at a high-level, households and therefore expected residential housing demand, grew at a rate inline with the medium projections.

- 3.6** Paragraph 30 of Mr Counsell's evidence suggests that due to the fact that high population projections may be considered suitable, it is therefore reasonable to suggest that the high household projections are also suitable. To achieve this the average household size in Taupō would have to reverse its current trend and fall twice as fast as originally predicted by Statistics NZ.
- 3.7** This is clearly not what the 2013/18 censuses illustrate is happening nor does it support Mr Counsell's suggestion that high household growth rates should be adopted. Regardless, and more importantly even adopting the population growth rates in the manner suggested in Mr Counsell's evidence is unlikely to result in household growth rates that are materially greater than the medium growth series provided by Statistics NZ.
- 3.8** In paragraphs 35 and 58 Mr Counsell also addresses the issue regarding the potential impacts of Covid-19 on the District economy. He identifies the uncertainty around the potential impacts and notes that the New Zealand Treasury forecasts indicate a return to pre-pandemic levels by 2024. While I agree with his position that the potential impacts on the economy are highly uncertain, I believe that it is still prudent to consider this uncertainty in light of a proposal that appears to be based on addressing a longterm shortfall in capacity.
- 3.9** A recent report provided by Infometrics¹ outlined the potential extent of effects on the local Taupō economy. It indicated that while all regions and district will be hard hit by the pandemic, 'Taupō District falls in the worst hit category'². Additionally, the report expects residential construction to fall to a 20year low and remain at less than half its current value beyond 2024³. In comparison to the national market the percentage impact downturn associated with the District's residential construction sector, in the first year alone, is expected to be twice that of the national average⁴. Due to its tourism base, the Taupō District housing market is likely to experience a significant decline with a fall in homeshare such as Air BnB significantly

¹ Economic Impacts of COVID-19 in the Taupō Economy – Early Estimates, for Taupō District Council, April 2020, Infometrics

² Economic Impacts of COVID-19 in the Taupō Economy, Page 5

³ Economic Impacts of COVID-19 in the Taupō Economy, Page 23

⁴ Economic Impacts of COVID-19 in the Taupō Economy, Page 6

impacting the investment market and subsequently resulting in material impacts on demand.

- 3.10** In paragraph 60 Mr Counsell addresses a potentially subdued market indicating the plan change would give the Proprietor an 'option to invest'. This appears to negate any discussion regarding sustainable potential supply and demand and simply states that the Proprietor has the option to developed when the market is there. Neither my position nor I believe Mr Counsell's would suggest that Taupō will experienced no demand over the coming decades but as demand falls this increases the propensity that the demand accommodated in this development is more appropriately accommodated in existing zoned land at a lower cost to the community.
- 3.11** Given that household growth rates, exhibited by the latest census data, are currently in line with Statistics NZ medium expectations and that the impacts of Covid-19 are likely to be both nominally and relatively severe it remains my opinion that the demand projections presented in my evidence remain the most appropriate.
- 3.12** However, even in the event that Mr Counsell's position on demand were adopted it is my position, based on Mr Counsell's paragraph 37, that there remains sufficient supply over the periods outlined. In balancing his position on demand and supply within this paragraph he has compared his 10-year demand (2,300) with the level of currently zoned, vacant and developable properties (2,200). The remaining capacity of 3,400 sites that are currently zoned he discounts from the 10year medium term period and arrives at a shortfall (under a high household growth rate) of approximately 100 dwellings. It is this shortfall, outlined in paragraph 38, that he believes the proposal could contribute too.
- 3.13** There is no evidence presented in the evidence of Mr Counsell indicating that the currently zoned and planned capacity cannot meet this perceived shortfall. Given that this zoned capacity already exists, and thereby in terms of the certainty that the District Plan provides to landowners, there is no rationale explanation nor evidence as to why the Whareroa North proposal as currently zoned Rural Environment represents a more viable option for medium term capacity than areas that are planned and zoned as outlined in Table 1 below.

TABLE 1: VACANT DEVELOPABLE SITES IN TAUPŌ DISTRICT

Site	Lots	Stage	Maori/non-Maori	Notes
EUL	1,900	Zoned	Non-Maori	No services within block, but water and Wastewater available at the adjacent road frontages.
WEL	700	Zoned	Non-Maori	Underway and being serviced by the developer.
Brentwood	115	Zoned and consented	Non-Maori	Underway and being serviced by the developer.
Lakeside Brentwood	250	Zoned	Non-Maori	No services within block, but water and Wastewater available at the adjacent road frontages
Vineyard on Huka falls	20	Zoned	Non-Maori	No services within block, but water and Wastewater available at the adjacent road frontages
Acacia Bay	100	Zoned	Non-Maori	No services currently
Kinloch	334	Zoned and mostly consented	Non-Maori	Partially Serviced
7 Oaks-Kinloch	190	Zoned, some consented	Non-Maori	No services within block, but water and Wastewater available at the adjacent road frontages
Undeveloped half charges (North end of lake)	947	Zoned and consented	Mostly non-Maori	
Kuratau (D2D3)	82	Zoned	D2D3 Maori owned	No services within block, but water and Wastewater available at the adjacent road frontages
Turangi	400	Zoned	Mostly Turangitukua	No services within block, but water and Wastewater available at the adjacent road frontages
Undeveloped half charges Southern end of Lake	594	Zoned and consented	Both Maori and non-Maori land	
Total District Supply	5,632			

3.14 Based on Mr Counsell’s figures presented in his paragraph 36 there is more than sufficient existing zoned capacity to meet future demand for the periods he has outlined (even at the higher projection rates).

3.15 Paragraphs 40 to 47 of Mr Counsell’s evidence addresses issues raised regarding the localised environment. This again deals with potential differences in demand and supply.

