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Memo

To: Kevin and Andrea Marsh

Date: 8 April 2024

From: Kevin Counsell, Director, NERA

Subject: **High-level preliminary economic appraisal of Plan Change 95**

Introduction

1. Plan Change 95 (**PC95**) is a private plan change application to the Western Bay of Plenty District Council (**WBOPDC**) to rezone approximately 7.5 hectares of Rural-zoned land to Residential, with a small Commercial zone, in Pongakawa.[1]
2. You have asked me to undertake a high-level preliminary economic appraisal of PC95, with specific consideration of:
   a. The provisions of clause 3.6(1) of the National Policy Statement for Highly Productive Land (**NPS-HPL**); and
   b. The economic viability of the proposed Commercial zone.
3. The results of my appraisal are set out in the remainder of this memo.

Assessment against clause 3.6(1) of the NPS-HPL

4. Clause 3.6(1) of the NPS-HPL, which applies to Tier 1 and 2 territorial authorities (with WBOPDC being Tier 1), states that urban rezoning of highly productive land may be allowed if:
   a. "the urban rezoning is required to provide sufficient development capacity to meet demand for housing or business land to give effect to the National Policy Statement on Urban Development 2020"; and
   b. "there are no other reasonably practicable and feasible options for providing at least sufficient development capacity within the same locality and market while achieving a well-functioning urban environment"; and

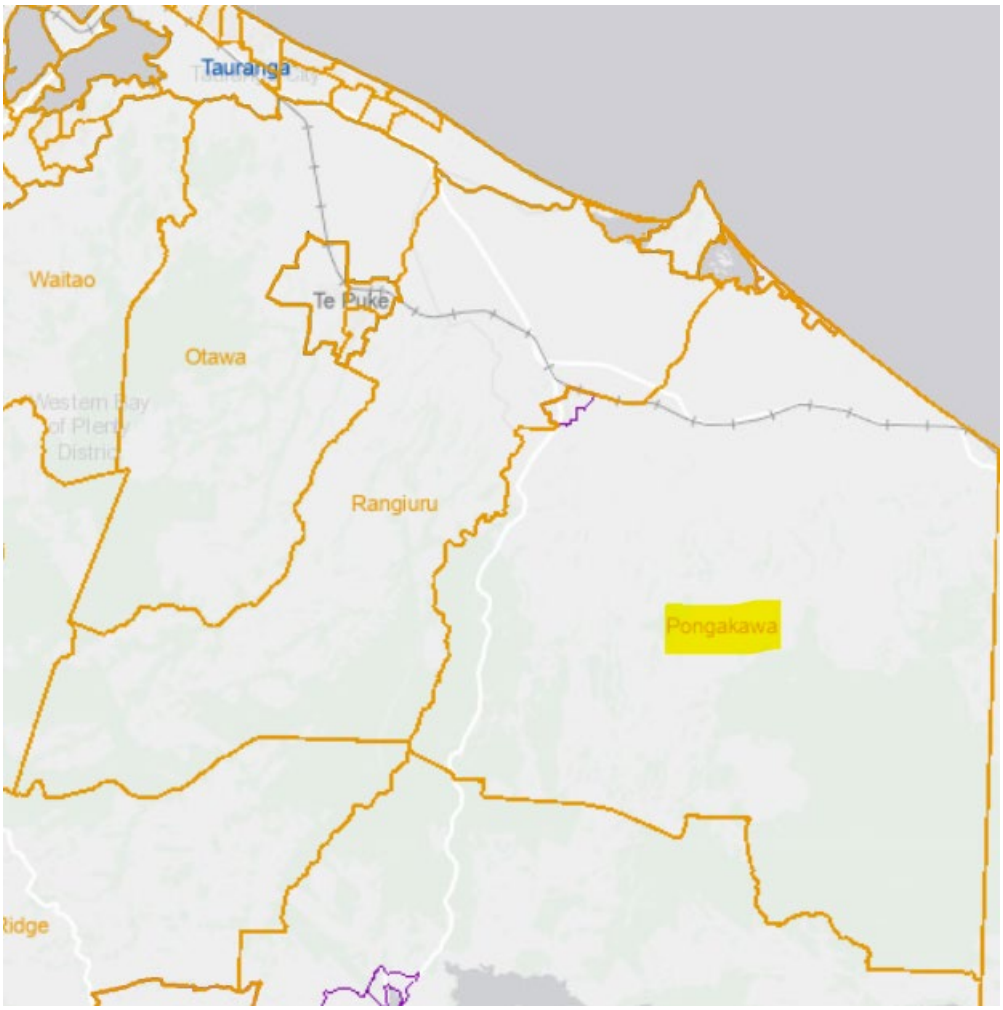
[1] As per the area figures provided within the Pencarrow Estate Pongakawa – Structure Plan drawing set dated 31 October 2023 submitted with the PC95 Application for Plan Change.

