

**BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES
PROPOSED DISTRICT PLAN**

IN THE MATTER of the Resource Management Act
1991

AND

IN THE MATTER of Hearing Stream 13 ó Queenstown
Mapping

**STATEMENT OF EVIDENCE OF MICHAEL CAMPBELL COPELAND
(ECONOMICS)**

Dated this 9th day of June 2017

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BRIEF OF EVIDENCE OF MICHAEL CAMPBELL COPELAND

1. INTRODUCTION

Qualifications

- 1.1. My full name is Michael Campbell Copeland.
- 1.2. I hold a Bachelor of Science degree in mathematics and a Master of Commerce degree in economics.

Experience

- 1.3. I am a consulting economist and managing director of Brown, Copeland and Company Limited, a firm of consulting economists which has undertaken a wide range of studies for public and private sector clients in New Zealand and overseas. I have over 40 years' experience in the application of economics to various areas of business, including resource management matters. During the period 1990 to 1994, I was also a member of the Commerce Commission and during the period 2002 to 2008, I was a lay member of the High Court under the Commerce Act. Prior to establishing Brown, Copeland and Company Limited in 1982, I spent six years at the New Zealand Institute of Economic Research and three years at the Confederation of British Industry. A summary of my curriculum vitae is **attached** as **Appendix 1**.
- 1.4. With respect to the Resource Management Act 1991 (RMA), I have prepared evidence for clients covering a number of projects and policies. A selection of these is listed at the end of my curriculum vitae in **Appendix 1**.

Background

- 1.5. A group of landowners wish to rezone an area of land (a total of 19.46 hectares) in the vicinity of the bottom of the Remarkables, including some already existing and consented industrial activities and currently zoned 'Rural' land to an industrial zoning that provides for yard based industry, including the storage and retailing of associated bulky or larger goods and administrative offices (the proposed Coneburn Industrial zone). Land within the site has been used for many years for a number of industrial uses including a quarry, a base for trucking operations and mechanical workshops.
- 1.6. The rezoning of the land will provide for the Queenstown Lakes District's future growth in demand for industrial land at a location with direct access to State Highway 6. The part of the site fronting the State Highway has been heavily landscaped to mitigate the

activities from the State Highway. It is anticipated that further landscaping will be undertaken to ensure the mitigation of the proposed zone from the State Highway and surrounding areas.

Scope of My Evidence

- 1.7. I have been asked to provide evidence on behalf of the land owners, on the economic effects of the proposed rezoning. My evidence addresses the following matters:
- 1.7.1. The relevance of economic considerations under the Resource Management Act 1991 (RMA);
 - 1.7.2. A description of the Queenstown Lakes District economy;
 - 1.7.3. The economic benefits of the proposed rezoning;
 - 1.7.4. The potential economic costs of the proposed zoning;
 - 1.7.5. The Council's section 42A report and the evidence of Mr Philip Osborne; and
 - 1.7.6. Some overall conclusions.
- 1.8. Although not necessary in respect of council hearings, I confirm I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2014. I have complied with the Code of Conduct in preparing this evidence and I agree to comply with it while giving oral evidence before the hearing committee. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

2 ECONOMICS AND THE RMA

Community Economic Wellbeing

- 2.1 Economic considerations are intertwined with the concept of the sustainable management of natural and physical resources, which is embodied in the RMA. In particular, Part 2 section 5(2) refers to enabling *people and communities to provide for their social, economic and cultural well-being and for their health and safety* as part of the meaning of *sustainable management*, the promotion of which is the purpose of the RMA.

- 2.2 As well as indicating the relevance of economic effects in considerations under the RMA, section 5 also refers to “*people and communities*” (emphasis added), which highlights that, in assessing the impacts of a plan change, it is the impacts on the community and not just the Council or particular individuals or organisations, that must be taken into account. This is underpinned by the definition of “*environment*” which also extends to include people and communities.
- 2.3 The Coneburn industrial area will enable the residents and businesses of the Queenstown Lakes District to provide for their future social and economic wellbeing. I discuss this later in my evidence.

Economic Efficiency

- 2.4 Part 2 section 7(b) of the RMA directs that, in achieving the purpose of the Act, all persons “*shall have particular regard to ... the efficient use and development of natural and physical resources*” which includes the concept of economic efficiency.¹ Economic efficiency can be defined as:

*“The effectiveness of resource allocation in the economy as a whole such that outputs of goods and services fully reflect consumer preferences for these goods and services as well as individual goods and services being produced at minimum cost through appropriate mixes of factor inputs”.*²

- 2.5 More generally, economic efficiency can be considered in terms of:
- 2.5.1 Maximising the value of outputs divided by the cost of inputs;
 - 2.5.2 Maximising the value of outputs for a given cost of inputs;
 - 2.5.3 Minimising the cost of inputs for a given value of outputs; and
 - 2.5.4 Minimising waste.

- 2.6 The proposed change in zoning is consistent with the efficient use of resources, especially in regard to enabling land resources within the District to be allocated to their highest value use and facilitating balanced economic growth within the District. I address this later in my evidence.

¹See, for example, in *Marlborough Ridge Ltd v Marlborough District Council* [1998] NZRMA 73 at [86], the Court noted that all aspects of efficiency are *economic* by definition because economics is about the use of resources generally.

²Pass, Christopher and Lowes, Bryan, 1993, *Collins Dictionary of Economics* (2nd edition), Harper Collins, page 148.

Viewpoint for Economic Assessment

- 2.7 An essential first step in carrying out an evaluation of the positive and negative economic effects of the proposed rezoning is to define the appropriate viewpoint that is to be adopted. This helps to define which economic effects are relevant to the analysis. Typically a district (city) or wider regional viewpoint is adopted and sometimes a nationwide viewpoint might be considered appropriate.
- 2.8 The Coneburn proposed change in zoning will principally benefit the businesses and residents of the Queenstown Lakes District and so a District viewpoint is relevant.

