

Ministry for the Environment
PO Box 10362
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Proposed National Policy Statement on Urban Development (NPSUD)

Submission by : Market Economics Limited

Introduction

1. This Submission is made by **Market Economics Limited (M.E)**.
2. Market Economics Limited is an independent research consultancy, employing 20 professional staff. Our expertise encompasses economics, geography, urban development, spatial planning, urban growth, housing affordability, and the relationships of social and business activity with the natural environment. Over the last two decades, this expertise has been applied in more than 2,500 studies for central government, local government, commercial clients and overseas entities.
3. M.E has strong expertise and research credentials in the field of “urban development”. The summary below is offered to establish that these submissions on the NPSUD are based on a strong research and analysis base (from 40+ years of direct involvement), which has been tested including through the Environment Court and Supreme Court, and by independent peer review, and review by government agencies (including MBIE). Directly relevant to the NPSUD, M.E has:

General

- a) Undertaken extensive research into New Zealand’s urban economies and housing markets over the last 3 decades, particularly Auckland to analyse the core drivers of housing price growth including land supply, households’ access to finance, consumer confidence, migration rates, GFC effects, construction sector capacity, overseas investment flows, and the cumulative impact of property valuation processes (usually for councils) which in combination with the banking sector have locked in short term economic trends.
- b) Presented expert evidence to the Hearing Panels, the Environment Court and council hearings in relation to many matters around urban development.
- c) Many years’ involvement in spatial planning, on the basis that all economies and activities are spatial. That perspective is critical to ensure that urban policy has appropriate regard to location (“*location is not neutral*”) and timing, and the significance of spatial interactions (especially urban economies within their rural hinterlands);



NPSUD-specific

- d) Led the concept and implementation in conjunction with Auckland Council of the development feasibility methodology for housing and business. This was applied for the AUP hearings. This approach was subsequently included in the NPSUDC, and is proposed for the NPS-UD.
- e) Applied the National Policy Statement on Urban Development Capacity (NPSUDC) assisting high growth councils to comply with NPSUDC provisions, and satisfy HBA compliance for housing and business. This includes research for Auckland, Hamilton City-Future Proof Partners, Queenstown Lakes, and Greater Christchurch (Waimakariri and Selwyn districts).
- f) Engaged in workshops with MBIE, MfE, and high growth councils in relation to implementation of the NPSUDC;
- g) Prepared the Research Paper (commissioned by high growth councils) on the NPSUDC, which identified key areas for improvement. That included expert review of the NPSUDC requirement that feasibility analysis be based only on current prices. **That provision is now NOT part of the NPSUD. The change represents a very significant change and improvement for the NPSUD over the NPSUDC.**
- h) Presented expert evidence on housing affordability including for the Auckland Unitary Plan, to provide important detail about affordability for different socio-economic groups in society, and the effects of dwelling ownership. This included critique of more simplistic methods (such as median dwelling price to income ratios), support for more accurate indicators like debt to income ratios, differentiating between first home buyers and existing owners. The research included assessment of how very low housing prices would impact society and the economy generally, in regard to lowering housing quality, and pushing toward a lower wage economy;
- i) Reviewed the KiwiBuild initiative, especially its implications for residential development and construction, and effects on affordability for key segments in the community;
- j) Assisted councils in their monitoring for the NPSUDC, most notably in relation to the land efficiency of new dwellings;
- k) Researched and presented expert evidence on the economic effects of protecting significant environmental features (for example, Okura Estuary, Crater Hill) in relation to providing capacity for urban housing needs;

Declaration

- 4. This submission is prepared on a voluntary or *pro bono* basis. M.E considers it is very important to contribute to sound resource management outcomes for New Zealand, especially in regard to urban development which must accommodate 90%+ of future population growth, and in support of improving housing affordability across society.

