



Final Report: 6 February 2024

Economic Peer Review of Revised Application for PC58 in Morrinsville

Prepared for: **Matamata-Piako District Council**

Authorship

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1. Introduction

1.1 Background

Plan Change 58 (**PC58**) to the Matamata-Piako District Council (**MPDC**) Operative District Plan (**ODP**) seeks to rezone 14.2 hectares of land from rural to industrial in Morrinsville. In mid-2023, MPDC engaged us to peer review the proposal from an economic perspective, particularly given the National Policy Statement for Highly Productive Land (**NPS-HPL**).

The NPS-HPL allows the urban rezoning of highly productive land – like PC58 – only if the three-limb test in clause 3.6(4) is met. It requires applicants to demonstrate that:

1. There is a need for additional capacity to meet demand over the short to medium term (i.e. the next 10 years); and
2. There are no other practicable and feasible ways to provide the required capacity; and
3. The costs and benefits of the proposed rezoning outweigh those of rural production.

We first peer reviewed the application in September 2023, including the economic assessment by NERA, dated 6 October 2022. Our initial review concluded that PC58 could not be supported on economic grounds because it did not appear to satisfy clause 3.6(4) of the NPS-HPL.

The applicant has now provided updated information to help meet the analytical requirements of the NPS-HPL, including:

- An updated economic assessment by NERA, dated 23 November 2023 (**the NERA report**); and
- A Technical memo by NERA, dated 2 February 2024 (**the NERA memo**).

These new materials form the focus of this report, with our initial peer review of the first NERA report from 2022 reproduced in full in the appendix.

1.2 Key Findings of this Review

Overall, we consider the additional information and analysis recently provided by the applicant to significantly bolster the case for the proposed rezoning, including helping to show that the additional capacity enabled would satisfy an otherwise unmet demand. Accordingly, we consider the proposal to now be capable of meeting the exacting requirements of clause 3.6(4) of the NPS-HPL, at least from an economic perspective.

While there are some lingering differences of professional opinion between us and NERA on specific technical matters, they do not detract from our overall conclusions. Accordingly, **we can now support the proposal on economic grounds.**

1.3 Structure of this Document

The rest of this document is structured as follows:

- Section **2** comments on the scope and approach of the NERA Report and NERA Memo;
- Section **3** addresses NERA's revised demand projections;
- Section **4** reviews the revised supply figures and updated sufficiency assessments; while
- Section **5** acknowledges and agrees with the proposal's likely costs and benefits.

2. NERA Scope & Approach

2.1 Summary

The NERA report adopts a conventional approach to assessing PC58's economic effects. In short, it:

1. Describes the relevant context and background;
2. Summarises the latest Business Capacity Assessment (**BCA**) for MPDC, which is the default information used to determine the need for additional capacity under the NPS-HPL;
3. Provides its own high-level estimates of industrial land demand for Morrinsville;
4. Provides an independent analysis of the existing capacity for additional industrial activity in Morrinsville, including an alternative scenario based on a revised definition of vacant land;
5. Reconciles its estimates of industrial supply and demand to test sufficiency; and
6. Assesses the likely economic costs and benefits of the proposed plan change.

The NERA memo responds to our initial comments on the NERA report, and provides yet another set of supply and demand figures for consideration. In addition, it comments further on the need for the proposal from a qualitative perspective.

2.2 Discussion

We geNERALLY agree with the overall scope and approach of the revised economic assessment by NERA. While we still disagree with their alternative supply scenario, which treats sold but vacant land as no longer contributing to available capacity/supply, this is not the central scenario adopted in their report. Nor does the report rely on that specific scenario to demonstrate the need for the proposal. The technical memo also largely sets that alternative supply scenario aside, so we do not comment on it any further here.

Moreover, while we disagree with including NPS-UD margins in some of the analysis and reporting, the proposal does not strictly rely on them to prove a need for it. Accordingly, those issues aside, we are broadly comfortable with the methodology adopted overall.