The Justification for Land Use Controls

- 2.9 Over the past thirty years or so, there has been a growing acceptance in New Zealand and other countries that economic efficiency is maximised when investment decisions are left to individual entrepreneurs or firms, without intervention from Government ó i.e. òmarket basedö outcomes. The reason for this is that in theory, a perfectly competitive market, where investment decisions are left to individual entrepreneurs or firms without intervention from Government, achieves an efficient allocation of resources.
- 2.10 The essence of this policy is that the efficient use of resources, and therefore "sustainable management" results from the creation of a climate where the market enables people to make investment decisions "to provide for their economic well being".
- 2.11 Despite this, in reality markets are not "perfect", and the presence of "externalities"³ affects the working of the market and the results that could be expected from a totally unregulated system of resource allocation. Externalities arise because the actions of individuals or firms sometimes create positive or negative impacts on others.
- 2.12 It is unrealistic to assume that development of particular forms of economic activity and/or the location of that economic activity will not sometimes impose costs on the community in general. Where the developer, and/or those engaged in various forms of economic activity at the site do not face the incidence of these costs, externalities arise and intervention of some form may be justified. In other words, development may create costs or benefits for parties other than those commercially involved in transactions related to the development.
- 2.13 Externalities may be in the form of environmental effects such as visual, cultural, noise, water or air pollution effects. Externalities in an economic context may relate to the

³Defined as the side effects of the production or use of a good or service, which affects third parties, other than just the buyer and seller.

provision of infrastructure where a strict user pays system is not in place, and road transport congestion and safety effects.

- 2.14 Consideration of the efficient allocation of resources must encompass the extent to which externalities will or are likely to exist, but the existence of externalities does not necessarily imply the need for intervention. This is because intervention in the market, for example to limit where industrial and yard based development may occur, is not costless in that it prevents optimum resource allocation from the perspective of the market. Also there may be external benefits associated with types of development at particular locations, which need to be taken into account.
- 2.15 Therefore, from the point of view of community economic well being and economic efficiency, market interventions such as land use constraints should only be imposed where clear external costs have been identified and the significance of these external costs is such that it outweighs the costs of the particular form of intervention proposed.
- 2.16 Further, restricting development having considered only potential negative externalities relies on partial or incomplete analysis and will lead to suboptimal outcomes. It ignores not only positive externalities, but also the economic and other benefits inherent in market determined solutions.
- 2.17 In other words to justify land use controls, which restrict free market outcomes, externality costs must be identified and they must be significant enough to outweigh the inherent cost of not allowing a free market solution and any positive externalities that may be associated with that free market solution.
- 2.18 This approach is consistent with the requirements under section 32 of the RMA to assess the effectiveness, efficiency and benefits and costs of proposed provisions in district plans.
- 2.19 Later in my evidence I assess the economic externality benefits and costs associated with enabling the proposed rezoning to allow the establishment of the proposed Coneburn Industrial zone.

Intangible Effects

- 2.20 In economics, intangible costs and benefits are defined as those which cannot be quantified in monetary terms. For any project, such effects may include amenity effects, landscape effects, ecological effects, Mori cultural and relationship effects and recreational effects. I would note that such effects may be positive or negative i.e. a benefit or a cost for a particular community of interest.

- 2.21 Sometimes attempts can be made to estimate monetary values for so called 'intangibles' using techniques such as willingness to pay surveys or inferring values on the basis of differences in property values. However, these techniques are frequently subject to uncertainty and criticism.
- 2.22 In my opinion, it is generally better to not attempt to estimate monetary values for these effects but to leave them to be part of the consideration under s 5 of the RMA. This also avoids the danger of 'double-counting' i.e. including them within a quantified measure of efficiency and treating them as a separate matter in the overall judgement under s 5. The 'intangible' effects of the proposed Coneburn industrial area, including any landscape, traffic, ecological and servicing effects, are considered in the evidence of other appropriately qualified technical witnesses.

3 BACKGROUND TO QUEENSTOWN LAKES DISTRICT ECONOMY⁴

- 3.1 Statistics New Zealand's June 2016 resident population estimate for the Queenstown Lakes District is 34,700. In 2006 population in the District was 24,100 persons, implying growth of 44.0%, as compared to growth of 12.2% for New Zealand as whole.
- 3.2 Statistics New Zealand's 'medium' population projections⁵ have the Queenstown Lakes District's population increasing at an average rate of 1.4% per annum over the period 2016-43, compared to an average rate of growth of 0.7% for New Zealand i.e. the District's population is forecast to grow at a rate twice the national average. In terms of the National Policy Statement on Urban Development 2016 capacity criteria, the District is a "high-growth urban area" and therefore the Queenstown Lakes District Council is expected to comply with all of the National Policy Statement's Objectives and Policies.
- 3.3 The Statistics New Zealand population data relates to resident population estimates and forecasts. Including the visitor numbers raised the average daily population in 2015 from 32,400 to 47,800 i.e. on average visitors to the District increase the resident population by 48%. At peak times the impact is even more pronounced. For 2015, peak population in the District was estimated at 96,500 i.e. nearly 3 times the resident population. In 10 years time (i.e. in 2025) the daily peak population is expected to reach 115,500 and the average resident plus visitor population 57,000.⁶
- 3.4 Employment data also highlights the dependence of the Queenstown Lakes District economy on tourism. In 2016, 6,500 jobs (29.7%) of the District's 21,900 jobs were in

⁴Data in this section from Statistics New Zealand, unless stated otherwise.

⁵Statistics New Zealand prepare three sets of projections . high, medium and low . according to natural population change (i.e. the net effect of birth and death rate assumptions) and net migration assumptions. These projections do not explicitly incorporate assumptions about different rates of economic development.

⁶Source: Queenstown Lakes District Council 10 Year Plan 2015 . 2025.

the accommodation and food services industry group. For New Zealand as a whole accommodation and food services only account for 7.3% of total employment. This industry group is only a proxy for the tourism industry since it will also be used by non-tourists and there are other industry groups, which provides goods and services to tourists ó e.g. retail trade and arts and recreation services. In the Queenstown Lakes District retail trade accounts for 2,750 jobs (12.6% of total employment compared to 9.8% nationally) and arts and recreation services⁷ accounts for 1,450 jobs (6.6% of total employment compared to 1.9% nationally).