c. "the environmental, social, cultural and economic benefits of rezoning outweigh the long-term environmental, social, cultural and economic costs associated with the loss of highly productive land for land-based primary production, taking into account both tangible and intangible values."

Clause 3.6(1)(a)

5. I consider first clause 3.6(1)(a). In respect of this clause, an assessment of the sufficiency of development capacity to meet demand for housing typically starts by assessing population and household forecasts for an area, and converting these to an indicator of residential housing demand. The forecast data that I analyse is based on a geographic area defined by Statistics New Zealand (**Stats NZ**) as "Statistical Area 2" (**SA2**). I focus on the Pongakawa SA2, with the boundaries of this area shown in Figure 1. The Pongakawa SA2 is the most disaggregated level for which Stats NZ's forecasts are available.

Figure 1: Pongakawa SA2



Source: Stats NZ Geographic Boundary Viewer, https://maps-by-statsnz.hub.arcgis.com/

6. An analysis of Stats NZ population forecasts for the Pongakawa SA2 shows that the population is projected to grow in the next 10 years[2] by 290 people in the "low growth" forecast scenario, 450 people in the "medium growth" forecast scenario, and 620 people in the "high growth" forecast scenario.

7. I analyse the next 10 years based on the NPS-HPL *Guide to implementation*, which specifies that a test for "sufficient development capacity" should be done over the short-term (the next three years) or medium-term (the next ten years).[3] The Stats NZ population forecasts are not available over a three-year period, although there is a five-year period,[4] for which the Pongakawa SA2 is projected to grow by 170, 240 and 320 people in the low growth, medium growth and high growth scenarios respectively. It is also helpful to consider an analysis over the longer-term. In the next 25 years,[5] the Pongakawa SA2 is projected to grow by 490, 940 and 1,920 people in the low growth, medium growth and high growth scenarios respectively.

8. In my view, there is a strong case for using the high growth scenario in this economic assessment. This is because the *actual* population for the Pongakawa SA2 in 2023, of 3,740, is only slightly below the high growth forecast population for 2023, of 3,750, and well above the medium growth forecast population of 3,670. (These population forecasts were published in December 2022). The high growth scenario also allows the analysis to err on the side of caution, recognising inherent uncertainties in this analysis, the risk of a false sense of precision, and the need to address issues such as high housing prices.

9. Taking the high growth population forecasts, I convert these to forecasts of the number of households using an average household size for the Pongakawa SA2 of 2.8 people per household.[6] The resulting forecast is for the number of households to increase by 114 households in the next 5 years, 221 households in the next 10 years and 507 households in the next 25 years – see Table 1. These numbers are without applying the competitiveness margins set out in the National Policy Statement on Urban Development (**NPS-UD**). With the NPS-UD margins added (of 20% in the short-term and medium-term and 15% in the long-term), the forecast increases in households are 137, 266 and 583 for the next 5, 10 and 25 years respectively.

