PROPERTY ECONOMICS

MATAMATA INDUSTRIAL PLAN CHANGE ECONOMIC PEER REVIEW

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W: www.propertyeconomics.co.nz E: tim@propertyeconomics.co.nz P: 09 479 9311 PO: Box 315596, Silverdale 0944

SCHEDULE

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CONTACT DETAILS

Tim Heath

Mob: 021 557713

Email: tim@propertyeconomics.co.nz

Web: www.propertyeconomics.co.nz

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1. INTRODUCTION

Property Economics has been engaged by the Matamata-Piako District Council (MPDC) to undertake a peer review of the economic report undertaken by Market Economics (ME) titled 'Matamata Industrial Land Economic Assessment for PPC', dated 4 November 2021, for Calcutta Farms No. 2 Limited (the Proponent). This economic report was submitted as part of a Proposed Plan Change (PPC) application to rezone circa 41.4ha of land on Tauranga Road (SH24) from Rural to Industrial under the Matamata-Piako District Plan.

In particular, this review focuses on the appropriateness of the assumptions, methodology and interpretations of the ME industrial land capacity sufficiency assessment. It also assesses whether material trade competition and retail distribution effects are likely to be generated by the PPC if trade and building supply activity was permitted.

Ultimately, Property Economics forms a view on whether the PPC can be supported from an economic perspective in the context of the RMA.

1.1. OBJECTIVES

The core objectives of this peer review include:

- Review the aforementioned ME report and its approach / methodology in respect of appropriateness to the questions it attempts to answer.
- Undertake a high-level analysis of the broader district and localised catchment growth for cross-checking the industrial land demand projections in the ME report.

- Critique the industrial land vacancy analysis and its appropriateness to determining and shortfalls in Matamata's industrial land supply.
- Review ME's retail distribution effects discussion on the Matamata Town Centre (MTC) in particular. This includes a discussion on the difference between trade competition and retail distributional effects in the context of the RMA.
- Identify other economic matters that need to be assessed to complement the ME report findings and conclusions.

1.2. DATA SOURCES

Information has been obtained from a variety of reputable data sources and publications available to Property Economics, including:

- ANZSIC[1] system – Stats NZ
- Business Demography Data – Stats NZ
- Business Development Capacity Assessment 2021 For Future Proof Partners – Market Economics
- Catchment Map – Google Maps, Property Economics
- District Plan – MPDC
- Land Use Capability 2021 – NZLRI
- Meshblock 2018 Boundary – Stats NZ
- National Policy Statement on Highly Productive Land – Ministry for the Environment
- Population and Household Estimates and Projections – Stats NZ

