

Appendix 7: Economic Assessment Peer Review (residential land use)



Ohinewai Rezoning Proposal - Economic and Residential Matters

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m.e
consulting



Ohinewai Rezoning Proposal

Economic and Residential Matters

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1 Introduction

1.1 Objective

This Memo provides a review of matters relating to a proposed rezoning of land at Ohinewai. It is to inform and support the s42A report being prepared on the Proposal.

1.2 Ohinewai Structure Plan Proposal

Ambury Properties limited (APL) is seeking that some 178 ha of Rural zoned land be re-zoned to enable Industrial, Business, and Residential uses, as well as open spaces and nature restoration reserves, within the Ohinewai Structure Plan (OSP). The proposed re-zoning and development is described in reports by Property Economics Ltd¹ (PEL), Quigley and Wake² (QW), and Bloxham Burnet and Olliver³.

The proposal is for a very substantial development of a new town of approximately 3,100 population and 1,100 dwellings in Waikato District. This would be in a rural locality, some 10.5km north of the town of Huntly (population 8,150⁴).

1.2.1 Land Use

Key elements of the Proposal are re-zoning of:

1. 52.2ha for residential use
2. 62.7ha for industrial use, including 37ha to accommodate a proposed Sleepyhead bedding factory, and 25.7ha for other industrial activity
3. 8.7ha for business use, predominantly for a discount outlet centre
4. 54.8 ha for open spaces and reserves.

1.2.2 Built Development

The rezoning is sought to enable substantial development on the land, identified as:

1. Up to 1,100 dwellings on the Residential zoned land
2. 100,000m² of factory space on the Sleepyhead site
3. 137,000m² of factory space on the other industrial zoned land

¹ Property Economics Ltd. Ohinewai Structure Plan - Assessment of Economic Effects, November 2019.

² Quigley and Watts Ltd. Assessment of social effects of the Ohinewai Masterplan. 27 November 2019

³ Bloxham, Burnett & Olliver. Rezoning Submission to the Waikato Proposed District Plan Review – AEE Report and s32AA Evaluation, December 2019

⁴ SNZ 2019



4. 43,440m² of commercial space, primarily as a discount retail centre (43,000m²) and a small convenience centre of some 2,500m².

The development is proposed to be staged, with the Sleepyhead factory developed in 5 stages over approximately 6 years, with initial development of 22,000m², followed by increments of 20,000m² at 18-month intervals. The other 137,000m² of industrial capacity is proposed to be developed over 8 years. The discount retail centre is proposed to be developed over 6 years. The residential component is proposed to be developed over 10 years, with full development by 2029⁵.

1.2.3 Development Expenditure

The proposed development would involve substantial expenditure. Figures in the PEL Report (Table 11) show land development and civil costs of \$478m and building construction costs of at least \$732m, for an overall expenditure of \$1,210m over the decade.

It is not clear how the land development and civil costs would be apportioned across the business development and between business and residential. Indicatively, assuming no costs would be apportioned to the open space areas, but carried instead by the industry, retail and housing, then the investment may be apportioned according to share % of land area (excluding open space) or share % of construction costs. Indicatively, that might mean:

1. \$529 - \$541m for residential development
2. \$526 - \$560m for factory development, including \$231 – \$283m for the proposed Sleepyhead factory, and \$277 - \$294m for other factory space / industrial activity
3. \$117 - \$141m for the discount outlet centre
4. \$2 - \$3m for the convenience centre

The PEL report does not identify the value of the 178ha site.

It is noteworthy that the indicated expenditure on housing is considerably greater than that indicated for the Sleepyhead factory itself, by between \$246m and \$309m. That is, the proposed expenditure on housing would be 1.87 to 2.34 times that spent on the Sleepyhead factory.

1.2.4 Activity on the OSP Land

A development of up to 100,000m² of factory space is indicated for the Sleepyhead factory. The 43,400m² of discount retail space is indicated as including the full range of retail activity (food retail, apparel, furniture and floorcoverings, electrical and electronic goods, department stores, recreational goods and other goods). However, the retail mix is non-specific, the indication only that expected annual sales would be \$110m (at around \$2,530/m²/yr), and relatively low intensity (109 m²/worker).

⁵ PEL Report, p43



There is no indication of which industries or entities might occupy the other 137,000m² of factory space. The Q&W report suggests 650 persons employment in “light industry”, which indicates low intensity activity (about 210m² of floorspace per worker).

1.2.5 Affordable Housing

The PEL and Q&W reports state that affordable housing is a key aspect of the Proposal, with Sleepyhead (Comfort Group) intending to provide a substantial number of the 1,100 dwellings in “affordable” price brackets. There is no indication of whether the other industrial activities (650 workers) or discount retail (400 workers) would seek to provide affordable housing for their workforces, or whether they would instead opt to just draw their workforces from Huntly and Hamilton. This is an important issue, because the PEL figures indicate that for every \$1.00 spent on developing land and constructing built floorspace, the businesses in Ohinewai would be spending \$0.78 to \$0.83 on housing. If affordable housing is carried only by Sleepyhead, then the cost will be proportionally larger.

There is no detail on how the affordable housing might be structured, including the share of the total estate which would be in the “affordable” range.