Table 1: Pongakawa forecast increase in households

Time period	Increase in households without NPS-UD margins	Increase in households with NPS-UD margins
Next 5 years	114	137
Next 10 years	221	266
Next 25 years	507	583

2 Stats NZ produces population projections for 2023 and 2033, so the 10-year interval is based on projections for these years.

3 Ministry for the Environment (2022), "National Policy Statement for Highly Productive Land: Guide to implementation", December, at p.42.

4 The 5-year interval is based on Stats NZ's population projections for 2023 and 2028.

5 The 25-year period is based on Stats NZ's population projections for 2023 and 2048.

6 This figure is the Stats NZ projection for the average household size in the Pongakawa SA2 in the high growth scenario.

10. The following evidence also supports a finding of strong demand for housing in Pongakawa:

    a. I understand that a large number of dairy and drystock farms in the surrounding area have recently converted to horticulture. This is evident in employment numbers in the Pongakawa SA2: there were 200 dairy farm employees in 2017, but this has steadily fallen to 80 employees in 2023. In contrast, employment in horticulture was 140 in 2017 and has increased to 390 by 2023.[7] The gain in horticulture employment has more than offset the loss in dairy farming employment, and overall employment in the region has increased over this time period (from 970 in 2017 to 1,200 in 2023). This in turn is likely to have driven strong demand for horticultural workers to live nearby;

    b. The nearby Tauranga Eastern Motorway was completed in 2015. There is robust economic theory to show that accessibility improvements such as new or improved roads can result in increases in housing demand in an area;[8]

    c. The Rangiuru Business Park has recently been completed, with titles due to be issued in 2024,[9] which will bring new employment to the area;

    d. The 2022 Housing and Business Assessment (**HBA**) for WBOPDC identified a shortfall in housing in the Western Bay of Plenty Region in the short-term, medium-term and long-term, as well as a specific "urgent need" to investigate housing shortages in the Eastern Corridor, which I understand includes Pongakawa.[10] An updated 2023 HBA shows the same housing shortages for the Western Bay of Plenty Region, and notes specifically the need for more housing in the region, particularly in the context of a "highly constrained environment" subject to natural hazards and the effects of climate change;[11]

    e. House prices and rents have grown strongly in Pongakawa in recent years, indicating that there is currently insufficient land supply to meet increasing demand by households. In Figure 2 below I have shown data from the Ministry of Housing and Urban Development's Urban Development Dashboard, with the top graph showing the 12-month rolling average of median house sales prices and the bottom graph showing the 12-month rolling average of mean house rents (the data goes through to the end of the March quarter 2024). Prices/rents in Pongakawa (the black line) are benchmarked against a selection of territorial authorities. I make the following observations from Figure 2:

        i. Average house prices in Pongakawa started increasing sharply from around mid-2019, to the point where average prices are now even higher than in Auckland. While Pongakawa prices fell back from a peak in September 2022, this is consistent with trends seen elsewhere. However, in contrast to the trends in the other territorial authorities shown (where house prices have flattened off at the end of the series),

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7 Data is Stats NZ Business Demography employee count data for the "dairy cattle farming" and "fruit and tree nut growing" industries, sourced from NZ.Stat.

8 See the discussion and literature cited in D. Hanson, K. Counsell, S. Cohen, T. Delibasi, and M. Gatti (2021), "Dynamic clustering and transport appraisal", Waka Kotahi New Zealand Transport Agency research report 680.

