

IN THE MATTER of the Resource Management Act 1991

AND

IN THE MATTER of Proposed Private Plan Change 2 to
the Hamilton City Operative District
Plan: Te Awa Lakes Private Plan
Change

**STATEMENT OF REPLY EVIDENCE OF JOHN DANIELL POLKINGHORNE FOR THE
APPLICANT
(ECONOMICS)
26 NOVEMBER 2019**

1. QUALIFICATIONS AND EXPERIENCE

1.1 My full name is John Daniell Polkinghorne.

1.2 I have the qualifications and experience set out in section 2 of my primary statement of evidence.

1.3 I reconfirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note 2014 and to the extent that I am giving expert evidence, have complied with it in preparing this evidence. I confirm that the issues addressed in this evidence are within my area of expertise and I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in my evidence.

2. SCOPE OF EVIDENCE

2.1 I have been asked to provide a response to the expert economic evidence filed on behalf of submitters, namely:

- a) Mike Copeland for Fonterra; and
- b) Blair Keenan for Waikato Regional Council.

2.2 Below, I address comments on my primary evidence by the two witnesses above. I understand that Dr Fairgray is responding separately to any comments on his analysis.

2.3 I have also commented briefly on the submission of Open Country Dairy Limited.

3. RESPONSE TO SUBMITTER EVIDENCE

Fonterra

3.1 A number of the queries or comments in the evidence of Mr Copeland were raised at the expert witness caucusing on economic and strategic issues. To the extent they were raised and recorded in the JWS, I responded to them in my primary statement of evidence at section 6. I do not repeat those responses, but rely on them in this evidence.

3.2 In addition, Mr Copeland makes a number of new comments which require a response. I have responded below to each of those comments by reference to the paragraph number where they can be found. Failure to respond to a particular paragraph should not be taken as acceptance of its contents.

Paragraph 3.2

3.3 Mr Copeland states that “Hamilton City and the Future Proof sub-region are currently undergoing a step change with the development and expansion of inland ports and related... activities potentially resulting in greater demand for industrial land”. Although inland ports are an emerging activity within New Zealand, their history to date does not support Mr Copeland’s point.

3.4 By way of illustration, Ruakura was identified as a future “key employment area” at least as far back as 2009,¹ and as a potential inland port at least by 2010.² Ruakura was incorporated into the Regional Policy Statement and then the Hamilton City Proposed District Plan. The inland port is expected to commence operations in 2021 and be completed by 2041.³ Ruakura, of course, is a very large node with several hundred hectares of land intended for industrial uses. It will continue to develop beyond 2041.

3.5 As for Northgate, the developer purchased the site in 2005 and had consents in place by 2011,⁴ with the first occupant moving in in 2013 and the inland port commencing operations in 2019. The inland port and the wider Northgate Business Park continue to develop.

3.6 This illustrates the long timeframes involved in identifying, planning for and developing major industrial nodes. Nothing in the history of these two nodes so far indicates a “step change” in industrial land demand that would be significant at a sub-regional scale.

3.7 Over the long term, some industries will grow and some industries will decline – New Zealand’s industrial base today is quite different than it was 30 years ago, for example – and the net result will be changes in the demand for industrial land. At present,

¹ <https://www.ruakura.co.nz/our-story/history/>

² Tainui Group Holdings 2010 annual report

³ <https://www.ruakura.co.nz/our-story/history/>

⁴ <https://openwaikato.co.nz/News/10/northgate-business-park-major-logistics-hub-planned>

logistics and wholesaling are growing whereas many manufacturing sub-industries are declining, and these trends may well change again in future.

3.8 Demand in the Waikato sub-region may grow more slowly or more quickly than historical patterns, but there is nothing in the analyses by myself, BERL or Market Economics that provides a strong argument for using either a lower or a higher rate.⁵ As such, historical trends continue to be the best guide.

3.9 Should demand prove to be stronger than historical patterns, there are a range of opportunities to provide for additional industrial land. As outlined in sections 3.9 and 3.11 of the RCG report, the Regional Policy Statement allocates 1,148 hectares of land over 50 years in the Strategic Industrial Nodes, whereas the 2009 iteration of Future Proof had contemplated 1,927 hectares (albeit not all within strategic nodes).

Paragraph 3.5

3.10 Mr Copeland refers to the evidence of Mr Chrisp for Fonterra, with “examples where industrial clients of his firm are finding difficulty in purchasing industrial land for development in the current market”.

3.11 The four examples given by Mr Chrisp are of clients who were unable to find land of a particular size in their ‘first choice’ locations, and (presumably, although not stated) at a price they were willing to pay. In at least one of the examples, the client wanted to buy rather than lease.

3.12 These examples, while anecdotal and reflecting a ‘snapshot in time’, do illustrate some useful points: there should be “plenty of opportunities for development” as per the National Policy Statement on Urban Development Capacity. This enables businesses (or people) to make tradeoffs between location, price, site size, or purchasing vs leasing to find the best solution for their needs, and provides alternatives where a particular landowner “will not release [their site] to the market” as per Mr Chrisp’s paragraph 7.3.

