

IN THE MATTER of the Resource Management Act 1991

AND

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

**SUMMARY OF EVIDENCE OF MIKE COPELAND ON BEHALF OF
FONTERRA LIMITED**

ECONOMICS

1. My name is Mike Copeland and I prepared evidence dated 18 November, 2019 on behalf of Fonterra. A summary of the main points covered in my evidence is as follows:
 - (a) The quantitative modelling of future industrial land demand and supply that has been undertaken for Hamilton City and the Future Proof sub-region concludes that, for approximately the next 28 years, industrial land supply in aggregate will be sufficient to meet total demand. However, this modelling work relies on historical relationships between employment and land area requirement ratios, which may understate future industrial land requirements.
 - (b) There is evidence of demand for land in the Te Rapa North Industrial Zone that is additional to that which is currently available.
 - (c) For existing users of land in the Te Rapa North Industrial Zone (e.g. Fonterra and Ports of Auckland) there are significant strategic advantages from being able to continue their current and future expanded activities on their current sites and on land adjacent to these sites. Other land available for industrial use within Hamilton City or the Future Proof sub-region zoned for industrial purposes does not provide the same strategic advantages.
 - (d) The quantitative modelling of future demand and supply of residential land for Hamilton City and the Future Proof sub-region for the next 18 years has concluded that even without the Te Awa Lakes land being used for residential development there is sufficient supply to meet total demand. In addition, three SHA applications have recently been approved providing additional residential land capacity. Therefore, PPC2 will not lead to the provision of additional residential development within Hamilton City

and the Future Proof sub-region but rather a reallocation of where future residential development will occur.

- (e) As compared to alternative residential development that will not occur or be deferred if PPC2 is approved, PPC2 will give rise to reverse sensitivity effects and additional road network improvement costs. It may also possibly lead to increased infrastructure O&M costs, higher development charges for other residential developments and increased transport externality costs.
 - (f) Reverse sensitivity effects or potential constraints on Fonterra's and other Te Rapa North Industrial Zone land users' existing and future operations are likely to have a significant impact on Hamilton and the wider Waikato region from an economic perspective.
 - (g) The estimates given in the PPC2 application for the visitor expenditure impacts of the adventure park and associated tourism accommodation I consider to be considerably overstated. Also visitor spending estimates considerably overstate the economic benefits of visitors, in that the costs of goods and services provided to visitors need to be netted out. If the proposed tourism activities are required to be cross-subsidised by the residential development, I question their future sustainability.
2. Overall, I concluded that the economic benefits of PPC2 have been overstated by the applicant and the Council's s42A report and that PPC2 will have adverse economic effects on Fonterra, Hamilton and the wider Waikato Region.

RESPONSES TO APPLICANTS EVIDENCE

Counsel for Applicant – No analysis by me

3. Modelling of aggregate demand and supply of industrial and residential land has already been done by a number of parties (see my evidence in chief footnotes 4 and 9). The overall conclusions about aggregate demand and supply do not seem to be in dispute. So I see no sense in further quantitative forecasts being prepared by me. However with respect to industrial land, I and (Mr O'Dwyer) make the point they are only forecasts and I am also aware that with Inland Ports and associated activities traditional employment/area ratios on which industrial land forecasts are based may be misleading – the same issue has arisen re Rolleston in the South Island, where a land developer (Rolleston Industrial Holdings Ltd supported by Lyttelton Port Company) sought additional land to be zoned for industrial purposes than forecasts based on historical employment intensity ratios suggested would be required.

4. Also Property Economics and I make the point that not all land is of equal value to particular industrial land users. With respect to the importance to Fonterra of being able to redevelop/expand on its existing site and on land adjacent to it, I do not think there is a need for quantitative analysis – in my view the logic expressed by Ms Buckley, Mr Crisp and I is clear. With respect, I do not think the multi-criteria analysis undertaken by economists or planners overrides the market decisions of market participants as illustrated by Fonterra's strong opposition to the Plan Change and HCC being under pressure to lift the deferred industrial zoning on Te Rapa North land.
5. Regarding Mr Polkinghorne's analysis of tourism benefits, I note in my evidence that the application itself (paragraph 5.5.7) says that his estimate of tourism spending (and I quote) "is not a complete economic figure" since not all of the calculated spending will be new to the region. The reasons why I (and Property Economics) consider the estimated tourism economic benefits claimed are overstated are clear and do not need a re-analysis by me to reach this conclusion.