- 3.5 A 2013 study - Review of District Plan Business Zones Capacity and Development of Zoning Hierarchy; McDermott Miller Strategies Limited in association with Allan Planning and Research; A report prepared for the Queenstown Lakes District Council; 15 November, 2013 (the McDermott Miller report) ó estimated that tourism contributes around 35% to the Queenstown Lakes District's Gross Domestic Product (GDP) as compared to 8.6% at the national level.
- 3.6 The McDermott-Miller report defines 'tourism-characteristic' industries to include accommodation, food and beverage services, road, rail and water passenger transport, air transport, other transport, transport support and travel and tour services, rental and hiring services, arts and recreation services and recreational goods retail. It defines 'tourism-related' industries to include retail trade of other personal services and education and training, whilst 'non-tourism-related' industries include retail trade of hardware and other household goods and all other industries. In 2012 'tourism-characteristic' and 'tourism-related' employment accounted for 58% of total employment and non-tourism-related employment accounted for 42%.
- 3.7 Whilst 'non-tourism-related' industries are those in which direct spending by tourists is only a minor part of revenue, they include businesses that depend on tourism indirectly ó i.e. they are businesses, which provide goods and services to businesses and employees within the 'tourism-characteristic' and 'tourism-related' industries. Therefore although tourism is the key economic driver of the Queenstown Lakes District economy, other sectors of the economy indirectly contribute to underpin and grow tourism within the District.

4 ECONOMIC BENEFITS OF PROPOSED ZONING CHANGE

⁷Primarily sport and recreation.

Meeting the Future Demand of Land for Industrial and Yard Based Activities

- 4.1 The McDermott-Miller report undertook an analysis of the supply and demand for commercially zoned land in the Wakatipu-Arrowtown area over the period 2013-31. The analysis was done under various population and building consent projection growth scenarios and for two 'tourism driven' higher growth scenarios. With respect to the proposed Coneburn Industrial zone the key conclusions from this analysis are as follows:
- 4.1.1 Overall supply of land for commercial purposes (other than for retail development) would exceed demand for the planning period under all scenarios except for the two 'tourism driven' higher growth scenarios under which demand will exceed supply by 2018 (scenario 1) and by 2024 (scenario 2);
 - 4.1.2 In the two 'tourism driven' higher growth scenarios the additional land requirements are dominated by yard based and transport related activities;
 - 4.1.3 There is an acute shortage of vacant land in the Queenstown Town Centre zone, which has to either expand or be redeveloped more intensively. Otherwise activities best located within the Town Centre will have to be located in other areas;
 - 4.1.4 There is a potentially limited supply of vacant Business land (exhausted by 2021 under medium demand projections or sooner under higher growth projections). This could be alleviated by relocating industrial and yard-based activities from business to industrial zones and by an expansion of the Queenstown Town Centre zone;
 - 4.1.5 A potential shortage of Industrial zoned land may develop after 2026 under the three higher population and building consent growth scenarios. This shortage of Industrial zoned land will occur even sooner under either of the higher 'tourism driven' growth scenarios.
- 4.2 Clearly the proposed Coneburn Industrial zone will help in meeting the future need for Industrial zoned land within the District. Under higher growth scenarios additional land zoned for industrial purposes is required by 2026 (i.e. in 9 years time) and under the highest of the growth scenarios modelled as early as 2018 (i.e. next year).
- 4.3 A more recent study, ('Bunnings Queenstown Retail Assessment' Property Economics; March 2017 (the Property Economics Bunnings report)), forecasts industrial land

requirements in the Queenstown Lakes District, over the period 2016 to 2028. Its findings include:

- 4.3.1 Current vacant industrial land supply of 51.5 hectares;
 - 4.3.2 Forecast additional land requirement over the period 2016 to 2028 of 46.2 hectares (made up of existing latent demand of 12.1 hectares and growth in demand of 34.1 hectares); and
 - 4.3.3 A surplus of industrial land within the District of 5.3 hectares in 2028.
- 4.4 The report notes that historically there has been a shortage of industrial zoned land in the Wakatipu Basin area, with the majority of vacant industrial land in the Wanaka area. The Frankton Flats B Special Zone is reported to have rebalanced this and provided an increased amount of vacant land in the Queenstown, Frankton and Arrowtown areas.
- 4.5 However Under the heading “Responsive Planning” the National Policy Statement on Urban Development Capacity 2016, contains a number of policies requiring local authorities such as the Queenstown Lakes District Council with part, or all, of either a medium-growth urban area or high-growth urban area within their district or region to make available sufficient land capable of housing and business development. For example, policy PC1 requires the Queenstown Lakes District Council:
- “To factor in the proportion of feasible development capacity that may not be developed, in addition to the requirement to ensure sufficient, feasible development capacity as outlined in policy PA1⁸, local authorities shall also provide an additional margin of feasible development capacity over and above projected demand of at least:*
- 20% in the short and medium term, and*
- 15% in the long term.”*
- 4.6 The 5.2 hectares of surplus industrial land forecast in the Property Economics Bunnings report provides only an 11.5% buffer.⁹
- 4.7 Market Economics has carried out a peer review¹⁰ of the Property Economics Bunnings report. That peer review states that industrial zoned land within the District is expected to be exhausted shortly after the 11 year analysis period (2017-2028) used by Property Economics and that this analysis period is too short to provide the Council with an

⁸Policy PA1 relates to local authorities having to ensure that at any one time there is sufficient housing and business land development capacity with different requirements for the short, medium and long term.

⁹ I.e. $100 \times 5.3/46.2 = 11.5\%$.

¹⁰ See letter dated 29 May 2017 from Mr Derek Foy of Market Economics to the Queenstown Lakes District Council.

understanding of its obligations under the National Policy Statement on Urban Development Capacity (see page 3 of the Market Economics peer review). It concludes that the Council's National Policy Statement obligations in respect of ensuring sufficient supply of industrial land will require additional land to be zoned industrial, with or without the proposed Bunnings development (see page 5 of the Market Economics peer review).

