

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

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

8 April 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.

Experience

- 1.2 My qualifications include Bachelor of Arts (History/Economics) (1994), Masters in Commerce (1997), a Masters in Planning Practice (2002) from the University of Auckland and I have provisionally completed my doctoral thesis in developmental economics.
- 1.3 I have 16 years' experience advising local and regional councils throughout New Zealand in relation to economic impacts, industrial and business land use issues including rezoning requests, as well as strategic forward planning. In the Taupō context I have undertaken several market assessments both for the commercial and residential markets and have presented evidence regarding the District and its economy. I also provide consultancy services to a number of private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and industrial market assessments, and forecasting market growth and land requirements across all property sectors.

Involvement in the Proposal

- 1.4 Property Economics was commissioned by Taupō District Council ("**TDC**") to prepare a report, dated November 2019 ("**the Economic Report**") to address economic matters raised with reference to a Plan Change request of Rural Environment land at the western edge of Lake Taupō to Residential Environment. The Property Economics report was fundamentally focussed on the potential levels of economic efficiency related to rezoning the additional residential land in this location and the potential for impacts on community resources.

Code of Conduct

- 1.5 I confirm that I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2014. I have complied with the Code of Conduct in preparing this evidence and agree to comply with it while giving evidence. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

Scope of Evidence

- 1.6 My evidence will address the following:
- (a) The economic justification for residential zoning intervention under the Resource Management Act 1991 (“**the Act**”);
 - (b) The expected market for residential product within the Taupō District and localised area;
 - (c) The potential economic costs and benefits pertaining to the proposed zone change;
 - (d) Relevant submission points.

2. EXECUTIVE SUMMARY

- 2.1 PPC36 seeks to rezone approximately 14.63 hectares of land from Rural Environment (zone) to Residential Environment (zone) on the northern side of the Whareroa Stream Whareroa North, to enable the development of up to 160 residential units. The enabled development would require the construction of significant infrastructure that, while initially constructed by the developer, would ultimately be maintained, and replaced by the community through the Council.
- 2.2 In order to access the land proposed to be rezoned, a new access road will need to be developed including a small bridge across the Whareroa Stream. The estimated cost of these works is circa \$1.3 million including building the bridge over the stream and the corresponding earthworks and roading required.
- 2.3 The issue assessed through this evidence is one of economic efficiency, whether, at a high level, the potential economic benefits of the proposed plan change outweigh the potential economic costs. The costs and benefits considered in this assessment high the social or community costs associated with residential development and rezoning. These external impacts (or externalities) and those not general considered by the market in decision making.
- 2.4 For the proposed plan change some of these costs relate specifically to the potential duplication of infrastructure that would need to ultimately be financial supported by the community beyond their initial provision. While these costs are typically borne by the

community they are balanced by the economic benefits arising from accommodating residential growth within the District. Unnecessary provision of residential capacity that results in additional infrastructure costs to the community result in inefficient resource use and an economic disbenefit to the community. It is therefore important to consider the necessity of residential rezoning against expected future growth and existing capacity.

- 2.5 By 2038 Statistics NZ medium growth projections estimate that the District will need to accommodate a further 2,000 households. Extending the trend associated with 30% of the currently unoccupied dwellings in Taupō being holiday home demand this would equate to approximately 2,850 new dwellings required in the next 20 years.
- 2.6 A recent assessment undertaken by Council has shown that under the current zonings there is capacity for over 5,600 new dwellings, of which 815 lots are on sites that are currently being developed with a further 3,090 lots which have water and wastewater services available at the adjacent road frontages.
- 2.7 At a more localised level, while the District has seen modest population growth, the southern and western components of the district have recorded a decrease in population from 2013 to 2018. In particular, the Lake Taupō Bays Statistical Area 2 region (which includes Whareroa) observed negative population growth, with a net decline of 40 people to 1,630 over the 6-year period (2013 – 2019). At the same time there is existing capacity within this area for nearly 600 additional lots.
- 2.8 With little evidence suggesting the need for the District to generally rezone additional residential land the second component is to weigh the potential public economic costs associated with the proposed plan change.
- 2.9 There is currently a need for the community to maintain and replace the infrastructure associated with this proposal, these costs alone are estimated at over \$50,000 per annum to the community. It is important to note that these do not necessarily represent all efficiency costs, nor does the success of the proposed development mitigate these costs. If the proposal only serves to redirect growth from existing planned areas they represent simply a duplication of infrastructure and so the costs identified above in turn represent a net economic loss to the community.
- 2.10 At this time, given expected growth and estimated residential capacity with the Taupō District there is a high likelihood that the proposed plan change will result in an inefficient outcome and a net economic loss for the community.