Dr Fairgray's Reply Evidence

Industrial Land Sufficiency

6. At paragraphs 3.1 to 3.8 of his reply evidence, Dr Fairgray contends that his assessment of industrial land sufficiency is conservative, because he considers his assumption about the increases in employment intensity he assumes in the future are historically small. The point I was making in my evidence was that inland ports and associated activities in Hamilton are likely to have lower levels of employment intensity than historic industry averages. In my view Mr O'Dwyer's evidence indicates that a cautious approach to industrial land sufficiency should be adopted (see paragraphs 3.2 to 3.4 of my evidence) and I agree with this.

Reverse Sensitivity

7. At paragraph 3.11 Dr Fairgray agrees that if the residential or other urban uses on the PPC2 site constrain existing or future activities on the Te Rapa plant site, then that would constitute an adverse effect on the Hamilton and Waikato economy. Dr Fairgray (paragraph 3.13) is critical of my evidence for not quantifying this adverse effect. I consider that a number of relevant factors under the RMA cannot be quantified, but that does not diminish their importance. My reading of Dr Fairgray's paragraphs 3.17 and 3.18 is that he

is equally reliant on the evidence of other witnesses for his assessment on the significance of reverse sensitivity effects as am I.

Residential Development Benefits and Costs

8. At paragraphs 3.19 to 3.23 of his rebuttal evidence Dr Fairgray is critical of my focussing only on the additional economic costs of allowing residential development on the PPC2 site. Whilst I accept that there may be some benefits from the provision of housing capacity *per se* (Dr Fairgray's paragraph 3.21), this is true of rezoning any land for residential development. Cities and Districts do not zone limitless amounts of land for residential development to achieve such benefits but focus on the comparative costs and benefits of enabling residential development at different locations within their boundaries. That is what I have attempted to do in Section 4 of my evidence.
9. Also Dr Fairgray is inconsistent in arguing that there are benefits from the provision of housing capacity *per se*, but not conceding that there will be costs from a reduction in "industrial capacity *per se*".

Agglomeration Effects

10. Dr Fairgray says at paragraphs 3.24 and 3.25 of his reply evidence that he has considered the agglomeration effects for existing operations being able to expand onto adjacent sites and use their existing investment that cannot be transferred to other locations. I do not consider Dr Fairgray covered this in his evidence in chief. However in his reply evidence he says it is a matter of logic "that if reverse sensitivity effects caused the Te Rapa plant to close, downsize or be unable to expand, then capacity would need to be developed elsewhere" (paragraph 3.13 of his reply evidence) and that if residential or other urban uses on the PPC2 site were to constrain existing activities of the Fonterra Te Rapa plant, or were to limit the opportunity for Fonterra to expand on and/or adjacent to the existing site, then that would constitute an adverse effect on the Hamilton and Waikato economy" (paragraph 3.11 of his reply evidence). In this regard, I agree with Dr Fairgray.

Mr John Polkinghorne's Reply Evidence

Industrial Land Sufficiency

11. At paragraph 3.7 of his reply evidence, Mr Polkinghorne says: "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, logistic and wholesaling are growing whereas many manufacturing sub-industries are declining, and these trends may well change in the future”. I agree with Mr Polkinghorne and it is for this reason I support a cautious approach to assessing industrial land self-sufficiency within Hamilton City and the Waikato Future Proof sub-region, based on historical employment intensity data.