SUBMISSION

- 5. This submission addresses the draft NPSUD as set out in the MfE discussion document **Planning for Successful Cities** (August 2019). We note the discussion document does not present a



complete draft NPSUD, as it includes a combination of draft objectives and policies, together with some which are simply indicated as examples. This submission has been prepared on the basis that:

- a) any 'example policy' is intended to closely represent a policy likely to be included in the final NPSUD; and
 - b) it is not intended to materially extend or add to the draft objectives, policies and example policies beyond those contained in the discussion document.
6. We have considered first the need for a separate national policy statement on urban development to sit with the RMA itself, while applying a narrower scope and evaluation perspective (Part 1). We then examine key provisions of the proposed NPSUD (Part 2). Finally, we address matters arising from the technical analyses to examine market efficiency, when the NPSUD is being implemented. If some current methods recommended under the NPSUDC were simply carried over to the NPSUD, then there is risk of adverse resource management outcomes, as outlined in Part 3.

Part 1 – General

The need for a national policy statement on urban development

7. A basic issue is whether there is need for a specific NPS on urban development. We note that the Resource Management Act is currently undergoing a comprehensive review, with key issues to be addressed including¹:
- *Recognising objectives for development including housing and urban development and infrastructure networks and projects)*
 - *Aligning land use planning and regulation with infrastructure planning and funding through spatial planning;*
 - *Enabling faster and more responsive land use planning;*
 - *Ensuring processes enable sufficient certainty for major infrastructure*
- This is all in the context of “removing unnecessary complexity from the RMA.”
8. That scope means there will be capacity for the RMA to take into account all the key matters relating to urban development, which are contained in the NPSUD.
9. In our view, there will be a benefit from having those matters examined in the RMA context and framework rather than the NPSUD, because the RMA framework and scope is considerably wider than the NPSUD framework as currently drafted. One of the strengths of the NPSUDC is that its objectives do align closely with the RMA itself. The draft provisions of the NPSUD offer no such comfort (see below our concerns about the inadequacy of the “quality urban environment” concept).
10. That said, the NPSUDC is already in place. This means that an important potential benefit from the NPSUD is that it will replace the NPSUDC so that the latter’s key shortcomings do not continue to have unintended consequences.
11. The difficulty is that the NPSUD as drafted would mean some of the key strengths of the NPSUDC especially around its close alignment with the RMA principles would be lost.
12. If there must be a national policy statement on urban development - to be applied in combination with the RMA itself - then our preferred outcome would be the NPSUD as

¹ Proposed Scope for a comprehensive review of the resource management system, July 2019.

amended according to the detailed submission below, to eliminate the NPSUDC shortcomings while attaining the benefits of sound spatial planning, *inter alia*.

Part 2 - Proposed NPSUD Provisions

13. Many of the objectives and policies in the draft NPSUD may be expected to contribute positively to sound resource management outcomes, including more efficient and sustainable urban environments. This applies in particular to provisions relating to spatial planning principles, understanding of economic principles, appropriate location and timing of urban development and use of a sound evidence base, as well as many aspects of the provisions for HBAs.
14. However, there are important aspects where the draft NPSUD does not offer a strong and sound basis for urban development, as set out below.

The “Quality Urban Environment” as described is not adequate

15. The concept of a “quality urban environment” is central to the NPSUD, including through the FDS requirements (Objective O1), and objectives and policies relating to the scale, location and timing of urban development. However, the description (not a definition) of the “quality urban environment” is very limited in scope, and is inadequate as a basis for national guidance on sound urban development outcomes - particularly in relation to people and communities (Objective O2(a)), and to business activity (Objective O2(b)).
16. The “quality urban environment” in O2(a) is intended to make it possible for people, whanau and communities
 - a) *to provide for their well-being by*
 - b) *offering*
 - c) *access to a choice of homes*
 - d) *which meet their:*
 - i. *demands*
 - ii. *jobs*
 - iii. *opportunities for social interaction*
 - iv. *high quality diverse services and*
 - v. *open space*
17. This described “quality urban environment” is inadequate because it covers only a limited number of matters through which urban environments contribute to well-being. There are many more matters which would constitute a quality urban environment. Moreover, the NPSUD assumes there to be only a single portal – that of “*offering...access to a choice of homes*” – through which well-being may arise. This appears to reflect the focus on housing affordability which is clear in the discussion document. However, it is not adequate for assessing how urban development affects people and communities. A broader scope is required which offers a comprehensive basis for sound economic and social assessment and evaluation.
18. M.E submits that the “quality urban environment” relating to people whanau and communities needs to be described using a substantially more comprehensive set of indicators than is offered in the draft NPSUD, and which is able to reflect the processes and effects which contribute to well-being in the urban environment - including access to housing choices but