3. Revised Demand Assessment

3.1 Summary of NERA Approach

The NERA report estimates the demand for industrial land by converting population projections to future industrial employment, which are then translated to estimates of industrial land demand based on assumed ratios of land per worker. It is prefaced by a comparison of the WISE projections underpinning the 2023 BCA and the latest information from Statistics New Zealand. The authors demonstrate that the WISE projections are lower than Stats NZ's latest projections, and that the most recent population estimates for the area continue to track above all three Stats NZ projections. In terms of industrial land demand, the report estimates short- to medium-term demand for 15.6 to 24.9 hectares in Morrinsville over the next 10 years (excluding NPS-UD competitiveness margins).

3.2 Discussion

We acknowledge that Morrinsville's population has grown strongly in recent years and that the latest official population estimate (for June 2023) exceeds all WISE and Stats NZ projections. Accordingly, we agree that there will be ongoing demand for additional industrial land in and around the township. However, we are slightly unclear about the rationale for, and impacts of, excluding the Walton Road industrial area from the analysis. In our view, it appears that NERA have muddled the geographic scope of their assessment, with demand based on the wider Morrinsville area, but supply restricted to just the townships. However, if the Monocle appendix on supply is correct, there is no additional supply in the Walton Road area anyway, so its omission may not matter.

We also note that NERA converts population to industrial employment using a ratio of 0.35, which was derived from the 2023 BCA. As recently discussed with NERA and the applicant, we consider this ratio flawed and misleading. In our view, there is no way that 35 out of every additional 100 people living in Morrinsville become industrial workers within local industrial zones, as the NERA report implies. According to our independent calculations, the true/historic ratio is about half that.

Moreover, as signalled in our BCA peer review, we consider the higher land per worker ratio of 800m² excessive. The current district ratio is about 700m², but this is skewed by the widespread presence of low-density, yard-based activities coupled with low land values, which does not incentivise more intensive uses.

Over time, we expect higher employment densities to be achieved on both new and existing industrial land as higher prices gradually encourage more intensive and efficient uses of it. This, in turn, will reduce the amount of additional industrial land needed per worker. Accordingly, overall, we disagree with the assumption that 800 m² of industrial zoned land may be needed in future.

3.3 Independent Demand Estimates

To assist the hearings panel, below we independently project industrial demand over the next 10 years for four scenarios, which differ by (i) their geographic scope and (ii) the ratio of land per worker. For all scenarios, we adopt the Stats NZ high population projections and assume that 10% of additional employment is absorbed within existing industrial businesses and/or outside the main industrial zones (e.g. within the spot industrial zones). The table below presents our results.

Table 1: Additional Industrial Zoned Land Required by Assumed Land per Worker

Study Area	10-yr Population Growth	Industrial Workers/ Population	Extra Industrial Workers	Extra Industrial Land @ 500m²	Extra Industrial Land @ 700m²
Morrinsville Townships Only	750	17%	128	5.7 ha	8.0 ha
Morrinsville incl. Surrounds	1,640	19%	312	14.0 ha	19.6 ha

Our analysis shows that the demand for industrial land in and around Morrinsville could be almost 20 hectares over the next 10 years, or possibly less than six, depending on the assumptions used. Clearly, then, a wide range of possible demand futures is plausible.

4. Revised Supply/Sufficiency Assessments

4.1 Summary of NERA Approach

NERA’s assessment of capacity starts with the BCA figure of 23.6 hectares then makes a series of adjustments to reflect ground-truthing by Monocle, which found that 11.7 hectares of capacity are no longer available. Accordingly, it proffers a revised capacity figure of 11.9 hectares for Morrinsville. A second, lower figure of 5.4 hectares is also put forward by NERA via an “alternative supply scenario”, which excludes vacant land once it is sold, even if undeveloped. As already noted, we disagree with this because it does not enable an “apples with apples” comparison between supply and demand to test sufficiency.¹ NERA appear to have accepted that view and rightfully excluded the alternative supply scenario from their recent memo.