12. At paragraphs 3.12 and 3.13 of his reply evidence, Mr Polkinghorne argues that at any point in time it may be difficult for “first choice” land for both residential and industrial demand to be met. However, I consider it much more straightforward for measures to be taken if and when residential land supply constraints are encountered than is the case for industrial land. For example, I note the 2017 Draft Future Proof Strategy document¹ in commenting on why projections for industrial land supply and demand are given out to 2061 compared to only out to 2045 for other types of land development states:

The allocations set out in Tables 4 and 5 (industrial land supply and demand forecasts) cover a longer timeframe than the other parts of the settlement pattern. This is because it is important to have a general long-term indication of industrial land given the large amount of land required, the longer lead-in times and the importance of having certainty as to where the strategic industrial nodes for the sub-region are likely to be now and in the future.

Extent of Additional Residential Development as a Result of PPC2

13. At paragraphs 3.14 to 3.18 of his reply evidence, Mr Polkinghorne discusses the extent of additional homes and the lower prices for homes as a consequence of PPC2. He concludes that there will be “slightly more homes” and “slightly lower prices”. Given the various studies that have identified residential land sufficiency and housing affordability criteria being able to be incorporated in other residential developments, I do not consider this to be a significant economic benefit from PPC2. On the basis of the “slightly lower” terminology used by Mr Polkinghorne, it appears he does not consider this to be a significant economic benefit either.
14. In any case the same argument, but conversely, would imply “slightly higher” prices for industrial land as a result of PPC2 – as discussed earlier regarding a reduction in “industrial capacity *per se*” (paragraph 9 above).

¹ Draft Future Proof Strategy Planning for Growth; the Future Proof Implementation Committee; May, 2017.

Community-wide Economic Costs

15. At paragraphs 3.19 to 3.22, Mr Polkinghorne states that in his view infrastructure and transport externality costs from PPC2 will be minor. This is contrary to the evidence of Mr Smith and the view of the Hon Jenny Salesa, Associate Minister of Housing and Urban Development, who in declining the Te Awa Lakes SHA applications stated:

*I am also concerned the proposed SHA would result in a small residential community which is car dependent, separated from community facilities, and with no current provision for mass transit. This would be contrary to the Government's priorities for urban development in New Zealand.*²

Tourism Benefits from PPC2

16. At paragraph 3.23 of his reply evidence Mr Polkinghorne argues that the Property Economics peer review's criticisms of his assessment of tourism benefits from PPC2 should be ignored because later drafts of his report responded to those criticisms. I do not agree that Mr Polkinghorne has adequately responded to Property Economics criticism – his quantification of tourism economic benefits have not changed and the same numbers are contained within his evidence and the application itself.
17. At paragraph 3.24 Mr Polkinghorne says that I offer no evidence to support my criticism that the tourism impacts of PPC2 have been overstated. The reasons I made my criticism are explained at section 6 of my evidence and rely on the same reasons as stated by Property Economics. It seems clear at least that Mr Polkinghorne himself now accepts that the \$34.7 million figure for expenditure impacts of associated tourism accommodation is of no relevance whatsoever and Commissioners should pay no heed to it – see Mr Polkinghorne's reply evidence at paragraph 3.25-3.26. All Mr Polkinghorne is prepared to say is that he thinks such expenditure impacts are positive. This says nothing about their significance.
18. Mr Polkinghorne also now agrees that tourism spending figures overstate tourism economic benefits because costs need to be netted out. This is also a reason as to why I stated in my evidence that the tourism economic

² Letter from the Hon Jenny Salesa, Associated Minister of Housing and Urban Development, to His Worship Mayor Andrew King (undated) declining the SHA applications in relation to the land owned by Perry Group at Hutchinson Road.

benefits in Mr Polkinghorne's evidence and the application are significantly overstated.

19. At paragraph 3.31 Mr Polkinghorne refers to a 2017 study I undertook assessing the economic effects of Hobbiton. That study was the second of two update studies I undertook of an original study carried out in 2011. The original study made it very clear that economic effects such as tourism expenditure impacts do not equate to economic benefits. I attach as Appendix 1 to this evidence the section of the 2011 report that does that. I concede I was remiss in not re-emphasising this point in the subsequent update reports.
20. Also it is always my practice not to confuse the terms economic benefits with economic effects or economic impacts, notwithstanding that some economic benefits or economic welfare improvements can result from increased economic activity.