3.13 These factors are equally applicable for residential land development.

⁵ The BERL work referred to is their February 2015 “Upper North Island Industrial Land Demand” report, referred to from paragraph 3.23 onwards of the RCG report. The Market Economics work referred to is their NPS-UDC reports for the sub-region and for PPC2.

Paragraph 4.2

- 3.14 Mr Copeland refers to the Joint Statement and states that “PPC2 will not lead to the provision of [net] additional residential development within Hamilton City and the Future Proof sub-region”. I address this in paragraphs 6.16-6.19 of my Statement of Evidence.
- 3.15 Te Awa Lakes will include roughly 1,000 homes. Mr Copeland suggests that none of these will be net additional to the sub-region, due to there being sufficient capacity.
- 3.16 As per my Statement of Evidence, “development is not a zero-sum game”. I would not claim that all of the 1,000 homes would be additional, and nor would I claim (as Mr Copeland does) that none of them will be additional. The true answer will lie somewhere in between. Again, this is “standard economic theory” and is implicitly recognised in the NPS-UDC.
- 3.17 Furthermore, there is more to consider than simply numbers of homes. Prices are also important (and taken into account in Market Economics’ NPS-UDC modelling), as are typologies and locational attributes – and, arguably, timing, as a key aim of the SHA programme was to ‘bring forward’ housing development. Adding more opportunities for residential development gives people more choices as to where and how they want to live.
- 3.18 This gives rise to paragraph 6.18 of my Statement of Evidence. “Slightly more homes” refers to there being a non-zero net additional number of homes; and “slightly lower prices” refers to there being more competition in the development market and the affordability criteria proposed for PPC2.

Paragraph 4.3

- 3.19 Mr Copeland lists a number of potential “community-wide economic costs”, or externalities, arising from Te Awa Lakes. With the exception of reverse sensitivity effects, all of the costs listed are related to Council infrastructure or to “increased private and public transport costs” which might be considered by both the Council and NZTA.

3.20 It is important to consider the potential for externalities, but my view is that any externalities will be minor and outweighed by the benefits of adding new housing capacity in Te Awa Lakes.

3.21 For example, paragraph 5.50 of my Statement of Evidence notes that Te Awa Lakes has “similar access to jobs compared with other Hamilton greenfield nodes (although not as good as Peacocke’s), and better access than most parts of the Waikato or Waipa districts”.

3.22 The evidence of Mr O’Dwyer, who has looked at these infrastructure and transport issues from a Council standpoint, reinforces my view that any externalities are minor.

Paragraphs 6.1-6.4

3.23 Mr Copeland quotes a Property Economics peer review of a (superseded) version of the RCG report, and attaches the full review as Annexure 2 to his evidence. My response to the review was given in section 9.0 of the RCG report, and in my view there is little to be gained by going back to the review itself.

3.24 Mr Copeland offers no evidence to support his statement at paragraph 6.4 that “the expenditure impacts of the adventure park and associated tourism accommodation are likely to be considerably overstated”.

3.25 I consider it important to distinguish again between the adventure park impacts and the accommodation impacts.

3.26 My Statement of Evidence focuses on one expenditure figure, the “total assumed spending boost of \$3.7 million a year” arising from the adventure park. My evidence makes it clear that I consider this estimate to be conservative. Paragraph 9.44 of the RCG report lays this out more fully, noting that “our key finding in terms of tourism economic effects is... [an] total assumed spending boost of \$3.7 million a year, which we believe to be a very conservative estimate of the tourism impact from the adventure park”.

3.27 I have not quantified the “expenditure impacts of the... associated tourism accommodation”. The number which Mr Copeland presumably refers to, \$34.2 million, originated from the RCG report and is cited in the plan change application as Mr

Copeland notes. However, the RCG report (paragraphs 9.49-9.50) is clear that this “is not an economic impact figure”. The plan change application similarly notes that “not all this spending is new to the region and [it] is therefore not a complete economic figure”.

- 3.28 A large number of assumptions would be needed in order to derive an economic/ expenditure impact figure for the Te Awa Lakes accommodation. I have not attempted to quantify the economic effects of this offering, beyond saying that “the net effects... are positive” (RCG report, paragraph 9.51). That is, the accommodation will create positive net effects beyond those created by the adventure park.
- 3.29 Mr Copeland is correct that tourism ‘spending’ figures include some costs which can be “netted out” to derive other figures – effectively, to calculate a GDP contribution.
- 3.30 However, spending figures are easier to calculate (requiring fewer assumptions), can be more easily compared and identified at a local level (with more data available), and as a result they are widely used in economic impact studies and resource management hearings that relate to tourism projects.
- 3.31 For example, a recent report on Hobbiton by Brown Copeland & Co estimates the additional expenditure arising in the Matamata-Piako District as a result of that attraction, but does not quantify GDP impacts.⁶

Paragraph 6.5

- 3.32 This paragraph conflates two separate issues. Perry Group have confirmed to me that they plan to ‘cross-subsidise’ the establishment of the Adventure Park, but that ongoing subsidy would not be required.
- 3.33 It is very common for tourism facilities to be unable to fund their capital costs themselves. However, these facilities are understood to have wider benefits that are not fully captured by the developer/ operator. As such, their construction is frequently subsidised by government, councils, charities etc. Examples range from the New Zealand International Convention Centre, to many of NZ’s airports, to the Waikato Regional Theatre project, to various Provincial Growth Fund projects.

