

Technical Memo

To:	WBOPDC	From:	Insight Economics
Date:	Friday, 10 May 2024	Page:	8 (including this page)
Subject:	Peer Review of PC95 Economic Assessment		

Kayley,

Thank you for contacting us in relation to this matter. This brief memo sets out the findings of our peer review.

Our Understanding of the Issue

Western Bay of Plenty District Council (**WBOPDC**) has received an application for a private plan change to rezone rural land in Pongakawa for predominantly residential use (**PC95** or “the **proposal**”). WBOPDC requested an economic assessment from the applicant and subsequently received a ten-page memo dated April 8, 2024, titled “*High-level preliminary economic appraisal of Plan Change 95*”, prepared by Kevin Counsell from Nera (“the **Nera memo**” or “the **memo**”). We have been asked to peer review that assessment.

Context / Purpose of this Peer Review

The purpose of this peer review is to determine whether the Nera memo meets the relevant tests in the National Policy Statement for Highly Productive Land (**NPS-HPL**) from an economic perspective.

The NPS-HPL came into force in October 2022. It protects highly productive land (**HPL**) from inappropriate use and development to ensure that it remains available for rural productive purposes over the longer term. Clause 3.6(1) of the NPS-HPL specifies the tests that rezoning proposals like PC95 must meet to justify the loss of HPL. They are that:

- 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 (**NPS-UD**); **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**
- 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.

Scope of this Peer Review

The scope of this peer review is limited to the contents of the Nera memo. We have only reviewed the wider plan change application documentation where explicitly referenced.

Structure of this Peer Review

Following a brief initial discussion, we work through the Nera memo in chronological order, commenting on issues as they arise. Where appropriate, commentary is accompanied by a paragraph (**para**) reference to the Nera memo. We finish with a short summary and conclusion.

Accordingly, the remainder of this document is structured as follows:

1. General discussion
2. Assessment against clause 3.6(1)(a) of the NPS-HPL
3. Assessment against clause 3.6(1)(b) of the NPS-HPL
4. Assessment against clause 3.6(1)(c) of the NPS-HPL
5. Economic viability of the proposal commercial zone
6. Conclusion

1. General Discussion

Our primary observation is that the analysis provided in the Nera memo is not sufficiently robust to meet the exacting requirement of the NPS-HPL. The lack of detailed information provided is of particular concern given the context of the proposal. Specifically:

- The proposal appears to be at odds with the sub-region's Smart Growth strategy;
- The site is located in a relatively remote rural context, away from the sub-region's existing urban areas; and
- There is a high concentration of high-value rural productive uses in close proximity to the site.

In our view, these contextual factors raise the bar in terms of what is needed to be comfortable that the proposal meets the requirements of the NPS-HPL.

We note that the Nera memo was prepared under considerable time pressure and has accordingly been presented as a high-level preliminary appraisal. While we acknowledge that the author has done their best under challenging circumstances, we must nevertheless put this aside and consider whether the assessment meets the obligations of the NPS-HPL.

2. Assessment Against Clause 3.6(1)(a) of the NPS-HPL

We now look at the author's assessment of the proposal against clause 3.6(1)(a) of the NPS-HPL.

Paras 5-9 – To begin, the author uses Statistics New Zealand (**Stats NZ**) population and household size projections to derive a forecast increase in households in the Pongakawa Statistical Area 2 unit (**SA2**). These are presented in Table 1, and show an increase of 137 households over the next 5 years, 266 over the next 10 years and 583 over the next 25 years (including NPS-UD competitiveness margins).

The Pongakawa SA2 covers a very large geographic area. In fact, it spans 389 square kilometres, which is close to three times the size of the Tauranga City territorial authority. In our view, it is therefore inaccurate to assume that there is demand for housing on the PC95 site because there is demand in the very large SA2 to which it belongs.

