

Information for Release

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IN-CONFIDENCE

Date: 31 May 2019 SH-18-4-1
To: s9(2)(a) (Ministry of Primary Industries)
Cc: Corwin Wallens, s9(2)(g)(i) (Treasury)
From: Chris Parker (Treasury)

Memo on the indicative CBA of NPS Highly Productive Land (NPS-HPL)

MPI commissioned Market Economics Ltd (ME) to undertake an indicative cost benefit analysis (CBA) for the National Policy Statement on Highly Productive Land (NPS-HPL).¹

We wish to draw your attention to the following issues with ME's CBA, which we believe invalidate its findings.

The problem definition

- It does not have a problem definition that describes a market failure (ie, a reason why people are failing to maximise net benefits from land use). If there is no market failure, then people maximise net benefits already. Market failure results either from market imperfections (such as monopoly, public goods, externalities, information asymmetry etc) or from government failures (such as poor regulation). It is not possible for a CBA of a government intervention to result in a net benefit when there is no market failure, because that would contradict the fact that welfare is optimised ("allocative efficiency") when there is no market failure.

ME response

The "market failure" is quite clear. Highly productive soils which have long term productive and sustainability benefits for the NZ economy and community are being lost as land is taken up for urban uses, and rural residential properties. The nature and structure of the land market means there is no mechanism through which those benefits can be protected and preserved for current and future generations. Nor is there any mechanism to restore that resource if there is not enough highly productive land left for future needs. The value of the HPL resource to the community at large is not captured in the price signals in the commercial market which do not place a high enough value on the HPL resource for it to influence land use or land purchase decisions – especially urbanisation, or for countryside living. Moreover, the loss of highly productive land and its benefits arise gradually over time, occur incrementally and are frequently irreversible².

The key reason for the failure is that negative outcomes (adverse effects) arise at the macro-level as a consequence of changes in land use patterns, whereas the key commercial market processes occur at the micro-level (individual land holdings). This is a common issue faced by regional or territorial authorities, where adverse effects of land use change are evident and significant at the aggregate level, but appear insignificant at the micro-level (especially in relation to individual consents). In order to reduce or minimise adverse effects at the aggregate level, land use outcomes need to be influenced at the micro-level (individual land holdings), so that the aggregate outcome

¹ Treasury reference: [Proposed Soils Indicative CBA - Final \(Treasury:4113688v1\)](#)

² Agricultural implications of providing soil-based constraints on urban expansion: Land use forecasts to 2050. *Journal of Environmental Management* July 2018, 677-689 <https://www.ncbi.nlm.nih.gov/pubmed/29654971>

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from many small-scale and minor adverse effects can be avoided (to achieve the objectives / purpose of the Act).

Commercial markets do not have a mechanism where the aggregate loss of soils is taken into account. Land subdivision and ownership patterns mean the HPL resource is highly fragmented, and the loss of HPL resource for any individual land holding is too small to be considered significant for consent or planning purposes. Any individual HPL parcel has minimal effect at the margin, and assessment is commonly only a marginal analysis because it relates to a consent or other decision for an individual holding. Financial and other gains to individual land holders from enabling land use change typically far outweigh the value of their HPL resource, irrespective of the benefits of maintaining the HPL resource which arise in aggregate at the community level. Moreover, the loss of highly productive land and its benefits arise gradually over time, and occur incrementally – and the effects on HPL from urbanisation (at least) are irreversible.

As a consequence, commercial markets by themselves are highly unlikely to deliver the outcomes sought by the community to maintain the long term productive and sustainability benefits of the highly productive soils – hence, “market failure”. This indicates further that there is no basis to assume that “allocative efficiency” exists for the highly productive soil resource, currently and especially into the future as population growth continues.

- Further, any downstream or upstream impacts on supply chains (on employment and value added through further processing) are implicitly factored into the price of land, and implicitly into decisions made by landowners. This concept is explained in any standard CBA textbook; eg refer to chapters 4 and 5 of Boardman et al (2004) *Cost Benefit Analysis Concepts and Practice* (or more modern editions!). This is counter to the description on page 19 that says “*the individual landowner does not have to consider the flow on effects of the decision they are making*” — they may not do so wittingly, but they do so implicitly via the price mechanism. (That’s why economists like prices.)

