WAIKATO DISTRICT PLAN REVIEW SUBMISSION

SUBMITTER KONING FAMILY TRUST and MARTIN KONING

TOPIC: Extent of residential zoning at Raglan

STATEMENT OF EVIDENCE OF FRASER JAMES COLEGRAVE

Dated: 17 FEBRUARY 2021

Introduction

1. My full name is Fraser James Colegrave.

Qualifications and Experience

2. I have the qualifications and experience described in the following paragraphs.

3. I hold a first-class honours degree in economics from the University of Auckland (1996).

4. I have 24 years' commercial experience, the last 20 of which I have worked as an economics consultant.

5. I am the founder and managing director of Insight Economics Limited – a boutique economics consultancy in Auckland. Prior to that, I was a founding director of another consultancy, Covec Limited, for 12 years.

6. I have successfully led and completed more than 500 consulting projects across a wide range of sectors, and have helped clients gain planning approval for major projects and developments worth more than $20 billion. These include:

    - New towns and suburbs (catering for up to 12,000 people each);
    - Dozens of retail and office developments;
    - New Zealand's largest gas field (Maui);
    - New Zealand's largest mussel farm;
    - Auckland Airport's second runway;
    - Up to 60 music concerts at Eden Park;
    - A $250 million infant milk formula plant in Pokeno; and

- The $100 million upgrade of the Skyline Gondola & Luge in Queenstown.

Code of Conduct

7. I have read the Environment Court's Code of Conduct for Expert Witnesses in the Environment Court of New Zealand and I agree to comply with it. My qualifications and experience as an expert are set out above. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed.

8. The evidence that I give in these proceedings is within my area of expertise, except when I rely on the evidence of another witness or other evidence, in which case I have explained that reliance.

Scope of evidence

9. In my evidence I address the following issues:

   (a) A brief description of the subject site and its receiving environment;

   (b) The findings of a detailed 2018 study on the Raglan housing market;

   (c) Raglan housing market trends since the 2018 report was completed;

   (d) Projected demand for additional dwellings in Raglan;

   (e) Estimated capacity to supply new dwellings in Raglan;

   (f) The balance between estimated supply and demand for dwellings; and

   (g) The economic impacts of the proposal

Context

10. Raglan is an established town and a renowned tourist destination located about 45 kilometres west of Hamilton City in the Waikato District.

11. The town is steeped in history, with its combination of rugged landscape, excellent surf, and relaxed atmosphere making it a popular spot for a wide

range of tourists. As a result, the town's population increases by 300% to 400% during the summer months.

12. At the same time, the town's local population is also growing. The resulting housing pressures led to the commissioning of a housing study in 2018 to help better understand the nature of the problem, and to identify possible solutions.

13. Despite these challenging circumstances, however, the Council's latest vision for the area signals that very high population and dwelling growth is likely to occur in future. Specifically, Waikato 2070 – the Council's growth and economic development strategy – projects that Raglan's local population could triple from 4,000 to 12,000 over the next 50 years.

About the Subject Site

14. The subject site ('**the site**') is owned by Koning Family Trust (KFT) and Martin Koning and is located on the rural fringe of Raglan, southwest of the township, as illustrated in Figure 1 below.

Figure 1: Location of Subject Site

15. The site comprises three contiguous parcels that span about 90 hectares. The smallest abuts the Raglan Golf Course on the eastern side of Te Hutewai Road. The remaining land is bound by residential and rural properties on Wainui Road in the northwest, Te Hutewai Road in the east, and rural land to the south. To the north of the site is land slated for new residential development. I understand that this land has been zoned Residential for a considerable period but remains undeveloped, and is unlikely to be developed in the foreseeable future, mostly due to lack of landowner willingness/ability.

16. Most of the site is zoned Rural under both the Operative District Plan (ODP) , except the smallest parcel which is zoned Coastal. It accounts for less than 4% of the site's total area. Under the Proposed District Plan (PDP), the entire site is zoned Rural and is subject to a Coastal policy overlay.

Summary of Raglan Housing Study

17. As noted above, a *Raglan Housing Study* was completed in mid-2018 to provide better information on the pressures facing the local housing market. The study's key findings include that:

a) Raglan's resident population increased by 21% from 2007 to 2017, which represented a significantly faster growth rate than the district average.

b) However, much of this growth was not met by corresponding increases in dwelling supply, with the number of new households growing at double the rate of new dwellings.

c) Raglan's housing market is more complex than other parts of the district due to its significant short-term rental market. In fact, the report estimates that short-term rentals (such as those listed on AirBnB) account for about 28% of the total housing market. Long-term rentals make up a further 22% of the housing market, with the remaining 50% being owner-occupied dwellings.

d) House and section prices had reached record levels over the previous 3 threes years (from 2015 to 2018) with the median house value reaching $580,000, and the median section fetching $355,000.

e) The number of long-term rental properties had declined in recent years, with the median rental value increasing by 30% between 2016 and 2018. The resulting weekly rentals in 2018 were about 40% of median household incomes.

f) There was projected demand for an additional 419 dwellings over the short term to 2026, and 1,284 dwellings over the longer term to 2046.

g) However, projected supply over the short term was roughly only a quarter of projected demand, with projected supply over the longer term equal to about only half of long-term demand.

h) Amongst other things, future supply is constrained by the availability of potable water and wastewater infrastructure to service new greenfield areas on the town's periphery, which is not expected to be available until after 2026.

i) Absent a strong supply response, projected demand will inflate prices, and make housing even less affordable.

j) To overcome these challenges, the report identifies various options for improving supply, including providing additional capacity in locations beyond those already earmarked in the ODP.

