BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES DISTRICT COUNCIL

UNDER	the Resource Management Act 1991
IN THE MATTER	of a submission on the Queenstown Lakes Proposed District Plan
BY	**TUSSOCK RISE LIMITED (#3128)** Submitter

STATEMENT OF EVIDENCE OF JOHN BALLINGALL ON BEHALF OF THE SUBMITTER

Dated: 14 May 2020

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MAY IT PLEASE THE PANEL:

Introduction

[1] My full name is John Stacey Ballingall. I am a Partner at Sense Partners Limited, an independent economics consultancy with offices in Wellington and Auckland. Prior to this, I was the Deputy Chief Executive at the New Zealand Institute of Economic Research for 11 years.

[2] I graduated from Massey University in Palmerston North with a Bachelor of Applied Economics and a Master of Applied Economics. I am a Chartered Member of the Institute of Directors.

[3] I have 20 years' experience in the application of economics to a wide range of business and policy issues, including regional economic development.

[4] I have been involved in several Environment Court cases, including:

(a) Lot 6 at Queenstown airport

(b) Stream 13 rezoning hearings in the review of parts of the QLDC District Plan

(c) Proposed runway extension for Wellington International Airport Limited

(d) The Proposed One Plan for the Manawatu-Wanganui region

(e) Potential uses for industrial-zoned land in Upper Hutt.

[5] Whilst this is not an Environment Court hearing, I have read the Code of Conduct for Expert Witnesses in the Environment Court Practice Note 2014. This evidence has been prepared in accordance with it and I agree to comply with it. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed.

Scope of Evidence

[6] I have been asked to assess the extent of land available for industrial economic activity in Wanaka should the Tussock Rise site – currently zoned General Industrial Zone (GIZ) – be rezoned to Business Mixed Use (BMU) or split of Business Mixed Use and Low Density Suburban Residential (BMU/LDSR) as part of the Stage 3 appeal process.

[7] I have also been asked to respond to QLDC's economic evidence that recommends declining such rezoning.

[8] My evidence proceeds along three lines:

(a) Confirming that rezoning Tussock Rise would have no material impact on industrial land availability in Wanaka.

(b) Explaining how a more flexible BMU zoning for Tussock Rise would improve the efficiency of Wanaka's land use, providing for greater economic wellbeing. This is particularly crucial as Wanaka seeks to recover from the Covid-19 recession.

(c) Highlighting the perverse unintended consequences on economic wellbeing of seeking to prevent industrial land values rising, which is a central justification in the Council's position to decline rezoning Tussock Rise.

Summary of evidence

[9] The updated Business Development Capacity Assessment (BDCA20) shows ample industrial zoned land in Wanaka to accommodate future demand.

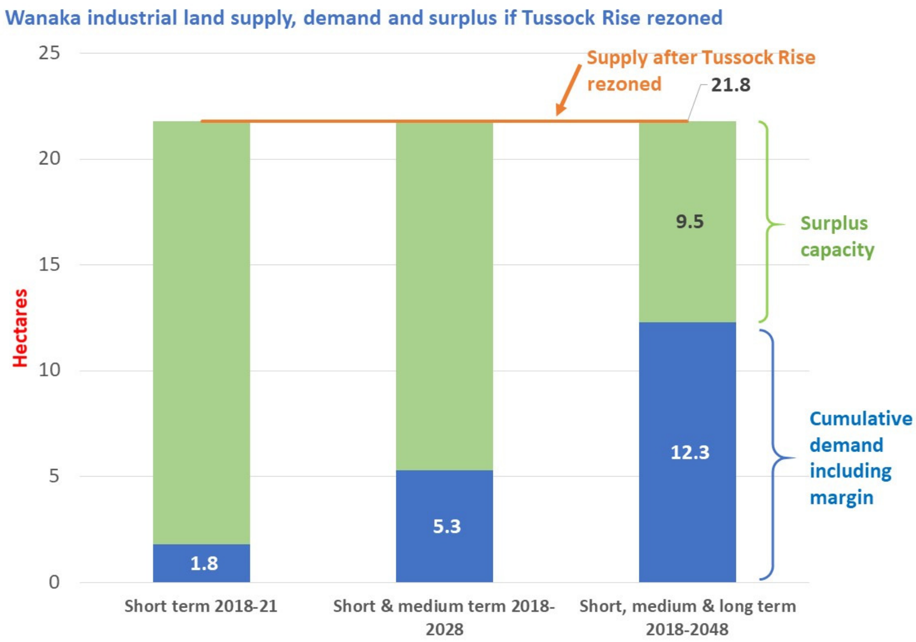
[10] Cumulative demand for industrial land is projected to be 12.3ha by 2048. Industrial land capacity is 27.1ha under Market Economics' now preferred alternate capacity measure.