1.3 Scope of M.E Assessment

The Proposal identifies very substantial development and significant change in Ohinewai. It raises a number of issues to be examined.

1.3.1 Housing and housing affordability.

The Proposal seeks re-zoning for 52.2ha for residential use, on the basis that up to 1,100 dwellings will be developed, with approximately 730 as “*higher density terraced housing*” and the other 370 as “*general density standalone housing*”⁶. The PEL reports suggest that ‘affordable housing’ will be provided for some or all of the Sleepyhead workforce, and/or potentially others employed in the development. Key matters therefore relate to the pricing of the OSP dwellings, that pricing in relation to the wages and salary levels of the Sleepyhead workforce, and also in relation to dwelling prices in other locations.

1.3.2 Demand for housing.

It is important to understand the proposed development in relation to overall demand for housing.

The PEL Report indicates that the OSP development would see an additional 3,250 person and 1,250 households in Waikato District by 2029⁷, most in the “localised catchment” centred on Ohinewai. The additional households and people are expected on the basis of employment opportunity in the OSP location

⁶ PEL Report, p11

⁷ PEL Report, p42



(from factory and retail floorspace built there) together with the opportunity for Sleepyhead workers to access “affordable” dwellings.

This combination of job opportunity and affordability is the key driver of the suggested growth. The PEL and Q&W assessments are on that basis that the factory development and offer of affordable dwellings does succeed in attracting 1,250 households to live in Ohinewai (predominantly) or Te Kauwhata or Huntly who would not otherwise have opted to re-locate there.

An important question is the degree to which the uptake of housing depends on the dwellings being priced in value bands which are affordable to the Sleepyhead workforce. That is because demand for housing in that location, or any location, depends on a range of factors. These include price *per se* (in terms of what can be paid for) and working opportunity, but also households also consider price in relation to location, households’ accessibility to goods and services, travel costs, dwelling quality, land, and prospects for re-sale.

The assessed effects of the proposed development depend on that combination of job opportunity and affordable housing coming together in a single assumed outcome. Other potential outcomes have not been examined, for example if much of the workforce employed in the proposed developments did not opt to re-locate to Ohinewai, but instead chose to live in Te Kauwhata or Huntly or Hamilton. That would reflect a situation where development of the factory and retail floorspace in and of itself would not necessarily generate demand to purchase a dwelling there. Hence the degree to which living in Ohinewai would likely be an attractive proposition to the households of those employed in Ohinewai is a consideration, as well as the question of whether living in Ohinewai would be an attractive proposition to households of those working elsewhere.

The degree to which the combination of factory jobs and housing which is not in the “affordable” price bands is not indicated.

The wider context is the advantages and disadvantages of the Ohinewai location for providing housing supply within the Huntly-Ohinewai locality, or the Waikato District overall. This is examined only from the perspective of an indicated shortfall in feasible housing supply from the NPS-UDC work, though without consideration of whether that location represents an appropriate place to accommodate then it would need to cater for around 20% of total District demand over the next decade.

1.3.3 Demand for factory space.

The Proposal identifies 100,000m² of factory space for the Sleepyhead development, and a further 137,000m² of factory space for other activities. There is no indication that the additional 137,000m² would be directly related to the Sleepyhead bedding factory, for example by businesses which are intermediate suppliers (supply goods and services to the bed factory).

A key matter therefore relates to the rationale that such a large area of factory floorspace would be likely to establish in that location, apart from proximity to the Sleepyhead facility. Important influences on locational choices by manufacturing entities commonly include access to supplies (resources and goods), proximity to markets, and access to labour, as well as the occupancy costs. Unless the additional floorspace were directly related to the proposed Sleepyhead development, then it is important to understand the



strength of those other influences in attracting other types of activity to this location, in comparison with other locations which have capacity for industrial development in Waikato District, and Hamilton City.

1.3.4 Labour force.

The Proposal indicates that the Sleepyhead factory and the other factory space, together with the discount retail operation, would employ a substantial workforce of some 2,072 persons⁸.

A key matter is where that labour force would be drawn from, including the numbers of workers assumed to re-locate to the OSP area. As noted, the PEL and Q&W reports both assume that a substantial number of workers (more than 1,000) re-locate to Ohinewai, including some 300 existing Sleepyhead workers re-locating from Auckland. However, if that overall large volume does not eventuate – for example, if the pricing does not make the proposed dwellings affordable to the workforce, or a significant proportion of the workforce opts to not re-locate – then important questions relate to worker travel, and potentially the ability of the proposed development to attract workers. There is no information on the wages and salaries structure of the proposed development which might help inform the assessment.