ME response

While it is the case that the upstream impacts are embodied in the price, this is not the case in the downstream effects. What the Boardman et al says is that if there are no resulting price changes in the ‘secondary markets’ any change in demand does not generate an effect that should be considered (otherwise it represents double counting). However, we do not think this is directly analogous. We did not include any flow on effects in the assessment – therefore making the comment not relevant, we were referring to local production facilities that rely on output from HPL to operate their businesses. It is the case that (at a local level) there are economic benefits that flow from having these businesses operate locally. These are benefits that are not captured in the price mechanism of a single farmers land sale.

S. J. Smidt et al (2018), in the Journal of Environmental Management found that “Urbanization onto adjacent farmland largely follows economic drivers; that is, farmland is sold to developers based on profit incentives, among other drivers such as market optimism or risk aversion, for both the farmer and developer. Two major problems exist with such transactions: 1) land values are often based on the current market value of production and risk rather than a market value based on future resource demands and 2) land values are driven by location (e.g., proximity to urban areas) and not the relative quality of soils across possible development sites - both discount the long-term resource needs of a growing society. Clearly this is a failure of the market to account for key attributes of the resource.

In addition, A.J Eagle (PhD dissertation, 2009) found that “Where urban-development pressures compete with agricultural land uses, reductions in parcel size (with associated farmland and

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wildlife habitat fragmentation) have serious negative impacts on ecosystem services such as biodiversity and hydrology. Positive spillovers from agricultural land include landscape views, environmental services (e.g., wildlife habitat, flood protection), and open space.”

While this applies in general to land transactions at the urban fringe, none of these externalities are captured in price transaction between farmer and developer. Again, an example of market failure.

- Rather, the study claims that land being assigned to its most profitable use (urban development) is itself the problem, despite there being no market failure.
- There are two reasons for governments, and for public policy intervention: to correct market failure, and wealth redistribution. The former is relevant in this context. In previous meetings we have suggested some possible contenders for a case of market failure, relating to uncompetitive urban land markets (which the Urban Growth Agenda seeks to address), and to suboptimal allocation of property rights (where people that move to the nuisance have rights under nuisance law and under the RMA as ‘reverse sensitivity’).

ME response

This also depends on the view that there is no market failure. That has been addressed above.

The matters relating to the notion of “uncompetitive urban land markets” are discussed below.

No option assessments

- ME’s CBA considers only the central proposal of essentially protecting land rated levels 1, 2, and 3 under the Land Use Capability (LUC) classification, which comprises some 14% of the country. (In comparison, urban areas are less than 2%, and by some counts less than 1%.)
- CBAs should be used to analyse multiple alternatives to improve welfare given the problem definition. As well as identifying the most preferred option (including doing nothing in that set), CBAs can inform what the incremental benefits and costs are of sub-features of each option. Eg, if the net benefits of protecting just LUC 1 is \$X, and of protecting LUC 1 & 2 is \$Y, then the incremental net benefits of protecting LUC 2 is the difference (\$Y less \$X), assuming linearity. Then the components that have the highest net benefit contribution can be prioritised.

ME response

We acknowledge that the study covered all of LUC 1, 2 and 3 in the case study areas. The analytical framework is comprehensive, so it does offer the options of selecting any or all of the LUC classes. That was not done in the time available.

- For example, refer to the two maps below. The first is the LUC 1, 2, 3 land around Hamilton, which is highly problematic for the Hamilton Metro plan as part of the UGA’s Hamilton to Auckland corridor project. The second separates LUC 1 from the rest, and it shows less of an absolute constraint. A CBA should inform these variants of options.

Invalid basis for the benefits

- As explained above, a CBA is not able to result in net benefits if there is no market failure (ignoring CBAs centred on redistribution policy). The quantified benefits in ME’s CBA are

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increases in net production from the primary sector. If it was the case that it was more beneficial for HPL to be used more intensively for farming, as claimed, then a market free of imperfections would already be doing it — a contradiction.

- ME's CBA claims there are spill-over benefits are claimed in upstream and downstream supply chains (eg, wider employment in primary processing and transport industries), which are called "secondary markets" to distinguish from the "primary market", which in this case is LUC 1, 2, and 3 land. As explained in chapter 5 of Boardman et al (2004), there are no net benefits arising from secondary market impacts unless those secondary markets themselves suffer from distortions or market failures (ie, where prices do not equal marginal social opportunity cost).
 - A classic example is the CBA of a transport project that reduces travel costs. The benefits are the reduced costs. However, a second round impact is an increase in demand for more accessible land (all else equal³), which increases the price of land. Counting the latter too would double count; one or the other can be counted, but not both.
- When there are inefficiencies in secondary markets, then the additional benefits and costs that result are sometimes called "wider economic benefits" (WEBs); eg Kernohan and Rognlien (2011)⁴.