[11] This leaves 14.8ha of redundant industrial land capacity.

[12] Rezoning 5.3ha at Tussock Rise from General Industrial Zone to Business Mixed Use (BMU) or a blend of BMU and Low Density

Suburban Residential (LDSR) would still leave 9.5ha of surplus industrial land. Any additional land that is zoned Industrial between now and 2048 would obviously add to this surplus.

Figure 1: Wanaka industrial land supply, demand and surplus if Tussock Rise is rezoned



Source: BDCA20; author's calculations

[13] Industrial land demand could be 75% higher than projected in the BDCA20 to 2048 and still not exhaust the available industrial land supply if Tussock Rise were to be rezoned. In the medium term to 2028, industrial land demand could be over 300% higher and not exhaust available land supply.

Based on these numbers, rezoning Tussock Rise would clearly not have a material impact on the prospects for the Wanaka industrial economy.

[14] Market Economics concludes the same (BDCA20, p.18): "In the Wanaka Ward, the capacity for industrial land use development is estimated to be sufficient to cater for projected long-term demand… this includes an estimated 5.63 ha of land in the Tussock Rise area... Should this land be excluded, it would not create a shortfall of industrial capacity by 2048 based on the assumptions modelled".

[15] I would add that even if industrial demand was somehow far stronger than expected, the Council will still have the option of revisiting its District Plan in the future, or considering Plan Changes that respond to any unexpected industrial demand boom.

[16] It makes little economic sense to actively prevent redundant industrial-zoned land from being used for alternative economic activities for which there is higher demand. An economy only has so many resources (land, labour, capital), and to support economic growth and wellbeing these resources need to be used efficiently.

[17] While Council may argue (and I would disagree) that zoning can be used to promote a diverse economy and that industrial activity should be protected, that line of reasoning comes with an economic cost – land is not being used efficiently. It sits idle, contributing little to the economy.

[18] This is like having 500 Wanaka residents all willing and able to fill jobs where there is a shortage of workers, only to be told they are wearing the wrong colour socks.

[19] Leaving resources sitting idle reduces Wanaka's potential GDP and the wellbeing of its residents, counter to the 'Purpose' of the Resource Management Act (section 5(2)), which seeks to enable people and communities to provide for their economic wellbeing.

[20] The main argument Ms. Hampson puts forward against flexible zoning is that industrial land values might rise. But rising industrial land values are <u>not</u> a market failure, as alleged repeatedly in her EIC. That is the market working exactly as it is supposed to, indicating that alternative activities could deliver better returns on the land.

[21] By actively preventing such reallocation of scarce resources through overly restrictive zoning based on some notion of the 'right' level of industrial activity in the Wanaka economy, Council is explicitly hampering Wanaka's GDP and economic wellbeing.

[22] This is regulatory failure, not market failure.

[23] Wanaka will face an incredibly challenging few years as the economy recovers from a Covid-19-induced recession. The QLD economy is expected to be amongst the worst hit regional economies, due to its reliance on international tourism.

[24] The Wanaka economy will necessarily have to change, as long-haul international tourism is basically dead in the water for the immediate future. Domestic tourism and a possible trans-Tasman ‘bubble’ will provide a partial offset but cannot possibly plug the gaps.

[25] To support new businesses to fill the large tourism gap, QLDC needs to reduce the costs of setting up shop and let innovation flourish. Restrictive zoning approaches do precisely the opposite.