For additional context, we used census “usually resident population” data, which is available at the more granular Statistical Area 1 (**SA1**) level, to determine the location of historic population growth within the SA2. This shows that the SA2 population grew by 384 people between the 2006 and 2018 census collections. 45% of this growth occurred within the five SA1 units that comprise Paengaroa¹, with the remaining growth dispersed across the SA2. Conversely, the population in and around the subject site contracted during this period.

In our view, and based on the data above, the SA2 population projections likely reflect growth in Paengaroa, which is the most urbanised part of the SA2 and located closest to both Te Puke and Tauranga City.

In **para 10**, the author presents six factors as evidence of strong demand for housing in Pongakawa. We have several issues with these, which we outline below.

Para 10(a) – The increase in horticultural activity observed in Pongakawa will not necessarily translate to strong demand for additional housing on the site, as implied. There are two main reasons. First, any new homes required to accommodate additional workers could be located closer to existing urban amenities, for example in Te Puke or Paengaroa. Second, a significant proportion of horticultural employees are seasonal workers, some of whom will be accommodated onsite.

Further, this comment highlights the area’s eminent suitability for high-value rural production.

Para 10(b) – The study cited in this paragraph uses two case studies - the Waterview Tunnel in Auckland and the Northern Line Extension of the Tube network in London. Both concern transportation projects in highly urbanised areas that connect well-developed or rapidly growing economic zones. In contrast, the eastern extent of the Tauranga Eastern Motorway Link (**TEML**) terminates at the rural township of Paengaroa. In our view, this contextual misalignment means the findings of the study are unlikely to be relevant to the proposal. Moreover, we note that the **TEML** does not directly serve the subject site and was completed nearly 10 years ago.

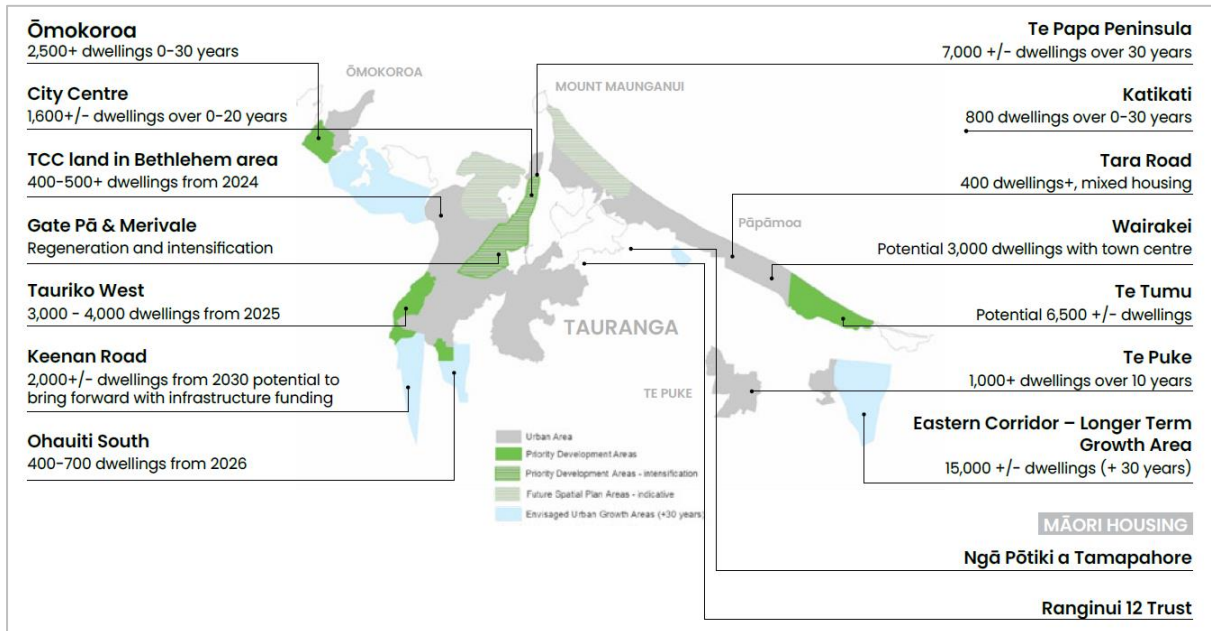
Para 10(c) – The Rangiuru Business Park is located near the PC95 site and we agree that it will bring new employment to the area. However, this growth has likely been anticipated elsewhere, with growth areas in the sub-region preparing to meet this demand. Diverting future growth away from areas where infrastructure investments have already been made (or are planned) will have negative financial consequences for Council, as it will take longer to recover investments due to lower or slower receipts of development contributions.