3. PROPOSED PLAN CHANGE

- 3.1 The proponents of PPC36 are seeking to rezone approximately 14.63 hectares of land from Rural Environment (zone) to Residential Environment (zone) on the northern side of the Whareroa Stream. Whareroa North, as enabled by PPC36 would adjoin the existing Whareroa Village.
- 3.2 Figure 1 contains an aerial map of Whareroa and the land subject to PPC36 to provide context and illustrate the close proximity between the existing Whareroa Village settlement and the land subject to PPC36.
- 3.3 PPC36 would facilitate development of up to 160 residential lots of sizes ranging between 500m² and 1,100m². The number of homes is limited with the included provision in PPC36 that restricts subdivision by way of consent notice.
- 3.4 In order to access the land proposed to be rezoned, a new access road will need to be developed including a small bridge across the Whareroa stream. The estimated cost of these works is circa \$1.3 million including building the bridge over the stream and the corresponding earthworks and roading required.

Figure 1: Whareroa North Proposed Plan Change Area.



Source: Taupō District Council

- 3.5 While several statutory and non-statutory planning documents have identified the site as a potential growth area, the Southern Settlements Structure Plan (“SSSP 2013”) has recognised development within the Southern Settlements has slowed significantly leading to a reduction in identified Urban Growth Areas in Taupō District (TD2050), and the position that Council will not be undertaking changes to the Taupō District Plan (“TDP”) to facilitate new development here.
- 3.6 In requiring landowner led changes the Council considers the First Schedule and s32(3) and s32(2) assessment relevant for applications:

An assessment under subsection (1) (b) (ii) must—

(a) identify and assess the benefits and costs of the environmental, economic, social, and cultural effects that are anticipated from the implementation of the provisions, including the opportunities for—

(i) economic growth that are anticipated to be provided or reduced; and

(ii) employment that are anticipated to be provided or reduced; and

(b) if practicable, quantify the benefits and costs referred to in paragraph (a); and

(c) assess the risk of acting or not acting if there is uncertain or insufficient information about the subject matter of the provisions.

4. ECONOMIC JUSTIFICATION FOR INTERVENTION

4.1 The need for exogenous intervention into the market is necessitated by the fundamental intent of seeking to maximise community wellbeing either through improvements in equity or an improvement in economic efficiency. In simple terms the fact that the market will typically not seek to maximise community wellbeing but pursue individual party interests is key in understanding whether the market requires a balancing mechanism in order to redress the potential imbalance between community interests and individual interests. It is important to note that this is not simply an academic exercise, the result of an individual party or parties gaining an additional proportion in profits (or simply a decrease in costs) could result in the loss of a tangible resource for the community hundreds of times more valuable – that is the transfer of community wide benefits to an individual(s).

4.2 There is a distinct thread running through the Resource Management Act 1991 (RMA) that deals with community wellbeing in terms of efficiency. A primary guiding principle of the RMA is the efficient (and sustainable) utilisation of scarce resources within a community. There has been recognition from the Environment Court that efficiency, as it pertains to the RMA, relates to economic efficiency and there is a need for this to instruct policy governing the utilisation of these resources. This implies that the decisions by which these resources (be they the land resource or associated integration of infrastructure) are consumed, are derived in an economically efficient manner.