1.3.5 Assumed Development Path for OSP

It is important to understand the sequence and logic of the proposed OSP and the rezoning, as follows:

- i. The core of the proposed development is the Sleepyhead factory of 100,000m². That is reason why zoning is sought, on the basis that alternative site(s) are not available, and this Ohinewai location is suitable.
- ii. The proposed housing is ancillary to the Sleepyhead factory, on the basis that the Sleepyhead workforce requires affordable housing. The housing if taken up would mean a workforce is very close to the Sleepyhead factory. However, there is no indication that the Sleepyhead factory could proceed only if there is a workforce residing in affordable dwellings at Ohinewai. Accordingly, the development of the factory does not depend on the housing development. The location for the proposed housing is determined primarily by the location choice for the Sleepyhead factory.
- iii. The proposed development of another 137,000m² of factory space is not identified as being dependent on the Sleepyhead factory. Nor is it indicated in the PEL Report that the Sleepyhead factory's development would depend on this additional floorspace. On this basis, the additional factory development is ancillary to the Sleepyhead factory, and its location and workforce options are determined primarily by the location choice for the Sleepyhead factory.
- iv. The proposed development of the 43,440m² of discount retail space is not identified as being dependent on the Sleepyhead factory. Nor is it indicated in the PEL Report that the Sleepyhead factory's development would depend on the discount outlet space. On this basis, the additional factory development is ancillary to the Sleepyhead factory, and its location and workforce options are determined primarily by the location choice for the Sleepyhead factory.

⁸ Q&W Report, Table 5 p21



The dependence of the residential development, the other factory space, and the discount retail development on the location choice for the Sleepyhead factory places considerable focus on the appropriateness of that development in the proposed location, in the context of the provisions of the Waikato District Plan, and the Waikato RPS.



2 Residential

2.1 Issues

As noted, for the residential component of the proposed development, the key issue is the likely level of demand for housing in that locality.

According to both the PEL economic report and the Q&W social impact report, the rationale for developing residential capacity in that location is based on:

- a. the Sleepyhead factory will be close by; and
- b. it is intended to provide affordable housing, that is, housing at a price where the Sleepyhead workforce can afford to purchase a dwelling there.

Additional dwelling capacity could serve the workforce employed in the other industrial development, and/or the discount retail outlets. However, the rationale for both those aspects of the OSP is based on the presence of the Sleepyhead factory itself, and dependent on the rationale for the Sleepyhead factory to establish there.

The directly related issue is whether the proposed dwellings would be affordable to the workforce of the Sleepyhead factory. Unless the dwellings are affordable to Sleepyhead workers, and can offer enough price or other advantage over other housing within commuting distance of Ohinewai, that raises the question of where demand for housing in Ohinewai location is likely to arise.

We have examined first the expected demand for housing from the workforce anticipated in the proposed OSP, and then considered the affordability of the proposed dwellings.

2.2 Workforce Demand for Housing in Ohinewai

The question of demand for housing in Ohinewai relates primarily to the requirements of the workforce for the proposed development. This is on the basis that demand for housing in that location would arise predominantly from the workforce for Sleepyhead, and the discount centre and other factory space, seeking affordable dwellings, in a location close to their place of employment.

There is no other indication of significant underlying demand for housing in the Ohinewai locality. Ohinewai lies within the Huntly Rural SA2. In the last decade, there have been 47 consents for new dwellings issued for the whole SA2 (an area of 350.7 km²), and average of 4.7 each year. That represents around 0.9% of the Waikato District total over the period.

2.2.1 OSP Workforce

The Q&W Report identifies a total expected workforce of 2072, including an estimated 300 workers who would relocate from Auckland to remain with Sleepyhead, another 700 in the Sleepyhead factory (total



1,000) with a further 650 persons on the other industrial development (137,000 m²), 400 in the discount outlets (43,440m²), and 22 in the support services.⁹

The PEL Report assumes that all of the workforce will reside within Waikato Region (none will commute from Auckland) and up to 70% will reside within the local catchment - predominantly in Ohinewai itself, and also Te Kauwhata, with Huntly a less popular place to live.

The PEL Report also estimates that, in addition to the 300 workers assumed to re-locate from Auckland, there would be around 20% of the workforce recruited from within the locality (about 420 workers), while 30% would be from elsewhere within Waikato District (another 630 or so workers). That would mean approximately 36% of the workforce (around 720 workers) would be recruited from elsewhere within Waikato Region, especially from Hamilton, the location with the largest workforce.

2.2.2 Implied Workforce Re-location

Drawing together the PEL estimates of where the OSP workforce would reside, and where those workers would be recruited from, suggests the demand for housing in the OSP area (assuming one household per worker, and all 1,100 dwellings were built) would see up to 1,050 households re-locating to Ohinewai. That would include 270 or so (of the total 300) re-locating from Auckland, up to 100 from within the localised catchment, about 400 re-locating from elsewhere in Waikato District, and around 280 re-locating from elsewhere in Waikato Region.

These numbers imply there would be a significant migration of workers and households to re-locate and reside in Ohinewai itself - relating especially to affordable dwellings since that is the only location in which they are proposed - as well as Te Kauwhata and Huntly. An important question is the extent to which this re-location would depend on the availability of those affordable dwellings. A related question is what the pattern of household re-location might be like if the drawing power of access to affordable dwellings were reduced – for example, if fewer dwellings were provided, or if the dwellings were provided at a price which workers do not find affordable.

Assuming for the moment that there would be up to 1,100 affordable dwellings available, at issue is the degree to which that affordability by itself, or in combination with employment and low journey to work costs, would induce 1,050 households to re-locate to Ohinewai.