Para 10(d) – We acknowledge the looming shortfalls in housing identified in the latest Housing and Business Assessment (**HBA**) and agree that there is a pressing need to provide more housing in the sub-region. However, we disagree that this is evidence of strong demand for housing on the subject site, as implied.

¹ As defined by the Stats NZ Paengaroa rural settlement boundary.

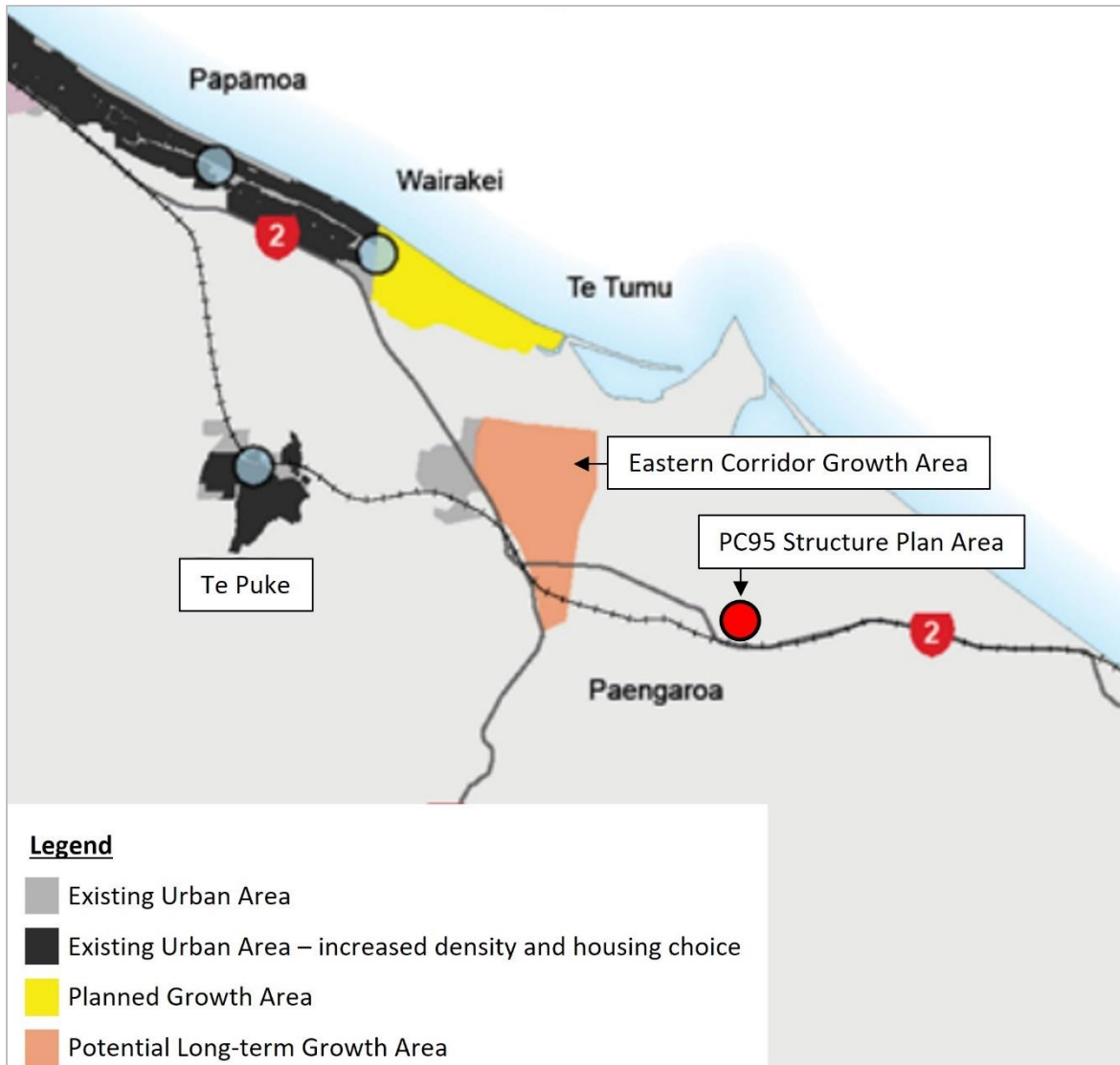
To explain, the following map from page 27 of the Smart Growth Housing and Business Capacity Assessment identifies the location of the Eastern Corridor future growth area, which is referred to by the author in this paragraph.