[26] In short, my view is that rezoning Tussock Rise should be supported because:

(a) There is more than enough industrial-zoned land available in Wanaka to meet demand for the next 30 years, even under the rosiest demand projections.

(b) The BDCA’s – and hence Council’s – central argument against flexible zoning has no economic merit and in fact works counter to the RMA’s purpose, decreasing economic wellbeing. This is perverse.

(c) The Wanaka economy needs Council support to regenerate after the Covid-19 recession. Innovation and new business development will be stifled if restrictive industrial zoning is maintained, despite an acknowledged lack of demand.

Rezoning Tussock Rise will not result in a shortage of industrial land: demand could be 1.75 times as high as projected and still be accommodated

[27] I draw on the 2020 Business Development Capacity Assessment (BDCA2020)[1] by Market Economics as my starting point. The updated BDCA20 report considers:

(a) the demand for industrial land under more recent (and higher) population projections; and

(b) the supply (or capacity) of industrial land.

[28] That report concludes (BDCA20, p.18):

"In the Wanaka Ward, the capacity for industrial land use development is estimated to be sufficient to cater for projected long-term demand under the Alternative Capacity Scenario. For clarity, this includes an estimated 5.63 ha of land in the Tussock Rise area (aka Industrial B – Connell Terrace Precinct) allocated to industrial capacity in the Alternative Capacity Scenario. Should this land be excluded, it would not create a shortfall of industrial capacity by 2048 based on the assumptions modelled".

[29] I agree entirely.

[30] Figure 2 below shows industrial demand and supply out to 2048, drawing on the BDCA20:

(a) The blue columns represent the cumulative demand for industrial land out to 2048, including an NPS-UDC buffer – 12.3ha

(b) The horizontal lines represent different measures of industrial land supply:

(i) The green line is the BDCA20 Maximum Capacity estimate of 36.6ha

[1] Market Economics. 'Business Development Capacity Assessment: Queenstown Lakes District – Interim Update Addendum', 13 March 2020.

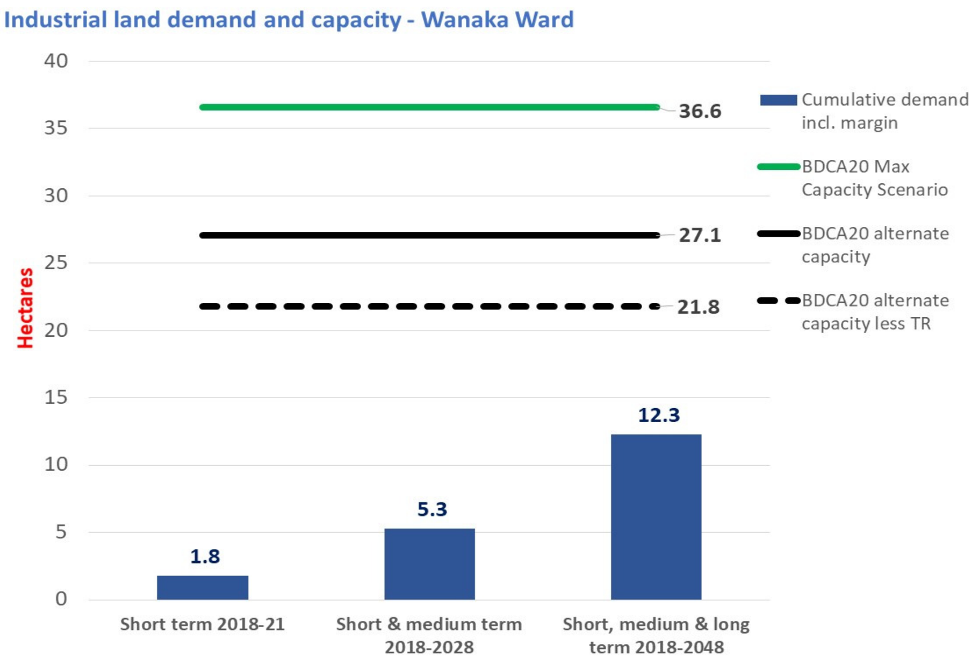
(ii) The solid black line is Market Economics' now preferred "alternative capacity" measure of 27.1ha[2]

(iii) The dashed black line removes Tussock Rise (5.3ha) from the alternative capacity measure, leaving 21.8ha available.