2.2.3 Other factors affecting demand for housing

Important factors in housing demand and dwelling purchase decisions include the dwelling price *per se* (in terms of what can be paid for), but also price in relation to location, households' accessibility to goods, accessibility to household services, dwelling quality, land, and prospects for dwelling re-sale. The future situation indicated for Ohinewai suggests that households would face a number of trade-offs when deciding whether or not to live in Ohinewai. The key matters are:

- i. A quite limited provision of household goods and services is indicated within Ohinewai. Only a small retail-service node proposed (approximately 2,500m² of shops and services space), which means a limited range of goods and services would be available locally. Ohinewai households would likely

⁹ Q&W Report Table 5, p21



- access the majority of their goods and services (80%+) from Huntly or Hamilton. Ohinewai is approximately 10.5km from Huntly town centre, and about 45km from Hamilton.
- ii. That will directly affect the costs of household travel, and the time taken to meet household needs. Nationally, about 25% of household travel costs are for work-related trips, while mean travel distances for those in urban locations are well below the implied travel to Huntly (round trip of about 21km) and Hamilton (round trip of about 90km). This would mean residents of Ohinewai would face likely higher than average travel costs for accessing shops, services such as health, education (especially secondary level education), recreation, and leisure. These additional annual travel costs would likely be weighed against the lower cost of an affordable dwelling.
 - iii. A further issue is access to work opportunities. The available information suggests that the Sleepyhead workforce is predominantly lower to middle income, while other activities (factory work, retail work) also suggests the local economy will be relatively lower wage. Further, in a small local economy which is dominated by a few industries, there is commonly limited opportunity for employment. This suggests the opportunity for households to have two persons employed full time, or one employed full- and one part-time, will be limited. That will limit the scope for household income levels. That will directly affect housing affordability, and directly affect choice of residential location.
 - iv. Another influence on dwelling purchase decisions is the perceived ability to on-sell a dwelling in the future if the owner(s) wishes to re-locate. This can be a challenge in an economy where there are few industries, and the market is potentially limited to other workers arriving to take up employment in the same sectors. Generally, the larger an economy, the more scope there is to sell a dwelling. Similarly, the potential for market gain is greater in a larger, more diverse economy.

Accordingly, for these reasons especially there will be important trade-offs for households when they are deciding whether or not to live in Ohinewai, for employment there, and whether to purchase a dwelling in Ohinewai.

There is no suggestion that employment in the Sleepyhead factory or any other business in Ohinewai would be in any way limited to those purchasing a dwelling there.

This means that future workers in the Sleepyhead or other businesses would be free to choose where they reside, taking into account the full range of matters influencing their purchase decision. For example, the future might see half the Sleepyhead workforce opting to live in Ohinewai, the balance in Huntly or Hamilton, or other places within an affordable commuting distance. That is especially likely for households which currently reside in Huntly, Hamilton, Ngaruawahia or elsewhere who would take employment in Ohinewai, but opt to remain in their existing dwelling (owned or rented) to take advantage of the wider range of services and amenities available in those established places.

2.2.4 Other demand for Living in Ohinewai

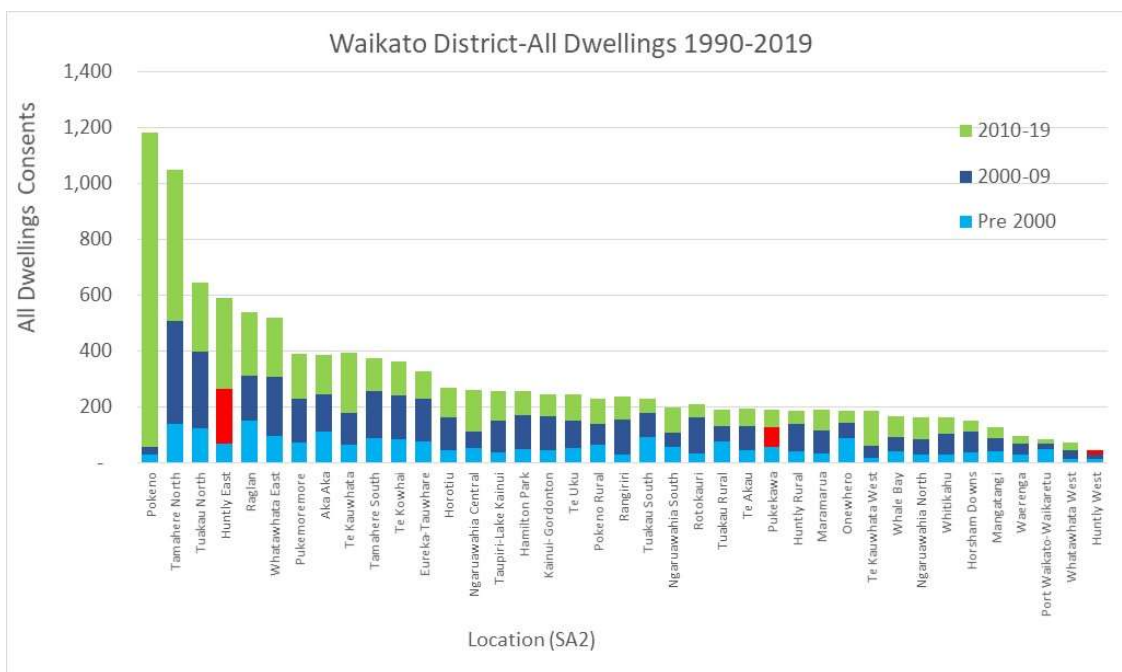
Directly related to this issue is the question of what demand there may be for households not connected through employment or otherwise to the proposed industrial and/or retail development to choose to live in Ohinewai. One of the factors influencing that decision will be the price of dwellings, while others will include the matters outlined above.