- 4.8 Also the Proposed zone change will facilitate the relocation of industrial and yard based activities to relocate out of Business to Industrial zones and in turn an expansion of appropriate activities within or adjacent to the Queenstown Town Centre Zone. For example, within the Gorge Road Business Zone there are existing 'industrial' or 'yard based' activities (e.g. a bus storage area and a trucking firm) that may relocate to industrial land (e.g. PC 19 Industrial Zone land or the proposed Coneburn Industrial Zone land), especially if land values and rents increase making way for more appropriate 'business' activities to be located close to the Queenstown Town Centre. To the extent this occurs, there will be additional demand for land zoned for industrial purposes than forecast in the McDermott-Miller and the Property Economics Bunnings reports.
- 4.9 Similarly, Glenda Drive, despite its industrial zoning, is in fact a mixed use zone with office, other commercial, industrial and even residential activities within it. It can be expected that there may be pressure on some industrial activities to relocate out of Glenda Drive in the future as land values and rents increase, as reverse sensitivity pressures¹¹ intensify and/or industrial users seek more room to expand their activities. Again any such relocation of industrial activities out of Glenda Drive will result in greater demand for new land zoned for industrial purposes than forecast in the McDermott-Miller and Property Economics Bunnings reports.
- 4.10 Another factor suggesting the forecasts of surplus industrial zone land may be too low is the ongoing use of land with an industrial zoning for non-industrial purposes. The proposed Bunnings development is one such potential future development whilst previously the new Mega 10 hardware store and the new PakonSave supermarket are significant developments which have utilised an estimated 4.6 hectares of the industrial land made available under PC19. As with the relocation of existing industrial activities out of Gorge Road and Glenda Drive, the pressure from non-industrial land uses on Industrial Zone land will bring forward the time when new Industrial Zone land is required.

¹¹E.g. complaints about industrial activities and business activities locating adjacent to each other . see Business Park Blues; Mountain Scene, 29 April, 2010. The article reports on a Queenstown Lakes District Council survey of firms located in industrial zones within the District. It highlights a number of complaints arising from non-industrial activities being located within industrial zones.

- 4.11 By enabling the growing demands for industrial land within the District (and the Wakatipu-Arrowtown area in particular) to be met in a timely manner encourages the efficient use of resources since there are economic costs associated with providing insufficient land zoned for particular purposes. These include increased costs for businesses and consumers; reductions in the range of goods and services available locally; and reductions in the level of economic activity within the District. Should reasonably priced land for industrial uses not be made available within the District, the Queenstown Lakes District will be more reliant on the supply of goods and services from outside the District (e.g. from Cromwell within the Central Otago District). This will result in additional transport costs and reduced reliability of supply.
- 4.12 Also to the extent the proposed zone facilitates a relocation of industrial and yard based activities from Business zones there will also be efficiency improvements within the Business and Town Centre zones.
- 4.13 By enabling higher value uses to gravitate towards land zoned for industrial purposes, but with distinct advantages for non-industrial activities (e.g. in Gorge Road and Glenda Drive) a more efficient pattern of land development will materialise. This would be in effect the market-based outcome described earlier in my evidence and would maximise economic efficiency in the absence of economic externality costs.

Increased Competition

- 4.14 The proposed Coneburn Industrial zone will introduce increased choice and additional competition to the market for the supply of land for industrial and yard based activities in the Wakatipu-Arrowtown area. Increased competition within a market brings efficiency gains and net economic benefits from more efficient pricing and the elimination of monopoly profits on land sales and rents in a market with only a small number of suppliers.
- 4.15 With respect to increasing competition in the market for the supply of land for industrial development the National Statement on Urban Development Capacity 2016 states¹²:

“Competition is important for land and development markets because supply will meet demand at a lower price where there is competition. There are several key features of a competitive land market and development market. These include providing plenty of opportunities for development. Planning can impact on the competitiveness of the market by reducing overall opportunities for development and restricting development rights to only a few landowners.

¹² At page 4.

This national policy statement requires councils to provide in their plans enough development capacity to ensure that demand can be met. This includes both total aggregate demand for housing and business land, and also the demand for different types, sizes and locations. This development capacity must recognise that not all feasible development opportunities will be taken up. This will provide communities with more choice, at lower prices.”

4.16 In addition, Policy PA3 of the National Statement requires that when making planning decisions particular regard be given to:

- “a) Providing for choices that will meet the needs of people and communities and future generations for a range of dwelling types and locations, working environments and places to locate businesses; and*
- c) Limiting as much as possible adverse impacts on the competitive operation of land and development markets.ö*

4.17 The proposed rezoning of the Coneburn land will provide increased choice in the market for the supply of land for industrial development in the Wakatipu Basin. There will also potentially be an increase in the level of competition in this market depending upon the eventual marketing arrangements for the land.¹³

Greater Economic Resilience for Queenstown Lakes District Economy

4.18 The McDermott-Miller report records that over the period 2000-12 total employment within the Queenstown Lakes District increased by 84%. Employment grew in òtourism-characteristicö industries by 58%, in òtourism-relatedö industries by 75% and in ònon-tourism-relatedö industries by 129%. In the Wakatipu-Arrowtown area employment grew in òtourism-characteristicö industries by 51%, in òtourism-relatedö industries by 59% and in ònon-tourism-relatedö industries by 118%.

4.19 Similarly the Property Economics Bunnings report records that industrial employment¹⁴ over the period 2000 to 2016 grew by 206%, fuelled in particular by growth in the construction sector employment of 300%, as compared to accommodation and food services employment (a proxy for tourism employment) growth of 106% and total employment growth of 146%.

4.20 This helps to illustrate that although the tourism sector is the key economic driver of the Queenstown Lakes District economy, ònon-tourism-relatedö industries indirectly contribute to the tourism sector and have in recent years contributed more to the

¹³ There would be no increase in competition if the land was ultimately developed and sold by an existing industrial land developer in the market.

¹⁴ Defined to include agriculture, forestry and fishing, mining, manufacturing, electricity, gas, water and waste services, construction, wholesale trade and transport, postal and warehousing sectors.