[31] Figure 2 shows rezoning Tussock Rise away from GIZ would not result in any shortage of industrial land in Wanaka out to 2048. Surplus industrial land capacity would be 9.5ha under such a scenario.

[32] Indeed, industrial land demand could be more than 1.75 times as high as projected in BDCA20 and still not exhaust the available supply of industrial land, even if Tussock Rise were to be rezoned (Figure 3).

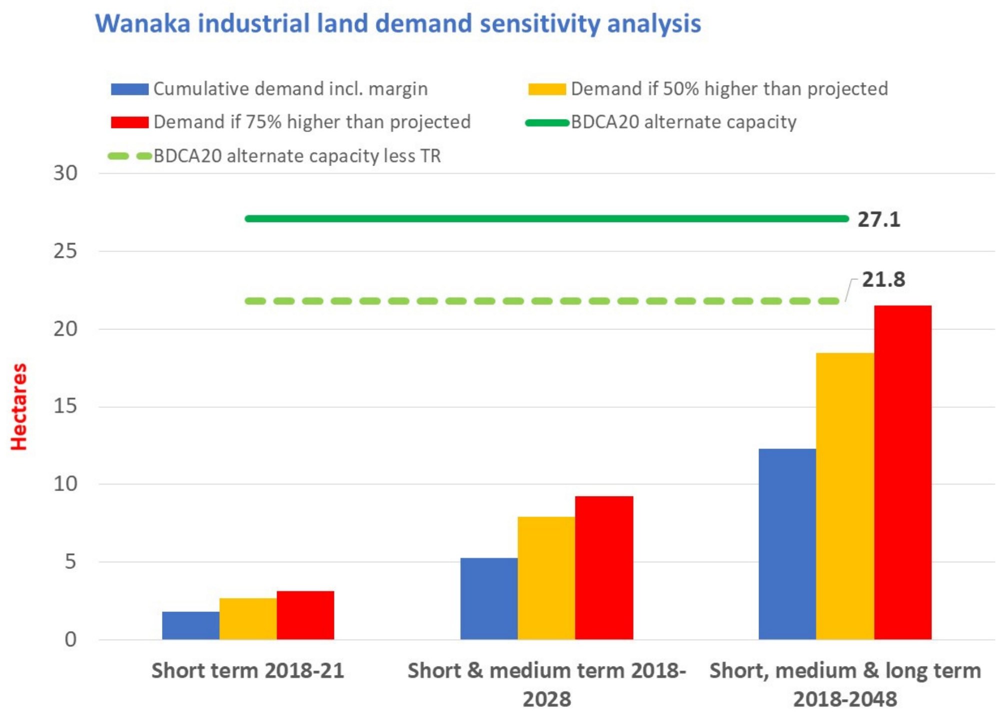
Figure 2 Industrial land demand and supply – Wanaka Ward



Source: BDCA20; author's calculations

[2] It is interesting that this more conservative alternate capacity measure is now Market Economics' preferred indicator of industrial land capacity (BDCA20, p.20). Yet in BCA2017 (p.144, their emphasis), the same authors note "This single alternate scenario removes the overlap of capacity in those zones where flexibility is enabled between Retail, commercial and/or Industrial activity. The scenario is **indicative only**".

Figure 3 Sensitivity analysis around Industrial land demand and supply – Wanaka Ward



Source: BDCA20; author's calculations

[33] In short, even under optimistic demand projections, and using a conservative industrial land supply measure, rezoning Tussock Rise away from GIZ would not cause a shortage of industrial land in Wanaka out to 2048.

The use of Tussock Rise for BMU/LDSR will support economic wellbeing as Wanaka recovers from the Covid-19 induced recession

[34] The section above demonstrates that Tussock Rise is not required for industrial activity purposes. The next issue is whether that land could contribute more to the Wanaka economy if rezoned to BMU/LDSR.