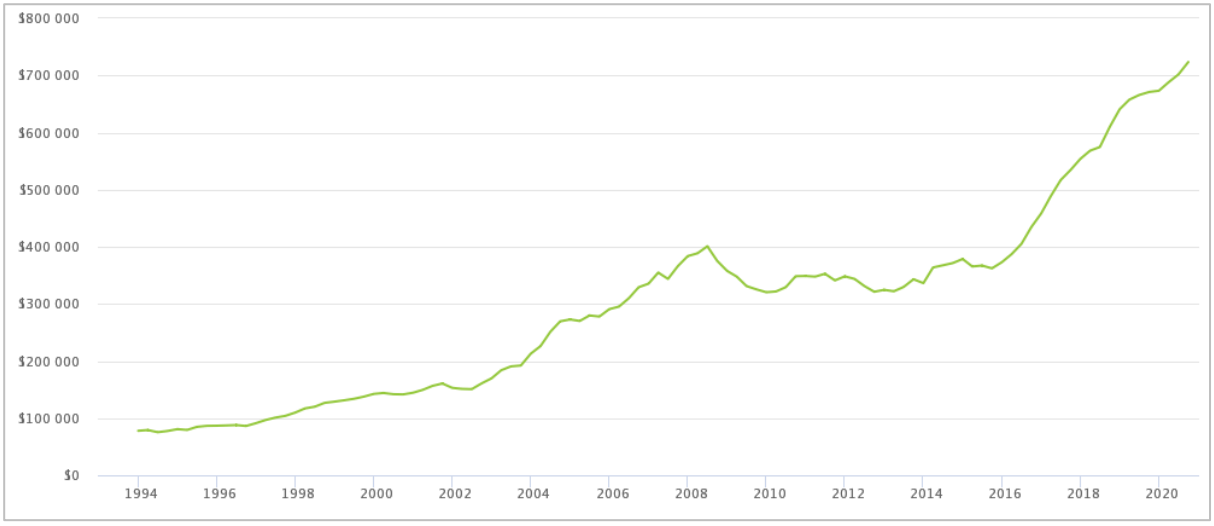
k) Finally, it recommended that the Council and large landowners in greenfield locations accelerate land development and infrastructure provision to meet demand. I return to this point later in this evidence.

Current Market Indicators for Raglan Housing Market

18. I used data published by the Ministry of Housing and Urban Development to examine how dwelling prices and rents have changed since the Housing Study was completed in August 2018. The graphs below present my findings, which confirm that prior trends have continued, and may even have accelerated.

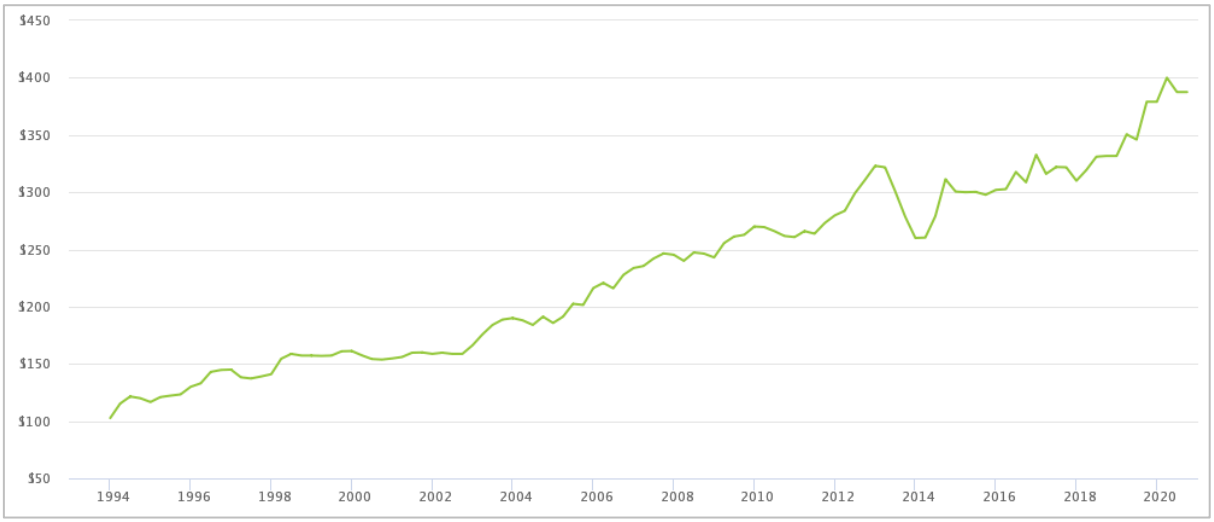
19. For example, Figure 2 shows that dwelling prices have continued to rise beyond 2018. In fact, the median value increased from $610,000 in September 2018 to $723,000 in September 2020, an increase of 19% in only two years.

Figure 2: Raglan Median Dwelling Prices (12 Month Rolling Average)



20. Figure 3 shows that rental values have also continued to increase, albeit at a slower pace than dwelling prices. Specifically, the median weekly rent in Raglan increased from $332 in September 2018 to $388 in September 2020 – an increase of 17%. By comparison, the national median rent grew only 6% over this period.

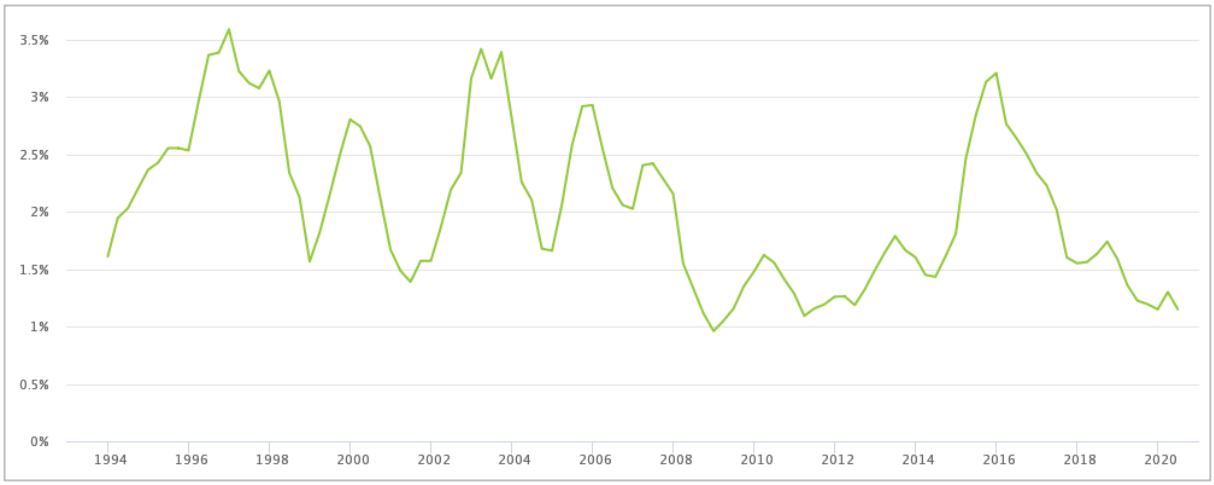
Figure 3: Raglan Median Dwelling Prices (12 Month Rolling Average)