- 3.16** Paragraphs 42 to 44 address the potential supply in Whareroa itself and the identification of 47 vacant lots within the immediate area. Firstly, given the potential substitutability of holiday home locations within the local area it is not necessarily the most appropriate approach to isolate demand and supply to such a small area given significant changes in capacity can result in marked changes in demand. However, in determining the relevancy of vacant sites it is important to understand what this potential capacity is being measured against. In this case, potential demand for this area has been based on historical consent trends indicating the potential number of new 'builds' per annum in this area. Subsequently, any currently vacant sites where the owners are 'looking to build' would ultimately form part of this demand.
- 3.17** The second aspect is that of localised demand. In paragraph 47 Mr Counsell's raises the issue of the 30% 'holiday home' assumption in relation to localised demand. While the overall assessment of holiday home demand in Taupō District has been assessed utilising a trended proportion of the resident households, the potential demand for Whareroa and the associated local area has not been presented in his manner. The SA2 associated with Whareroa has experienced a decline in resident population over the last few censuses adopting therefore the 30% approach would have resulted in a negative demand for housing the area. The initial Property Economics report (and subsequent evidence) does not utilise localised residential population to assess localised demand, it does however consider demand in terms of historical consents for the area.
- 3.18** A smaller local area indicated that the Kuratau / Omori / Whareroa areas combined had seen a falling number of annual consents averaging at 10 per annum. This was compared to potential capacity of 198 undeveloped sites currently in the Whareroa and Kuratau areas. This represented, at the higher end, at least 20 years of residential capacity, notwithstanding the extent of additional substitutable holiday areas in Taupō with significant capacity. It is also important to note that these consents represent the most up to date information including any recent growth experienced within the District.
- 3.19** Paragraphs 41 and 61 of Mr Counsell's evidence continue to contend that regardless of the estimates of demand and supply provided the Proprietors

are in the best position to determine demand. Paragraphs 10.6 to 10.8 of my EIC addresses this issue but simply summarised the question of economic efficiency does not arise if this development is unsuccessful but in fact if, in its success, it simply transfers growth that could have been accommodated in other planned (and already zoned) locations within the District while creating additional costs to the community.

3.20 Finally, paragraphs 48 to 57 of Mr Counsell's evidence addresses the inclusion or exclusion of potential economic costs and benefits in my own considerations. Essentially there appears to be 3 specific issues including:

- (a) The inclusion of potential private economic benefits
- (b) The inclusion of Long-Term community infrastructure provision
- (c) The planning framework and the price/supply argument

3.21 In paragraph 50 Mr Counsell identifies the reality of profit as a net private benefit that, it can be presumed, would result for the landowner from development of the associated site. At a site level this is true, that its development would improve its land use value and result in greater value. However, at a wider level, if this development simply transfers existing demand, that demand will not be accommodated elsewhere and the aforementioned profits, that would have occurred there otherwise, will not. Therefore, the economic assessment saw these private benefits as simply transferring from one Taupō landowner to another with no likely 'net' economic benefit occurring.

3.22 As part of the assessment of public economic costs associated with the proposal my EIC has estimated provision for longterm infrastructure as part of a wider cost benefit assessment. Mr Counsell disagrees with the consideration of these costs in this assessment due to:

- (a) The length of the 'lifespan' of these assets; and
- (b) That these costs should be spread forward from when they are incurred

3.23 I disagree with Mr Counsell's position for several reasons:

- (a) The Council has an obligation under the Local Government Act 2002 to consider these costs in its longterm planning and as such has already consider any need for infrastructure provision within its identified capacity areas within it longterm plan (LTP).
- (b) Given the significant cost infrastructure replacement places on a local Council it would unusual not to budget for replacement, as represented annually by depreciation.
- (c) While the 'lifespan' of infrastructure is often significant a 30-year period has been employed due to the fact that the NPS considers this an appropriate timeframe for Council's to consider longterm residential capacity assessments and planning.
- (d) These are real community costs the council must consider and provide for and therefore represent an appropriate measure for costs to the community. There is ultimately a decision to make now that means the community is committed to meeting those costs.

3.24 Mr Counsell's concluding paragraph 69 reiterates his position on the inclusion of these infrastructure costs. In this paragraph he outlines that a cost in the future represented in 'present value' (or NPV) must be discounted. As outlined in the PE report and my EIC this is exactly the assessment that has been undertaken. Over the 30-year period assessed annualised costs resulted in a NPV of \$660,000 to the Taupō community. However, I do agree with Mr Counsell's final statement that this infrastructure requires a commitment from the community to bear these costs well beyond the 30-year period assessed.

3.25 Finally, paragraph 54 outlines the relationship between supply and price within the housing market. This is a position that has seen a recent resurgence in markets such as Auckland where the argument that increasing residential opportunities will ultimately decrease prices. While the theory is sound, the existing capacity in the Taupō market is likely to temper any minimal impact this is likely to be experienced. Firstly, as outlined above, there is currently no shortage, nor is there likely to be, of residential development options in Taupō. Therefore, a very real outcome resulting from the proposal is that other, already zoned, alternatives do not enter the

market maintaining market supply and prices, while still having the community bear an additional cost. Additionally, even if a minimal impact on prices is assumed, given the proposals location it is unlikely to influence the wider housing market, providing no benefits to the Taupō community at large.

CONCLUSION

3.26 Having read and reviewed the positions provided in the applicants economic evidence I have found no reason to alter my original economic position that the proposal is likely to result in an inefficient outcome creating unnecessary economic costs to the community and operating contrary to the economic justification for the Taupō District planning framework..

15 MAY 2020



PHILIP OSBORNE