District's economic growth than narrowly defined 'tourism-related' industries. Also non-tourism-related industries provide a more diversified base to the local economy making it less susceptible to factors which influence international and domestic tourism.

Grouping Together of Industrial Activities

4.21 As noted previously, included within the proposed zone change site are a number of existing industrial activities including a quarry, a construction depot and a mechanical workshop. There are synergies from the co-location of industrial activities together. Also one of the owners of the land proposed for rezoning is a related company to the owner of the nearby Remarkable Ski Field and it is anticipated that part of the site would be utilised for the storage and maintenance of plant and equipment for the operation and maintenance of the skifield. There are economic efficiency benefits from having a yard for such activities in close proximity to the skifield.

Other Inherent Economic Advantages of the Site

4.22 The site is isolated from residential areas reducing potential reverse sensitivity effects; it is easily accessible (see Transport Effects report and the evidence of Mr Bartlett); and is currently used for very limited agricultural activities ó there will be no significant displacement of other economic activities.

5 POTENTIAL ECONOMIC EXTERNALITY COSTS OF THE PROPOSED CONEBURN INDUSTRIAL ZONE

Utilities

5.1 Externality costs can arise when utilities provided by central or local government (e.g. roads, water supply, storm water and flood control systems and wastewater disposal) are not appropriately priced. In the case of the proposed Coneburn Industrial zone no such externality costs will arise. Such costs will all be internalised to the developer, who in turn will recover these costs from property purchasers or lessees.

Intangibles

5.2 As mentioned earlier in my evidence any intangible effects of the proposed rezoning are best dealt with by the appropriate technical experts. To include them within an economic framework runs the risk of them being double-counted.

Property Value Effects

- 5.3 Any reductions in adjacent property values (or any constraint on the escalation of property values in the future) as a consequence of the proposed rezoning of the Coneburn land are a reflection of, and not in addition to, any reductions in amenity values. Any changes in property value effects do not materialise unless and until an owner sells the property. At this point there may be a wealth loss to the seller, but no ongoing reduction in amenity values to be borne by the seller. The purchaser of the property gains by potentially having to pay a lesser price for the property but incurs the costs of any ongoing reduced amenity values. From a community perspective, any loss in property values¹⁵ nets out. To include both any reduced amenity value and any loss in property value would involve double-counting of the costs.

6 COUNCIL SECTION 42A REPORT AND COUNCIL EVIDENCE

Section 42A Report

- 6.1 The Council's section 42A report (provided as the statement of evidence of Mr Robert Buxton dated 24 May, 2017) addresses the proposed Coneburn Industrial zone at section 27 (paragraphs 27.1 to 27.22). The report recommends rejecting the Submission's proposed rezoning but concludes that there is merit in the requested zone. It seems that the section 42A report seeks simply to delay the rezoning of the land until a number of issues are addressed:

*"These are that the effects of the zoning are fully addressed and that the proposed zone provides for those industrial activities that would struggle to find necessary land for their businesses. Also the proposal would need to be considered as part of a strategic review of the supply, location and release of further industrial land."*¹⁶

- 6.2 The section 42A report's recommendation and conclusion is based upon the evidence of Mr Philip Osborne for the Council and which I discuss below in the next section of my evidence. Mr Osborne is an economic consultant for Property Economics and is a colleague of Mr Heath who prepared the Property Economics Bunnings report. The section 42A report accepts that the demand for industrial land in the Wakatipu area may exceed supply by 2030 and that consideration does need to be given to providing additional industrial zoned land. However the section 42A report appears to be concerned about *"the potential impacts of oversupplying (industrial) land"*.¹⁷
- 6.3 In my view such fears are unfounded and run counter to the general sentiments expressed within the National Policy Statement on Urban Development Capacity which

¹⁵Or constraint on property value increases.

¹⁶ See paragraphs 27.10 and 27.22 of the section 42A report.

¹⁷See paragraph 27.11 of the section 42A report.

seeks a buffer (or surplus) of appropriately zoned land supply over demand and increased competition in the land supply market. Attempts to restrict the supply of land zoned for industrial purposes to some sort of 'just in time' provision are likely to see a continuation of the harmful economic effects that have characterised Queenstown's industrial land supply market in recent years and which are detailed in Mr Osborne's evidence. This will exacerbate rather than alleviate the problems industrial activities have in finding the necessary land for their businesses. As explained in the planning evidence of Ms Alyson Hutton, the time taken for land to get rezoning approval means that it is prudent to seek the rezoning of the Coneburn land now. Also I am informed that the current industrial zoned land is held by a relatively small number of owners and therefore the proposed rezoning of the Coneburn land will increase the level of competition in the market for the supply of such land.

6.4 At paragraph 27.14, the section 42A author (Mr Buxton) expresses concerns that the proposed rezoning will lead to the granting of consents for non-industrial activities such as offices, gyms, child care and retail activities such that yard or transport based activities will not eventuate on the site. It is my understanding from the evidence of Ms Hutton that:

6.4.1 Offices that are not ancillary to permitted activities would be restricted discretionary activities and the discretion will be limited to the extent to which the business operates without the need for foot traffic from members of the public. Those office businesses reliant on foot traffic are more suited to a town centre environment.

6.4.2 Gyms and child care activities would not be permitted activities and would require non-complying consent, as they are not anticipated to locate within the zone.

6.4.3 The retailing of goods not produced or stored on the site would be restricted to trade suppliers, office furniture/equipment and system suppliers, yard based suppliers and food and beverage sales. The food and beverage sales would be directed at occupiers of the site and their customers rather than the passing motorised trade along State Highway 6. This is especially the case given that the proposed landscaping provisions and evidence provided by Ms Snodgrass requires the screening of the development from the State Highway.

- 6.5 The proposed Coneburn Industrial zone will provide an increase in the supply of land for industrial activities in the Wakatipu area and increase the level of competition in this market. Therefore I believe the section 42A report's concerns that the proposed Coneburn Industrial zone will not cater for industrial activities that struggle to find the necessary land for their businesses¹⁸ is ill-founded.