1.3. PROPOSED PLAN CHANGE OVERVIEW

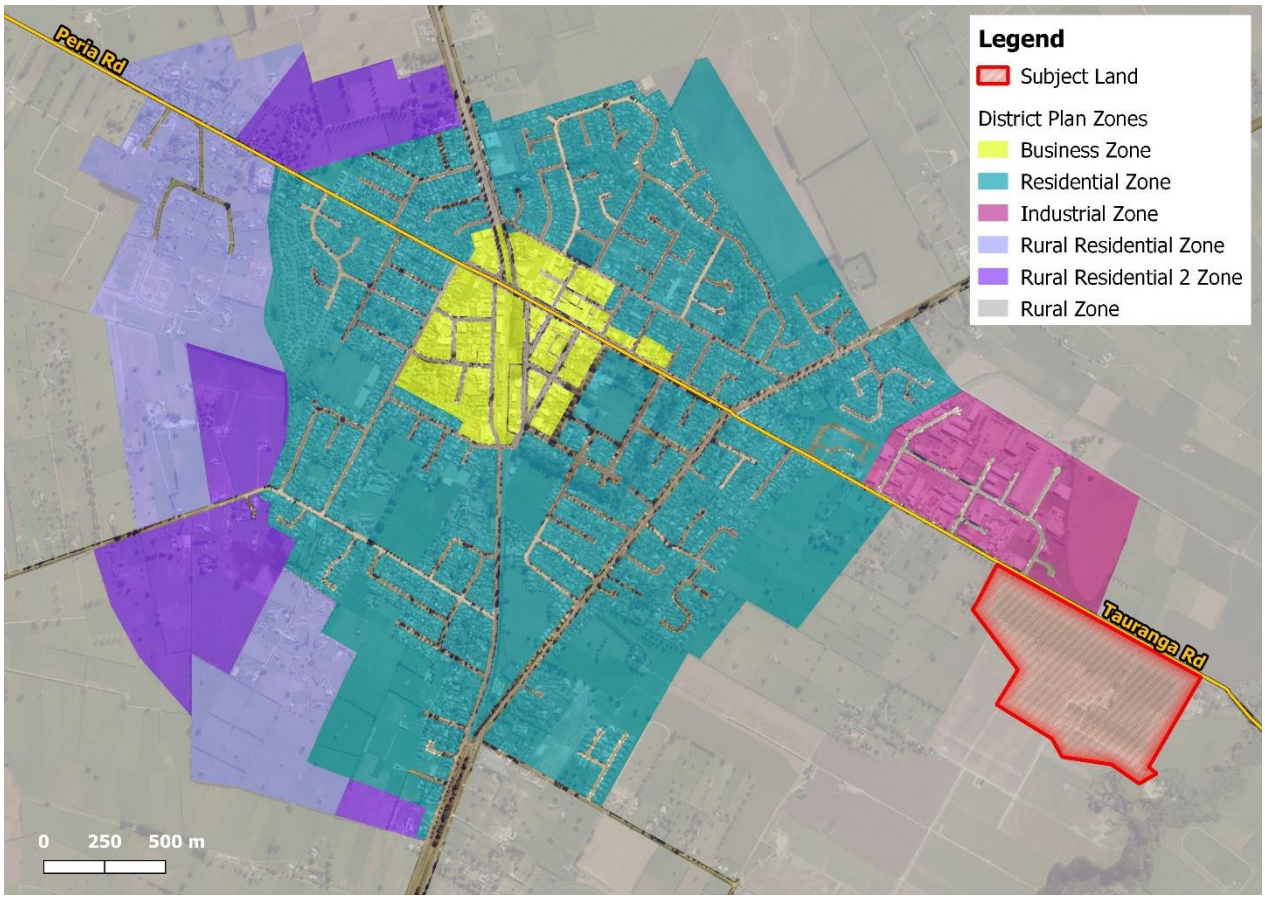
The Proponent seeks to rezone a circa 41.4ha of land on SH24 / Tauranga Road from the current Rural zoning to Industrial under the MPDP.

The following figure shows the location of the subject land in the context of the Operative District Plan zones.

[1] *Australia New Zealand Standard Industrial Classifications 2006*

The subject land is directly adjacent to the existing Industrial Zone on the northern side of Tauranga Road and can be regarded as extending the current main industrial hub in Matamata, albeit on the southern side of SH24.

FIGURE 1: SUBJECT LAND IN THE CONTEXT OF EXISTING ZONES



Source: Property Economics, MPDC, LINZ

2. REVIEW OF THE ME ASSESSMENT APPROACH

THE ME ASSESSMENT APPROACH OVERVIEW

The economic assessment approach of industrial land capacity sufficiency in the ME report contains three steps:

i) identifying supply
ii) forecasting demand, and
iii) assessing sufficiency.

Firstly, the ME report identified the existing industrial land supply based on a range of spatial data layers of the industrial zone, ground-truthing and economic considerations of likely development constraints on the vacant land.

Secondly, the ME forecast of industrial land demand was based on industrial employment projections and assumptions on land per employee ratios for the main industrial areas. The (current) occupied land per employee ratio is estimated to be around 900sqm, 1200sqm and 1,500sqm in Matamata, Waharoa and Morrinsville South, respectively. The input range applied by ME to guide the land demand forecast was 500sqm for the Low ratio scenario and 800sqm for the High ratio scenario.

This lower land per employee ratio applied is conservative relative to the current ratios which means the industrial land projection would be slightly lower if current levels are applied. This would indicate ME are utilising a ratio that would require a more efficient utilisation of the future industrial land provision. Economically this is a good direction, but there is a need to be careful to not '*undercook*' the future industrial land requirements. At a high level, and based on Property Economics analysis of other industrial areas around NZ, this would appear not to be the case with industrial land uses becoming more efficient over time.

Finally, ME's calculation of industrial land sufficiency resulted from cross-referencing the current industrial capacity and the projected demand estimated in the previous two stages.

These steps are considered appropriate from a methodological point of view for the purposes of determining industrial land capacity and sufficiency moving forward.