Once derived, the NERA report reconciles forecast supply and demand to determine sufficiency for eight scenarios that vary based on the:

- Supply scenario adopted;
- Assumed ratio of land per worker; and
- Inclusion or exclusion of NPS-UD competitiveness margins.

The NERA memo tests sufficiency for a further range of scenarios using the BCA’s demand projections and Monocle’s revised capacity figure.

4.2 Independent Sufficiency Testing

We accept Monocle’s revised capacity figure of 11.9 hectares for Morrinsville and adopt it below to test sufficiency against our independent demand estimates.

Table 2: Sufficiency of Capacity versus Demand (hectares)

Demand	@ 500m ² /worker	@ 700m ² /worker
Morrinsville Townships Only	5.7	8.0
Morrinsville including Surrounds	14.0	19.6
Capacity (as per Monocle memo)	11.9	11.9
Sufficiency (capacity minus demand)		
Morrinsville Townships Only	6.2 ha	3.9 ha
Morrinsville including Surrounds	-2.1 ha	-7.7 ha

According to our calculations, the broader Morrinsville area could face shortfalls of nearly eight hectares of industrial land if 700 m² of new land is needed per additional worker, which is possible.

¹ To elaborate – because demand is measured as increases in industrial employment over time, land should still count as capacity/supply until it is developed and has absorbed some of the employment growth that comprises demand. Otherwise, the definitions of supply and demand are inconsistent and unreliable for accurately assessing sufficiency.

4.3 Discussion

Our analysis indicates that Morrinsville could face shortfalls of up to 8 hectares of industrial land over the next 10 years, depending on the assumptions, but that smaller shortfalls – or even a slight surplus – of industrial land are also possible.

Given this uncertainty, we recommend catering for a high demand future, not a low one, because:

- It promotes choice and competition in land markets, which encourages new industrial lots to be released sooner, and at lower prices.
- Industrial land demand can be lumpy, particularly in smaller areas like Morrinsville, where the attraction of one or two new businesses can quickly absorb available supply.
- Supply can (at least to some extent) sometimes create its own demand, with new industrial areas often selling down quickly when released. The Monocle memo demonstrates this effect locally, with stage 1 of the Avenues business park evidently selling fast.
- Further, with no industrial land capacity left in Te Aroha, Morrinsville is well-positioned to absorb demand growth beyond its immediate catchment and instead service future needs across the district' northern townships.
- Finally, land development is a slow and protracted process, so adopting a longer-term view can help integrate the planning and delivery of infrastructure, while also ensuring that those requiring it equitably fund its provision.

At the same time, not all vacant land in Morrinsville may contribute to market supply, especially over the short to medium term, with further supports an enabling approach to PC58. Indeed, several factors can limit the realisation of capacity as market supply, including:

- Intentions - some landowners may not intend to develop their land over the short- to medium-term, nor to sell it to others that may wish to develop it.
- Land banking and drip-feeding – other landowners may plan to develop in future, but are currently withholding supply to capitalise on inevitable land price inflation, while some may be drip-feeding supply to maintain prices and maximise returns.
- Site constraints – some sites may face unforeseen constraints that affect developability, such as contamination or site instability.
- Operational constraints – some landowners may face various operational constraints that limit the supply of new industrial lots.
- Financing – similarly, capital/financing constraints may also limit the ability to supply.

4.4 Implications for the Proposal

Overall, **we consider PC58 necessary to ensure that sufficient capacity is provided** “at all times” to keep pace with demand in the district’s northern towns. On that basis, it satisfies clause 3.6(4)(1) of the NPS HPL, at least in our view.

This then triggers clause 3.6(5) of the NPS HPL, which requires the spatial extent of any urban rezoning on HPL to be minimised.