9 PC95 Application for Plan Change, November 2023, at p.51.

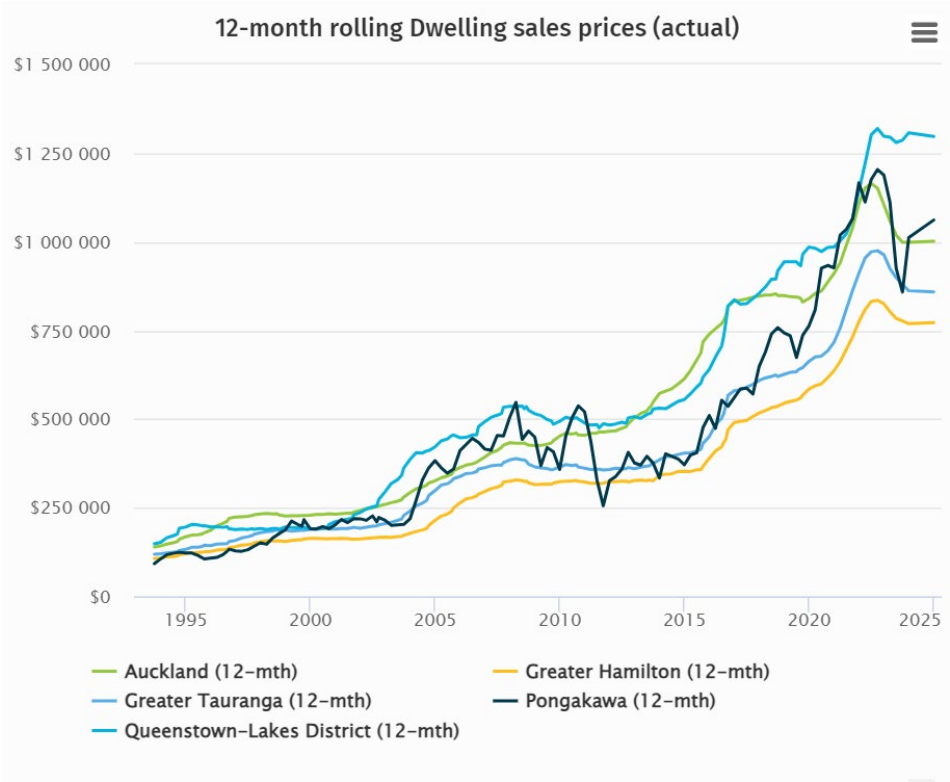
10 Smartgrowth Housing and Business Capacity Assessment 2022 Summary.

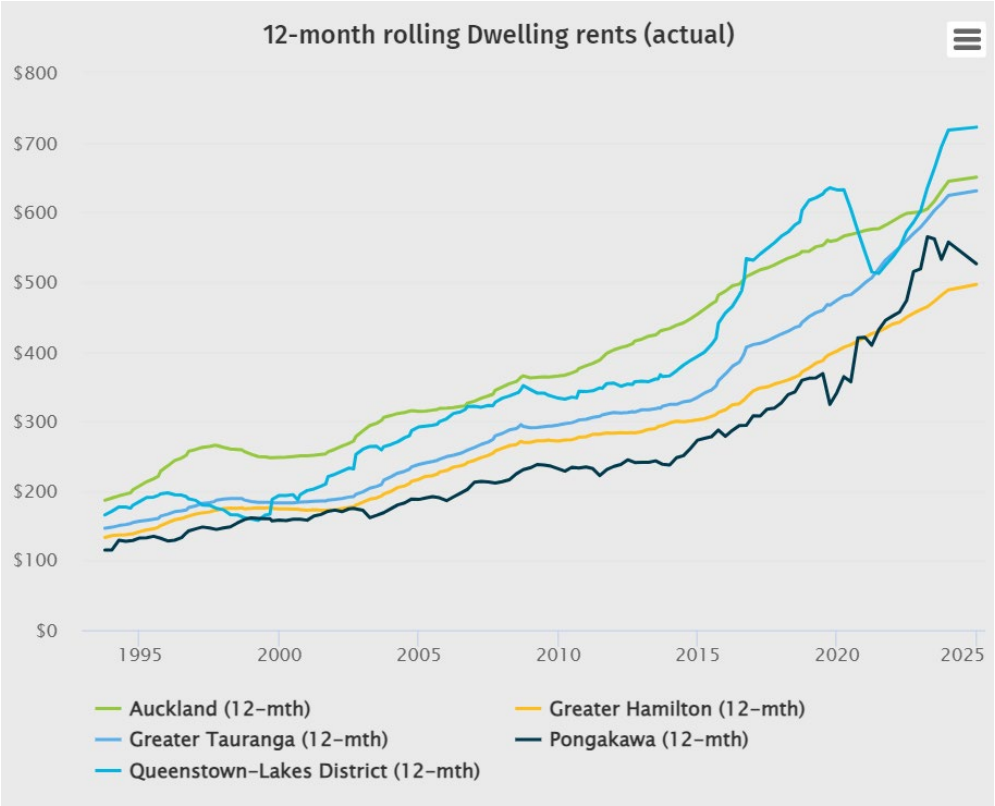
11 Smartgrowth Strategy 2023-2073, Draft for Consultation.