⁶ “Update of the Assessment of the Economic Effects of the Hobbiton Movie Set at Matamata”, Brown Copeland & Co Ltd, 1 August 2017.

- 3.34 Operating costs are a separate issue, and most tourism facilities are able to turn an operating profit. They continue, of course, to generate wider benefits to the community beyond what they themselves are able to capture in spending.
- 3.35 Governments and councils also recognise the wider benefits of tourism through their support for marketing and development initiatives, such as the Regional Tourism Organisations, Tourism New Zealand etc.

Paragraph 8.3

- 3.36 I am unsure what point Mr Copeland is trying to make in this paragraph. Hamilton will need to build tens of thousands of new homes in the decades to come, so clearly it is important that they be 'affordable' however that may be defined. Building affordable new homes is also useful to reduce 'unaffordable' pricing in the wider market, i.e. reducing the marginal price of new housing also helps to reduce overall house prices. The Special Housing Area programme, and the proposed provisions for PPC2, do not distinguish between first home buyers and subsequent home buyers (although the government's Kiwibuild programme does).
- 3.37 Mr Copeland implies that "the freeing up of old homes by second and subsequent home buyers moving to new homes and / or retirement villages" might assist with housing affordability, and while I agree with this sentiment, it does not seem relevant for PPC2. It also appears to be inconsistent with Mr Copeland's opinion expressed elsewhere that, if there is 'sufficient' residential capacity, then adding more capacity does not result in any net increase in housing supply.
- 3.38 I agree that affordability provisions such as those applying to 10% of homes in Te Awa Lakes are a blunt instrument, but they are one way of ensuring that at least some homes are built in lower price bands. This provides opportunities for first home buyers or those on lower incomes, and may promote social objectives such as more inclusive communities – hence the term "inclusionary zoning".

Waikato Regional Council

- 3.39 Mr Keenan also participated in the expert witness caucusing on economic and strategic issues, although I note that his comments were largely limited to the impact of the industrial feasibility assessment on industrial land supply and the economic effects of

the proposal. Those matters have already been addressed in the primary evidence of Dr Fairgray and myself and I refer to and rely on those parts of our evidence which respond to them.

- 3.40 To the extent that Mr Keenan has raised any new issues, I respond to them below with the same caveats as provided above for Mr Copeland.

Paragraph 11

- 3.41 I agree with Mr Keenan that “the reports presented to date collectively provide sufficient evidence that industrial development of the site does not appear to be commercially feasible”, and “the loss of this land for future industrial uses is not likely to limit industrial growth in the Region”.

Paragraphs 12-17

- 3.42 Alligator weed issues are outside my expertise, and are being considered by biosecurity experts. Mr Keenan notes that there is likely to be ongoing management/ weed control over a number of years, which may be charged via targeted rates.
- 3.43 I agree that some portion of the costs will fall on the property owners, and this may result in slightly lower sale prices. As Mr Keenan states, “these [costs] do seem relatively small compared to the likely value of properties, and unlikely to affect the commercial viability of Te Awa Lakes housing per se”. They are also internalised, to the extent that the costs are borne by the property owners.

Paragraphs 19-26

- 3.44 I agree that the risk of alligator weed being spread offsite is an externality, albeit one which is hard to quantify.
- 3.45 This risk can be eliminated or mitigated as far as possible via plans to eradicate, control and manage the weed.

Open Country Dairy Limited

- 3.46 At paragraphs 3.5-3.6 of their submission, Open Country Dairy Limited comment on industrial demand vs supply issues.

3.47 They conflate two separate issues here; zoned industrial land, as opposed to developed industrial premises. I have distinguished between these issues in the RCG report (paragraph 3.42) and, more clearly, in my Statement of Evidence.

3.48 Paragraph 5.12 of my Statement of Evidence notes that property market research “focuses on industrial buildings or (to a lesser extent) on industrial sections, rather than raw industrial-zoned land which is more of a focus for council planning and NPS-UDC analyses”.

3.49 Paragraph 5.7 of my Statement of Evidence notes that the industrial land market appeared healthy in 2017 and, in my view, it still does in 2019. This is further substantiated by Market Economics’ NPS-UDC analyses.

4. CONCLUSION

4.1 In conclusion, I remain of the opinion that PPC2 will have positive economic effects for Hamilton and the Waikato sub-region. Nothing in the evidence of Mr Copeland, Mr Keenan or other submitters has caused me to change my view in that regard.

John Daniell Polkinghorne

26 November 2019