ALIGNMENT WITH THE FUTURE PROOF FRAMEWORK

The Business Development Capacity Assessment (BDCA) 2021 approach adopted by the Future Proof Partnership (FPP) contains three broad steps: assessing demand, assessing capacity, and assessing the sufficiency of capacity to meet demand. The ME approach to assessing industrial land demand and supply aligns with the Future Proof framework.

This is to be expected given the BCDA involved ME, so there is consistency between the two documents in terms of methodology.

However, Property Economics notes that the demand estimated by ME in their economic assessment for the Calcutta Plan Change did not apply the NPS-UD buffers / margins used under the Future Proof framework. As part of NPS-UD, councils are required to allow for a competitive margin over and above projected demand (20% for the short and medium term and 15% for the long term).

Note that this is not a major flaw in the ME assessment. However, it would be useful to incorporate these buffers into ME's assessment framework for the subject plan change to ensure that a consistent approach is applied and MPDC can confirm industrial land sufficiency under the same methodology.

INDUSTRIAL LAND CAPACITY ASSESSMENT PROCESS

The ME report adopted a GIS-based assessment to identify undeveloped potential industrial land capacity at the parcel level within the zoned areas. A range of spatial data layers was combined to generate an initial estimate of the vacant or undeveloped industrial sites. This estimate was then verified by the ground-truthing process undertaken by Veros, with the consideration of any constraints on these sites.

Property Economics considers that the ME / Veros approach is appropriate for the purpose of a land capacity and vacant land assessment. Therefore, the current developed and vacant industrial land provision estimated by the ME report are considered valid.

INDUSTRIAL LAND DEMAND FORECAST ASSUMPTIONS

To forecast the future industrial land demand within the district, ME has employed the Waikato Regional Economic Futures Model (EFM) to obtain employment projections by location and industry sector. This is consistent with the model utilised by ME to generate employment projections for Future Proof BDCA 2021.

As identified earlier, the ME report relied on assumptions on land per employee.

As a high-level cross-check, Property Economics has estimated the industrial land per employee ratios for three industrial zones based on Stats NZ employment count data from their Business Frame database and the developed land area estimates in Table 4-1 of the ME report.

As indicated in the following table, the estimated land per employee based on 2020 employment data[2] shows no material variance from the ratios applied in the ME report. As such, Property Economics concurs with the current land per employee ratio range identified in the ME report.

[2] *The 'current' year was 2020 in the ME report.*

TABLE 1: ESTIMATED 2020 INDUSTRIAL LAND PER EMPLOYEE RATIOS

Industrial Zone	Developed Land (ha)	Employment Count (2020)	Land Per Employee (sqm)
Matamata	33.2	341	970
Waharoa	35.4	257	1,380
Morrinsville South	41.3	270	1,530

Source: Property Economics, Stats NZ, ME.

Note: Land per employee ratios is rounded to nearest ten.

SENSITIVITY OF THE INPUT ASSUMPTIONS

In Section 5.2.1., ME stated that "*lower ranges were applied to ensure the assessment of demand remained conservative*". This was for two reasons:

i) the lower ratios "*allow for a proportion of the future employment growth to be met through employment growth within existing businesses*";

ii) "*a share of the industrial employment demand is likely to be met within the Business Zone area within each township due to the overlap in activity types anticipated within these zones*".

Property Economics agrees with these considerations because not all projected industrial employment growth will be translated into additional demand for land. As existing businesses continue to grow over time, an increasing number of employees would be working within existing industrial businesses.

As the ME input assumption (500-800sqm) is lower than the current ratios, it can be expected that the application of a higher range of ratios would increase the industrial land demand. This would consequently lead to a more significant shortfall in industrial land capacity to satiate the projected demand.

Applying a higher range of ratios would not materially influence the high-level modelling outcome of the ME report. That is, the industrial land capacity would remain insufficient over the next 30 years for the district. However, more significant demand may suggest that the proposed industrial land would be more urgently required in the foreseeable future than forecasted in the ME report.

In Property Economics view, the assumption validity would also depend on the industrial composition of the district. Manufacturing, Transport, Postal and Warehousing and Construction often have more extensive land requirements. This would lead to higher land per employee ratios for these sectors, albeit improved business efficiencies are driving this ratio down year on year for businesses to remain competitive.