house prices have increased sharply again in Pongakawa at the end of 2023/start of 2024. This is consistent with excess demand for housing pushing up prices; and

ii. Average house rents in Pongakawa started increasing from around the end of 2019, and while rents still remain below what they are in Auckland and Tauranga, at their peak (in 2023) the gap in rents between Auckland, Tauranga and Pongakawa was much smaller than it has been historically. While rents in Pongakawa have fallen back in late 2023 and early 2024, there appears to be a slight lag between high house prices and high rents, so it is plausible that the recent sharp increase in the former will flow through into rents in the remainder of 2024.

Figure 2: Average house selling prices (top panel) and house rents (bottom panel) for Pongakawa and selected territorial authorities, September quarter 1993 to March quarter 2024





Source: MHUD Urban Development Dashboard, https://huddashboards.shinyapps.io/urban-development/

11. PC95 is intended to supply up to 130 dwellings. I understand also that there are no other sources of new residential dwelling supply that would be expected to absorb the growth in demand for housing in Pongakawa. While there may be some new supply in areas further away (such as the Te Mania development in Te Puke), these areas are unlikely to cover off the demand specific to Pongakawa. With forecast household growth in Pongakawa of 137 households, 266 households, and 583 households in the next 5, 10 and 25 years respectively (see Table 1), my preliminary analysis indicates there will be a shortfall in supply in Pongakawa in the next 5, 10 and 25 year periods, which PC95 will go towards meeting. PC95 therefore meets clause 3.6(1)(a) of the NPS-HPL, by contributing to the provision of sufficient development capacity to meet demand for housing.

Clause 3.6(1)(b)

12. Clause 3.6(1)(b) requires consideration of reasonably practicable and feasible options for providing sufficient development capacity within the same locality and market. This assessment has been undertaken in the PC95 Application for Plan Change, which, in summary, finds that:[12]

    a. There is no other land zoned for residential growth in Pongakawa;

    b. Other flat and isolated locations near SH2 are also classified as highly productive land;

[12] PC95 Application for Plan Change, November 2023, at pp.49-50 and Table 2 of Appendix 11.

c. Land around other commercial entities along SH2 is further distanced from the Pongakawa residential community, restricted in size, and susceptible to reverse sensitivity effects; and

d. Land surrounding Pongakawa school is classified as a reserve and is further distanced from the Pongakawa residential community.

13. This assessment has given due consideration to other options for providing residential development capacity, and the reasoning is sound. In my opinion, it is therefore reasonable to conclude that PC95 satisfies the conditions of clause 3.6(1)(b) of the NPS-HPL.

Clause 3.6(1)(c)

14. Clause 3.6(1)(c) of the NPS-HPL requires an assessment of the environmental, social, cultural and economic benefits and costs of rezoning highly productive land. My analysis is only in respect of the economic benefits and costs, for which I set out a qualitative discussion of these benefits and costs.