What does seem apparent is that the Ohinewai location would have a limited range of goods and services on offer, and households opting to live there who were not also employed there would face relatively high travel and transport costs, including travel to work. An obvious trade-off for such households is likely to be the cost of a dwelling there, relative to the higher than average travel costs, and the limited range of household goods and services available.

| Location | Pre 2000 | 2000-09 | 2010-19 | Total | Pre 2000 % | 2000-09 % | 2010-19 % | Total % |
|------------------------|----------|---------|---------|--------|------------|-----------|-----------|---------|
| Pokeno | 30 | 29 | 1,122 | 1,181 | 1.3% | 0.7% | 20.9% | 10.0% |
| Tuakau North | 70 | 196 | 324 | 590 | 3.0% | 4.8% | 6.0% | 5.0% |
| Te Kauwhata | 95 | 214 | 212 | 521 | 4.1% | 5.2% | 4.0% | 4.4% |
| Te Kauwhata West | 83 | 160 | 119 | 362 | 3.6% | 3.9% | 2.2% | 3.1% |
| Huntly East | 123 | 277 | 247 | 647 | 5.3% | 6.7% | 4.6% | 5.5% |
| Huntly West | 15 | 31 | 28 | 74 | 0.6% | 0.8% | 0.5% | 0.6% |
| Huntly Rural | 31 | 52 | 81 | 164 | 1.3% | 1.3% | 1.5% | 1.4% |
| Other Waikato District | 1,868 | 3,160 | 3,232 | 8,260 | 80.7% | 76.7% | 60.2% | 70.0% |
| Waikato District Total | 2,315 | 4,119 | 5,365 | 11,799 | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Statistics NZ 2020



2.3 Housing Affordability

Housing affordability is a key matter for the proposed development. The PEL Report states:

***Housing:** a key consideration for the Comfort Group is the ability for employees to be located within an area that is affordable. A key driver of unaffordable housing is the demand directed through business location. A motivation for the Comfort Group is to redirect that demand to an area that typically has lower demand and therefore lower land and build values. This*



provides their employees with the opportunity to own their own homes. Additionally the development of 1,100 dwellings is likely to provide some additional options to the general market while providing greater levels of amenity afford[ed] by a Master planned development.¹⁰

It further states that “Given the objective of the Comfort Group to provide affordable housing options for their immediate staff, it is assumed that 70% of the residential development will be absorbed.”¹¹ This indicates that 770 dwellings would be developed as affordable dwellings.

The range of housing prices is not set out, however the Report notes that “Property Economics understands the housing in Ohinewai is likely to be around the \$500,000 price point on average.”¹² That is at the lower end of the range indicated by the housing construction costs and development costs (see below).

In similar vein the Q&W report states

“The masterplan will provide affordable housing, allowing people to live, work and play in the same township.¹³

...The masterplan is proposing to create 1,100 new homes, some within an affordable price range (starting at less than \$500,000). It is proposed that many of these homes will be made available, on a rent to lease option, for staff working at NZ Comfort Group.¹⁴

The likely sale price of new housing and land at the masterplan site, despite being ‘affordable’, is still over \$100,000 higher than Huntly. As such, it is projected that a proportion of first home buyers who work at Ohinewai will buy in Huntly. However, this proportion is expected to be small..¹⁵

There is otherwise limited information, including some from the PEL Report, and some from the QW Report.

2.3.1 Housing Costs

The PEL Report indicates that the housing development would have a construction cost of some \$327m for the 1,100 dwellings, or \$297,000 per dwelling. That does not include GST, nor the cost of the land, nor housing’s share of the \$478m of land and civil costs¹⁶. We note it is broadly in line with information on new dwelling consents in Waikato District, however in terms of dwelling construction per floor area the PEL figure of \$2,500/m² is more than 10% higher than the current mean cost in the District¹⁷.

¹⁰ PEL Report p44

¹¹ PEL Report p51

¹² ¹² PEL Report p29

¹³ Q&W Report p56

¹⁴ Q&W Report p26

¹⁵ Q&W Report p26

¹⁶ PEL Report Table 11, p49

¹⁷ SNZ 2020



If we adopt the PEL estimate of a dwelling price of \$500,000, then after allowance for costs of construction at \$342,000 (incl GST) the balance is \$158,000, for land and for housing's share of the other development costs. How those other development costs would be apportioned among the various components of the development (the Sleepyhead factory, other factory space, the discount outlets and housing) is not specified. However, the figures in the PEL Report suggest that housing's share may lie between \$151m+gst (based on residential's share of total built space (32%)) and \$214m+gst (based on residential's share of the developed land area (42%)).

If so, that would mean a dwelling costing \$342,000 to construct might have a total cost (and implied price) of \$500,000 (\$342,000 + \$158,000) to \$553,000 (\$342,000 + \$211,000).

The likely land component of the housing is not identified. Nor is it apparent whether there is some allowance for a development margin on top of dwelling construction costs. Irrespective, the figures drawn from the PEL Report would suggest dwellings in the broad price range of \$500,000 to \$550,000.