21. These high dwelling prices appear to be driven, at least partly, by a lack of supply. This is illustrated in Figure 4, which shows that dwellings sales volumes for the latest quarter were just over 1% of the total dwelling stock,

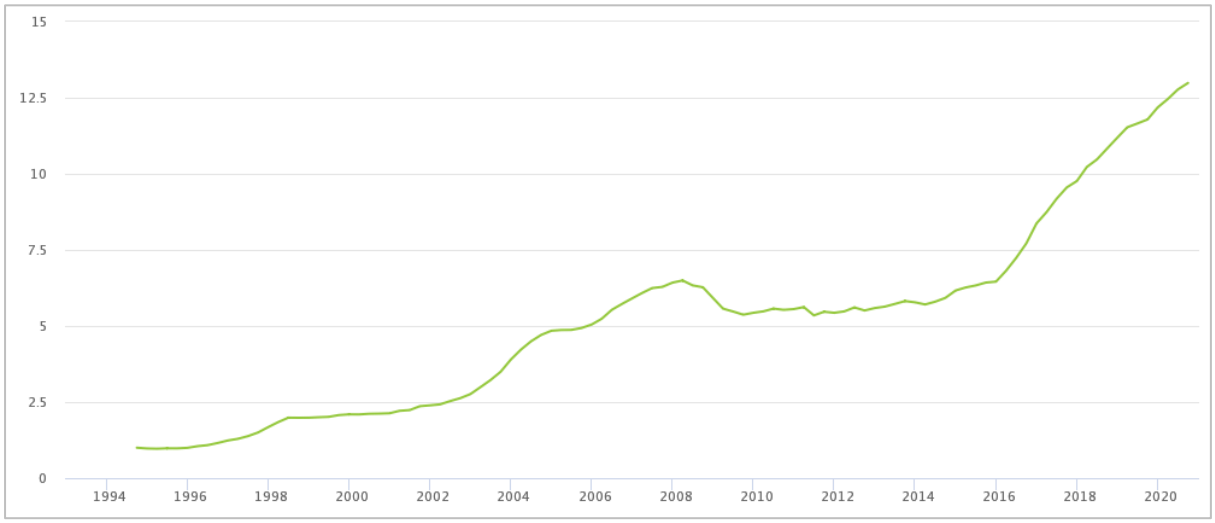
compared to more than 3% in some prior periods. Thus, an acute lack of supply appears to be a critical factor underpinning dwelling price inflation.

Figure 4: Raglan Median Dwelling Prices (12 Month Rolling Average)



22. In addition, land prices have also continued to increase rapidly. This is illustrated in the following graph, which is an index of land prices for a standard dwelling in Raglan. It increased by 20% over the last 24 months.

Figure 5: Raglan Median Section Value Index (12 Month Rolling Average)



23. In summary: the latest official data confirm that the housing pressures identified in the 2018 Raglan Housing Study have continued unabated for the last 2 years, and become even more acute. These growing pressures, in turn, seem to reflect a profound lack of land and dwelling supply relative to

demand. Put somewhat bluntly, insufficient land and dwellings are being provided to meet the strong demand for living in – or visiting – Raglan.

Dwelling Demand Projections

24. Estimating the likely demand for future dwellings is an important step in determining the amount of land required to ensure that supply and demand keep pace with one another over time. However, as noted earlier, Raglan's housing market is relatively complex due to the presence of a strong short-term rental market, which competes with demand for long-term rentals and owner-occupier dwellings.

25. A simple starting point is to consider the historic rate of dwelling growth, as embedded in building consent data. However, as noted in the 2018 study, the recent rate of dwelling growth has not kept pace with population growth, so this will be a poor proxy. In addition, this approach would not capture the amount of latent (or pent up) demand that exists today from households that recently moved to the area and are seeking a new dwelling.

26. Similarly, the traditional approach of converting population projections to estimates of future households also falls short because it fails to capture demand arising from the short-term rental market and the owner-occupied holiday home market.

27. Recognising these limitations, and to ensure a degree of consistency with earlier work, I adopted the dwelling demand projections contained in recent work by Market Economics for FutureProof.[1] This document contains detailed projections of dwelling demand for various townships within the Waikato District, including Raglan, and was also the source used to estimate dwelling demand in the 2018 Study. That report projects demand for an additional:

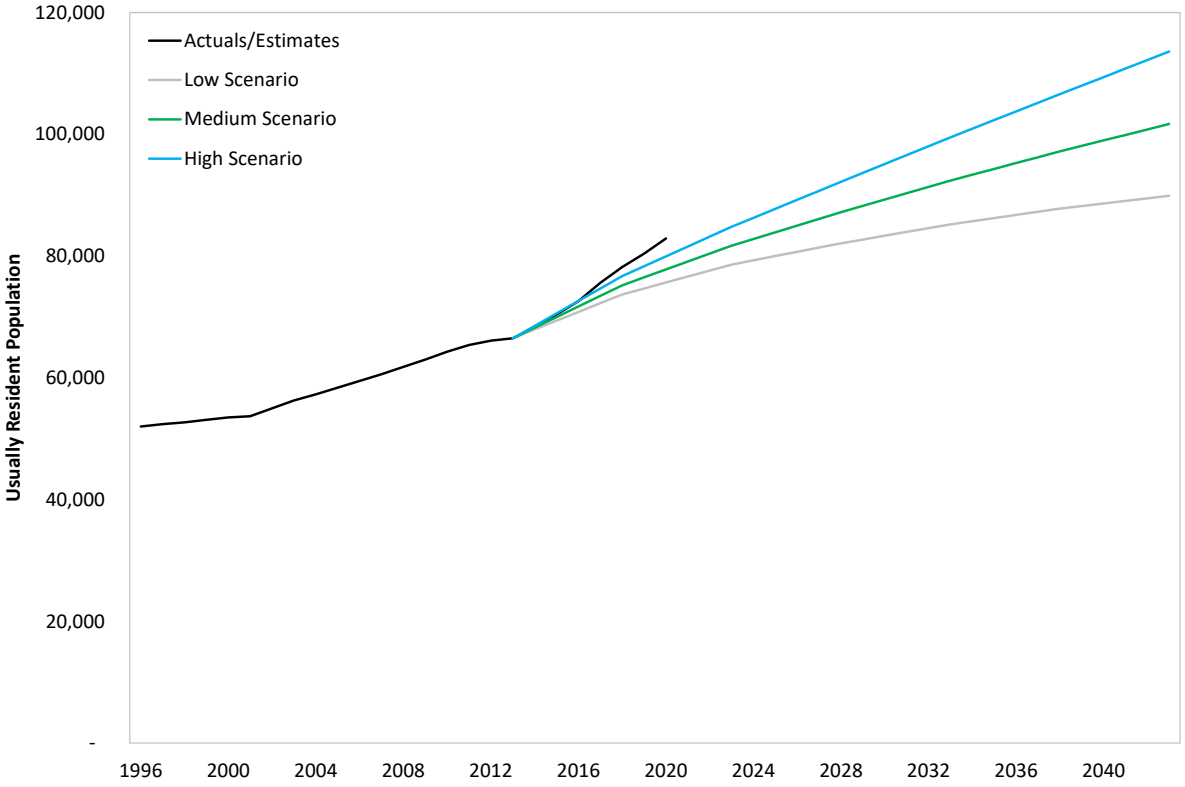
    i) 419 dwellings over the 10-year period ended 2026, and
    ii) 1,284 dwellings over the 30-year period ended 2046.

[1] http://www.futureproof.org.nz/file/market-economics-housing-development-capacity-assessment-2017_17-july-2018-final.pdf

28. While I consider these a reasonable starting point for assessing likely dwelling demand in Raglan over the medium- to long-term, I note that they incorporate medium scenario population projections for the district. Given the rapid population growth in Raglan over the last 5 to 10 years, a higher figure may be more appropriate for this area even if the medium projection applies elsewhere.

29. Indeed, even at the district-level, recent growth has placed the current population (as at June 2020) well above Stats NZ's high growth scenario. This is illustrated in the graph below.

Figure 6: Estimated Population As at June 2020 vs Stats NZ Projections



30. In addition, demand for new dwellings in Raglan may be much higher than expected because of the rapid shift towards working from home (WFH), a trend that had already begun pre-pandemic but was spiked by lockdown restrictions.

31. In 2018, according to Statistics New Zealand's Survey of Working Life, over a third of employees had worked from home at some point, though only around 3% reported 'mainly' working from home.

32. When the Covid-19 pandemic plunged New Zealand into lockdown earlier this year, an estimated 727,000 white-collar workers traded in the office for the dining table (around 29% of the national workforce). This paved the way for an unprecedented national experiment in home working, bringing to the fore a range of benefits for both sides of the ledger. These include increased productivity, reduced commute (with an associated drop in travel time, risk and carbon emissions) and reduced company overheads.

33. According to a University of Otago study of over 2,500 New Zealanders working from home during this period, 89% wished to continue working from home at least part of the time post lockdown. This increased demand for remote roles has seen online jobsites Seek and Trade Me Jobs recently introduce specific WFH search criteria.

34. With the rise of WFH, it is becoming increasingly feasible for working-age professionals to live outside the city. In the context of Raglan, this means that professionals from Auckland and Hamilton can leave the city in favour of more attractive and affordable living options.

35. While many of the companies employing these newly-mobile professionals are reconsidering their future office space requirements, most will retain a physical hub. As such, remote workers will be expected to continue to commute to the office periodically, making proximity and accessibility to the city an important factor for relocation. Raglan is well-placed to cater for this emerging segment, with its proximity to Auckland and Hamilton being enhanced by ongoing improvements to the State Highway network.

36. Coupled with the accelerated trend towards working from home, these state highway improvements will make Raglan a more attractive place to live, work and play than ever before. Accordingly, I consider the likely long-term demand

for dwellings in Raglan to be notably higher than estimated in the recent Market Economics report.

37. Finally, I note that recent strategy work undertaken by Waikato District Council also suggests that significantly higher dwelling growth is possible in Raglan. Specifically, Waikato 2070 – the Council's growth and economic development strategy – projects that Raglan's local population could triple from 4,000 to 12,000 over the next 50 years. This roughly equates to the need for an additional 2,800 dwellings by 2070.

Dwelling Capacity

38. The Market Economics (ME) report referenced above not only provides robust (if relatively conservative) estimates of dwelling demand, but also includes a comprehensive assessment of Raglan's capacity to provide for additional dwellings.

39. Specifically, ME first identify the amount of plan-enabled capacity for new dwellings provided in both Raglan's existing urban areas, plus its greenfield areas on the urban edge. Then, it adjusts these estimates to account for known infrastructure constraints. Finally, it assesses the commercial feasibility of future development on remaining land parcels.