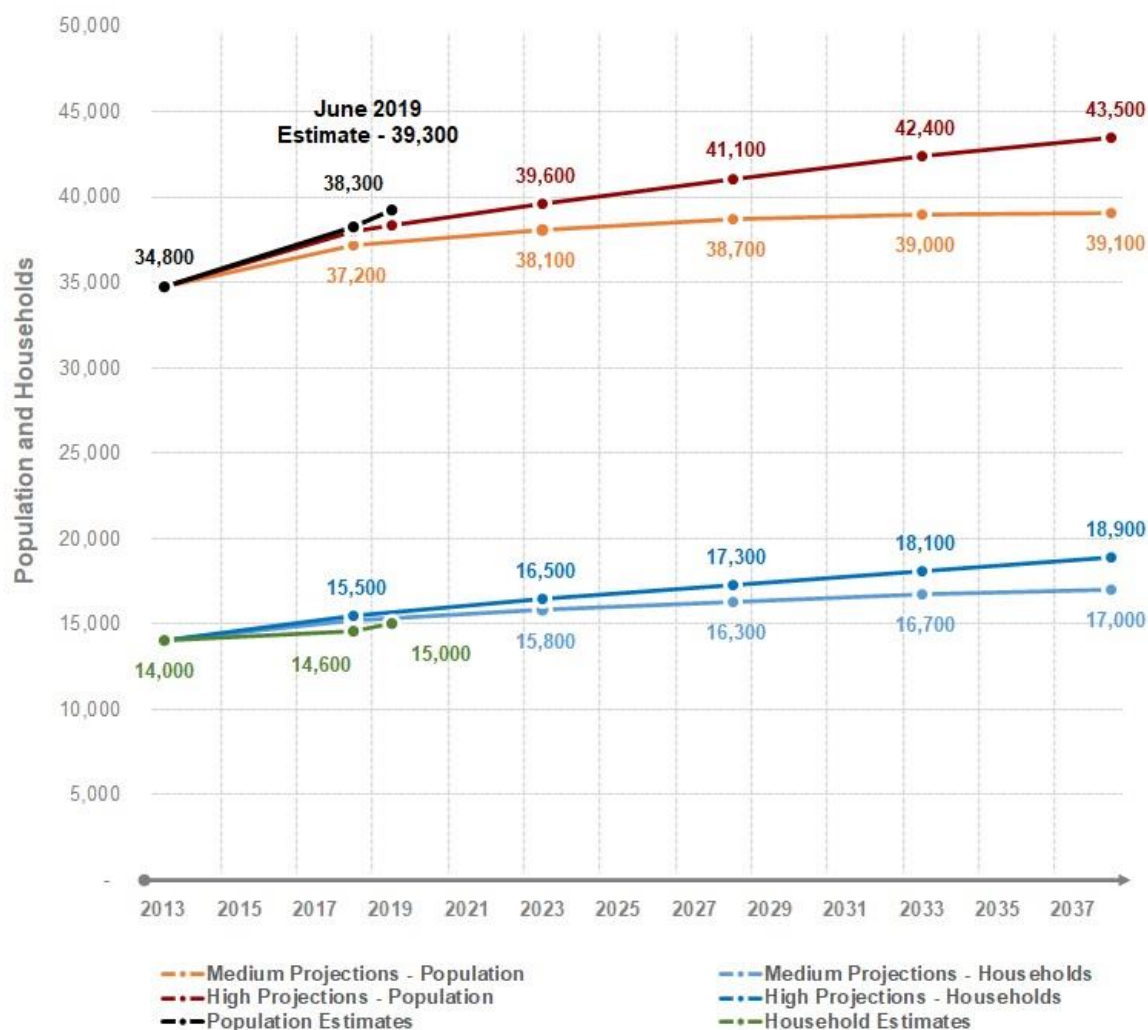
- 4.3 The market is indeed a powerful mechanism for the efficient allocation of resources and all too often unnecessary intervention causes markets to operate inefficiently with potential benefits lost to the community in order to protect private concerns. However, the essential proviso here is providing that society's resources are priced according to their real value to society, so that both community costs and benefits are considered in the appropriate allocation. This is the basis for the economic argument for intervention (and indeed planning itself) that left to its own devices the market will not operate efficiently given the fact that the market fails to consider total community well-being.
- 4.4 Economic efficiency is essential when providing for sustainable resource use, this efficient employment is key with regard to economic well-being. As stated and consistent with the RMA 1991, this efficiency should not be a rationalisation for the protection of existing developments. However, what is essential is the identification of any costs or benefits that are not considered by the market and yet are critical to enhancing the wider community's economic and social well-being. In relation to the Proposed Plan Change these relate to any net economic costs resulting from the proposed residential development that are not borne solely by either the developer or purchaser – but instead are spread across a wider community that does not reciprocally benefit from the development.
- 4.5 There is an important distinction to be made in terms of the types of externalities that must be considered here. Externalities typically take two forms, pecuniary and true. Pecuniary externalities equate simply to market effects which are not, and should not be, assessed under the RMA (for example Taupō District improves its amenity attracting more people into the economy and in turn increasing local house prices). These are simple price effects and are not considered in cost benefit analysis. True or technical externalities have a real impact on the efficiency level of a market thereby affecting community well-being. They are effects of a market decision on the resource use of a third party. Externalities occur when one party's actions affect another party's well-being and the relevant costs and benefits are not reflected in the market. The RMA makes a clear distinction between market effects and true externalities. The sustainable and efficient management of resources under the RMA is based on the inclusion of these effects.
- 4.6 Councils restrict the spread of residential development to specific (and generally more intensive) zones because the cost of allowing dispersal are significant and are not considered by the market, such as increased infrastructure costs, reduced transport

efficiencies, inefficient land use, reduction in competitiveness of commercial activity and opportunities, as well as reduced community amenity. These are factors that an individual participant in the market does not always consider, not just the impact of these costs on themselves but the cost of their decision on others. In a market where foreseeable demand is met by existing and planned capacity a potential oversupply is more likely to lead to a transfer of investment from vacant residentially zoned land to another area, with no resultant net increase in community enablement but with a corresponding decrease in the efficient use and integration of infrastructure.

