Memo

To: Tim Carter, Carter Group

From: Greg Akehurst, Director, Market Economics

Date: 1/05/2024

Re: Ohoka Economic Benefits – Fast Track Approvals Bill application

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Introduction

The coalition government has introduced the Fast Track Approvals Bill, the purpose of which is to "*provide a streamlined decision-making process to facilitate the delivery of infrastructure and development projects with significant regional or national benefits.*" To access the fast-track approvals process, project owners must apply to joint Ministers. These Ministers will then refer projects to an expert panel to assess details of the project, make recommendations back to the Ministers who then determine if the approvals should be granted or declined.

Projects that can demonstrate Regional or Nationally significant benefits will have access to this process, and Ministers will have to assess projects against a set of criteria outlined in the Bill. These include (in Section 17(3):

Clause 17(3):

> *(b) will deliver regionally or nationally significant infrastructure*
>
> ***(d) will deliver significant economic benefits***
>
> *(f) will support development of natural resources, including minerals and petroleum*
>
> *(g) will support climate change mitigation, including the reduction or removal of greenhouse gas emission:*
>
> *(h) will support adaptation, resilience, and recovery from natural hazards*
>
> *(i) will address significant environmental issues*

The purpose of this memo is to highlight the levels of economic benefits the proposed development at Ohoka is expected to deliver to the Canterbury Region, to assist the joint Ministers in making their decision to grant Fast Track consenting status to the Ohoka development proposal.

Economic costs and benefits

A subdivision/development project such as proposed for Ohoka generates a range of economic benefits (and costs) at the regional and potentially national level. The majority of these are associated

with the degree to which the proposal helps Waimakariri District Council ('**WDC**') achieve a well-functioning urban area by assisting in addressing an emerging residential capacity shortfall. These effects are covered in the fast-track application.

Based on my review of WDC's growth and capacity model, I consider that WDC is no longer meeting its obligations to provide sufficient capacity to cater for growth in the short, medium and long term, due to errors and misunderstandings about the nature and scale of land included in its proposed New Development Areas.

Therefore, a portion of the economic benefits this proposal is expected to generate, are effectively the avoided costs associated with lack of housing supply. These costs include house price rises, leading to sub optimal decision making in terms of housing choice and investment.

I have outlined below the key areas of economic benefit delivered in the following categories, in more detail.

- Housing supply increases,
- Land market competition,
- Retail and Household Service Demand Increases,
- Construction and Development Economic Effects, and
- Economic costs associated with the proposal.

Economic Benefits

Housing Supply Increase

The Ohoka project is expected to deliver approximately 850 dwellings indicatively over 10 years. This will mostly eliminate the gap between the reduced capacity identified within the WDC growth model and anticipated demand. The increase in housing supply facilitated by the project helps the market respond to growth more efficiently – reducing the housing price increases associated with supply shortages in a growing market.

This is important in the Waimakariri District where the median sale price has increased between December 2021 and December 2022 from $609,000 to $725,000 (a 19% increase in one year). This was a significantly greater shift than in Christchurch City where the increase year on year was 9.4% and even higher than Selwyn District (the fastest growing district in New Zealand excluding Queenstown Lakes) where the median sale price rose around 14%[1].

[1] Source: HUD Local Housing Statistics Dashboard, https://www.hud.govt.nz/stats-and-insights/local-housing-statistics/key-data/#tabset

The Ministry of Housing and Urban Development use CoreLogic data to compare the median sale price with median incomes to highlight the ability of an average household to afford an average dwelling. **In Waimakariri's case, it takes 9 median incomes to afford the median house price**. This compares with the accepted standard measure of affordability (3 x median incomes). This highlights the existing issues of affordability in Waimakariri that additional housing supply can help alleviate.

In the context of the Housing Development Capacity Assessment (HDCA) for Greater Christchurch, councils are asked to consider proposals that can deliver a significant increase in capacity. There is no standard measure of 'significant' in the National Policy Statement for Urban Development (NPS-UD). However, in my view the project, which if consented, provides approximately 850 dwellings (equivalent to 16% of the medium-term growth projected in urban Waimakariri as outlined in the HDCA (a total of 5,600, including the competitiveness margin)), represents **a significant capacity addition**.

Currently, I estimate that the Waimakariri medium-term urban residential capacity sits between 4,480 and 4,900 (once adjusted as described above). This means that the addition of approximately 850 dwellings is equivalent to adding 18% - 20% capacity.

Land Market Competition

The project would release a significant area of residential land to the market. This increase in supply leads to an increase in competition which has the effect of causing other landowners in the district to bring their land to market as efficiently and in as timely a manner as possible in order to ensure they gain market share.

If this competition did not exist, other landowners will experience a higher degree of market power, relating to the partial monopoly they hold over supply of residential land. This partial monopoly of supply means landowners become price setters (in a profit maximising world, at a price defined by where their marginal revenue from bringing a new section to market matches the marginal cost of doing so). The price that is set is always higher than the price that would result in a fully competitive market. This means that the landowner captures 'super profits' (basically the difference in price between what is set and the free-market price times the volume of sales made). In addition, there is an amount of dead weight welfare loss to the district overall. This arises because a sub-optimal number of sections come to market, thereby reducing buyer welfare and overall developer welfare (excluding the single monopolist).

Avoiding or minimising the effects of monopolistic competition with respect to residential land is a significant economic benefit from authorising the project. This occurs at the regional level.

Retail and Household Service Demand Increases

Associated with the residential development is an area of business land that will accommodate a retail and service centre. It will be mostly sustained by the increased retail demands arising from the

residential development on the site. While this proposed centre may have some minor effects on existing centres in Waimakariri, there are wider benefits to the district that arise from its presence, including additional employment opportunities and an ability to meet a portion of household needs slightly closer to home than currently for existing nearby residents.