Having assessed the current (2021) industrial employment composition of the district based on Stats NZ latest Business Demography data, Manufacturing is found to be the largest industrial

sector within the district, with an employment base of 4,125 people. This is followed by Construction with an employment of 1,205 people. As shown in the table below, Manufacturing and Construction cumulatively account for around 75% of the district's total industrial employment base in 2021.

On balance, Property Economics concurs with ME's assumptions and considers that 500-800sqm is an suitable range to forecast the future industrial land demand of the district.

TABLE 2: DISTRICT INDUSTRIAL EMPLOYMENT COUNT IN 2021

ANZSIC	2000	2010	2021	2000-21 Growth	
				#	%
A Agriculture, Forestry and Fishing	176	210	225	49	28%
B Mining	8	5	11	3	40%
C Manufacturing	2,572	3,426	4,125	1,553	60%
D Electricity, Gas, Water and Waste Services	14	5	12	-2	-15%
E Construction	606	856	1,205	599	99%
F Wholesale Trade	293	430	681	388	132%
I Transport, Postal and Warehousing	485	640	754	269	55%
L Rental, Hiring and Real Estate Services	26	50	58	32	120%
Total All Industries	**4,180**	**5,622**	**7,071**	**2,891**	**69%**

Source: Stats NZ

2. MARKET GROWTH ASSESSMENT

To determine the industrial growth potential of the district, it is considered important to assess the district's historical, current, and expected population and household growth based on Stats NZ's latest (June 2021) High, Medium and Low growth projections (2018 base). This assists in determining the current and future market size (and employment base) and future growth potential of the PPC.

However, ME has not provided this aspect of their assessment, as such Property Economics cannot review such analysis.

As such Property Economics undertook some high-level analysis to assess the population and household growth for the broader district and the localised Matamata catchment. Property Economics considers that the projected industrial employment outlined in the ME report for the district is generally consistent with Stats NZ population projections for these two areas on a proportional basis.

The ME report forecast that the district is likely to experience a 10% net growth in industrial employment from around 8,370 people in 2021 to 9,220 people in 2051, based on the Medium growth projections. This trend is generally consistent with the Stats NZ Medium growth scenario, which suggests that the district would experience an 8% growth in resident population over the next 27 years (2021-2048).

This needs to assume that the district will continue to have the current (industrial) employment rate with no significant shocks to the local economy that may lead to a sudden decline (or surge) in industrial employment over the forecast period.

As such, the future industrial land demand estimates presented in the ME report based on the land per employee ratios assumption and the projected industrial employment growth are considered sufficient to reflect the industrial land requirement of the district over the next 30 years.

4. TRADE COMPETITION VS RETAIL DISTRIBUTION EFFECTS

MPDC as requested Property Economics consider the potential for adverse trade and retail distributional impacts of the proposed Industrial Zone to be generated on the Matamata Town Centre with trade retail activity having a Permitted activity status.

In terms of assessing potential retail economic effects under the RMA there is first a need to differentiate between trade competition effects and flow-on retail distribution effects. By themselves, trade competition effects are not justification for declining a retail consent application under the RMA, unless they are of a level that generates significant adverse flow-on retail distribution effects on the existing centre network of the area. It is within this broader context that the relative merits of the application need to be considered.

Retail distribution effects are generated by, and are the result of, consequential trade competition and retail activity disbenefit effects. These effects can range across the spectrum (positive and negative) depending on the level of effects generated, which are heavily dependent on the scale, type and location of the proposed activity, among other attributes.

As such, it is accepted case law, that Councils should have regard to significant effects on the amenity of the public caused by any reductions in the viability or vitality of the commercial centres that arise as a consequence of trade competition, i.e. often termed "distributional" or "consequential" effects.

Where the patterns of support and retail activity within an existing centre would not change dramatically within a locality as a consequence of a proposed activity, then the retail distribution effects are not considered to be significant.

Justice Randerson J (High Court, CIV-2003-404-5292) stated "*The key point of distinction between the adverse effects of trade competition on trade competitors and adverse effects which may properly be considered under the RMA, is that trade competition effects focus specially on the impacts on individual trade competitors. In contrast, where a proposal is likely to have a more general effects on the wider community, then the RMA permits consideration of those effects.* (para 60)……".

The Supreme Court in the Discount Brands Decision[3] stated *"An important matter which the Council's Regulatory and Hearings Committee needed to inform itself upon was the effect which the activity proposed might have on the amenity values of the existing centres – on the natural or physical qualities and characteristics of those areas that contributed to people's appreciation of their pleasantness, aesthetic, coherence and cultural and recreational attributes. Such effects on amenity values would be those which had a greater impact on the people and their communities than would be caused simply by trade competition*".