15. An important economic benefit of PC95 is that it will expand the supply of residential housing, benefiting purchasers of housing by lowering prices and providing them with more housing choice, in proximity to multiple growing employment land-uses. An expansion in housing supply releases a binding supply constraint. In particular, the evidence discussed earlier shows that demand for residential housing in Pongakawa is likely to be greater than supply in the short-term, medium-term and long-term. PC95 goes towards releasing this supply constraint. If the supply of housing in Pongakawa were to remain unchanged at its current level, then continued increases in demand would result in continued price increases for existing housing (which is already being seen in house price data – see Figure 2 earlier). It would also result in unmet demand, as those that would otherwise seek to reside in Pongakawa will be forced to find housing elsewhere.

16. By expanding supply, PC95 facilitates the operation of a competitive land market, which is consistent with the NPS-UD. In particular, the substance of Policy 1(d) of the NPS-UD is as follows:

> ***Policy 1:*** *Planning decisions contribute to well-functioning urban environments, which are urban environments that, as a minimum:*
>
> ***…***
>
> *(d) support, and limit as much as possible adverse impacts on, the competitive operation of land and development markets.*

17. There is also an economic benefit arising from PC95 due to its proximity to nearby residential housing in Pongakawa. This allows PC95 to better utilize the existing infrastructure, relative to an alternative site that is located further away from the existing residential housing, and as such may need to incur larger additional infrastructure costs. Moreover, PC95 will provide reserves and playground facilities that are currently lacking within the existing residential community,[13] and the ability to utilize these facilities over a larger population base can be considered an economic benefit.

[13] PC95 Application for Plan Change, November 2023, at p.36.

18. The proposed commercial space that is part of PC95 will bring a benefit by providing employment opportunities for local residents. It will also allow residents to meet their needs in respect of general grocery items in closer proximity to their home, thereby reducing local vehicle movements.

19. PC95 will involve some costs related to the provision of infrastructure. The infrastructure costs that relate to the development site itself will be incurred by the developer. Given that a developer is willing to invest to undertake a development, it is reasonable to assume that the benefits that developers receive will exceed these costs, so that there is an overall net (private) benefit. This follows from a common principle in economics that individuals and businesses will make decisions that are in their own best interests. That is, in making a choice, an economic agent will choose a course of action that makes them better off, rather than worse off.

20. There will also be a cost associated with the loss of the productive capacity of the land being re-zoned. However, this is only a small proportion of the productive land in the locality[14] and the re-zoning does not inhibit practical use of the remaining farm. On this basis, the cost of the lost productive capacity of land in this instance is unlikely to be material.

21. In summary, the aforementioned economic benefits of PC95 are likely to significantly outweigh any economic costs. This goes towards satisfying the requirements of clause 3.6(1)(c) of the NPS-HPL.

Economic viability of the proposed Commercial zone

22. I have been asked to consider the economic viability of PC95's proposed Commercial zone, particularly in respect of the population being served by the proposed convenience store.

23. To assess this, I have undertaken a benchmarking analysis which assesses the population of nearby areas in the Western Bay of Plenty District. I have focused on areas classified by Stats NZ as "small urban areas" or "rural settlements" – this classification is different to the SA2 classification referred to earlier, with the SA2 generally being larger in land area. In Table 2 I show those areas within the District that have at least one dairy, convenience store or supermarket (which I collectively refer to as "grocery stores"), along with their 2023 population and a calculation of the population per store.

[14] As an indication of the extent of productive land in Pongakawa, Zespri has stated that there is 458 hectares of land attributed to Kiwifruit growing in Pongakawa (see Appendix 5 to the PC95 Application for Plan Change, November 2023). This only relates to Kiwifruit growing; it does not account for productive land in other farming activities, such as other horticulture, dairying or drystock farming.