5. RESIDENTIAL MARKET

- 5.1 The Taupō District Council has recently released an updated Taupō District 2050 (TD2050) strategy document. The growth projections identified in the updated TD2050 are the medium growth projection series released by Statistics NZ and are more subdued than the original document (2006) resulting in some of the identified growth nodes being re-evaluated.
- 5.2 The medium projections are considered the more relevant to be used for this exercise given:
- (a) While sometimes relevant, both the low and high projections represent statistically 'unlikely' outcomes;
 - (b) The National Policy Statement on Urban Development Capacity considers these projections robust in providing for future demand;
 - (c) A prudent approach to likely demand both nationwide and domestically in Taupō given the Covid-19 economic issues which are not fully realised or quantifiable at the time of drafting evidence.
- 5.3 Figure 2 displays the population and household growth projections for the Taupō District. These projections are derived from the latest available Statistics NZ Population growth projections (based on the 2013 Census) for both the High and Medium growth series which are yet to be updated to reflect the 2018 Census base. We therefore make a comparison against recent population estimates to contrast the growth that was expected to occur against that measured.

Figure 2: TAUPŌ DISTRICT RESIDENTIAL GROWTH ESTIMATES



Source: Property Economics, Statistics NZ

5.4 During the writing of the initial report provided to Council, the 2019 population Census Area Unit estimates were unavailable and only released during the final stages of the project. For the purpose of this evidence, this has been updated and Figure 2 utilises the updated population estimates which show that the population growth over the past 6 years was higher than initially expected (however household growth rates remain on track). Given that these Statistics NZ projections are longterm there is often variance over the shorter term. There are several factors that influence shorter term population growth such as seasonal job availability and accessibility, comparative household prices in competing regions and the amenity of the Town/City. In many cases the medium projection series is more accurate over the long term where some of the anticipated demand occurs later or earlier than expected.

- 5.5 Currently, New Zealand is in the middle of its Level 4 COVID-19 pandemic lockdown. The economic impacts of this lockdown will undoubtedly be far reaching and not only result in significant changes to local economies but also increase the necessity for economic efficiency to remain competitive. The Taupō District has almost 25% of working age adults in the Tourism Industry and is likely to see significantly subdued economic opportunities over the short term.
- 5.6 Under the most recent Medium Growth scenario, Taupō District's housing market is projected to grow from approximately 15,000 households to 17,000 requiring an additional 2,000 homes to accommodate growth over the next 20 years. When considering the level of risk associated with these projections it is of interest to note that beyond 2038 the District's growth is expected to plateau and in fact fall over time. Current, the District has approximately 30% of its dwellings considered (by statistics NZ) as 'unoccupied'. In any market there is the likelihood of 'transitional' dwellings (e.g. people moving who have not yet sold, or rental properties in transition), however, for the purposes of this assessment these are considered to represent holiday homes in the District (thus conservatively over representing this growth). Including the demand for unoccupied dwellings, demand by 2038 is expected to be as high as 2,850 total dwellings.
- 5.7 Under the High growth scenario, the District's population base (+5,200 net) and the household base (+3,400 net, a total of 4,850 with vacant/holiday homes included) are projected to increase to 43,500 and 18,900 respectively by 2038. This helps provide some context to the District's projected growth profile over the next 20 years and ground truth the potential dwelling requirement throughout the entire District under a higher alternative growth scenario.
- 5.8 Whareroa North was identified as a potential growth node in the Taupō District Plan in 2008. However, the observed low nominal population growth in subsequent years indicated that the District growth projections, for which the growth nodes were developed, were optimistic and unlikely to be realised.
- 5.9 The growth between the two more recent census (2013 and 2018) show an annual growth rate of 2.5; while growth between the 2006-2013 census period was only 0.2%.
- 5.10 Residential growth within the District over more recent years has been primarily localised in areas / settlements closer to the Taupō Urban Area. Whilst there has been modest growth in the District at an aggregate level, the southern and western

components of the district have recorded a decrease in population from 2013 to 2018. In particular, the Lake Taupō Bays Statistical Area 2 region (which includes Whareroa) observed negative population growth, with a net decline of 40 people to 1,630 over the 6-year period (2013 – 2019).