In addition, the approximately 850 new households will spend money across a variety of centres within Waimakariri. On average the new households will spend around $72,000 annually on a wide range of goods and services. Approximately $33,000 of this spend is directed to retail outlets. This means that total retail demand in Waimakariri arising from the proposed development, once fully developed will be between $28m and $29.4m annually.

Not all of this spend will be directed to Waimakariri retail outlets, but a significant portion will be, sustaining jobs and centre vitality. Added to this are the services and people activity generated by an additional 2,000 – 2,200 people (approximately). They will help support the provision of a range of services, support local medical practices and help sustain or improve the viability of public transport initiatives.

These benefits will occur at the regional level.

Construction and Development Economic Effects

The final key area of economic benefit arises from the process of developing the land, bringing it to market and the resulting civil works and construction activity to build the houses and associated infrastructure as well as the proposed centres. This process requires the construction sector to increase output, pay wages and salaries, tax and make profits.

At this early stage, details of the type and nature of buildings to be developed are not known, but assuming an average dwelling size for the proposed lot sizes and the latest information from Quotable Value (QV's) Cost Builder software it is possible to generate estimates of build costs for the site. Estimates of the civil construction and infrastructure costs the developer will need to pay to convert the land from rural to urban are included. Finally, estimates of costs associated with developing 2,500sqm of commercial centre space are included.

The land development, civil infrastructure and subdivision costs equate to between $90,000 and $100,000 per lot. This covers all provision for ground improvements, services and roading for the project.

These assumptions mean that the development process is expected to inject around $76.5m into the civil construction sector over the duration of the build out. It is likely that these works are skewed to the short term with the build out stretching over the full 10 years.

In terms of residential construction costs, applying an average residential build cost to an average urban size dwelling results in the approximately 700 dwellings generating $360m revenue for the construction sector over the development timeline. In addition, the 150 dwellings built on the larger

properties are expected to be larger and have a higher cost per square meter to develop. They are expected to add some $206m to the construction sector.

The proposed local centre near the north-eastern corner of the land is recommended to contain no-less than 2,500sqm GFA. Average construction costs for this amount of floorspace add a further $6m to the estimated construction sector output shock over the short term.

This expenditure sustains employment in the construction sector, supports business owners and business supply chains. Residential construction has strong local supply chains which means that additional house building sustains significantly more jobs in total than simply the builders on site.

Figure 1: Estimated Construction Sector Economic Effects of the Project

New Residential Dwellings		850
Commercial GFA (sqm)		2,500
Cosntruction Sector Effects		
Total Gross Outupt Shock ($m)	$	647.8
Value Added Component ($m)	$	161.5
Direct Employment (equivalent job years)		1,643
Multiplier Effects		
Total Gross Output ($m)	$	1,028.6
Total Value Add ($m)	$	324.3
Total Employment (equivalent job years)		2,997

The numbers in Figure 1 summarise the construction effects on the economy in total and are likely conservative as they do not include the build cost of a primary school or retirement village. These effects will be distributed across the 10 years or so of development, giving approximately $65m construction sector input each year, sustaining some 164 jobs directly (each year).

Value added captures profits, taxes, depreciation and wages and salaries. This is estimated to be on average $16m annually over the build timeline - $161.5m in total.

The flow on effects, or multiplier effects capture both the supplier businesses to the construction sector and the retail and service sectors supporting direct and indirectly impacted workers. The flow on effects increase the total value added to $324m and sustain the employment equivalent of almost 3,000 job years. It is likely that this employment and the benefits that flow from it will be distributed between businesses in Waimakariri and Christchurch City, given the scale of development. **This is one indication that these benefits are regional in nature.**

While these can be viewed as 'one-off' impacts, the construction sector relies on a constant stream of "one-off" impacts such as the project, in order to remain sustainable. By providing a degree of certainty for at least part of the sector over a ten-year horizon means this is a significant positive effect.

Economic Costs

Finally, and to provide a degree of balance, the project will result in some economic costs. These are mostly associated with the opportunity costs associated with utilising the land for residential purposes as opposed to agricultural purposes.

The majority of the land is classified as LUC 3, which means it is considered highly productive – albeit at the lower end of the productive range. The land has a high degree of suitability for use for arable crops. New Zealand arable farming is close to the most productive in the world due to climate, soils, high yield crops, use of irrigation and skilled farmers. Gross margins for the key grain crops range between $1,500 and $2,000 per ha and for key seed crops between $2,000 and $4,000 per ha[2]. This results in the loss of gross returns from the 156ha proposed to be rezoned to range between $234,000 and $624,000 annually.

The other agricultural alternative would be for the land to be used for dairy farming. This would generate higher returns – but at a much higher environmental cost. However, the potential returns from arable crops or dairy farming on the land are a fraction of both the overall agricultural output from Waimakariri District (therefore their loss is not significant) and are an extremely small portion of the additional economic activity that 850 new households would bring to the district.

The loss of primary production output from the site will in no way compromise the agricultural economy in Waimakariri – even if the loss of agricultural production of this piece of land is permanent.

Conclusions

Based on my analysis of the economic benefits associated with the project, I consider they meet the threshold of being significant at the regional level. In particular, as the proposal assists WDC in meeting its obligations under the NPS-UD to provide sufficient capacity to meet reasonable residential demand needs (plus a competitive markets margin) in the short to medium term.

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Greg Akehurst

Director

market economics ltd

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[2] Foundation for Arable Research, www.far.org.nz.