While the 10.1 ha of developable land enabled by PC58 slightly exceeds our estimated shortfall of up to 7.7 hectares, the difference is small and well within the likely margin of error for such an exercise. In addition, the perceived gap between supply and demand is much smaller when displaced future demand from Te Aroha is also factored in. Accordingly, overall, **we consider the spatial extent of the proposed rezoning to be appropriate for likely future needs over the next 10 years.**

5. Costs & Benefits of the Plan Change

The final section of the NERA report identifies a range of economic costs and benefits associated with the plan change. We acknowledge and accept these costs and benefits. However, we note that many are not site-specific and could potentially accrue elsewhere.

6. Appendix: Initial Peer Review Memo

6.1 Content of this Review

This memo addresses the following matters arising from our review:

- 1) Assessment methodology
- 2) Overall need for the plan change
- 3) Impacts of the NPS HPL
- 4) Summary and conclusion

6.2 Assessment Methodology

We broadly agree with the methodology used in the report. However, it relies almost exclusively on third-party analyses to establish the need for the plan change. For example, the report's demand projections simply adopt those in the BCA prevailing at the time. While that is not particularly unusual, it is incumbent on NERA to independently test and verify them to ensure they are accurate and fit for purpose. However, page 10 of the report simply states "We have not undertaken a detailed assessment of the quality and rigor of Market Economics' demand calculations."

Another issue appears to be confusion about the definitions of vacant/available land when assessing capacity sufficiency. Specifically, NERA seem to interpret land as no longer vacant/available once sold even if no buildings have yet been erected, and thus no industrial employment yet absorbed. In our view, this is not technically correct. Usually, land counts as available until it is developed and a business is operating from there (i.e. when it has absorbed some of the employment growth that forms the demand side of the sufficiency equation). Accordingly, we disagree with the supply-demand balances in Table 3 of the NERA report, which remove 12 hectares of supply because they were sold at the time of writing (but still vacant).

6.3 Overall Need for the Plan Change

Although NERA's report is logical and well presented, the underlying assessment is now 12 months old. A lot has changed since then. First, a new BCA has been drafted, which is now being finalised following our peer review of it. This is critical because – as noted - NERA's analysis is heavily based on the BCA.

During our review of the new BCA, its main author (Susan Fairgray-McLean) sent us updated outputs for a handful of scenarios, one of which will be adopted as the final BCA figures.

These new/updated figures not only incorporate new supply and demand estimates, but they also test sufficiency differently. Specifically, while the prior BCA considered sufficiency only individually for each township, the revised BCA will also consider it for the northern and southern townships combined, respectively. Thus, Matamata and Waharoa will form the district's southern industrial land market, while Morrinsville and Te Aroha will form the northern one. This approach better reflects market operation, but significantly affects the estimated need, or otherwise, for additional capacity.

This is demonstrated in Table 1, which shows the net demand for additional industrial land in the north over the short-medium term (i.e. the next 10 years) under six scenarios. These differ in the assumed:

- 1) Industrial land per additional worker; and
- 2) Share of projected industrial employment growth that will occur within various spot zonings.

Over the last 20 years, these spot zones have absorbed about one-third of district industrial employment growth. That historic share is modelled below, plus another scenario that reflects the diminishing capacity of these spot zones to absorb growth due to site and/or consent constraints.

In table 1, positive values – shaded green – mean that supply exceeds demand for that scenario, with no need for additional industrial land. Conversely, negative values are shaded red and indicate a need for additional land to meet projected demand in the north over the next 10 years.

Table 3: 10-Year Demand for Additional Industrial Land in the North (Net Hectares)²

Industrial Spot Zone Growth Share	Land (m ²) per Worker		
	500 m ²	700 m ²	800 m ²
10% of district total	9.0 ha surplus	3.2 ha surplus	0.3 ha surplus
33% of district total	9.9 ha surplus	4.5 ha surplus	1.7 ha surplus

In short, under all six scenarios, there is no need for additional industrial land in the north over the next 10 years, with capacity exceeding demand in all cases. This differs from the conclusions reached in NERA’s assessment about the need for PC58.

In summary, according to the new BCA, there is no need for the plan change (i.e. to provide sufficient capacity to meet projected demand) over the next 10 years. Below, we explain this 10-year focus.