The \$500,000 figure corresponds with the pricing for an affordable dwelling identified by the KiwiBuild initiative for dwellings outside of Auckland and Queenstown Lakes. The upper figure of \$550,000 is above the KiwiBuild range, and close to the median dwelling price in Hamilton (\$570,000).

The PEL Report and the Q&W Report both indicate that the \$500,000 pricing is substantially higher current prices in areas of Huntly, and at the lower end of prices in Te Kauwhata.

2.3.2 OSP Workforce Incomes

Affordability is driven by both dwelling price and household income. While there is no detailed information about the numbers of workers in each wage band, the PEL report (Table 12) indicates average annual household incomes of about \$45,000-46,000 pa after tax, which is about \$55,000-56,000 pre-tax.

To assess this, M.E have drawn on analysis undertaken for the recent review of affordability in Queenstown Lakes District, also in the context of KiwiBuild's affordability. This analysis considers the mean and upper end household incomes in each income decile. It is based on a standard affordability calculation, which adopts a maximum share of household income (35% pre-tax) which can sustainably pay for housing, and allowing for loan repayments over a 30 year period, at a mean interest rate of 7.5%. It assumes a deposit of 20% of the purchase price. We note that this is a standard calculation for first home purchasers, which assumes the deposit is drawn from accumulated savings as distinct from the equity from a previous dwelling.

The income figures indicated in the PEL Report would place approximately 60% of the Sleepyhead workforce in household income Decile 3, with most of the rest in income Decile 4.

For a household in Decile 3, the maximum affordable price is around \$350,000.

For a household in Decile 4, the maximum affordable price is around \$430,000.

This suggests that for most of the workforce, a dwelling priced at \$500,000 would not be affordable. The proposed residential component of the OSP seems unlikely to be able to contribute to affordable housing, and through this to offer dwelling ownership to the workforce.

At the dwelling prices indicated, much of the housing is not likely to be affordable at the workforce incomes indicated.



2.4 Implications

This apparent gap between the indicated dwelling pricing and what appears to be an affordable price for workers employed in the Sleepyhead factory raises important questions about the proposed OSP and the re-zoning.

If the proposed housing is not affordable to the workforce, then the link between the rationale for the Sleepyhead factory, and the rationale for a very large area of housing in Ohinewai, is considerably weaker. The main rationale for having housing there depends on the link with the factory space. If the proposed housing is not affordable, then it is unlikely that many in the workforce would be able to afford living in Ohinewai.

The immediate question then is what demand would the proposed dwellings in Ohinewai service? That raises the wider issue of whether housing capacity in that location is consistent with the Waikato District's strategic direction, including whether it would contribute to an efficient distribution of housing capacity in the District, taking into account the distribution of employment, education, shopping and services, public facilities and so on, and peoples' ability to access these.

2.5 Housing Capacity Assessment for the NPS-UDC

The PEL Report notes that the estimates of feasible capacity indicate a shortfall in feasible capacity at the district level and at the local level, and concludes *"this leaves an overall shortage of 587 dwellings in Huntly ...the Ohinewai development will assist in meeting the estimated long term feasible residential shortfall."*¹⁸

It is important to understand the context of the NPS-UDC assessment. The analysis for each location covered feasible capacity in the long term, and where infrastructure constraints were identified, the greenfield capacity was adjusted. In the Huntly locality, the total long term dwelling capacity was estimated at 980 to 1,210 dwellings overall, but at around 500 dwellings when infrastructure constraints were allowed for. This is shown in Figure 1, using the information from the NPS-UDC study.

It shows that in the 2017-2024 period there would be feasible dwelling capacity to accommodate growth. An obvious question then is whether the infrastructure constraints identified in the NPS-UDC work would be addressed in the medium or longer term. The PEL estimate is on the basis that the infrastructure constraints on Huntly's growth capacity would not be dealt with. While Huntly's projected growth rate is about half that expected for Waikato District as a whole (0.9%pa compared with 1.7%pa), the common procedure is for a council to provide infrastructure needed to accommodate expected growth.

Moreover, the NPS-UDC analysis provides a comparison of housing capacity and demand by locality, to inform council planning, including to identify potential constraints. The projections assume there is no transfer of demand among locations. To illustrate, Figure 2 shows the demand and capacity situation for the Huntly locality and Te Kauwhata combined.

