BEFORE INDEPENDENT HEARINGS COMMISSIONER AT SELWYN

IN THE MATTER OF	Clause 21 of the First Schedule of the Resource Management Act 1991 (Plan Change 67)
IN THE MATTER OF	**GW WILFIELD LIMITED** (Applicant)

SUMMARY OF EVIDENCE OF FRASER COLGRAVE ON BEHALF OF GW WILFIELD LIMITED

ECONOMICS

Dated: 14 September 2021

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1.1 My evidence provides a detailed critique of the Council's latest Housing Capacity Assessment, as required under the NPSUD. It shows that the district faces significant capacity shortfalls over all three timeframes, which are not properly identified in the Council's assessment itself.

1.2 This is both because the Council's estimates of demand for additional dwellings are inordinately low, while its estimates of likely capacity to meet that demand appear grossly overstated.

1.3 When the various issues identified in my evidence are addressed to provide more reliable estimates of dwelling supply/demand, the district faces capacity shortfalls of about:

(a) 1,400 dwellings over the short term

(b) 7,500 over the medium term, and

(c) 20,000 over the long term

1.4 Accordingly, significant tracts of additional, developable land need to be identified and rezoned as soon as possible to meet NPSUD obligations, and to enable the efficient operation of the local land market.

1.5 Overall, and noting the acute shortfalls described above, it is my assessment that the proposal will provide strong economic benefits, including:

(a) Providing a direct boost in market supply to meet current and projected future shortfalls. According to the memorandum by Ben Baird dated 19 August, West Melton and Prebbleton face a shortfall of 1,678 dwellings over the medium term, and nearly 5,400 over the longer term. The proposal acknowledges and directly responds to this looming deficit;

(b) Bolstering land market competition, which helps deliver new sections to the market quicker and at better average prices;

(c) Helping to provide for a range of housing typologies to meet a diverse range of needs and preference, which is also required by the NPSUD;

(d) Contributing to achieving critical mass to support greater local retail/service provision, including the community's vision for a renewed Rolleston Town Centre; and

(e) The one-off economic stimulus associated with developing the land and constructing the dwellings that will be enabled there.

1.6 Conversely, the main economic cost is the loss of the land for rural production. However, since the land requires significant and costly irrigation to be used for agriculture/horticulture, this opportunity cost is minimal (as reflected in its current land value).

1.7 Given the strong and enduring benefits of the proposed plan change, and noting the absence of any material economic costs, I support it on economic grounds.

Response to Mr Tallentire

1.8 Mr Tallentire has provided evidence on behalf of ECan and CCC, which included a response to my evidence for this plan change. I have reviewed his statement and make the following comments in response.

1.9 Mr Tallentire considers that the 2021 capacity assessment that I critiqued is generally consistent with requirements for preparing them, including the use of population projections as the initial basis for an assessment of housing demand

(a) I disagree. The demand projections used in the assessment significantly understate recent trends, and its estimates of capacity are fundamentally flawed, as described in detail in my evidence in chief.

1.10 Mr Tallentire considers that the FUDAs should be included in the estimates of medium term capacity because Change 1 to the CRPS is now operative.

(a) This is incorrect. The NPSUD is clear that capacity must be zoned accordingly for residential development in either an operative or proposed district plan to qualify as medium term capacity. The FUDAs are not zoned appropriately and therefore fail this test. Consequently, they must be excluded. Noting that in this context *"land is zoned for housing or for business use (as applicable) only if the housing or business use is a permitted, controlled, or restricted discretionary activity on that land"* (NPSUD Part 3.4(2)).

1.11 Mr Tallentire notes that I have misinterpreted the net density calculations for the FUDAs and that my figures should be adjusted accordingly.

(a) I acknowledge this point and have updated my figures accordingly. However, this has no impact on the short or medium term capacity figures, and has only a minor impact on long-term capacity with a shortfall of nearly 20,000 dwellings remaining. Thus, this omission has no impact on the overall findings and conclusions of my evidence in chief.

1.12 Mr Tallentire disagrees with my critique of the 6% developer margin used in the capacity assessment and claims to be "aware of developers that are comfortable with margins below 20%."

(a) That may be so. However, Mr Tallentire has not provided any evidence of developers that are willing to accept a 6% return, which is the value used in the assessment.

(b) I have worked for dozens of developers across New Zealand, and have also worked alongside numerous registered valuers over the last 20 years. The lowest target return that I've ever seen tabled by any valuer or developer in their feasibility assessment was 20%, with a preference to use 25%.

(c) A target return of 6.6% could only ever be considered a "black swan" scenario that might be used to assess the worst possible case, but it would never be used as the baseline assumption.

(d) Indeed, the official guidance from MBIE is to adopt the default value of 20% and only use lower values upon review from the

development community. This does not appear to have occurred, so to suddenly adopt a target return that is three times lower than the default without any sensitivity testing makes no sense to me and has produced misleading and implausible feasibility figures.

(e) Putting all that aside, I note that my revised supply/demand estimates did not even adjust for this inordinately low target return, yet the district still faces alarming capacity shortfalls over all three timeframes.

1.13 Elaborating on the low profit margin used in the capacity assessment, Mr Tallentire notes that section prices have increased markedly in recent times, which will have improved the feasibility of land development.

(a) This misses the point, because the debate about the 6.6% return related to house construction (not land development). For house builders, higher section prices mean higher input costs, which *reduces* their viability.

1.14 Mr Tallentire considers that the various market factors that I have identified as limiting supply (such as developer intentions, tax implications, operational constraints, and so on) will not be significant over the medium term.

(a) The market data provided by Mr Sellars for this plan change strongly suggests otherwise. It shows that there are only about 38 sections currently available in Rolleston from a supposed short-term capacity of more than 2,000. Clearly, these various market constraints have profound impacts on available supply, just as I noted they would.

1.15 Finally, Mr Tallentire appears to consider that the triennial capacity assessment process is the most appropriate way to identify and plan for additional capacity to meet shortfalls.

(a) I agree that the HBA process can be a useful avenue to provide for future capacity, but they are not the only way, nor necessarily the best.

(b) The issue is timing. In short, with a 3-year gap between each HBA, and given the very long lead times associated with both land development and house construction, relying just on HBAs to address capacity shortfalls is flawed, in my view.

(c) A far more responsive approach is desirable, both from a market and regulatory (i.e. NPSUD) perspective.

Table 1: Revised Dwelling Supply/Demand Estimates

Scenario 1: Excluding Future Urban Development Areas (FUDAs)

Timeframes	Feasible Capacity	Likely Market Supply	Demand incl buffer	Surplus/Shortfall
Short Term	4,090	2,454	3,886	-1,432
Medium term	5,764	4,323	11,819	-7,496
Long term	5,764	5,187	30,438	-25,251

Scenario 2: Including Future Urban Development Areas (FUDAs) @ 12.5 hh/ha

Timeframes	Feasible Capacity	Likely Market Supply	Demand incl buffer	Surplus/Shortfall
Short Term	4,090	2,454	3,886	-1,432
Medium term	5,764	4,323	11,819	-7,496
Long term	10,656	9,591	30,438	-20,847

Scenario 3: Including Future Urban Development Areas (FUDAs) @ 15 hh/ha

Timeframes	Feasible Capacity	Likely Market Supply	Demand incl buffer	Surplus/Shortfall
Short Term	4,090	2,454	3,886	-1,432
Medium term	5,764	4,323	11,819	-7,496
Long term	11,756	10,581	30,438	-19,857