certainly not limited to that. We note that the NPSUDC offers a much stronger basis for assessment than the draft NPSUD - in particular, the NPSUDC Objective OA2 for *“Urban environments that have sufficient opportunities for the development of housing and business land to meet demand, and which provide 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.”* is much more appropriate.

19. The discussion document itself offers a more balanced and comprehensive approach than is included in the NPSUD. *“Allowing for growth must not be at the expense of well-functioning, vibrant urban and natural environments. The Government wants to maximise the benefits of good urban growth, while minimising costs and drawbacks. We can create high-quality, liveable cities that contribute to the well-being of people and the natural environment.”*(p14)

Quality Urban Environment for Business

20. We have similar concerns about the description of the “quality urban environment” applied to business activity in Objective O2(b). This description is very limited, and is inadequate. It describes the quality urban environment in terms only of providing for businesses:

- a) *economies of scale and*

- b) *access to:*

- i. *many consumers,*

- ii. *suppliers*

- iii. *skilled people*

- iv. *sources of innovation*

21. Those provisions for business activity are simplistic and incomplete. The description appears to be only a quite basic model for assessing some commercial business location drivers at the micro-scale. There are many more matters relevant to business activity in the urban environment. The NPSUD descriptions contrasts with the provisions of the NPSUDC, which adopted a more principled, higher level and comprehensive approach. A “quality urban environment” which delivers only those limited aspects would not be an adequate basis for the needs of businesses (private and public sector) in the urban environment.
22. It is ME’s strong view that the “quality urban environment” as described in the NPSUD does not offer an adequate basis for evaluating business and public sector service activity within an urban economy. We submits that the “quality urban environment” relating to businesses (commercial and public sector activities) needs to be described using a substantially more comprehensive set of indicators than is offered in the draft NPSUD. Those indicators need to be able to reflect the processes and effects which contribute to sound economic performance in the urban environment. These include matters listed in the NPSUD but are certainly not limited to those. Objective OA2 of the NPSUDC (as cited above) appeals as offering a more comprehensive and higher level scope than the proposed NPSUD.

The shortcomings in the “quality urban environments” concept risk undermining other provisions in the NPSUD

23. The “quality urban environment” concept flows through as the focus for other objectives and policies of the NPSUD, including such critical matters as the location, scale and timing of urban development. Because of this, its shortcomings have high risk of detracting from or



undermining the otherwise valid provisions for sound and sustainable urban development and resource management. In particular:

- a) The concept is at the core of O1 where the starting point for long term planning through an FDS has only two requirements – to provide for integrated land use and infrastructure and to provide for “quality urban environments”.
- b) This objective O1 then sits over subsequent policies. In particular, P1C which in and of itself would provide a sound basis of spatial planning – through examination of the costs and benefits of different spatial scenarios and different growth rates – is at risk of producing much less robust assessment if the “quality urban environment” as described is to be adopted as the guide to desired urban development outcomes.
- c) Objective O6 and policies P5A to P5D are similarly valid provisions for urban development planning based on sound resource management principles. However, the critical matter of the costs and benefits of urban development options is here based only on the “*quality urban environment*”. Unless that quality urban environment is defined more appropriately, then the positive aspects of P5D and related policies are likely to be substantially devalued.
- d) Of particular note, P5D is a core policy for managing urban growth, which sets out requirements for local authorities to identify the resource management matters, the costs and benefits of different urban development options, the adequacy of development capacity, and to apply a sound evidence base, in a manner generally consistent with P1C. These are sound provisions. However, as written they are limited to achieving the “*quality urban environment*”. The provisions of P5D would be much more effective in achieving sound urban development if they were applied to a more comprehensive and robust range of matters to provide sound assessment of urban development outcomes.
- e) Similarly, P2B requires that when making policies plans and strategies – a) and b) - and resource consent applications - c) and d) - local authorities must have particular regard to how urban development “*contributes to a quality urban environment as described in O2.*”