¹⁸ PEL Report p28



Figure 1: Huntly Housing Demand and Capacity 2017-2046

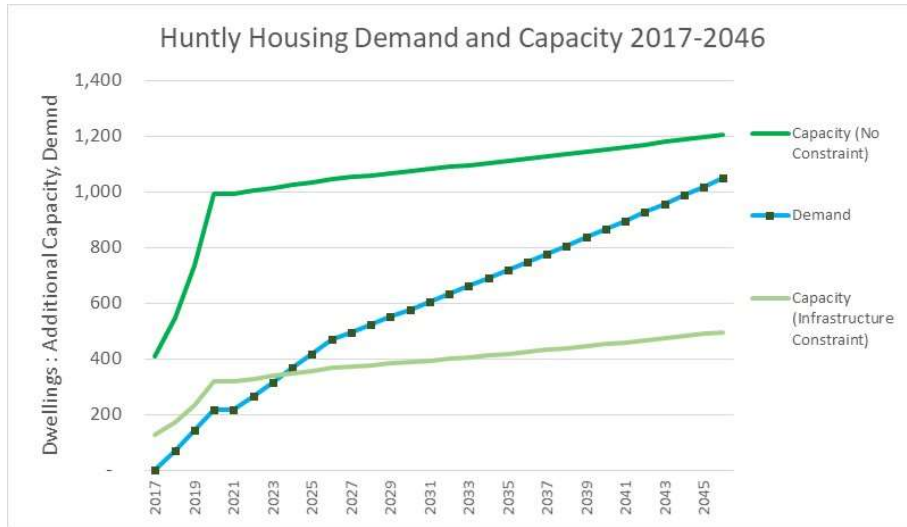
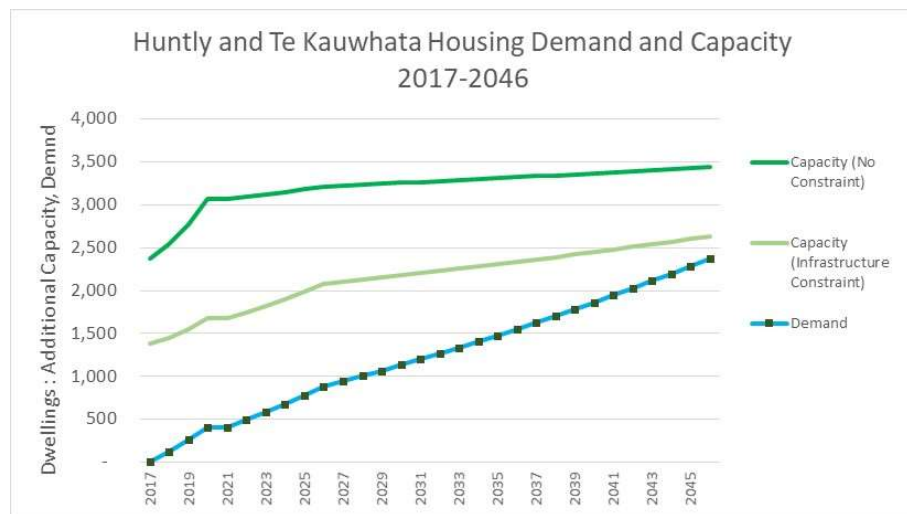


Figure 2: Huntly and Te Kauwhata Housing Demand and Capacity 2017-2046





3 Business Sector

3.1 Summary

The PEL section on the business issues contains quite limited detail.

The key rationale to support development of the Sleepyhead factory in that location is the reported difficulty of acquiring a similar site elsewhere at equivalent prices, and the proximity to the railway (NIMT).

3.2 Location

The PEL Report contains limited information about the Sleepyhead operation itself, and the suitability of the proposed location beyond relatively easy access to rail services. Otherwise:

- i. The site is 85km from the nearest export and import Port of Auckland, and it is around 130km from the Port of Tauranga. This does not suggest Ohinewai it is a port-oriented location.
- ii. It is around 85km from the largest domestic market (Auckland), and about 45km from the otherwise nearest domestic market (Hamilton).
- iii. Similarly, it is around 45 km from the nearest large labour supply at Hamilton. The proposal identifies that even with a very high level of migration by the workforce to re-locate to Ohinewai, somewhat more than half of the total workforce would need to be drawn from elsewhere in Waikato District, or elsewhere in the region (notably Hamilton).
- iv. The local resident workforce if the residential component of the development occurs would not be well serviced from the limited facilities in Ohinewai itself, and be largely dependent on Huntly. That is likely to limit the attractiveness of Ohinewai as a place to live, and the development may be faced with well over half of its workforce commuting a significant distance (from Hamilton).
- v. There is limited business activity in the Ohinewai location. There is a sawmill approximately 2.5km away to the north, and the opportunities for linkages with that seem accordingly limited. This suggests that Ohinewai would be a stand-alone development.

3.2.1 Co-location of Other Factory Space

There is little information offered in support of the rationale for another 13.7ha of factory space to co-locate with the Sleepyhead factory.

3.2.2 Co-location with Discount Outlet

Similarly, there is little information offered in support of the rationale for 4.3ha of discount store space to co-locate with the Sleepyhead factory, or with the other factory capacity.



3.3 Other Factory Space

There is no indication of which industries or entities might occupy the other 137,000m² of factory space. The Q&W report indicates that this space would have a workforce of some 650 workers, which implies relative low density (about 211 m² of floorspace per person engaged).

There is no indication of what types of activity would potentially locate there. There is little indication of a close link with the Sleepyhead factory which would generate benefits from co-location. Accordingly, the rationale for establishing in that location is not apparent beyond being adjacent to the Sleepyhead factory.

Given the substantial distances to an existing labour force, to other industries as suppliers or to intermediate markets (the main concentrations of industry are in Hamilton), access to export and import points (aside from proximity to the rail), to domestic markets (assuming Hamilton, Auckland), *a priori* we would expect some quite detailed rationale as to why the proposed site represents a sound location relative to District and regional employment strategies, including for business activity and employment opportunity. There is none apparent in the PEL Report or the Q&W Report.

Nor is there indication of whether such activities would opt to be involved in providing housing for the workforce, or whether they would instead opt to draw their workforce for Huntly and Hamilton.