[35] Projecting BMU demand is challenging, given the broad range of activities covered. Ms. Hampson's EIC (18 March 2020, para 18.6(d), p.105) notes under guidance from the Ministry for the Environment's NPS-UDC, "the BDCA considers the following categories: Industrial, Commercial and Retail… it does not consider the sufficiency of 'business' land per se… The BDCA is also not designed to inform the sufficiency of a specific zone type, i.e. BMUZ".

[36] Ms. Hampton also notes "It is therefore difficult to validate the statement that there is insufficient vacant capacity for 'business' land in… Wanaka Ward generally using that [BDCA] model" (EIC, 18 March 2020, para 18.6(d), p.105).

[37] This indicates that the merits for rezoning Tussock Rise for BMU or BMU/LDSR must be considered on a case by case basis.

[38] Ms. Hampson notes that "there is clearly strong market demand for the land on offer in the proposed Three Parks Business Zone" (EIC, 18 March 2020, para 18.6(e), p.105). It is unclear whether this strong demand is site-specific, or whether the demand for BMU-type activities is strong in general.

[39] But recognising the uncertainty of BMU-related land demand, she states it "is appropriate to err on the side of over-supply than undersupply *when there is uncertainty around sufficiency*" (para 18.6(f), emphasis added).

[40] This suggests to me that Ms. Hampson considers:

(a) The demand for BMU activities is strong but uncertain.

(b) Given this, it makes sense to err on the side of oversupply for BMU-suitable land.

[41] On the supply of BMU, Ms. Hampson states in relation to Tussock Rise there are "multiple other zones in Wanaka" that allow BMU activities, at "and often at more efficient locations" (EIC, 18 March 2020, para 16.10, p.90). However, my understanding is there is only one designated BMU Zone in Wanaka at Anderson Heights (which is almost fully developed), with some additional BMUZ proposed in Three Parks as part of Stage 3. I understand the Three Parks proposed re-zoning is in a single land ownership, giving it a virtual monopoly on the supply of this zoned land.

[42] In my view, the BDCA20 and Ms. Hampson's EIC, when combined, indicate there is more likely to be excess demand for BMU activities than for industrial activities (for which there is clearly an excess supply).

[43] Allocating more land to BMU would be a sensible option and more efficient use of land in Wanaka, particularly noting the evidence of Mr. Devlin which describes the close proximity of the Tussock Rise site to the Wanaka town centre, the Three Parks commercial centre, and nearby educational and recreational facilities. Mr. Devlin also notes the wider Wanaka industrial area of which Tussock Rise forms a part is no longer on the edge of town and is in fact surrounded by residential zoning on almost all sides.

[44] Allowing a more permissive zoning approach is also sensible when the Wanaka economy is going through enormous upheaval following the Covid-19 crisis.[3]

[45] For the next few years, there is no doubt the Wanaka economy will struggle as international tourism demand slowly recovers. Even if New Zealand's borders are fully open, which could take years, the Covid-19-induced global recession will see incomes fall and discretionary spending (e.g. on long-haul vacations) severely curtailed.

[46] Many Wanaka businesses related to tourism – either directly or indirectly – will not survive the current recession. This will particularly affect small and medium enterprises that do not have the balance sheet depth to survive months and months of near-zero revenue. Domestic tourism and potentially trans-Tasman travel will not be enough to keep these businesses afloat and their workers employed.

[47] Past experience from the Global Financial Crisis has shown that industrial activity is amongst the most significantly negatively affected by a major recession in New Zealand: "Output declines were particularly strong in the manufacturing, construction, and combined wholesale/retail/accommodation industries".[4]

[48] For the Wanaka economy to recover and Wanaka's employment to avoid stagnation, new small and medium enterprises will need to open.

[3] I appreciate that the BDCA20 and Ms. Hampson's EIC were completed before Covid-19 took hold in New Zealand.

[4] R. Fabling and D. Maré. 2017. 'Cyclical labour market adjustment in New Zealand: The response of firms to the global financial crisis and its implications for workers'. In OECD. 2017. *Business dynamics and productivity*. OECD: Paris.