6. District Residential Land Supply

- 6.1 In comparison to potential growth (demand) for the entire District, there is a total of 5,632 zoned vacant or developable lots in the Taupō District as identified by TDC.
- 6.2 Of the 5,632 developable vacant lots 815 lots are on sites that are currently being developed and 3,090 lots which have water and wastewater services available at the adjacent road frontages. A full breakdown of vacant developable sites in the district is provided in Table 1.

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			

Source: TDC

- 6.3 This high-level data suggests the current supply of vacant residential zoned lots within the District exceeds the 2,450 expected demand/growth utilising the growth projections above based on the medium growth projection series.
- 6.4 Under the high growth projection series (approximately 5,100 homes), it would appear there is also sufficient capacity.
- 6.5 These zoned capacity numbers do not include the potential future residential zones that are included in the current TD2050 document that while not directly relevant to this assessment are included for completeness. These are shown in Table 2.

Table 2: Potential Future residential Zones

Five Mile Bay Site A and C	440	Needs Structure Plan and rezoning. Identified in TD2050	Maori land freehold	No services within block, but water and Wastewater available at the adjacent road frontages.
Nukuhau Private Plan Change	770	Needs Structure Plan and rezoning	15ha Maroi Trust land	No services currently.
Omori (Mohi block)	50	Needs rezoning	Non-Maori	No services within block, but water and Wastewater available at the adjacent road frontages
Kuratau Omori future growth area	To be determined	Needs rezoning	Non-Maori	

Source: TDC

- 6.6 Specifically, regarding the western Taupō lakeshore proximate to Whareroa, there are 116 vacant lots, 47 of which are in Whareroa itself. These vacant lots included in the 594 undeveloped totals are in addition to the 82-lot provision in Kuratau. This would suggest that in total there is currently the potential for 198 new homes to be built between these towns alone on the Western Taupō lakefront area, or 598 lots including Turangi.
- 6.7 With the slight decrease in the local population base between 2013 and 2018 as outlined earlier, and 198 vacant lots locally (or 598 including Turangi), the analysis identifies material existing residential capacity within the southern western areas of Taupō.
- 6.8 As discussed earlier in evidence, Taupō District is projected to grow at a slower rate over the next 30-year period then envisaged in the original TD2050 document.

- 6.9 Given the land supply of lots in zoned and developed areas exceeds projected demand levels – both at a District Level and the localised level proximate to the Plan Change area, the appropriateness of development in Whareroa North from an economic standpoint depends on the extent to which the market for homes in Whareroa is independent of the market demand in the wider Taupō District.
- 6.10 While the market for the proposal may not include a substantial proportion of permanent residents it would, by nature, fall into the assessment of vacant/holiday home demand estimated at 30% of total demand. The adoption of a 30% margin for vacant/holiday home demand is considered aspirational as the District continues to mature and provide greater impetus for permanent residents (as a proportion of total demand). As such the utilisation of the historically high levels of unoccupied dwellings is considered to be conservative.
- 6.11 Regardless of the origin of demand, the excess supply of residential lots, that currently exists in the Taupō market, would still be sufficient to supply this additional 30% demand buffer. The substantive question in this instance is whether Whareroa North can be distinguished or justified as a unique location that will drive demand otherwise unlikely to be realised by the Taupō District.
- 6.12 The potential for this proposal to result in any significant degree of additional residential demand to the District is tempered by both the low level of demand in this general location and additional capacity within competitive areas such as Omori and Kuratau. While the entirety of the Taupō District could be considered competition for holiday home demand, these destinations are the closest and therefore likely represent areas of highest competition to Whareroa. In Kuratau there has been a recently zoned area that will support an additional 82 lots that would compete with Whareroa.
- 6.13 Given there is sufficient supply, any development facilitated by PPC36 is likely to simply provide additional capacity, redirecting expected growth and duplicating existing capacity, increasing the expense of additional infrastructure maintenance costs for the wider community, and resulting in less intensively utilised and inefficient community infrastructure.