ME response

We do not accept the assumption that there is no market failure.

An obvious issue is the focus solely on the commercial market in the short term, when the commercial market is unable to take account of the long term, cumulative effects of loss of the HPL resource. Hence, that is not priced into the current decision-making by land owners. As noted, the benefits of protecting the HPL resource into the long term simply do not translate directly into current land use and ownership decisions, and prices. Hence the concern that if longer term, aggregate outcomes are not able to be considered, then poor management of the HPL resource will result. The costs from poor resource management and allocation decisions are exacerbated because loss of the HPL resource in many instances is irreversible.

For example, it seems to be clearly less efficient to allocate HPL land to low productive uses like CSL, when the opportunity cost of allocating the same amount of non-HPL land to CSL is much lower, while any benefits of CSL activity are more or less the same. That outcome is evident at the aggregate level, but the structure of the rural property market means that such an outcome is not taken account of at the micro-level (individual farms).

This of course is why decision-making on resource allocation is more efficient when it takes into account the full range of outcomes, and is not restricted to those important to only commercial markets – ie why we have governments.

To us, a critical issue is that any evaluation framework needs to be sufficient to take account of the range of costs and benefits, over time, and across space. The approach suggested here - to rely on commercial market responses only, in the short term, to deliver the long term benefits sought from the HPL – is not adequate or appropriate in our view.

Substantial underestimating of direct costs

³ Particularly holding the degree of land market competition fixed, a point we come back to.

⁴ Kernohan, D1 and L Rognlien2 (2011) *Wider economic impacts of transport investments in New Zealand*. NZ Transport Agency research report 448. 128pp. www.nzta.govt.nz/assets/resources/research/reports/448/docs/448.pdf

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- ME's CBA ignores the very large losses in welfare from owners of HPL not being able to sell to higher value uses because it assumes owners of non-HPL land will benefit to the same extent. ME's CBA doesn't monetise this loss to HPL owners, but says "*the value of land for countryside living is usually several times that of land used for productive farming activity*" (p18). These costs would dominate by several magnitudes the claimed net-benefits.

ME response

We have concerns about the notion that there will be large welfare losses to owners of HPL land. While it is straightforward to identify the differences in the distribution of benefits and costs among different segments of the community, CBA does not usually seek to identify the "winners" and the "losers" unless the total outcome for the community varies significantly between different options.

Certainly the NPS is likely to mean that owners of HPL land would have less gain from selling their land to CSL or urban uses. However, the benefit (financial gain) to landowners from selling land to urban or CSL uses is largely a generic one. In most instances, the presence or otherwise of the HPL resource on rural land has little or no effect on its value to a CSL purchaser. The financial return arises predominantly from the zoned opportunity, and the location.

This means that most of the difference between a with-NPS and a without-NPS will reflect the difference in the long term opportunity cost – where use of HPL land for CSL activity will incur greater cost / higher loss of benefits than use of the same amount of non-HPL land. For a given level of demand for CSL properties, farmers / rural landowners as a group can expect the same financial gain from sale to CSL purchasers irrespective of whether the land is HPL or non-HPL.

Since there is little or no difference for the farmers / rural landowners, then it is simply inaccurate to claim that there would be large losses in welfare, and that "these costs would dominate by several magnitudes the claimed net benefits." The effects are predominantly transfers within the economy, and not losses.

- However, non-HPL land is a secondary market, and impacts to those landowners are not a source of additional benefit or loss over and above those measured in the primary market, as discussed above. The welfare impacts to the secondary markets feature implicitly, via the price mechanism. The more of a substitute that secondary markets (non-HPL) were for HPL land, then the lower the residual demand for urban use on HPL land, and the lower the price differential between using HPL land for urban use or for primary production. The large differential quoted in previous paragraph is sufficient to estimate the costs of the policy.

ME response

The reasoning for assuming that non-HPL land is a secondary market is not apparent. The HPL resource occurs across many properties and may be present on some, none or all of the land on an individual property. The value of a property includes but is not limited to the presence of that HPL resource. There is no indication that HPL segments of land would be part of a primary market which is separate from the secondary market. Of note, productive activity does not have a 1:1 relationship with the land resource - many farm units have a mix of LUC classes.