24. These matters can be largely rectified if the “quality urban environment” concept is appropriately re-defined.

There is limited reference to other urban development outcomes from sound resource management

- 25. The NPSUD is heavily focused on housing affordability and concepts of land market efficiency, and - apparently as a consequence - it contains few provisions relating directly to assessing sound and sustainable urban development outcomes, and people’s well-beings. In a national policy statement on urban development, more focus on the implications of urban development would be expected. The NPSUD appears to have a primary role of delivering perceived efficiencies in urban land markets in the expectation that such efficiencies will by themselves lead to sound urban development outcomes. Of note, P2A requires that local authorities when making planning and consenting decisions on urban development and the way and rate capacity is provided, need to have particular regard to only two matters:



“(a) enabling a range of dwelling types and locations, working environment and business locations”, and to

“(b) limiting as much as possible adverse effects on the competitive operation of land and development markets.”

26. There are two main concerns here. One is that there are many other considerations to which local authorities should have particular regard when making decisions on such fundamental matters as the way and rate at which urban capacity is provided.
27. The other is that it is likely to be very difficult to assess whether and the extent to which a decision will adversely affect the competitive operation of a land or development market. The provision appears to be intended to allow a case to be put that an application should be approved because declining it will adversely affect competitive processes. Since all provisions and consenting decisions must have some effect on the operation of the land and development markets including competition, P2A(b) appears superfluous in light of the requirements of P2B, while P2A(a) is covered in P4A.

Include specific references to transport

28. The objective of using land, energy and infrastructure efficiently (O2(c)) is supported. O2(c) would be considerably improved by including reference to using transport efficiently. Similarly, Objective O1 for planning documents to provide for integrated land use and infrastructure would be considerably improved by adding transport to the mix.
29. M.E supports the integration of land use and infrastructure in planning. A major reason is that transport infrastructure has a key role in enabling economic and social interactions in urban economies. This role distinguishes it from other infrastructure such as water and waste systems which enable activity to occur in a place. It is common for land use assessment to incorporate transport, for example in land use and transport integrated models (LUTI).
30. M.E submits that transport be referenced directly in Objective O1 and Objective O2(c) as follows:

Objective 1: To ensure long-term strategic planning, reflected in planning documents, provides for:

*a) integrated land use, **transport** and infrastructure*

and

Objective O2

*c) using land, energy, **transport** and infrastructure efficiently*

Providing for Further Greenfield Development

31. The issues relating to the sparse description/definition of quality urban environment are further evident in relation to greenfield development. The only specific reference to greenfield development is in the section on “Providing for Further Greenfield Development” (p39). This appears to relate primarily to private plan change initiatives since councils are required to provide for 30+ years’ of projected growth, and it appears unlikely that additional greenfield



capacity beyond the 30+ year timeframe would be introduced other than through the 3-yearly update of the FDS. The key concern is that greenfield development could be assessed only in regard to its “contributing” (presumably positively) to a quality urban environment. The other assessment criteria (b through e) do extend the range for evaluation, but the combination of the quality urban environment description and criteria b) through e) does not constitute a suitably robust framework for assessing proposed urban development in a new greenfield location.