6.4 Impacts of the NPS HPL

The National Policy Statement for Highly Productive Land (**NPS HPL**) came into force on 17 October 2022 (i.e. only a couple of weeks after the NERA report was completed). It protects highly productive land (**HPL**) from inappropriate use and development to ensure that it remains available for rural productive purposes over the longer term.

Clause 3.6(4) of the NPS HPL specifies the tests that rezoning proposals like PC58 must meet to justify the loss of HPL. They are that:

- a) the urban zoning is required to provide sufficient development capacity to meet expected demand for housing or business land in the district; **and**

² The figures in this table exclude NPS-UD competitiveness margins. While those margins were included in the previous BCA for consistency with the other FutureProof Councils, which are all Tier 1, they are not required for Tier 3 Councils like Matamata-Piako District. Accordingly, in our view, there is no compelling reason to include them.

- b) there are no other reasonably practicable and feasible options for providing the required development capacity; **and**
- c) the environmental, social, cultural, and economic benefits of rezoning outweigh the environmental, social, cultural, and economic costs associated with the loss of highly productive land for land-based primary production, including tangible and intangible values.

While the first limb of this test stipulates a district-wide view, we consider a sub-district focus more appropriate given the district's expansive nature. Nevertheless, the same conclusions are reached if a district-wide approach is adopted instead (because there are also surpluses in the south).

The NPS HPL implementation guidance also clarifies that only demand over the next 10 years can be considered when assessing proposed urban rezonings under clause 3.6. Thus, PC58 meets the first limb of the NPS HPL test only if extra industrial land is needed in the north over the next 10 years. However, as already noted above, the new BCA shows a surplus across all six scenarios considered. So, if the economic assessment remains tethered to the (new) BCA, PC58 may not satisfy the relevant NPS HPL tests that apply to it.

Even if one of the six new BCA scenarios in Table 1 indicated a need for additional capacity in the north over the next 10 years, PC58 would then be subjected to the subsequent test in clause 3.6(5) of the NPS HPL. It requires the spatial extent of urban rezonings to be the least required to provide sufficient capacity while achieving a well-functioning urban environment. For example, if there was a need for (say) an additional five hectares to meet demand, any proposed rezoning to meet that deficit must also be limited to five hectares.

In our view, is it possible that PC58's full spatial extent could be needed to meet a 10-year demand for industrial land, either in the north, or districtwide. Accordingly, we consider that PC58 could potentially pass this test if the prior three-limb test in 3.6(4) can be satisfied first. To satisfy that three-limb test, the PC58 team need to provide their own independent analysis of the likely supply and demand for industrial land, both in Morrinsville, and for the northern townships more geNERALLY. In that regard, we note that Monocle recently produced a useful summary that outlined the current state of the local industrial market, including recent section uptake and planned, nearby developments. We found that memo very helpful, but it is not enough in isolation to meet the NPS HPL test, at least not in our view.

6.5 Summary and Conclusion

The NERA report is logical and well presented. However, it is now a year old and thus slightly out-of-date. According to the most recent (pending) BCA, there is no need for additional capacity to meet demand over the next 10 years, in the north, or districtwide. Consequently, PC58 does not seem to meet the exacting requirements of the NPS HPL, at least not according to the information that is currently before me.

I therefore urge the plan change applicant to provide further analysis against the relevant provisions of the NPS HPL to justify it. In my view, given the plan change's relatively small area, and given its contiguity with existing industrial zoned land, I think there is scope to potentially justify the proposal

under the NPS HPL. While it is clearly at the applicant's discretion whether or how they do that, one option is to use the recent Monocle report to decouple the assessment from the BCA for the purposes of clause 3.6(4)(a). Presuming that is done and the remaining tests in 3.6(4) are also addressed adequately, I believe that I can support PC58 on economic grounds. However, I am unable to reach that conclusion based on the information provided thus far.

I trust this provides all the information that you need for now, but please let me know if you need anything further.