

**Before Independent Hearing Commissioners
In Ngāruawāhia**

Under the Resource Management Act 1991 (the Act)

In the matter of of a submission by Ambury Properties Limited in respect of the proposed Waikato District Plan pursuant to Clause 6 of Schedule 1 of the Act seeking the rezoning of land at Ohinewai

And Ambury Properties Limited (Ambury)
(Submitter)

and Waikato Regional Council
(Further Submitter)

**Summary of evidence of Blair Desmond Keenan for the Waikato
Regional Council – Economics**

8 September 2020

1 Introduction

1.1 My full name is Blair Desmond Keenan. I am an economist at the Waikato Regional Council and have been in this role since 2010. I have the qualifications and experience as set out in my evidence in chief. I also confirm that in preparing this summary statement I have complied with the Code of Conduct for Expert Witnesses in the current Environment Court Practice Note (2014).

2 Summary of evidence

2.1 I consider that, if the development of the Ohinewai site occurs as proposed, there would be a significant increase in activity in the local economy. However, in my view there is significant uncertainty as to the extent to which this would occur, raising questions about the extent to which benefits will be realised, and about the incidence of costs.

2.2 The housing component of the proposal is considered by APL to be integral to the development. However, the market is untested in that location, and while I expect that there will be demand for the houses, the market-clearing prices for the respective housing types, the cost of the proposed affordable housing, and the possible emergence of Ohinewai as a dormitory town means that the change to a residential zone carries significant risk of unintended consequences.

2.3 Given recent trends in the Waikato District housing market, it is plausible that a significant proportion of the housing to be developed at Ohinewai will be sold to those working offsite, including as far afield as Hamilton or Auckland. Dr Fairgray's analysis¹ of housing and business scenarios² shows that the amount of housing *and* the amount of *affordable* housing is likely to be an important determinant of labour force commutes and other transport that can be expected. This, in turn has implications for how much of the economic activity generated by the expenditure of Ohinewai residents is new, or a transfer from elsewhere.

2.4 Noting the calculations described in my original evidence³ (based on a price of \$400,000, but acknowledging affordability is a difficult concept to pin down), it appears that The Comfort Group (TCG) may have to provide significant subsidies to make even relatively cheap new builds affordable to

¹ Appendix 2 of the Section 42A report on rebuttal evidence.

² Agreed to as part of Issue Four on page 4 of the Joint Witness Statement on economics.

³ Paragraph 9.8 of my evidence.

those on incomes under \$60,000. Dr Fairgray estimates that for 60 percent of TCG's workforce, the maximum affordable price would be around \$350,000, and for most of the rest it would be around \$430,000. I remain unclear as to the mechanism(s) by which housing will be made affordable, and whether this has any potential implications for the viability of the housing component.

- 2.5 Overall, I consider that the analysis in the evidence, including rebuttals, provided by Dr Wheeler, Mr Heath and Mr Osborne uses appropriate methods, and is generally robust *within the scope of that analysis*. I agree that, *under the scenario they consider*, there would be significant economic value added to the region (although, as I note below, I agree with Dr Fairgray that its magnitude appears to be overstated). It would, moreover, have been useful to have seen different options presented, and the implications of different scenarios analysed – especially given the elevated levels of uncertainty that face the economy now and in the short-medium term.

3 Response to rebuttal evidence of APL

- 3.1 I have read the rebuttal evidence of Dr Wheeler, Mr Olliver, Mr Heath and Mr Osborne.
- 3.2 Dr Wheeler's rebuttal provided a more detailed description of his analysis using the Capital Asset Pricing Model (CAPM). I do note that there is a significant body of literature critiquing the CAPM, but acknowledging Dr Wheeler's statement that it is "... widely used in financial economics and corporate finance..."⁴ I consider that this can be seen as an additional 'cross-check' of the other evidence provided on behalf of APL.
- 3.3 I share Dr Fairgray's concerns about the possible confusion between gross output and the value-added measure of gross domestic product (GDP) in Dr Wheeler's evidence⁵. It would be useful to clarify whether the 'contribution to the Region of \$8,475.1 million'⁶ is supposed to represent gross output or GDP, and the details of the calculation of the net present value (NPV). Assuming it represents GDP, the \$8.5 billion would imply an extremely large increase to district GDP, which is currently estimated at \$2.5-\$3 billion per year. My calculations suggest that, to arrive at an NPV of \$8.5 billion (over 10 years at a 6% discount rate), on average, GDP would have to increase by around \$1.1 billion *per annum*, or around 40%. This seems implausible,

⁴ Paragraph 4.1 of Dr Wheeler's rebuttal.

⁵ Section 5.3.3, page 37, Appendix 2 of the Section 42A report on rebuttal evidence.

⁶ Page 5 of Dr Wheeler's evidence in chief.

and suggests that perhaps the figures represent gross output, not GDP, and so considerably overstates the value added.