32. In our view, it is important that greenfield development would be specifically required to be consistent with the FDS, and subject to the rigour of other provisions relating to the location, timing and nature of urban development, including but not limited to O2(c), O3, P1C, P1D, P2B and P5D.

The “Likely to be taken up” filter

33. ME considers the proposed inclusion of a “likely to be taken up” provision when assessing development potential, as provided for in P4A, AP3-AP16, is not appropriate. An assessment of whether development is “likely to be taken up” will at best be a broad value judgement. Its inclusion introduces significant risk of undermining the accuracy and integrity of the sound evidence base, for which the NPSUD already provides. The proposed provisions require councils to take account of demand, of plan-enabled capacity and of development feasibility, all of which require relatively robust processes. To complement these, substantial extra capacity margins are already included, and on-going monitoring is required. The concern is that the notion of what development is “likely to be taken up” is primarily speculative, particularly when applied across a 30+ year time period.
34. The experience from the Auckland Unitary Plan hearings is that it was difficult to identify any additional benefit from adding a “likely to be taken up” over-lay, especially once the rationale for using development feasibility analysis across a long time frame was understood. The obvious risk is that the case for providing for more development capacity could be made based only on speculation, but having to be taken into account because it is included in the NPSUD provisions.
35. M.E submits that Policy P4A be amended to exclude reference to the likelihood of capacity being taken up:

“Local authorities must ensure at all times their plans enable at least enough development capacity that is feasible ~~and likely to be taken up~~ to meet the demand for dwellings (in terms of location, typology and price ... over the short medium and long term.”

and that other references to the likelihood of development uptake are removed from the NPSUD.

Spatial planning and Development Timing

36. M.E supports the intent to incorporate spatial planning. However, while the benefits are recognised in the discussion document, the principles of sound spatial planning are included only obliquely in the draft NPSUD provisions. Although key aspects of spatial planning especially



the importance of the combined effects of location and timing of urban development are implicit such as in P1B, P1C and P5D, the draft provisions refer only to “spatial layers” (P4G(b)) and “spatial scenarios” (P1C(b)).

37. The NPSUD would be materially improved by more specific reference to the importance of development timing, consistent with spatial planning principles. In combination, Objectives O2 and O3 will enable urban development in appropriate locations, with regard to efficiency in O3(c) for land, infrastructure, and energy and accessibility (including travel efficiency and capacity plus affordability aspects) for people and businesses and location (O3).
38. M.E submits that Objective O3 be amended to include specific reference to the time element, and scale of development, in order to be consistent with the spatial planning philosophy and urban efficiency considerations of the NPSUD:

*O3 To enable development in locations **at a scale and at a rate and** in ways that maximise its positive contribution to, and minimise its negative impact on, quality urban environments.*

Intensification Policies

39. The NPSUD intensification policies relate to specific areas around CBDs, transport hubs and other centres in high and medium growth cities. Given the variation in circumstances, and advantages of tailoring plan provisions to specific economies and communities, M.E prefers Option 1 the descriptive approach in P6C.

Consistency between the NPSUD and the Urban Growth Agenda (UGA)

40. To the extent that the UGA will be affected by the NPSUD, it is important that recommended amendments responses to the NPSUD should also carry over to the UGA.

Part 3 – Technical assessment required by the NPSUD

41. M.E are concerned that the focus of the NPSUD appears to be on “solving” housing affordability issues, as the key purpose, when the effects and outcomes of urban development are much wider than that. In our view, the NPSUD should be focused more squarely on urban development *per se*.
42. This focus on housing affordability is quite clear in the discussion document. It similarly dominated technical work relating to the NPSUDC. This is a concern because there are important weaknesses in the evidence and research base, especially as to growth efficiency, and the influence of urban growth and urban form on housing affordability. One important weakness in the research base has been its focus on the view that New Zealand land markets are not efficient, and that the key response to this should be much more liberal provision for urban growth to enable it to occur much more extensively.
43. Our key concern with that view is that the analysis was mostly just a simple comparison of urban and rural land values, and relied on the assumptions that land values are not affected by potential land use or by location. Both assumptions are directly contrary to basic economic theory, not to mention professional valuation principles (land value being based on “highest and best use” as well as location), and the basis for most financing of land purchase decisions. Nevertheless, as a consequence there has been considerable reporting that land markets are inefficient and that is the cause of high housing prices.