Figure 1: Location of Eastern Corridor Growth Area



Our first comment is that the Eastern Corridor is identified for longer term growth, and not short-medium term like the proposal. Further, while the southern portion of the growth area crosses into the Pongakawa SA2 at Paengaroa, it does not include the subject site, as illustrated in Figure 2 below.

Figure 2: Location of Subject Site Relative to Te Puke and Eastern Corridor Growth Areas



Para 10(e) – This paragraph profiles dwellings prices in the Pongakawa SA2 and shows that median prices are now even higher than in Auckland. Such high dwelling prices point to a fundamental disconnect between the value of housing and the population it is assumed to be catering for. That is, it is unlikely that additional growth in this area will provide affordable housing to meet the needs of additional horticultural and industrial workers², who are not typically high earners.³

Further, the author suggests that the “sharp increase” in Pongakawa prices in recent months is in contrast to the flattening of prices seen elsewhere, and is consistent with excess demand for housing pushing up prices. We do not agree with this conclusion. With only two to three dwellings sold per quarter in Pongakawa over this period⁴, the median value is highly sensitive to individual transactions and may not accurately reflect overall market trends.

² In the Rangiuru Business Park.

³ For example, data from the 2023/2024 NZ Kiwifruit Growers Pre-Harvest Seasonal Labour Report indicate that hourly wages are only marginally higher than the minimum wage, on average.

⁴ According to the HUD Dashboard, the Pongakawa area unit recorded an average of 2.75 dwellings sold per quarter in the 12 months to March 2024. Available here: <https://huddashboards.shinyapps.io/urban-development/>

Para 11 – We do not believe the Nera memo adequately considers other sources of supply, such as rural-residential housing. The Stats NZ population projections are not based on PC95 occurring, so it is likely that the forecast population growth could, or would, be accommodated via some other means, such as further growth around Paengaroa and/or rural-residential development.

Finally, the author concludes that that there is a shortfall in housing supply in Pongakawa in the next 5, 10 and 25 years that the proposal will contribute towards meeting. In our view, the analysis presented is not sufficiently robust to support this conclusion. Accordingly, the Nera memo does not demonstrate that clause 3.1(1)(a) of the NPS-HPL is met.

3. Assessment Against Clause 3.6(1)(b) of the NPS-HPL

There is no analysis provided in the Nera memo in relation to clause 3.6(1)(b), which requires the consideration of other reasonably practicable and feasible options for providing sufficient development capacity within the same locality and market. Instead, reference is simply made to pages 49-50 of the plan change application, as well as Table 2 of Appendix 11.

While it is beyond our scope to review the work of other experts, we nevertheless make the following observations.