40. Through this process, ME derive estimates of the number of new dwellings that can be (commercially-feasibly) constructed over the short, medium, and long term. These are summarised in the table below and represent the most optimistic scenarios portrayed in the ME report. Further, like the dwelling demand projections discussed above, these capacity estimates cover both Raglan, and Ngarunui Bay to the southwest.

Table 1: Raglan Capacity for New Dwellings

Plan enabled capacity	Years 1-3	Years 4-10	Years 11-30
Existing Urban	126	126	126
Greenfields	521	521	521
Total	**647**	**647**	**647**
Serviced with Infrastructure	Years 1-3	Years 4-10	Years 11-30
Existing Urban	126	126	126
Greenfields	88	88	509
Total	**214**	**214**	**635**
Serviced & Commercially Feasible	Years 1-3	Years 4-10	Years 11-30
Existing Urban	9	19	113
Greenfields	82	82	505
Total	**91**	**101**	**618**

41. Table 1 shows that Raglan has plan-enabled capacity for 647 extra dwellings across its existing urban and greenfield areas. However, of these, there is serviced and commercially-feasible capacity for only 91 dwellings over the short term, 101 over the medium term, and 618 over the longer term.

42. The notable gap between plan-enabled and serviced/feasible capacity is most pronounced over the short to medium term, where significant infrastructure constraints restrict greenfield capacity. Over the longer term, as the necessary infrastructure is provided, these constraints are eased and serviced/feasible capacity flourishes accordingly.

43. While I acknowledge the robust and generally-sound process applied by ME to derive these figures, I also note that their estimates of serviced and feasible capacity are not projections of likely future supply. Rather, they are an estimate of the maximum capacity that could be supplied if every serviced and commercially feasible parcel is (re)developed to provide additional dwellings.

44. This is clearly an important statistic, but likely market supply is only a fraction of it. Specifically, likely future market supply is the share of serviced and feasible plan-enabled capacity that is brought to the market over the short, medium, and long term. Thus, it excludes land whose owners have no plans to develop it, nor to sell it others with their own development aspirations. Similarly, likely future supply excludes land that may be constrained for reasons other than infrastructure, such as topography or contamination, or

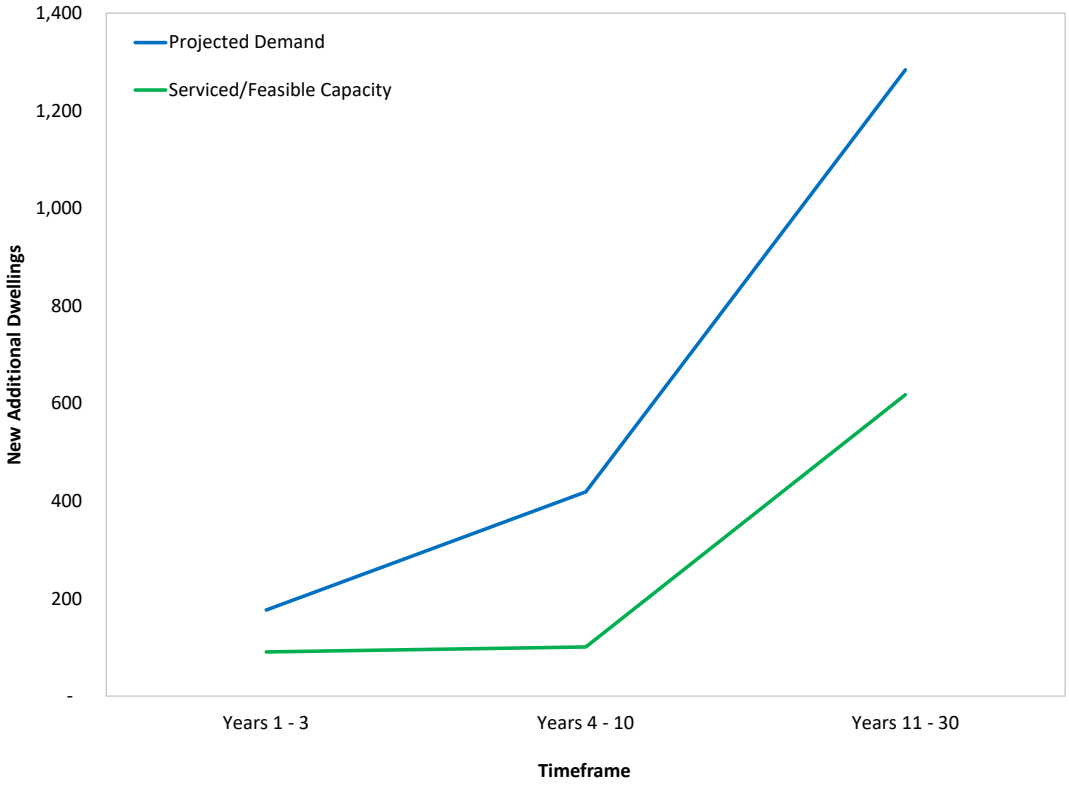
which is being actively withheld to capitalise on expected land price inflation (i.e. land banking).

45. As a result, likely market supply will be less than the estimates of serviced and feasible capacity contained in Table 1..