Table 2: Population and number of grocery stores for areas in the Western Bay of Plenty District

Area	Population in 2023	Number of grocery stores (dairies, convenience stores and supermarkets)	Population per grocery store
Plummers Point	280	1	280
Te Puna West	350	1	350
Paengaroa	960	1	960
Katikati	5,800	6	967
Omokoroa	4,770	3	1,590
Te Puke	10,250	7	1,464
Waihi Beach-Bowentown	2,780	4	695

24. The results of Table 2 suggests that the population necessary to support a grocery store can vary, as low as 280 in Plummers Point and up to 1,590 in Omokoroa. There may be location-specific factors that are relevant to this – for example, the grocery stores serving Plummers Point and Te Puna West are both located on SH2, and therefore are likely to be supported by through traffic as well as local residents. Similar circumstances are likely to apply to the proposed PC95 grocery store, given its proximity to SH2. However, to be conservative, I set aside these two locations, and the results of Table 2 suggest that a population of around 900-1,500 is needed to support a given grocery story.

25. The population of the Pongakawa SA2 is 3,740 in 2023. Benchmarked against Table 2, this population would be more than sufficient to support a grocery store. However, the Pongakawa SA2 is a relatively large area (see Figure 1 above) relative to many of the small urban areas and rural settlements in Table 2. This might therefore be considered an upper bound on the population that might be serviced by the proposed PC95 grocery store.

26. At the other extreme, I consider only the population in the Pongakawa residential area around Arawa Rd and Penelope Place. I estimate that there are approximately 76 dwellings in this area. Assuming 2.8 people per household,[15] this amounts to 213 people currently living in this residential area. PC95 will add a further 130 dwellings, or 364 people at 2.8 people per household. This gives a total estimated population for this residential area of 577.

27. A population of 577 might be a little too low, on its own, to support a grocery store (when benchmarked against the 900-1,500 figure derived from Table 2). However, this can be considered a lower bound, given that it only focuses on the narrow Pongakawa residential area, and does not capture areas of population outside of this area that would still be relatively close to the proposed PC95 commercial area.

[15] This figure is the Stats NZ projection for the average household size in the Pongakawa SA2 in the high growth scenario.

28. Given a lower bound of close to 600 and an upper bound of approximately 3,700, it seems reasonable to conclude that the actual population serviced by the proposed PC95 grocery store would be similar to the benchmark range in Table 2 of 900-1,500. This does not account for the location of the proposed grocery store on SH2 – as noted from Plummers Point and Te Puna West in Table 2, grocery stores in these areas serve populations of 280 and 350 respectively.

29. On this evidence, it is reasonable to conclude that the existing population in nearby areas, combined with the additional population enabled by PC95, is likely to be sufficient to support the economic viability of the proposed PC95 grocery store.

Conclusions

30. In summary, my high-level preliminary economic appraisal of PC95 finds the following:

    a. PC95 will provide 130 dwellings, which goes towards meeting demand for 137, 266 and 583 dwellings in Pongakawa over the next 5, 10 and 25 years respectively. This satisfies clause 3.6(1)(a) of the NPS-HPL, by contributing to the provision of sufficient development capacity to meet demand for housing;

    b. The PC95 Application for Plan Change has considered reasonably practicable and feasible options for providing sufficient development capacity within the same locality and market, and finds that there are no feasible alternatives. PC95 thereby satisfies the conditions of clause 3.6(1)(b) of the NPS-HPL;

    c. PC95 will expand the supply of housing and release the supply constraint, benefiting purchasers through lower prices and more housing choice. Its proximity to existing residential housing will bring benefits from better utilizing existing infrastructure and providing new facilities currently lacking in the community. The proposed Commercial zone will bring employment opportunities to local residents and reduce vehicle kilometres travelled. Overall, these economic benefits are likely to significantly outweigh any economic costs, which goes towards satisfying the requirements of clause 3.6(1)(c) of the NPS-HPL; and

    d. By benchmarking against the population servicing stores in nearby areas, I find that the existing population in Pongakawa, combined with the additional population enabled by PC95, is likely to be sufficient to support the economic viability of the proposed PC95 grocery store.