Mr Osborne's Evidence

- 6.6 In his evidence for the Council dated 24 May, 2017, Mr Philip Osborne reports on his analysis of the demand and supply of land zoned for industrial (and commercial) purposes for the Queenstown Lakes District as a whole and the Wakatipu area. As discussed above Mr Osborne concludes that it is expected the supply of industrial zoned land will be exhausted by 2030 in Wakatipu. This is based on the current supply of vacant industrial zoned land, the expected growth in demand for industrial zoned land and

*"... a latent demand that has existed in the District of approximately 11ha." This demand is the result of inappropriate quantum's and locations for industrial land and has resulted in land prices that are disproportionate to the market."*¹⁹

- 6.7 It would appear that this build up of 'latent demand' has been most significant in the Wakatipu area with Mr Osborne recording at paragraph 3.3 of his evidence:

"Both the Wakatipu and Wanaka Wards have seen substantial rates of growth in industrial employment with Wakatipu typically accommodating less land and floorspace extensive businesses, while the Wanaka Ward has accommodated industrial businesses that typically require greater levels of both land and floorspace per employee. This is, in part, due to the size of each market with the Wakatipu land supply proportionately more constrained thereby attracting businesses that exhibit higher land productivities."

- 6.8 If the Wakatipu industrial land market was less constrained it is quite likely that it, rather than Wanaka would attract businesses requiring greater levels of both land and floorspace per employee.

- 6.9 Mr Osborne's evidence²⁰ reports on the significant growth that has occurred in industrial (and commercial) employment which has occurred within the District in the last 16 years (2000 to 2016) and states:

¹⁸ See paragraphs 27.12 and 27.13 of the section 42A report.

¹⁹ See paragraph 5.23 of Mr Osborne's evidence.

²⁰ See paragraph 4.4 of Mr Osborne's evidence.

“This growth has put significant pressure on existing land supply and has resulted in relative increases in land prices and rental rates with industrial land prices exceeding \$1,000/sqm in some locations.

*This level of pressure has resulted in conflict between land use activities with higher valued commercial activity (with 40% of the District’s commercial office consents occurring in industrial zones over the past 5 years) competing within industrial zones, thereby artificially forcing the price of industrial land up and, in places, rendering it unaffordable for industrial uses.”*²¹

- 6.10 Mr Osborne points out that this pressure placed on industrial land prices reduces the competitiveness of the Queenstown industrial market, reducing efficiencies and limiting growth in the District.²²
- 6.11 The proposed Coneburn Industrial zone is intended to provide some relief from these pressures, especially in the Wakatipu area, which appears to suffer most from the build up of latent demand for additional industrial zoned land.
- 6.12 At paragraphs 5.18 and 5.19 of his evidence Mr Osborne warns of the potential impacts of oversupplying land zoned for particular activities. However at paragraph 5.20 of his evidence Mr Osborne points out that these particular impacts are exacerbated when there is an undersupply of appropriate commercial land resulting in commercial activities displacing industrial activities on industrial zoned land. This appears to have been the situation in the District (and especially the Wakatipu area) over recent years and the proposed Bunnings development on industrial zoned land and which his firm, Property Economics, is supporting is a continuation of this trend. The proposed Coneburn Industrial zone will help to address this situation by providing additional capacity and competition in the industrial land supply market.
- 6.13 At paragraph 5.19 of his evidence, Mr Osborne lists a number of risks from the potential over supply of industrial land. My evidence (and the evidence of Mr Osborne, the Property Economics Bunnings report and the Market Economics peer review of that report) argues that there is a need for the zoning of additional industrial land. Therefore by itself the proposed Coneburn Industrial zone will not lead to an over supply of industrial land. However for completeness I respond to each of the risks Mr Osborne lists as follows:

6.13.1 Disjointed industrial development: To the extent that there is no suitable land contiguous to industrial zoned land available for rezoning this is

²¹ See paragraphs 4.5 and 4.6 of Mr Osborne’s evidence.

²² See paragraph 4.16 of Mr Osborne’s evidence.

inevitable. Also the proposed Coneburn Industrial zone will be significant in size with scope for the co-location of a range of industrial activities as well as the consolidation of new industrial activities with existing consented industrial activities on the site.

- 6.13.2 High marginal development and servicing costs: The proposed Coneburn Industrial zone already has a number of industrial activities on it. Also the owners and users of the land will meet development and servicing costs not the Council (ratepayers). Therefore such costs are not 'externality' costs;
- 6.13.3 Underutilised infrastructure: There is agreement that there is a need to increase the supply of industrial land and any increased infrastructure required will be paid for by the developer and users of the site;
- 6.13.4 Failure to capture agglomeration economies: The proposed Coneburn industrial zone will be of sufficient size to capture agglomeration economies available from both new and existing users of the site;
- 6.13.5 Inappropriate land prices: The National Policy Statement on Urban Development Capacity and Mr Osborne's evidence elsewhere make it clear that 'inappropriate land prices' occur when supply is constrained.
- 6.13.6 Reduction in the level of productive land: The agricultural productivity of the Coneburn site is very low. In any case the value of the land in alternative uses is incorporated in the cost structure of the developer. It is not an 'externality' cost.
- 6.13.7 Investment uncertainty through low relative demand and price fluctuations: There is agreement that additional industrial land is required. Price fluctuations are found in all markets and are for market participants to address.
- 6.13.8 Reduced redevelopment (reduction in redevelopment of existing floorspace to new uses): As discussed already in my evidence the proposed Coneburn Industrial zone is likely to lead to increased redevelopment of existing industrial land more suited to higher value alternative uses (e.g. in Gorge Road and Glenda Drive).
- 6.13.9 Attraction of transitory business (price driven industry that is likely to prioritise land price for a small period of time): Whether this is a risk for the local economy is debatable. However it seems unlikely to occur in the

District especially in the Wakatipu area which according to Mr Osborne's evidence has been unable to attract businesses requiring high land areas per employee because of relatively high industrial land prices.²³

6.13.10 Low amenity through decreased density: It is unclear why the proposed Coneburn Industrial zone will have a density of activities significantly different to existing or alternative new industrial areas within the District. However even if it did there is no reason to presume that 'externality' amenity values for residents and visitors to the District would be lower. If anything lower industrial density of industrial activities is more likely to be consistent with higher amenity values.