Dwelling Supply/Demand Balance

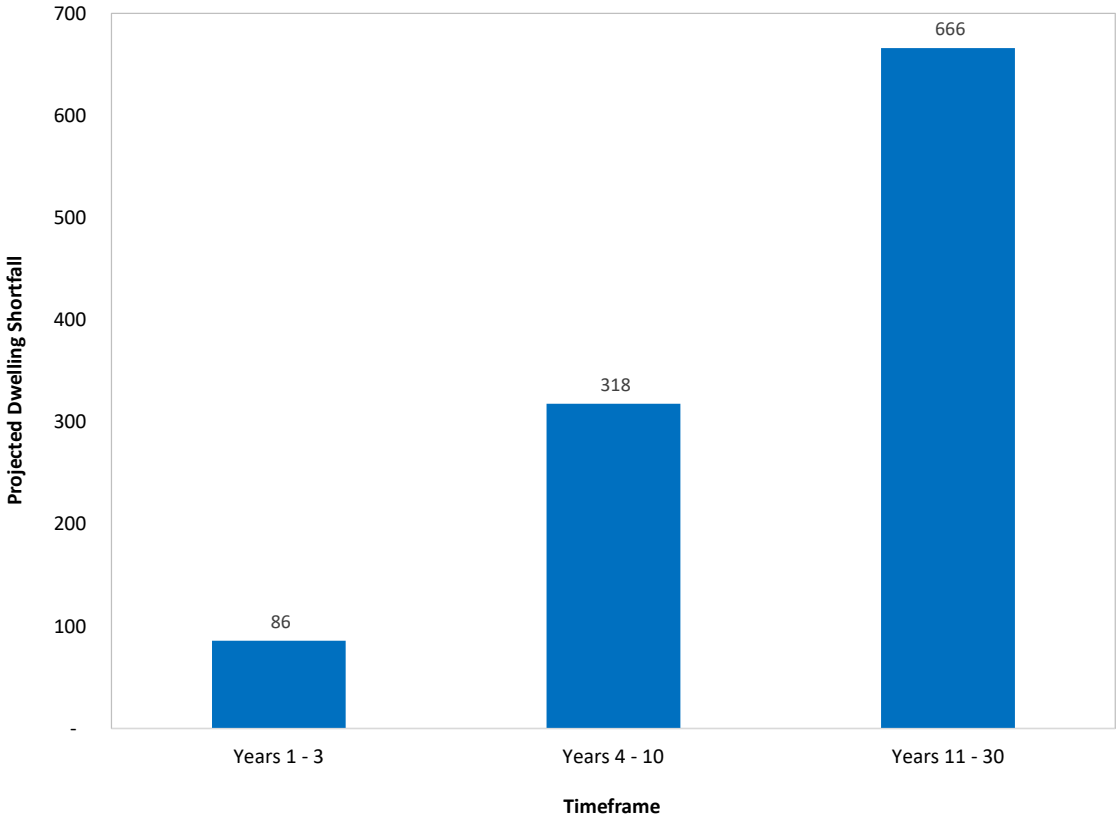
46. I reconciled the dwelling demand projections and feasible capacity estimates summarised above (from the ME report) to examine the resulting supply-demand balances over the short, medium, and long term. The graph below presents the results in summary terms.

Figure 7: Projected Dwelling Demand vs Serviced/Feasible Capacity



47. Figure 8 confirms that demand exceeds serviced/feasible capacity over all three timeframes, leading to significant shortfalls that increase over time. This is illustrated in the figure below.

Figure 8: Projected Dwelling Shortfall



48. The shortfalls illustrated above represent a significant challenge for both the Council and the Raglan community. The Council is in a particular bind, with no direct control over the demand for dwellings, nor the ability to compel local land-owners to provide additional dwellings, or to sell their land to others who can/will bring land and dwellings to the market in an orderly fashion.

49. To make matters worse, and as alluded to earlier, these estimated shortfalls are likely to understate the true extent of the problem. First, I anticipate that demand for new dwellings will exceed those in the ME report because of the massive shift towards WFH and the suitability of Raglan to that lifestyle. Second, the likely future supply of new dwellings will invariably be less than ME's serviced/feasible capacity estimates for the reasons discussed earlier. As a result, true market shortfalls will be even more acute than portrayed above.

50. This strongly suggests that both the Council and community need to actively consider any credible proposals to help bring more land and dwellings to the market to meet ongoing growth in demand.

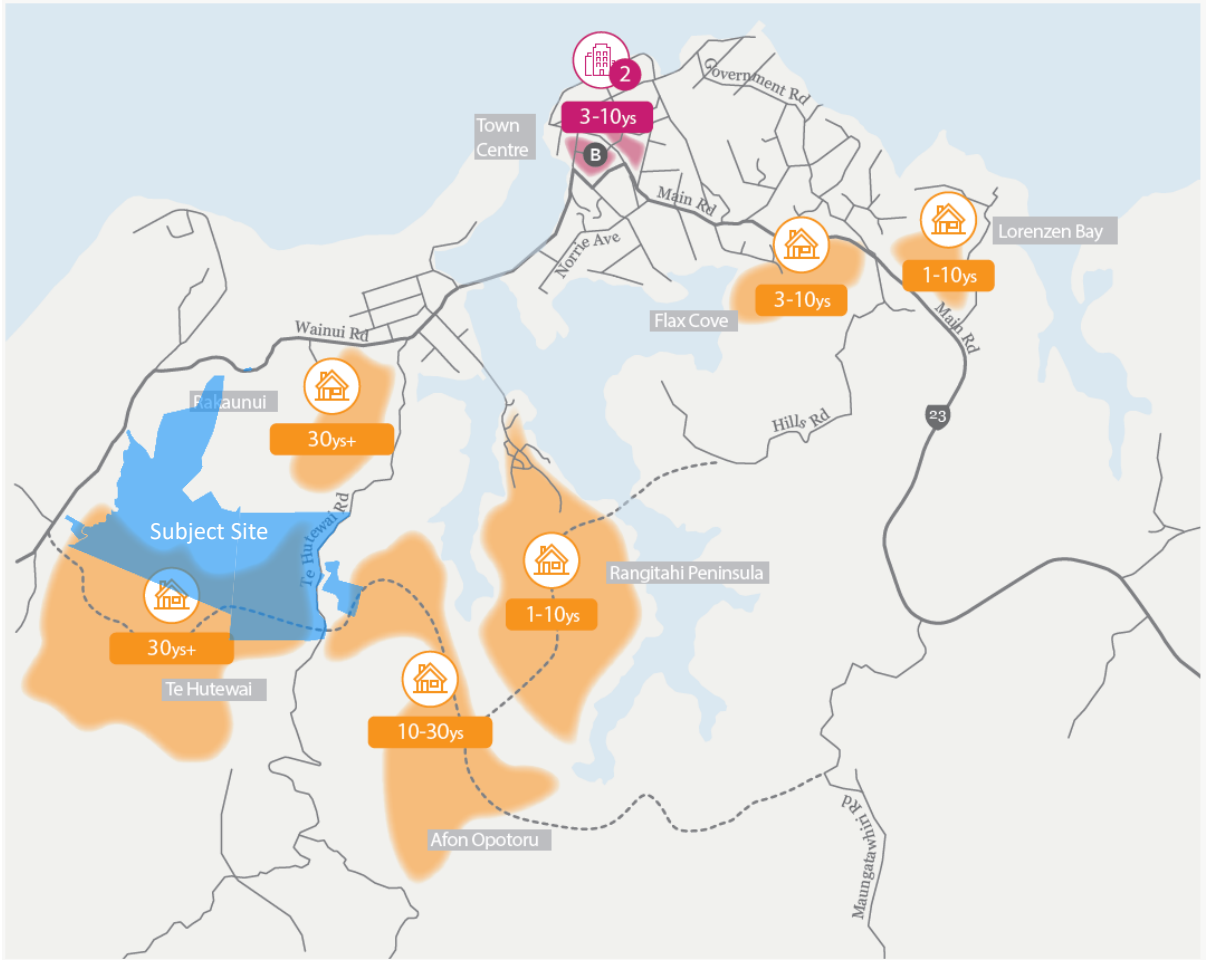
51. In addition, it is important to recognise the important economic benefits of increasing the range of supply choice in the market. This is because the rate of new supply will depend not only on the total feasible/serviced capacity enabled, but also the number of different landowners that can bring new supply to the market. All other things being equal, the greater the number of competing land owners vying to bring land and dwellings to the market, the greater the competition and hence the more competitive the prices offered. Thus, the proposal will enable both greater dwelling supply and increased land owner competition, which will benefit the local housing market through cheaper pricing than would have likely otherwise occurred.