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44. Those views had important influence on the NPSUDC provisions. They have also had strong influence on the monitoring methods for the NPSUDC, as per the MBIE and now MHUD websites.
 45. The NPSUD is much more focused on sound spatial planning than is the NPSUDC, particularly through key provisions relating to the scale and location of urban growth, and requirements for efficiency of land use and infrastructure use. M.E strongly support those provisions in the NPSUD, on the basis that sound spatial planning can be expected to contribute positively to sustainable management.
 46. M.E consider it is very important that urban and rural land markets function efficiently. This is essential to achieve sound urban growth outcomes, including resource efficiency in regard to the development and long term functioning of urban economies. For this to be achieved, it is important that policy tools such the NPSUD are based on sound understanding of urban economies, and especially the relationship between urban economies and their surrounding rural economies, from which most of the capacity for further population and business growth will be drawn.
 47. If that is not achieved, there is risk that provisions in an NPS - or other document - which are based on inadequate understanding of how economies and their land markets function will act to undermine good resource management outcomes, rather than advance them.
 48. There are several provisions in the NPSUD requiring assessment of market performance and market efficiency, notably P2A(b), P8B, P8C(a), AP6 and AP16. These provisions, in and of themselves, are largely generic, and do not prescribe specific methods which must be applied.
 49. Our concern which is based on practical experience in the NPSUDC space, is that assessment methods for the NPSUDC will be simply transferred across to the NPSUD. There is no difficulty with the simple indicators of prices, consents, values and so on.
 50. However, we do have significant concern about use of the rural:urban land value differential, and the price cost ratio for residential properties. The rural urban value ratio is based on the mistaken belief that there should be little difference between rural land values (\$/ha) and urban values. That position simply ignores the fact that urban values should be much higher than rural because urban land is able to be used much more intensively, and generates much higher returns than rural land. The rural-urban ratio depends on the key assumption (identified above) that land value is not affected by potential land use or by location. Neither assumption is sustainable in our expert view.
 51. We also have concerns about the price cost ratio, a simple method which examines land value as a proportion of total residential property value. One concerns with that approach is that the threshold for efficiency is arbitrary, the notion that land should be no more than 33% of total value. The second and more major concern is that the measure is recommended to be applied across an entire urban economy. This means it picks up all residential properties developed within the last 100+ years, the great majority of which were developed under long past economic conditions and planning provisions. One effect of this approach is that even if all new dwellings are extremely efficient in terms of land use, the overall value for a city can only change by a very small percentage in any year. It is therefore is very little use as an indicator of the efficiency of the provisions of a current district plan, for example. M.E have applied this approach for high growth councils, but examining only new dwellings added to the residential estate. This research has shown that new dwellings are much more land efficient than the historical estate, especially Auckland and Queenstown.

52. Accordingly, our submission is to not alter the provisions in the NPSUD which refer to market and/or land efficiency, except to remove P8B (d) the housing price to cost ratio. That should be deleted. If not, it should be applied as an efficiency indicator only to new dwellings.
53. However, our submission is that the technical methods through which the NPSUD would be applied in relation to the provisions on land and market efficiency should be thoroughly reviewed.
54. That review should discard the rural-urban land value differential as an indicator. Its application would certainly lead to poor urban development outcomes.
55. The risk is that if inappropriate indicators of market efficiency are applied in the implementation of the NPSUD, that will lead to poor urban development outcomes, and poor resource management outcomes.

Request to be heard

56. If there is any further opportunity to do so, Market Economics wishes to be heard in support of this submission.

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