6.13.11 Duplication of infrastructure: Most, if not all, of the infrastructure costs as a result of the proposed Coneburn Industrial zone will be met by the developer and users of the site.

6.13.12 Low economies of scale for infrastructure leading to poor quality: Infrastructure costs will be met by the developer and users of the site. Also the site is of sufficient size to achieve some economies of scale.

6.14 In the context of the Queenstown District, and especially the Wakatipu area, with no more land available for industrial zoned land expansion in Frankton, new appropriate areas have to be found, and these will not be contiguous to existing industrial zoned land. The proposed Coneburn Industrial zone is one such alternative area which already has some industrial activities on it. The site is likely to be more appropriate than alternative Greenfield sites.

7 CONCLUSIONS

7.1 Economic wellbeing and the efficient use and development of resources are relevant considerations under the RMA.

7.2 Tourism is the key economic driver of the Queenstown Lakes District economy. However non-tourism related economic activities (including industrial and yard based activities) indirectly contribute to Queenstown's economic base and have been a significant contributor to Queenstown's economic growth in recent years.

7.3 A McDermott-Miller report prepared for the Queenstown Lakes District Council in 2012 has forecast the need for new areas of land to be zoned for industrial purposes by 2026 and possibly as early as 2018. The more recent March 2017 Property Economics

²³ See paragraph 4.17 of his evidence.

Bunnings report forecasts a small surplus of industrial land supply in 2028 but this surplus is less than the buffer of supply over demand sought by the National Policy Statement on Urban Development Capacity. Mr Osborne in his evidence dated 24 May 2017 for the Council forecasts the demand for industrial land in the Wakatipu area to exceed supply by 2030.

- 7.4 The relocation of industrial activities within Gorge Road and Glenda Drive in the face of rising land costs, reverse sensitivity issues and/or the need to expand and pressure on land zoned for industrial purposes being used for non-industrial activities will intensify the predicted shortage of appropriately zoned industrial land.
- 7.5 There is a range of economic benefits from meeting the future demand for industrial zoned land in a timely fashion.
- 7.6 There are no economic externality costs from the proposed change in zoning sought for the Coneburn land.
- 7.7 The proposed rezoning is consistent with:
- 7.7.1 Enabling *people and communities to provide for their social, economic and cultural well-being and for their health and safety*; and
 - 7.7.2 Having *“particular regard to ... the efficient use and development of natural and physical resources”*.

Michael Campbell Copeland

Date: 9 June 2017

**APPENDIX 1: CURRICULUM VITAE OF MICHAEL CAMPBELL
COPELAND**

DATE OF BIRTH 3 October 1950

NATIONALITY New Zealand

**EDUCATIONAL
QUALIFICATIONS** Bachelor of Science (Mathematics) 1971
Master of Commerce (Economics) 1972

PRESENT POSITIONS

(Since 1982) Economic Consultant, Brown, Copeland & Co Ltd

(Since 2017) Trustee, Trade Aid (Kapiti)

PREVIOUS EXPERIENCE

1978-82 NZ Institute of Economic Research
Contracts Manager/Senior Economist

1975-78 Confederation of British Industry
Industrial Economist

1972-75 NZ Institute of Economic Research
Research Economist

1990-94 Member, Commerce Commission

2001-06 West Coast Regional Council Trustee, West Coast Development Trust

2002-08 Lay Member of the High Court under the Commerce Act 1986

2003-11 Director, Wellington Rugby Union

2010-13 Director, Southern Pastures

2010-17 Director, Healthcare New Zealand Holdings Limited

GEOGRAPHICAL EXPERIENCE

- New Zealand
- Australia
- Asia (Cambodia, India, Indonesia, Kazakhstan, Malaysia, Nepal, Pakistan, People's Republic of China, Philippines, Tajikistan, Sri Lanka, Uzbekistan, Viet Nam)
- South Pacific (Cook Islands, Fiji, Kiribati, Tokelau, Tonga, Tuvalu, Vanuatu, Western Samoa)
- United Kingdom

AREAS OF PRIMARY EXPERTISE

- Agriculture and Resource Use Economics (including Resource Management Act)
- Commercial Law and Economics (including Commerce Act)
- Development Programme Management
- Energy Economics
- Industry Economics
- Transport Economics

RESOURCE MANAGEMENT ACT SPECIFIC PROJECTS

- Port storage facilities at Westport;
- The proposed Clifford Bay ferry terminal;
- The proposed pipeline and related facilities to utilise water from the Waikato River for metropolitan Auckland;
- A container terminal expansion by the Ports of Auckland;
- The proposed Variation No. 8 to the Wellington City District Plan covering height and other controls on development of the airspace above the Wellington railway yards;
- Proposed expansion of Paraparaumu town centre within the Kapiti Coast District;
- Wellington City Council's heritage preservation policy;
- Solid Energy's proposed West Coast Coal Terminal at Granity;
- Solid Energy's Mt William North coal mine at Stockton in the Buller District;
- The proposed Waimakariri Employment Park;
- The designation of land for a proposed motorway extension in the Hawke's Bay;
- The Hastings District Council's Ocean Outfall's two consent renewal applications;
- A proposed new shopping and entertainment centre in Upper Hutt;
- Rezoning of land in Upper Hutt from Business Industrial to Residential;
- New regional correctional facilities in Northland, South Auckland, Waikato and Otago;
- Proposed controls on wake generation by vessels travelling within the waterways of the Marlborough Sounds;
- The expansion of marina facilities within the Marlborough Sounds;
- Southern Capital's proposed new township at Pegasus Bay, north of Christchurch;
- Renewal of water resource consents for the Tongariro Power Development Scheme;
- Economic analysis inputs to a Section 32 report for the Waitaki Water Allocation Board;
- The imposition of land use restrictions within noise contours surrounding Christchurch International Airport;
- The expansion of the Whangaripo Quarry in Rodney District;
- The economic significance of Winstone's proposed quarry at Wainui, in the north of Auckland City;
- A proposed five star hotel development for Wanaka;
- Holcim's proposed new cement plant near Weston in the Waitaki District;
- TrustPower's proposed new wind farm at Mahinerangi in Central Otago;
- TrustPower's proposed new Arnold hydroelectric power scheme on the West Coast;
- McCallum Bros and Sea Tow Limited's appeal before the Environment Court regarding extraction of sand from the Mangawhai-Pakiri embayment north of Auckland;
- The development of the Symonds Hill pit at Winstone's Hunua Quarry;
- The rezoning of land for residential development at Peninsula Bay, Wanaka;
- The rezoning of land for more intensive residential development at Peka Peka on the Kapiti Coast;
- A gondola development for the Treble Cone skifield;
- A gondola development for the Snow Farm and Snow Park skiing and snowboarding facilities;
- The extraction of gravel from the bed of the Shotover River;
- The proposed Hilton hotel development on Wellington's Queen's Wharf;
- Land use restrictions in relation to the Runway Extension Protection Areas for Christchurch International Airport;
- A new residential and commercial development by Apple Fields at Belfast on the outskirts of Christchurch;