3.4 Discount Outlet Centre

There is limited evidence in support of the discount outlet centre.

The PEL report acknowledges the substantial locational disadvantage of the centre and all of the discount outlets, which arise because of the very low level of spending power in its close and medium distance catchment, and the long distances over which the outlet centre would need to draw custom. While the catchment map shows a potential draw extending from the edge of central Auckland in the north to past Te Awamutu in the south, there is no indication of why the centre would be able to draw custom over such long distances.

The PEL report states no more than that the discount centre would need to offer very low prices to attract customers. However, such a centre would be very vulnerable to competitor centres with equally low cost structures establishing in the north - as a shopping opportunity much closer to the large Auckland market - or to the south - closer to the Hamilton market. For example, there is no indication of how much price discount such a centre could offer (based on its occupancy, staffing and other costs) to make travel from Auckland worthwhile – given a likely direct trip cost of over \$100 for the 150km or so round trip.

We have concerns about whether the indicated 43,400m² discount centre has potential to develop and operate there.



3.5 The Business:Housing Link

A key aspect of the proposed development is the intended involvement of Sleepyhead / Comfort Group in providing housing for the workforce. That may be rent to own, as suggested by Q&W.

The development of housing would be a very substantial investment. It is noteworthy that the indicated expenditure on housing is considerably greater than that indicated for the Sleepyhead factory itself. The PEL Report¹⁹ indicates construction costs of \$327m for housing, and \$478m for land development. If the land development cost were apportioned according to developed land area (excluding open space and other), then the total expenditure for housing would be in the order of \$529m. On the same basis, the expenditure on the Sleepyhead factory (including its 30% share of developed land area) would be around \$283m (that is, \$140m + \$143m).

That is, the proposed expenditure on housing would be 1.87 times that spent on constructing the Sleepyhead factory.

This raises the question of whether the proposed development is primarily about developing housing, rather than manufacturing capacity, particularly if the housing were not affordable for the Sleepyhead workforce.

¹⁹ PEL Report, Table 11



4 Conclusions

The assessment of the proposed re-zoning for the OSP has raised a number of questions.

4.1 Summary

The development logic seems clear.

- i. The basis for the OSP is the zoning proposal to enable development of a Sleepyhead factory, of up to 100,000m². Other elements of the proposed re-zoning follow from that.
- ii. The zoning is sought on the basis that alternative site(s) are not available for the Sleepyhead factory, and that the Ohinewai location is suitable primarily because it is adjacent to the railway.
- iii. The balance of the industrial re-zoning is based on the proximity to the Sleepyhead site. The PEL assessment does not indicate the expected mix or range of activities for which the re-zoning is sought, nor indicate a strong link with the Sleepyhead operation.
- iv. The re-zoning sought for discount retail activity also appears to be based on the proximity to the Sleepyhead site. The PEL assessment indicates the retail outlets will be dependent on substantial price discounting, given the limited spending power in the Waikato catchment, and dependence on demand from Auckland and Hamilton.
- v. The proposed re-zoning to establish a town at Ohinewai is based on proximity to the Sleepyhead site, with that nexus depending on the ability to offer affordable housing to attract residents to live there. The information on dwelling costs and prices suggests it is not likely that dwellings would be affordable to most of the Sleepyhead workforce. No evidence has been offered as to the suitability of Ohinewai as a location for a town otherwise – the rationale is solely as an industry-specific town offering affordable dwellings subsidised by the Comfort Group.

The PEL and Q&W reports are based on a future outcome where the Sleepyhead factory is in place and the residential development is in place, providing affordable housing to a significant number of the Sleepyhead workforce.

Other outcomes are not considered. For example, there is no assessment of a future outcome where the town has only some of the residential capacity taken up because the housing on offer is not affordable to the workforce or the workers opt to live in Huntly, Hamilton, or Pokeno, with a correspondingly smaller retail-service centre, and/or the other 13.7ha of indicated factory space is not developed.

4.2 Conclusions

For a proposal to develop a new town in a rural setting, in my view there is not sufficient information to justify substantial re-zoning of rural land to enable urban uses.

That is especially so for the re-zoning to enable a large area of residential, since the nexus that housing would be affordable for the Sleepyhead workforce is not demonstrated. A number of matters arising from a proposal for a new town which have not been covered with sufficient detail or clarity.



Those matters are directly relevant from the resource management perspective especially because the proposal is for a new development in a rural location, around 10.5km from the nearest town, where the residential component depends on the proposed industry, and where the new town's population would depend on Huntly or Hamilton for many goods and services.

Such conditions distinguish the proposal from a development(s) which is of similar scale and nature, but which is incremental development to an established town, and part of the urban network in the Waikato.

The case for enabling a large area of industrial use in that location, especially in relation to the District's and the FPP's development strategy is not established.

Further, given the uncertainties and the strong inter-dependencies of each element on the other elements - especially because the proposal is for a new town – it does not appear to be sufficient to base the assessments on a single assumed outcome. At the least, a scenario approach would be required to consider different outcomes, which do not assume that all aspects of the re-zoning and development would succeed, but instead consider the outcomes where some components proceed but others do not. That is especially relevant given the dependence of the proposed residential capacity on the industrial and discount retail activities proceeding.

Dr J D M Fairgray

10 March 2020