Economic Impacts of the Proposal

52. Perhaps the most obvious and significant economic impact of the proposal is that it directly responds to the need for more residential supply in Raglan. With more than 90 hectares of land, the subject site has the capacity to accommodate several hundred dwellings and hence make a major contribution to rectifying the significant shortfalls depicted above.

53. In addition, as illustrated in the figure below, the subject site is surrounded by areas that have been notionally identified in Waikato 2070 as being suitable to accommodate future growth. In fact, the southern portion of the subject site directly overlaps one of those notional “future growth” areas, which further underscores the merit of the subject site for its proposed future use.

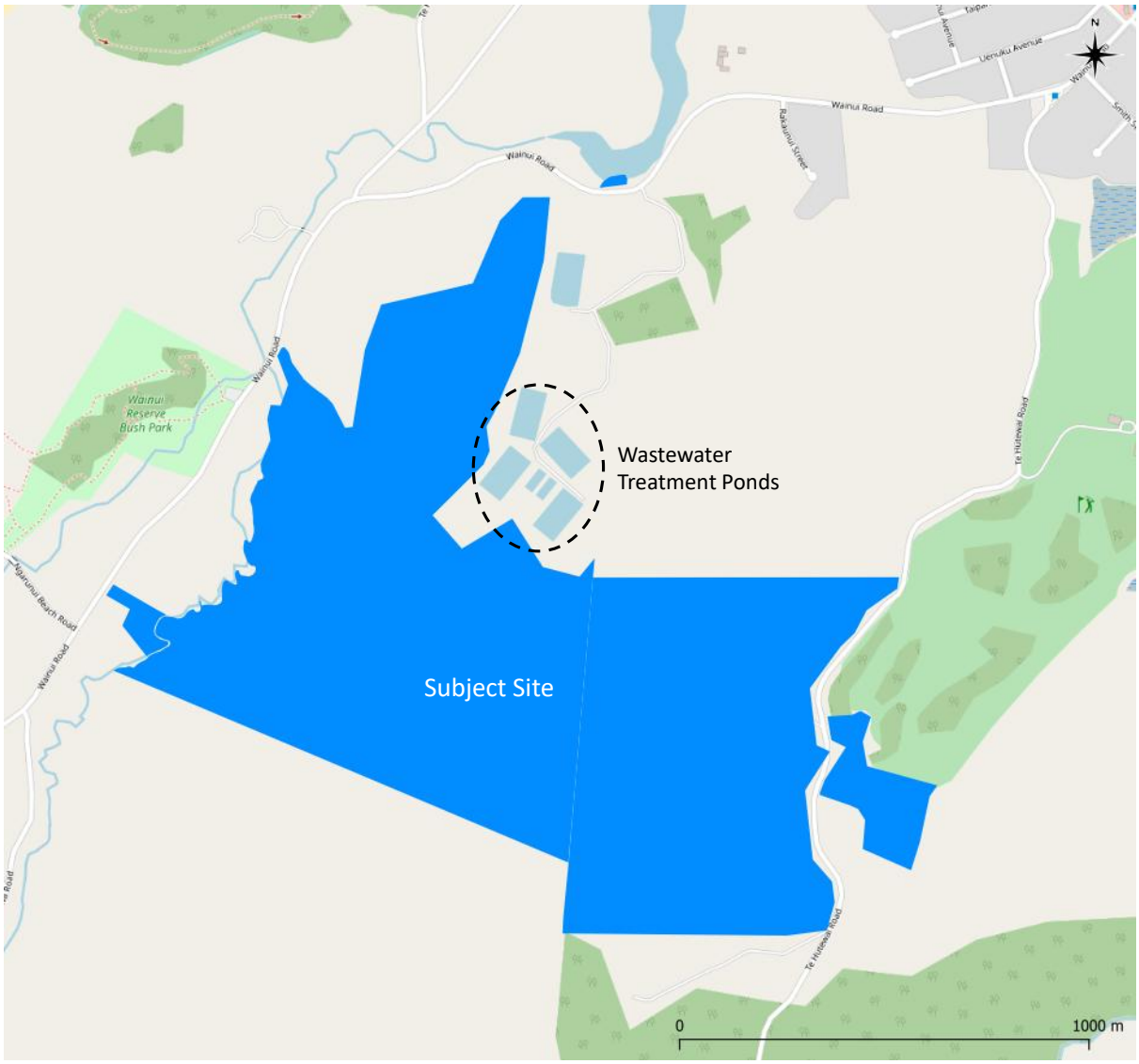
Figure 9: Location of Subject Site Relative to Waikato 2070 Growth Areas