7. POTENTIAL ECONOMIC COSTS AND BENEFITS

- 7.1 A fundamental economic consideration of supplying additional residential development capacity is the potential cost associated with servicing the development that would be borne by the community. As identified above, while the internalised costs of such development are appropriately considered in the provision of this product, additional community costs are not necessarily, thus impacting upon efficiency. Essentially, this can result in the community bearing the cost for development that is not necessary to accommodate overall growth and additionally undermine the potential efficiencies as they pertain to the objectives of the Plan itself.
- 7.2 This section of this Evidence estimates a Present Value analysis, for PPC36, of the costs and potential return for the Taupō District as a whole.
- 7.3 In regard to the present value of the return, this is complex to evaluate. If the demand for homes in Whareroa is unique, the additional rates received by TDC would (in theory) offset many of the costs associated with maintaining the required infrastructure investment. That is the rezoning would offer a unique proposition for demand generated outside the District that would not be met in other locations, or it would simply transfer demand within the district.
- 7.4 Where it is not unique, the infrastructure maintenance costs associated with this development are additional to any other maintenance costs that the Council would have to pay to support residential developments in other areas that still need to be supplied and serviced. This is because the maintenance costs are not entirely based on the relative extent of usage over a year, but the existence of the asset in and of itself would attract costs.
- 7.5 In simple terms, the rezoning would duplicate existing serviced zoned land without any demonstrable increase in district demand and growth, decreasing the efficient use and development of sunk infrastructure costs as spread over the same rate payer base.
- 7.6 In these terms the argument that developers would bear the financial burden of infrastructure development does not lessen the future impact on the community maintaining and replacing, potentially, unnecessary infrastructure, nor the impact on existing and planned infrastructure marginal costs in areas identified to accommodate the redirected residential growth.

- 7.7 Given the location of PPC36, development of residential homes on the subject land would require substantial infrastructure and civil works. For Whareroa North the infrastructure requirements include:
- A bridge and extension of the road network;
 - Wastewater and potable water supply;
 - Stormwater management; and
 - Utility and reserve maintenance.
- 7.8 While it is anticipated that the initial costs associated with this development will be met by the developers (and therefore internalised into the development itself), ongoing maintenance, upkeep and replacement will be a direct cost for the Council and the community.
- 7.9 For the purposes of this assessment future costs, such as infrastructure replacement, have been included as a requirement for Council to account for the depreciation on the assets. While the above depreciation and maintenance costs would not be incurred on Whareroa North directly in its formative years, they are funds that are put into a collective pool of maintenance costs for the District.
- 7.10 TDC have indicated that once the infrastructure is developed, the ongoing maintenance costs of these assets would be similar to other developments. These estimated costs include roading costs of \$31,500 and water related infrastructure costs¹ of \$20,400 totalling \$51,900 per annum over the various asset lifespans.
- 7.11 In addition to the depreciation of items identified there are a number of maintenance costs and costs associated with the stormwater. The contribution to the districtwide pool of roading costs is approximately \$7,000 annually. This is derived from the total District budget in place for various contracts regarding road maintenance, road

¹ In terms of the existing capacity within the wastewater that can be utilised by the proposed Whareroa North site, it is expected that this absence of cost is reflected in the engineering costs provided for the proposed development and as such has been excluded from the potential net costs when comparing to potential sites that are serviced.

marking, streetlight maintenance, structural bridge maintenance, and general maintenance and inspections.

- 7.12 In total therefore the Taupō community will need to pay approximately \$52,000 per annum towards maintaining the community assets at the proposed site regardless of potential demand, or uptake. That is the costs to the community would be \$52,000 regardless of whether there was only one dwelling established in the first year (and contributing rates, albeit a potential redistribution of rates), or the full 160 dwellings.
- 7.13 These depreciation values are calculated based on assumptions surrounding a settlement of 160 homes. Each year the community incurs a cost of \$52,000, however when considering the current total cost of these future payments (regardless of the potential for costs to increase), must be discounted so that future deferred payments are treated differently (e.g. the corresponding 30-year annual cost is less than \$5,000 in current terms).
- 7.14 Totalling these discounted costs indicates that the total current cost for these deferred payments over a 30-year period is approximately \$660,000 to the Taupō community. In simple terms while the annual costs summed through 30 years would total over \$1.56m, annually these costs are deferred (as outlined above the last payment of \$52,000 in 30 years is worth \$5,000 now), therefore the present cost to the community of the development is in the order of \$660,000. This allows the comparison of all potential costs and benefits in terms of their current value.
- 7.15 While the potential economic benefits associated with PPC36 rely on the development attracting a significant level of unique demand to the District the costs faced by the community are real regardless. While residential development inevitably comes at a collective cost to the community incurring these costs without meeting a need or achieving additional economic benefits will result in a net economic loss to the Taupō community.
- 7.16 Given the level of proposed residential development (and the absence of any current restrictions on capacity) the proposal is unlikely to have any material impact on the District's residential housing stock price. Additionally, any resulting benefits attributable to increases in activity due to this development are (in the absence of unique demand) likely to simply be as a result of activity redirected from elsewhere in the District.