[3] *Discount Brands Limited v Westfield (New Zealand) Limited (2005) 2 NZLR 597(SC) also reported as Westfield (NZ) Ltd v North Shore CC [2005] NZSC 17; [2005] NZRMA 337 (SC).*

Collectively, those decisions emphasise and establish that where trade competition produces social and economic effects that are not significant and are not beyond the effects ordinarily associated with trade competition, those effects are to be disregarded when assessing an application.

Put another way, retail distribution effects would occur where a new business (or cluster of businesses) affects an existing centre to such a degree that it would erode a centre's viability, causing a decline in its function and amenity, and disenabling the people and communities who rely upon those existing (declining) centres for their social and economic wellbeing.

Retail distributional effects are differentiated from the effects of trade competition on trade competitors, which are to be disregarded pursuant to s104 (3)A of the RMA when considering resource consent applications. Although retail distributional effects are a relevant consideration for a consent authority, it should be noted that Environment Court case law has made it clear that those effects must be significant[4] (but not necessarily ruinous) before they could properly be regarded as going beyond the effects ordinarily associated with trade competition.

It is within this context that the potential effects of the PPC should be considered.

Trade activity is generally excluded from retail distributional effects assessments due to their limited ability to generate significant adverse retail distributional effects. These activity types typically are not treated or classified as retail stores, have a high proportion of business-to-business trade and sell products not necessarily duplicated in retail sectors store types typically established in main street environments.

In most cities and towns around the country trade activities locate on light industrial zone land, or in fringe commercial locations. This is particularly applicable to large footprint home improvement and building supply stores due to their site size requirements, which are typically at least 2ha. These activities do not operate and function like a retail store and have a significant trade component.

In Matamata's case, the town centre does contain some trade activity as part of its town centre business zone. However, its core retail precinct does not rely on such activity to play its role and function, and therefore this would not be undermined by the PPC.

On balance, Property Economics consider trade supply activity within the Industrial Zone has limited, if any, propensity to generate significant adverse retail distributional effects on the commercial centre network of Matamata or the wider district.

[4] *Northcote Mainstreet vs North Shore City Council (High Court, CIV-2003-404-5292), Randerson J stated: "In regard to shopping centres, I would not, with respect, subscribe to the view that the adverse effects of some competing retail development must be such, as to be ruinous before they could be considered. But they must, at the least, seriously threaten the viability of the centre as a whole with on-going consequential effects for the community served by that centre."*

5. OTHER ECONOMIC CONSIDERATIONS

One economic issue that has not been well canvassed in the ME report is the locational viability of the proposal within Matamata. ME has provided a brief discussion in Sections 7.2-7.3 to illustrate the consistency of the subject site with Matamata's spatial structure and the feasibility of Matamata as a place to locate additional industrial land supply in contrast to other industrial activity nodes within the district.

In Property Economics view, the location viability assessment of the PPC would also need to include an assessment of the economic costs of the irreversible loss of Class 1 high productive land against and an assessment of possible alternative locations within Matamata that could accommodate the proposed land uses.

Note, the loss of high productive land is not a fatal issue by itself impacting the potential outcome of the PPC. However, it is considered an important factor for two main reasons.