54. Another advantage of the subject site is that it is directly adjacent to key infrastructure assets and hence will be relatively easy to service (acknowledging that work is required to expand the capacity of local infrastructure networks).[2] This proximity is demonstrated in the map below, where wastewater ponds lie directly north of the subject site.

[2] For the record, I note that local infrastructure capacity is constrained over the next 10 years because the required works are not programmed in the Councils current 10-year LTP. Having assisted Waikato District Council with development contributions and associated infrastructure matters for 12 years, I also acknowledge the significant cost and complexity of servicing relatively remote settlements like this. Accordingly, I recommend that the newly-minted Infrastructure Funding and Financing tool be considered as a possible alternative for funding the necessary works. I recently reviewed these for Waipa District Council, and consider them a credible alternative to traditional tools, such as DCs.

Figure 10: Proximity of Site to Wastewater Treatment Ponds



55. I also note that it is generally better to rezone land well ahead of demand due to the significant time required to ready it for development. Even once land has been rezoned to enable residential development, significant time and effort is required to secure the necessary earthworks consents, install local infrastructure on the site, and undertake necessary civil works. For a site like the proposal, this could take several years, so it is important to rezone now to enable it to be able to contribute to future supply as soon as practically possible.

56. I also note that, all other things being equal, a more generous supply of suitably-zoned land will enable the market to be more responsive to demand growth over time. In doing so, it will help to alleviate price pressure over time,

and help dwellings to be gradually more affordable than they would have been otherwise.

57. In addition to enabling prospective buyers to purchase dwellings at more affordable prices than they may have otherwise, the proposal will also have broader economic benefits. In short, by providing more affordable dwellings, future owners and occupants of the subject land will spend less on weekly rent or mortgage payments than they would have otherwise, which will boost disposable incomes. With a significant proportion of that extra money likely to be spent locally, lower future dwelling prices (relative to the status quo) will also create additional economic stimulus for the wider benefit of the local area through increased household spending over time.

58. Finally, I note that the eventual development of the land and subsequent construction of new dwellings will create significant economic stimulus, and provide jobs for dozens of local and district workers. Again, some of those incomes will be spent locally, and provide further economic stimulus to help sustain local businesses and make Raglan and even more attractive place for people to live, work, and play.

59. For example, I understand that the subject site could fit approximately 350 dwellings across its likely developable areas. To quantify the regional economic impacts of constructing these, I reviewed building consent data to determine the average size and construction cost of new dwellings built in Raglan over the last 10 years. The data showed that the average dwelling was just over 170m^2 and had an average construction cost of $2000 per m^2. Applying these figures to the 350 proposed new dwellings results in an estimated construction cost of nearly $120 million.

60. To convert this estimated construction cost to corresponding measures of regional economic impacts, I overlaid economic multipliers for the Waikato region derived by my company (which are widely used by public and private sector organisations across New Zealand). These multipliers capture both the direct economic effects of the proposed new construction, plus the flow-on effects. These flow-on effects arise due to supply chain spending by the

contractors and sub-contractors that will construct the proposed new dwellings, plus wider spending in the local economy by people employed as a result of the project (as alluded to above).

61. Table 2 below presents my estimates of the potential regional economic impacts of constructing 350 new dwellings on the subject site over time, based on the methodology and assumptions described above.

Table 2: Estimated Economic Impacts of Construction ($million)

Economic Impact Measures	Direct	Flow-On	Total
GDP $m	$22m	$38m	$60m
Employment (FTE-years)	290	440	730
Household Incomes $m	$10m	$20m	$30m

62. In short, my analysis shows that construction of the 350 dwellings enabled by the proposal would boost regional GDP by $60 million (including flow-on effects), provide full time employment for 730 people-years, and create $30 million of household incomes.

63. If construction was assumed to take 10 years, these translate to annual impacts of $6 million in GDP, full-time employment for 73 people, and household incomes of $3 million.

Summary of evidence

64. This evidence has addressed the likely economic impacts of rezoning a large greenfields site on the edge of the existing urban area in Raglan to meet the current and projected future demand for new housing in this locality.

65. To set the scene, I first identified the site and briefly described its receiving environment before summarising the results of a recent, detailed study on the Raglan housing market. That study confirmed that demand for housing as outstripped supply over the last few years and that this trend is set to continue absent a significant boost in local housing supply (like the proposal).

66. Next, I summarise the latest estimates of future dwelling demand and supply for the area, as contained in recent reporting undertaken pursuant to the NPSUDC. This also confirms that future housing demand will significantly outweigh dwelling capacity, and that additional supply is required to meet this demand over time.

67. Then, I discuss the likely economic impacts of the proposal. These include the benefits of helping to meet the growing gap between dwelling supply and demand, particularly given that parts of the site were identified in Waikato 2070 as suitable for future development.

68. In addition, I note that the development is also close to certain infrastructure networks and that enabling a generous supply of new residential land will help ease pressures in the wider Raglan housing market.

69. Finally, I note that the construction of proposed new dwelling on the subject site will generate significant economic stimulus, which will benefit the local and regional economies through increased GDP, incomes, and employment.

70. Given these significant economic benefits, and noting the absence of any obvious adverse economic effects, I support the proposal on economic grounds.

Dated: 4 February 2021

Fraser James Colegrave