- 3.4 Mr Olliver addresses my comments in respect of the definition of an urban environment. In particular, he notes that, since the labour market will always be much smaller than the housing market, it does not make sense to look at these separately⁷. I agree, and it is clear from my evidence, that the labour market will invariably be smaller than the housing market. Interpreting them separately, therefore, means the housing market constraint will *never* be the binding one (since, if the labour market is larger than 10,000, the housing market *always* will be), which raises the question of why it is included in the definition.
- 3.5 Mr Olliver concludes that the definition should therefore be read as a whole, and that “...*part of a housing and labour market of at least 10,000 people...*”⁸ should mean “...*there are housing and labour markets operating in a population of at least 10,000 people.*” I consider that this is not an unreasonable interpretation. However, it does then beg the question of why the definition refers to labour markets at all, since the corollary of Mr Olliver’s earlier point is that housing markets will always be larger, and it is that which will determine a place’s status as an urban environment.
- 3.6 My conclusion is that *if* labour markets are to be considered *per se* in determining status as an urban environment, then this case would not meet the definition. If, for the reasons described in the previous paragraphs, labour market size is not a constraint *on its own*, then the fact that the Huntly-Ohinewai labour market is smaller than 10,000 would be irrelevant.
- 3.7 Mr Heath notes, in relation to the question of a housing shortage, that my evidence only looked at total supply and demand. I agree with his point that it is useful to consider what the evidence says about the more affordable end of the market⁹.
- 3.8 I do not agree with Mr Heath that it is without merit to consider whether ‘anticipated capacity’ should be considered as part of expected future supply¹⁰. I do not understand why, in principle, you might not consider that this future supply might come online, and moreover, why it couldn’t be at the cheaper end of the spectrum. Indeed, *not* to include anticipated capacity

⁷ Paragraph 3.7 of his rebuttal.

⁸ From the definition of ‘urban environments’ in the National Policy Statement on Urban Development, page 8, Section 1.4 Interpretation.

⁹ Section 2 of his rebuttal.

¹⁰ Paragraph 2.8 of Mr Heath’s rebuttal.

could arguably bias any analysis considerably towards concluding that there will be a housing shortage. Notwithstanding that, Mr Heath's argument that proposed Ohinewai housing should be considered to be no different than other possible developments as contributing to that anticipated capacity does seem reasonable to me, although does not change my view that *all* anticipated capacity *should* be considered.

- 3.9 I note that Mr Heath also appears to have a different interpretation of Table 11 in my evidence. His comment in para 2.12 that “[r]emoving ‘anticipated capacity’ removes a significant amount of capacity, 16,000-20,000 dwellings...”¹¹ implies that he takes the columns to be additive. My interpretation is that the table is intended to be read across rows. For example, the long-term anticipated capacity is 12,000-15,000; it is not the sum of the medium- and long-term capacity (which I assume is how he arrives at the 16,000-20,000 figures).
- 3.10 Mr Osborne disagrees with my description of the APL evidence as representing a ‘best-case’ scenario¹², arguing that it represents a ‘realistic’ one. I accept that the fact that there has not been an analysis of a range of possible outcomes by the applicants means there is little basis for telling whether it is ‘best’ or not, nor whether there are other realistic scenarios that might have been considered.
- 3.11 Mr Osborne points out that the components of his analysis could be decomposed and shown for each high-level activity¹³, and that this represents a way of analysing different possible outcomes. That is a useful point to note, although it was my understanding that the components all depend on each other (notwithstanding the subsequent withdrawal of the DFO) and could not be taken in isolation. I am also not clear which parts of his evidence Mr Osborne means when he refers to high-level activities. It would not seem to make sense, for example, to look at the values in table 4¹⁴ separately, since the ongoing activities are clearly dependent on the development activities (for example, we cannot simply look at ‘factory’ NPV, because taking the other components away would likely mean that infrastructure and services costs would change in an unknown way).
- 3.12 An additional point I had not previously raised: table 5 in Mr Osborne's original evidence is somewhat confusing. The column of economic activity

¹¹ Paragraph 2.12 of Mr Heath's rebuttal.

¹² Paragraph 3.3 of Mr Osborne's rebuttal.

¹³ Paragraph 3.4 of Mr Osborne's rebuttal.

¹⁴ Page 21 of Mr Osborne's evidence in chief.

figures does not sum to the bottom-line of \$222 million. The numbers presented only add up to \$126 million. It would be useful to clarify if there are excluded line items covering the other \$96 million, if I have misinterpreted the table, or if there is some error in the table.

- 3.13 Mr Osborne responds to my concerns about the costs of infrastructure, noting that his assessment does not relate to the feasibility of the proposal, but to the level of economic activity and impact from it¹⁵. Within the scope of his analysis, I think Mr Osborne's approach (applying contingencies to costs) is a sensible one. It appears, however, to just focus on the internal costs to the developer, and does not address the question of external costs, and the risk that others will be left bearing significant infrastructure costs. I continue to agree, however, as noted in my original evidence, that the staging of the development would mitigate this risk to some extent.

4 Revised s42A report recommendation

- 4.1 I agree with Ms Trenouth's conclusion that there would be positive economic effects from the proposal¹⁶. However, in my view, the narrow scope of the economic analysis supporting the zoning request, and the resulting uncertainty, means it should not be relied on to justify the re-zoning.

Blair Keenan

8 September 2020

¹⁵ Paragraphs 4.2 and 4.3 of Mr Osborne's rebuttal.

¹⁶ Page 28, paragraph 201 of the Section 42A Report.