8. COMMENTARY ON SUBMISSIONS AND ECONOMIC PEER REVIEW

- 8.1 While there are a variety of submissions on PPC36 few relate to economic matters and of those that do most oppose the Plan Change² based on a lack of proven demand³ and the associated community costs and integration⁴.
- 8.2 The Proprietors of Hauhungaroa No.6 have provided a report undertaken in February 2020 (“**The NERA Report**”) that raises some concerns with the economic position established through the Property Economics report that underpins this evidence.
- 8.3 The NERA report highlight a number of issues including:
- The uncertainty regarding residential demand projections;
 - The significance of the proprietor’s willingness to develop;
 - The establishment of economic costs and benefits;
 - The potential for the development to result in economic benefits.
- 8.4 In paragraph 4 the NERA report identifies the potential for uncertainty in projecting supply and demand. This point is well taken as even the accepted medium growth Statistics NZ household projections⁵ utilised in this report are sensitive to changes in assumptions and market drivers. As such the projections presented in this evidence have a margin of error that could result in higher or lower than expected growth outcomes. While these projections form the basis for some concerns raised in this report the NERA report has not provided a reasonable set of alternatives. It is also of interest to note that the statistical relevance of the Statistics NZ high household projections are similar to those of Taupō’s low projections which see a fall in the number of total households in the District to 2038.
- 8.5 While it is clear, from a District perspective, that there is sufficient residential capacity identified under the TDP to meet appropriate future growth needs, the spatial extent of this growth and its allocative efficiency is ultimately determined by planned distribution.
- 8.6 The NERA report has reiterated several times the right of the proprietors to decide on the financial viability (and associated market) of their proposed development. I am in

2 Submissions 9,13,14 and 17

3 Submissions 9.8, 13.1, 13.8

4 Submissions 13.3, 17.1

5 Suggested as a sustainable position by MBIE for the development of HBCA under the NPS UDC

full agreement of this position. The financial feasibility of the proposal has not been considered in this economic assessment.

- 8.7 The NERA report⁶ states that a clear indication of sufficient demand is the fact that the proprietor is willing to undertake the development. As previously outlined the economic concern raised is not that this development may not be feasible for the proprietor, as they only need to consider their own private costs, the economic issue is that if this is not required to meet the District's expected demand there is a very real risk of the community funding duplicated inefficient infrastructure, as well as the additional costs of simply redirecting growth from areas currently recognised in the TDC as meeting other objectives.
- 8.8 The commercial confidence of the developer does not need to represent their belief that the District will have a shortfall of capacity, but simply that they can compete for at least some of the expected demand. As outlined in paragraph 42 of the NERA report *"if an economic agent is willing to undertake a proposal, then it can be assumed that the net private (emphasis added) benefits of the proposal are positive"*. If, as this assessment would suggest, there is more than sufficient capacity to meet future demand the additional community costs associated with this proposal are unnecessary and as such represent an inefficient use of resources.
- 8.9 In terms of the potential economic costs and benefits associated with the proposed plan change, the NERA report pays particular attention to the capital infrastructure costs that will ultimately be borne by the community. Firstly, it is important to correct a statement in paragraph 74 (b) of the NERA report which states PE have incorrectly attributed these costs to TDC. No initial infrastructure costs are attributed to the Council however the maintenance and future replacement of this capital is assessed as a community cost.
- 8.10 In outlining this expenditure, the report points out the difficulty in assessing the costs of these over (for some infrastructure) a long timeframe. Typically, providers of public infrastructure are aware of considering the incremental cost of these assets and adjust asset and cost values accordingly. As such these costs are often considered on an annualised basis. In terms the longevity of the costs, as outlined in the assessment