- The locality and market used for the purpose of the assessment has not been explicitly defined, and it is unclear exactly what has been adopted. The Nera memo implicitly implies that the relevant market and locality is “flat and isolated locations” within the Pongakawa SA2. However, footnote 35 on page 49 of the plan change application suggests that it may be ‘Te Puke and the Eastern Corridor’ (which does not include the subject site). Finally, the section 32 analysis in Table 2 of Appendix 11 considers Maketu, Pukehina, Paengaroa and ‘Other Pongakawa’.
- The Nera memo concludes that the subject site is considered **the most** reasonably practicable and feasible option for providing significant development capacity and responding to the emerging need for housing in the Pongakawa locality and market. However, the test is that there are **no other** reasonably practicable and feasible options. We concede that this is an onerous task. However, from the documentation we have seen, this has not been adequately considered. Specifically, we would expect to see far more robust discussion of the following options, as per clause 3.6(2) of the NPS-HPL:
 - (a) greater intensification in existing urban areas; and
 - (b) rezoning of land that is not highly productive land as urban; and
 - (c) rezoning different highly productive land that has a relatively lower productive capacity.

4. Assessment Against Clause 3.6(1)(c) of the NPS-HPL

The assessment against clause 3.6(1)(c) is limited to a very high-level qualitative discussion of the economic costs and benefits of rezoning the PC95 land. It does not attempt to quantify the economic

benefits of the proposal, nor does it adopt the Total Economic Value framework as recommended by the NPS-HPL Implementation Guide.

In addition, we highlight the following points.

Para 15 – The first economic benefit discussed is increasing housing supply. While this is true, there are numerous other locations across the sub-region to achieve this growth without encroaching upon highly productive land. Also, as discussed previously, prices are very high in Pongakawa. Accordingly, it is not clear what the target market for the proposed housing would be. Further, the author has not presented any evidence of a supply constraint.

Para 16 – We disagree that the proposal’s proximity to the nearby existing residential area is an economic benefit. It may be adjacent to a small settlement, which has the advantage of avoiding a “spot” rezoning. However, it appears to be located further away from core services than all the growth nodes identified in the Smart Growth strategy. We also disagree that this would help minimise infrastructure costs.

Para 20 – The author states that the economic cost of foregoing the land for rural productive purposes is unlikely to be material (but does not quantify this). However, as highlighted in footnote 14, and demonstrated in Figure 3 below, there is an abundance of kiwifruit orchards in the area. We understand that kiwifruit production is among the highest value rural productive land uses in the country.

Figure 3: Location of Kiwifruit Orchards Near the Subject Site



We have not seen an agricultural assessment of the subject site, and acknowledge that it may have constraints that we are not aware of. However, in our view, and given the surrounding context, the possibility of using the site for kiwifruit production (and other rural productive uses) must be more robustly assessed.

Further, we disagree that the loss of HPL can be ignored because it is a small proportion of total productive land in the area. This is not our interpretation of the intention of the NPS-HPL.

Para 21 – For the reasons set out above, we do not believe the Nera memo adequately demonstrates that the economic benefits of PC95 outweigh the long-term tangible and intangible economic costs associated with the loss of HPL for land-based production, as required by clause 3.6(1)(c).

5. Economic Viability of the Proposed Commercial Zone

Finally, the Nera memo provides a brief assessment of the economic viability of PC95's proposed commercial zone. We have not considered this in detail, as it is outside the scope of the NPS-HPL provisions. That said, we consider it highly unlikely that the additional 130 homes provided by the proposal will create sufficient critical mass to support a new grocery store.

6. Conclusion

As acknowledged by its author, the Nera memo is a brief, high-level, preliminary economic appraisal of PC95. In our view, and given the context of the proposal as described in this review, it is not sufficiently robust to demonstrate that the relevant tests of the NPS-HPL have been met from an economic perspective.

I trust that this memo provides all the information that you need for now, but please let me know if you need anything further.

Sincerely,



Fraser Colegrave
Managing Director
Insight Economics Limited