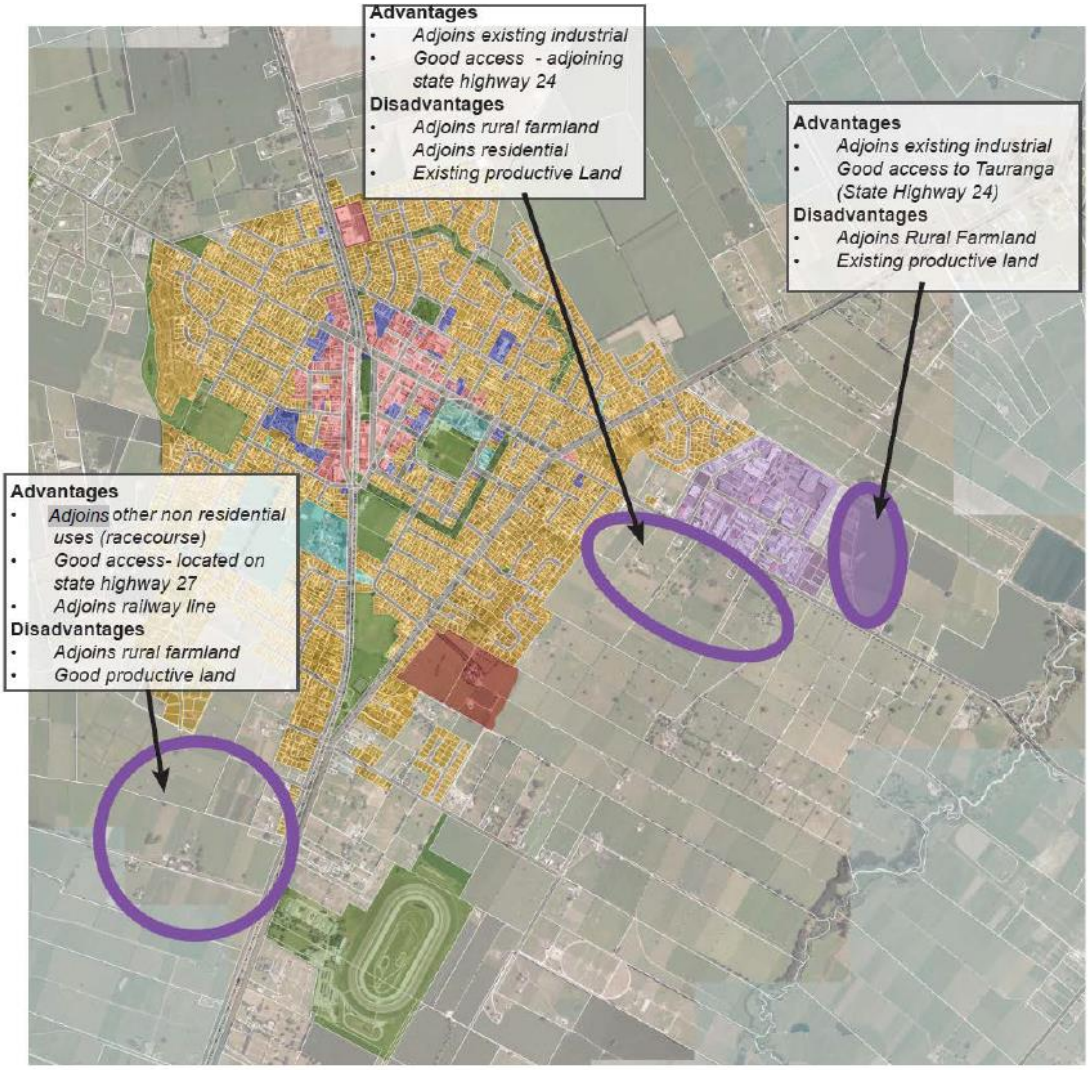
Firstly, the proposed National Policy Statement on Highly Productive Land (NPS-HPL) would require councils to avoid urban development and growth on highly productive land, where possible. Although the NPS-HPL is yet to be gazetted, it is considered important for the Council to understand the economic costs associated with the irreversible loss of productive land due to the PPC.

Secondly, in the MPDC Town Strategies 2013-2033, three options were considered by the MPDC for industrial land expansion in Matamata (see Figure 7 following). The loss of productive land was identified as one of the major disadvantages of these options.

Given these considerations, Property Economics identifies the productive land status of the area around the subject land based on the Land Use Capability (LUC) classification sourced from New Zealand Land Resource Inventory (NZLRI). Figure 8 following shows that the subject land is currently registered as LUC Class 1 - "*best for sustained agricultural production with no physical limitations*".[5]