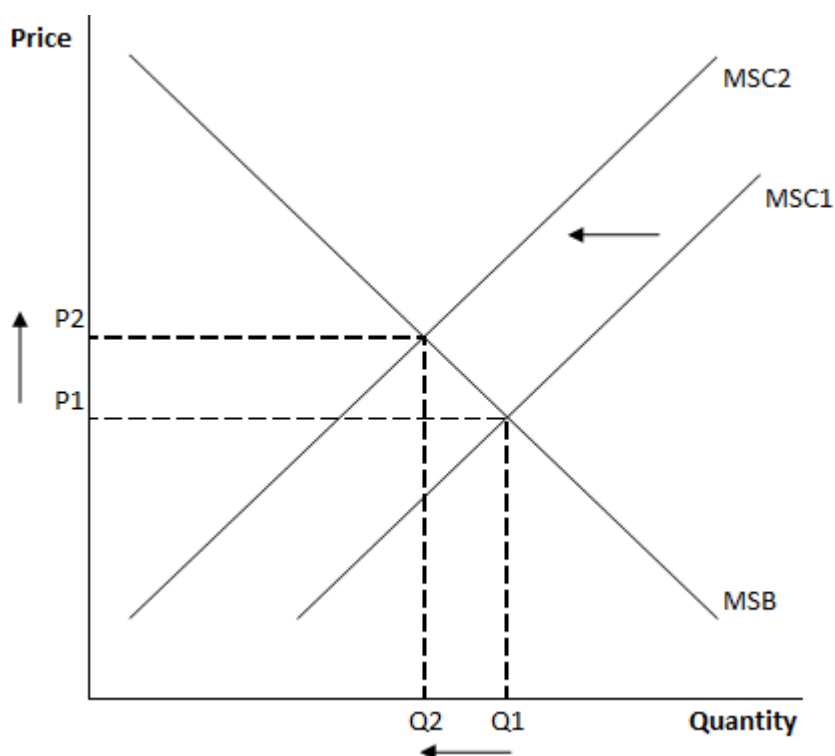
⁶ Paragraphs 4 (a), 17, 39, 40 (d), 42, 52, and 62

above their value has been discounted accordingly and continue to represent a significant cost to the community (i.e. \$660,000 at NPV).

8.11 In assessing any additional potential economic benefits, the NERA report sets out in Figure 1 to illustrate the affect an increase in supply can have on the Taupō property market. Firstly, while the movement of the supply curve is both generic and dramatic, the potential impact of an additional 160 residential sites into a market of over 15,000 households with capacity sufficient to meet growth for the next 30 years is highly unlikely to have any material impact upon price. Secondly, the graph represents, once again, only half the story indicating only private costs (supply) and private benefits (demand). Based on such a representation territorial authorities could 'resolve' any housing issues by simply providing more developable land.

8.12 From a community well-being perspective this has the potential to lead to significant increases in community costs and resource inefficiencies. Graphically (Figure 3) these are represented by Marginal Social Costs (MSC – Supply) and Marginal Social Benefits (MSB – Demand). Under a scenario of unnecessarily duplicating infrastructure the MSC (supply) curve would move up actually increasing the true cost of these residential units with an increased proportion being borne by the community.

Figure 3: Supply and demand framework for the assessment of social costs and social benefits



8.13 While not having a position on the feasibility of the overall development proposed, I assume that the development has the potential to result in a net private benefit, the economic issue is however the level of public cost associated with this development (both the community expense and the potential redirect of residential demand) and whether it is likely to exceed any public benefit. As indicated, this is based on whether the addition of the 160 sites provides any significant gain within a market that has sufficient capacity (and is appropriately located under the Plan) to meet Taupō District's future long-term demand.

9. CONCLUSION

9.1 PPC36 seeks to rezone approximately 14.63 hectares of land from Rural Environment (zone) to Residential Environment (zone) on the northern side of the Whareroa Stream. Whareroa North, to enable the development of, up to, 160 residential units. The development would require the construction of significant infrastructure that, while initially constructed by the developer, would ultimately be maintained, and replaced by the Council.

9.2 This cost would typically be born by the community as the price for accommodating residential growth and the associated economic benefits of a growing community. However, in the absence of this requirement, simply providing additional residential capacity is likely to result in a net loss to the community.

9.3 Taupō District currently has significant levels of zoned and serviced residential capacity that is integrated into the plan and future growth expectations. This capacity is more than sufficient to meet future growth expectations.

9.4 Given the level of competitive product both expected and currently in the market it is highly likely that PCC36 will result in a simple additional of residential supply to the Taupō market. As such the infrastructure costs borne by the community would be a duplication of existing infrastructure provision. Any expected demand accommodated by PCC36, therefore, would only represent a redistribution of growth from other areas and result in inefficient resource use.

9.5 It is my economic opinion that there has been no economic justification for the acceptance of PCC36 and that it is likely to result in an economic disbenefit to the community.

8 APRIL 2020

PHILIP OSBORNE