- A proposed business park development on land at Paraparaumu Airport;
- The proposed redevelopment of Wellington's Overseas Passenger Terminal;
- The proposed Central Plains irrigation scheme in Canterbury;
- The staging of residential and business development at Silverdale North in the Rodney District;
- The redevelopment of the Johnsonville Shopping Centre;
- A Plan Change enabling the relocation of existing development rights for a residential and commercial development on Mount Cardrona Station in the Queenstown Lakes District;
- A new Pak'n Save supermarket at Rangiora;
- New supermarkets at Kaiapoi, Whitby, Silverstream and Havelock North;
- The extension of the Te Rere Hau wind farm in the Tararua District;
- MainPower's proposed new wind farm at Mount Cass;
- Fonterra's proposed new milk processing plant at Darfield and its subsequent expansion;
- Fonterra Pahiatua milk powder plant expansion;
- Fonterra's Studholme milk processing plant expansion;
- Renewal of resource consents at Fonterra's Edgecumbe, Edendale, Te Rapa and Te Awamutu milk processing plants;
- Fonterra's proposed new coal mine in the Waikato District;
- Assessment of the economic significance of ANZCO's Canterbury operations to the Canterbury regional economy;
- Resource consent extensions for Oceana Gold (New Zealand) Limited's gold mining operations at Macraes Flat in north-east Otago, the Globe Mine at Reefton and a proposed underground gold mine at Blackwater on the West Coast;
- Designation of land for NZTA's Waterview motorway project in Auckland;
- Designation of land and resource consents for NZTA's Transmission Gully motorway project in Wellington;
- Designation of land and resource consents for NZTA's MacKays to PekaPeka Expressway;
- Designation of land and resource consents for NZTA's PekaPeka to Otaki Expressway;
- Resource consents for NZTA's Basin Reserve Bridge Project;
- Resource consents for NZTA's Puhoi to Warkworth motorway extension;
- Assessment of the economic effects of a Queenstown Airport Corporation's proposed Notice of Requirement for the designation of additional land for aerodrome purposes;
- Assessment of the retail effects of proposed Plan Change 19 to the Queenstown Lakes District's District Plan;
- Assessment of the regional and national economic significance of Lyttelton Port;
- The economic benefits of utilising a Recovery Plan under the Canterbury Earthquake Recovery Act for the rehabilitation and enhancement of facilities at Lyttelton Port;
- The economic effects of the Lyttelton Port Company's Capital Dredging Project;
- Meridian's proposed new Mokihinui hydro scheme;
- Assessment of the economic effects of alternative wreck recovery options for the MV Rena and preparation of evidence for Environment Court hearing;
- Assessment of the economic benefits and costs of Transpower's corridor management approach to giving effect to the National Policy Statement on Electricity Transmission in District and City Plans;
- Assessment of economic effects of a proposed extension to Arrowtown's urban boundary;

- Assessment of the economic benefits of overhead deployment of ultrafast broadband infrastructure;
- Assessment of the economic benefits of the proposed Ruataniwha Water Storage Scheme;
- Preparation of evidence for Transpower in relation to the proposed Ruakura development on the outskirts of Hamilton City;
- Preparation of two reports reviewing the economic benefits of the Hobbiton movie set at Matamata;
- Assessment of the economic benefits of renewal of a water discharge consent for Silver Fern Farms Belfast meat processing plant;
- Assessment of the economic effects of renewal of consents for the Alliance Group Lorneville meat processing plant;
- Preparation of evidence for Winstone Aggregates in relation to the proposed extension of the Otaki quarry;
- An assessment of the economic benefits of NZTA Waitarere Beach Road Curves Project, north of Levin;
- Preparation of evidence for Transpower in relation to the Proposed Auckland Unitary Plan;
- Preparation of evidence for Transpower, Ng i Tahu Property Limited, the Lyttelton Port Company, Canterbury International Airport Limited, Tailorspace Limited, Church Property Trustees, the Roman Catholic Bishop of the Diocese of Christchurch, Pacific Park Limited, Fulton Hogan and the Christchurch Aggregates Producers Group in relation to the Proposed Christchurch Replacement District Plan;
- Preparation of evidence for Darby Planning LP, Soho Ski Area Limited, Treble Cone Investments, Lake Hayes Ltd, Lake Hayes Cellar Ltd and Mount Christina Limited in relation to economic issues concerning the Rural and Rural Recreation and Rural Lifestyle Chapters of the Proposed Queenstown Lakes District Plan;
- Preparation of evidence for Coastlands Shoppingtown Limited in relation to the proposed Kapiti Coast District Plan;
- Preparation of evidence for Tinline Properties Limited in relation to a proposed plan change to enable the establishment of an out of centre supermarket;
- The assessment of the economic effects of a proposed Plan Change for safeguarding the future efficient operations of the Rangiora Airfield;
- The assessment of the economic effects of proposed changes to Queenstown Lakes District Plan covering the Jack Point resort area;
- The assessment of the economic benefits of the development of a marquee golf course in Christchurch;
- Economic assessment of Waitemata Harbour Crossing Project alternatives.