Future Sustainability of PPC2 Tourism Activities

21. At paragraphs 3.32 to 3.35 of his reply evidence Mr Polkinghorne says that my concerns about the future sustainability of the PPC2 tourism activities are unfounded because (i) the Perry Group have told him they plan to only cross-subsidise the establishment of the Adventure Park; and (ii) government, councils and charities frequently subsidise tourism facility capital costs – e.g. the New Zealand International Convention centre, many NZ airports, the Waikato Regional Theatre project and various Provincial Growth Fund projects.
22. I do not know the financial stability of all such projects and whether any of these will require, or have required, subsidies beyond just capital cost subsidies. However I understand a number of New Zealand regional airports are not sustainable without ongoing subsidy, especially if the opportunity cost of land is taken into account, and I suggest it is much too early to draw conclusions about the sustainability of the Provincial Growth Fund projects. In the case of Kapiti airport, with which I am familiar, there is ongoing concern about its continued operation and that is a good example of the upgrade capital costs to attract commercial Air New Zealand flights being “cross-subsidised” with relaxation of planning constraints allowing commercial development on part of the private owner's land. The Air New Zealand flights have subsequently ceased and a Council subsidy helped attract Chatham Air but for how long?

Housing Affordability

23. At paragraph 3.36 of his reply evidence, Mr Polinghorne says he is unsure of the point I am attempting to make at paragraph 8.3 of my evidence. The point I am making here is that addressing housing affordability in Hamilton (and New Zealand) will require much more than simply zoning the PPC2 land for residential development and requiring a certain percentage of houses to be built within a particular price range. Also presumably if such an approach was the "silver bullet", it could be extended to other residential developments within the City. Therefore PPC2 is not unique in this respect - i.e. such a policy tool could be applied with or without PPC2.

Michael Copeland

27 November, 2019

Appendix 1 – Extract (paragraphs 4.11 and 4.12) from: ASSESSMENT OF ECONOMIC EFFECTS OF PROPOSED IMPROVEMENTS TO FACILITIES FOR VISITORS TO THE HOBBITON MOVIE SET; Brown, Copeland & Co Ltd; 3 August, 2011.

1. As indicators of levels of economic activity, economic impacts in terms of increased expenditure, incomes and employment within Matamata are not in themselves measures of improvements in economic welfare or economic wellbeing. However, there are economic welfare enhancing benefits associated with increased levels of economic activity. These relate to one or more of:
 - a. Increased economies of scale: Businesses and public sector agencies are able to provide increased amounts of outputs with lower unit costs, hence increasing profitability or lowering prices;
 - b. Increased competition: Increases in the demand for goods and services allow a greater number of providers of goods and services to enter markets and there are efficiency benefits from increased levels of competition;
 - c. Reduced unemployment and underemployment³ of resources: To the extent resources (including labour) would be otherwise unemployed or underemployed, increases in economic activity can bring efficiency benefits when there is a reduction in unemployment and underemployment. The extent of such gains is of course a function of the extent of underutilized resources within the local economy at the time and the match of resource requirements of a development and those resources unemployed or underemployed within the local economy; and
 - d. Increased quality of central government provided services: Sometimes the quality of services provided by central government such as education and health care are a function of population levels and the quality of such services in a community can be increased if increased

³ Underemployment differs from unemployment in that resources are employed but not at their maximum worth; e.g. in the case of labour, it can be employed at a higher skill and/or productivity level, reflected in higher wage rates.

economic activity maintains or enhances population levels.

2. It is reasonable to presume that the direct and indirect increases in economic activity (i.e. expenditures, incomes and employment) within the Matamata-Piako District economy as a consequence of the increased visitor spending will give rise to one or more of these four welfare enhancing economic benefits for the local community. For example, increases in turnover for local retail outlets will increase profitability because of improved capacity utilization. Also, increased employment and population in the District will help underpin existing school rolls.