In my view, Council has a key role to play in supporting this regeneration: by removing unnecessary barriers to nascent and innovative economic activity, such as overly restrictive zoning choices.

Tussock Rise could play a role in meeting identified housing shortages at the more affordable end of the market

[49] Tussock Rise's owners are interested in potentially providing low-medium density, affordable housing (specifically worker accommodation) on the site, under either a full BMU or split BMU/LDSR scenario.

[50] The pressure on Wanaka's housing stock – the balance between supply and demand – is illustrated by significant house price rises in recent years.[5]

[51] The most recent HDCA (2018, Table 0.8, p. 33) shows QLD housing capacity to be around 60% greater than demand in the long term (to 2046) under a 'High growth' population projection.

[52] However, it also shows a projected *shortage* of housing supply in the lower end of the market – around 5,200 dwellings short for dwellings under $880,000 and 2,200 short for dwellings under $1.31 million (2018, Table 0.10, p.36).

[53] The higher population projections used to update the BDCA also have implications for Wanaka housing demand and land – these additional residents will need somewhere to live.

[54] From the BDCA20 alone, it is not possible to ascertain what the population in Wanaka is now projected to be by 2048, and hence the additional demand for housing. However, employment in QLD increases by 45% by 2048 under the new projections. It is reasonable to 'backwards induce' that Wanaka's population must be in the order of 45% higher by 2048 too.[6]

[5] The Covid recession may see these pressures ease, at least temporarily. Inwards migration to the Queenstown region could moderate.

[6] Assuming that population and employment move together, and that Wanaka and QLC population growth at the same rate.

[55] The usually resident population in Wanaka was 13,044 in Census 2018. An additional 45% from this base suggests Wanaka's population will be ~18,900 by 2048 – an increase of 5,850.

[56] This equates to additional demand of around 2,950 dwellings in Wanaka by 2048.[7]

[57] To the extent that the proposed Stage 3 rezoning of Tussock Rise could provide for residential activity (including worker accommodation) at the lower end of the market under either a BMU or split BMU/LDSR approach, it could be helpful for meeting a portion of this additional demand, alleviating some of the identified housing shortage in Wanaka and the wider QLD region.

[58] I understand that Tussock Rise would be willing to enter into a separate legal agreement with Council to secure an outcome that includes worker accommodation.

Arguing for zoning restrictions to prevent land value increases is poor economics

[59] Ms. Hampson's EIC of 18 March 2020 (para 7.2, p.35) supports the notified GIZ areas on the basis that:

> "It needs to be protected through regulation as the market will fail to provide land for less intensive land uses (at a price they can afford), particularly when growth is strong and competition for space within or in close proximity to the urban area is high. This is referred to as a market failure".

[60] This argument is repeated frequently[8] throughout her evidence when considering whether GIZ areas might be rezoned to BMU. But it lacks an economic basis and could work against economic wellbeing improvements in Wanaka.

[7] Based on 1.99 people per dwelling in QLDC, calculated using Census 2018 data on usually resident population and the number of occupied and unoccupied dwellings.
[8] e.g. paras 9.3(a), 9.10, 16.10.

[61] Land is a scarce resource in Wanaka. An efficient allocation of this land – as envisaged in the RMA's 5(2) – will occur when the marginal social benefits (MSB) of its use equals the marginal social costs (MSC). The MSC includes any externalities, or external effects in RMA terms.

[62] The price of land reflects the discounted future value of the expected value that can be generated from it over time. If there is upward pressure on industrial land prices, this indicates potential users expect to be able to generate greater value than existing users. Ms. Hampson says the same thing in her EIC (18 March 2020, para 17.14, p.100): "Land valuation is based on the highest potential use".

[63] An increase in industrial land prices is not a market failure. It is the market working precisely as it should – to efficiently allocate a scarce resource through price signals.

[64] Preventing the entry of potential users of industrial land through a restrictive zoning approach designed to stop land prices rising thus dampens economic activity and wellbeing beneath what it would ordinarily be.