[5] *LUC Survey Handbook - Third Edition (2009)*

FIGURE 2: INDUSTRIAL LAND EXPANSION OPTIONS CONSIDERED BY MPDC IN 2013



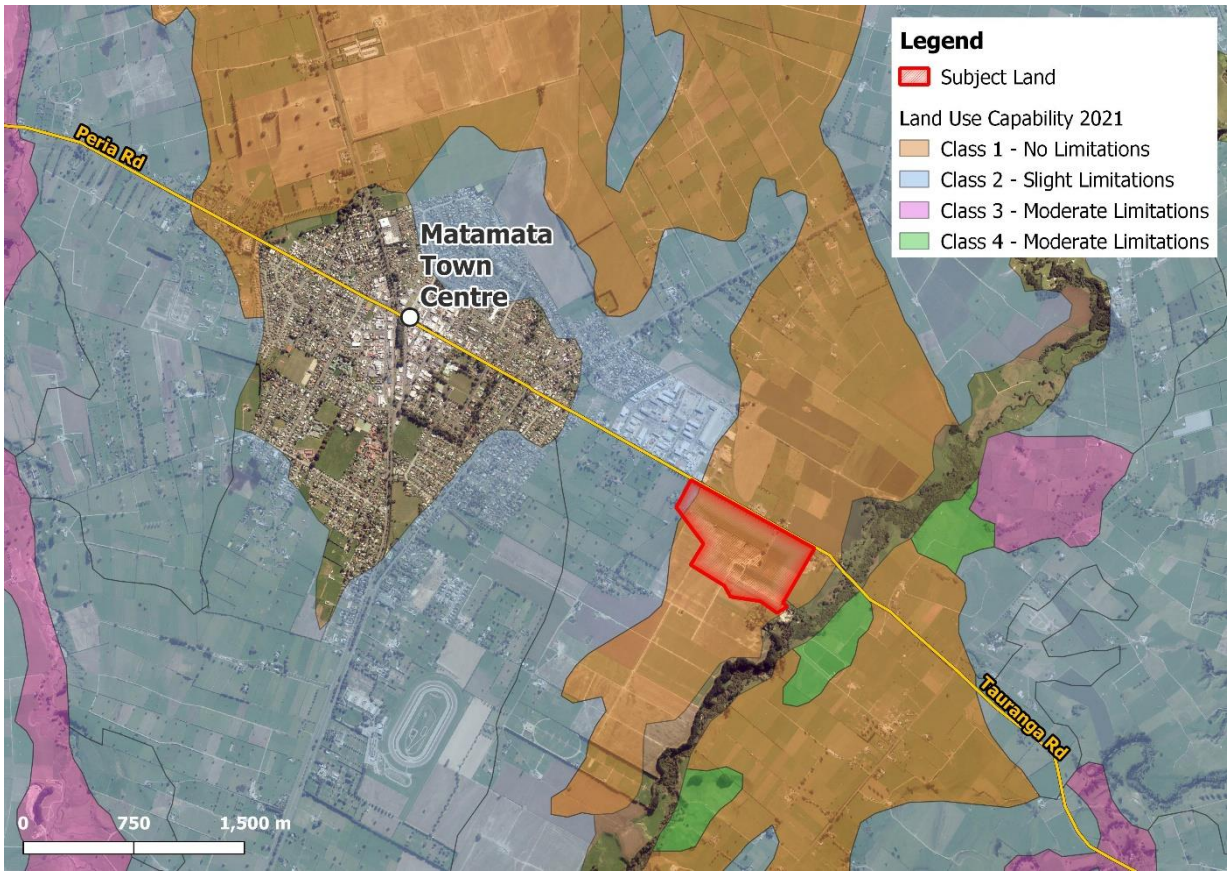
Source: MPDC

Moreover, as shown in the following figure, the surrounding rural areas adjacent to Matamata township have a significant portion of fertile flat land or highly productive rolling downs registered as Class 1 and 2. As such, the adverse impact of the loss of productive land appears an important consideration.

For example, a northern extension of the existing industrial zone land on SH24 would not encroach on Class 1 highly productive land. Such alternatives have not been assessed in the ME report.

Figure 8 following map illustrates the geospatial distribution of productive soils in and around Matamata by Class for ease of reference.

FIGURE 3: LAND USE CAPABILITY CLASSIFICATION AROUND THE SUBJECT LAND



Source: Property Economics, NZLRI

6. SUMMARY

This review finds that the methods, processes, and high-level conclusions within the ME report are appropriate and able to provide guidance as to the likely nature of the economic impacts that the impacting environment would likely experience.

There is one issue identified that is considered non-consequential to the conclusions to the ME report. That is:

- The NPS-UD buffers. This would influence the projection of industrial land demand within the district, leading to a more significant shortfall in industrial land capacity. This may make ME's industrial land demand requirement conservative, but appropriate for more efficient industrial land development in the district.

One aspect considered important for Council to understand in this instance is the PPC consumption of Class 1 highly productive soils, i.e., the irreversible loss of highly productive land and an assessment of any alternative scenarios for such activity. This represents economic costs that is considered prudent for Council to understand and consider when assessing the merits of the PPC.