[65] Further, it is not obvious why industrial activity needs to be "in close proximity to the urban area". It is not dependent on passing foot traffic.

[66] Ms. Hampson explains further in her EIC (18 March 2020 (para 17.5, p.100) that if industrial businesses have to operate further from urban centres, they will face higher costs. But this is equally true of any other type of business. It is unclear to me why industrial businesses should be singled out for protection and a guaranteed supply of low-cost land close to town.

[67] If other activities, such as BMU, could create more economic value from the land close to town and have lower negative external effects, would it not be better for Wanaka's economic wellbeing to consider a more flexible or permissive zoning approach?

[68] Ms. Hampson also notes that the most "relevant issue" in considering the Tussock Rise site is "the loss of industrial zone capacity" (EIC, 18 March 202, para 16.14, p.91). Yet her own analysis is clear there is no

shortage of industrial zone capacity relative to demand for the next 30 years.

[69] It is true that industrial demand *could* be higher than projected in the BDCA20, as Ms. Hampson flags (EIC, 18 March 2020, para 16.19(a), p.94). But this risk is symmetric – it is just as possible that industrial demand could be *lower* than projected, especially in the short term given the Covid-19-induced recession.

[70] As I understand it, "Zoning is the primary planning tool used to organise activities or manage environmental effects in a defined spatial area".[9] This does not imply that Councils should use zoning to determine the optimal size of industries and activities in the economy.

[71] The market is generally much better at determining an efficient allocation of resources than planners or central planners. In my view, planning should be used to manage the external effects associated with different land uses, not to try to force any economy to have a certain mix between agriculture, services, manufacturing, heavy industrial, etc over the next 30 years.

[72] Preserving industrial land that is not going to be used is a poor justification for preventing a more flexible set of planning provisions. This approach will see land sitting idle, not contributing to Wanaka's economic wellbeing. It is a waste of a scarce resource that could be put to more profitable uses.

[9] https://www.mfe.govt.nz/sites/default/files/media/RMA/Final-Discussion-Paper-C-Zones-and-overlays.pdf p.6.

Conclusion

[73] The BDCA20 concludes "In the Wanaka Ward, the capacity for industrial land use development is estimated to be sufficient to cater for projected long-term demand… Should [the Tussock Rise] land be excluded, it would not create a shortfall of industrial capacity by 2048 based on the assumptions modelled" (BDCA, 2020, p.18).

[74] Given this conclusion, with which I agree, I cannot see any reasonable economic justification for the Council's position of preventing a more flexible BMU or BMU/LDSR zoning for Tussock Rise.

[75] The Council's position is **not supported by the empirical evidence** presented in the BDCA20, which shows a large surplus of industrial land in Wanaka out to 2048. If the Tussock Rise site remains vacant due to a lack of industrial demand and restrictive zoning provisions, this is a highly inefficient use of a scarce natural resource.

[76] It is **not supported by the conceptual arguments** promoted on preventing the "market failure" (sic) of rising land values. This argument equates to Council preventing a scarce resource (land) from being put to its highest value use. This actively reduces economic activity and wellbeing in Wanaka, which is perverse.

[77] And it is **not supported by an assessment of the current economic environment**. The impending recession due to Covid-19 will be brutal for the Wanaka economy, and especially the tourism and industrial sectors. Some existing businesses will cease to operate. New businesses will need to emerge.

[78] In my view, it is not optimal or realistic for Council to pre-determine, using restrictive zoning, what types of businesses will emerge. Land should be put to its highest value use, based on market dynamics. This points towards a more flexible zoning approach, particularly for a site such as Tussock Rise which is well located for a mixed-use zoning.

[79] Any negative external effects associated with a more flexible planning regime are already built into the BMUZ provisions or can be mitigated through sensible consent conditions.

[80] In my opinion, therefore, rezoning Tussock Rise from GIZ to BMU or a split of BMU/LDSR activity would:

(a) make a useful contribution to improving the efficiency of land allocation in Wanaka

(b) better enable the provision of economic wellbeing

(c) support the recovery from recession due to Covid-19.