In any case, the presence of the HPL resource seldom affects the value of land for urban or CSL uses. The presence or otherwise of the HPL is important for differentiating the opportunity cost of different land use outcomes.

No account of substantial losses from uncompetitive urban land markets

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- Protecting LUC 1, 2, 3 land would substantially reduce land supply required to enable competitive urban land markets, and bring land prices down to marginal opportunity cost. For an example of the extent of land on which this policy would potentially restrict development, see the first map of Hamilton below, and to a lesser degree the second map. Although the NPS-HPS would not strictly prohibit development, it could severely curtail it by creating substantial transaction costs and uncertainty about planning permission. Absolute economic impacts can result even when policy makers didn't intend for the policy to be implemented absolutely. Economic investment can be highly sensitive to uncertainty⁵, especially in relation to planning permission and the mind-sets towards growth and development by regulators.

ME response

We have concerns about this on two fronts.

First, protecting the HPL resource would not necessarily "reduce land supply". Not all land available for urban growth is LUC 1-3, and there is scope to enable growth on non-HPL land instead. It is important to understand the scale of the issue, and the likely quantum of land needed for urban expansion. The combined demand from the high and medium growth councils for greenfield land is in the order of 900 – 1,000 ha per year (excluding Auckland). This equates to 50-60 ha per high growth council and 25-30 ha per medium growth council in the medium term.

The total HPL resource potentially protected by an NPS is considerably larger than the HPL resource which could be used for urban development.

Moreover, the annual urban growth rates of around 2.3%pa for high growth and 1.2%pa for medium growth cities suggests that for most urban centres there will be considerable opportunity for growth strategies to accommodate expansion while also protecting substantial shares of the HPL resource.

Second, we have concerns about the view that protecting LUC 1, 2 and 3 land would undermine "competitive urban land markets", and strategies to "bring land prices down to marginal opportunity cost."

It is a given that any policy which affects land use outcomes must affect the land market. The key issue is the extent of such effect. There are different cost implications associated with different urban growth patterns, particularly around the costs of infrastructure. To the extent that the NPS will influence the land use patterns and areas to be urbanised, it will also affect land value, and the efficiency of the urban economy. However, we would expect limited effect on land prices unless NPS provisions were to significantly constrain capacity for growth (which under the draft provisions we would not expect to be the case) or to drive an urban growth path where infrastructure costs were substantially higher than without the NPS. Given the scale of urban expansion (above) we would not expect that to be of significance.

Otherwise, most of the value uplift for land as it transitions from rural to urban use arises from the increase in its ability to generate returns, with the cost of non-urban land a relatively small share of the final value as urban land, even though some of the value uplift typically occurs as the urban edge approaches, prior to the infrastructure, land development, cadastral, zoning and other changes necessary for urban activity.

⁵ Eg Dixit, Avinash, and Pindyck, Robert (1994) *Investment Under Uncertainty*, Princeton University Press

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- The excessive cost of urban land (perhaps in the order of \$600 billion nationally) is a key national challenge, and the NPS-HPL appears likely to exacerbate this, which would undermine the achievement of the central government’s primary objective for the Urban Growth Agenda to “improve housing affordability, underpinned by affordable urban land”.

ME response

We have considerable concerns about the claimed “excessive cost of urban land” of up to \$600Bn. This estimate is un-sourced.

Moreover, it implies a very large “excessive cost” amount when considered on a per dwelling basis, relative to actual land costs. According to the Reserve Bank⁶ the total value of housing stock is \$1,118 Bn (December 2018). Some 86.5% of this total housing estate is urban, although the urban share of total value is likely to be higher than that. Allowing for two-thirds of urban land estate to be for housing, then a \$400Bn “excessive cost” equates to some \$250,000 per dwelling. With a mean value of around \$620,000 per urban dwelling, and mean land value per dwelling (at 45% of the total value) of around \$280,000, that implies the “excessive cost” of \$250,000 therefore represents about 90% of the total value of urban residential land.

Put another way, the figure of \$600Bn implies that urban residential land “should” cost around only \$30,000 per dwelling, and that actual residential land values are around 10 times too high.

However, there is no evidence to support such a claim. It is a concern that a very large figure of \$600Bn has been simply dropped into the assessment, unsupported and undocumented.

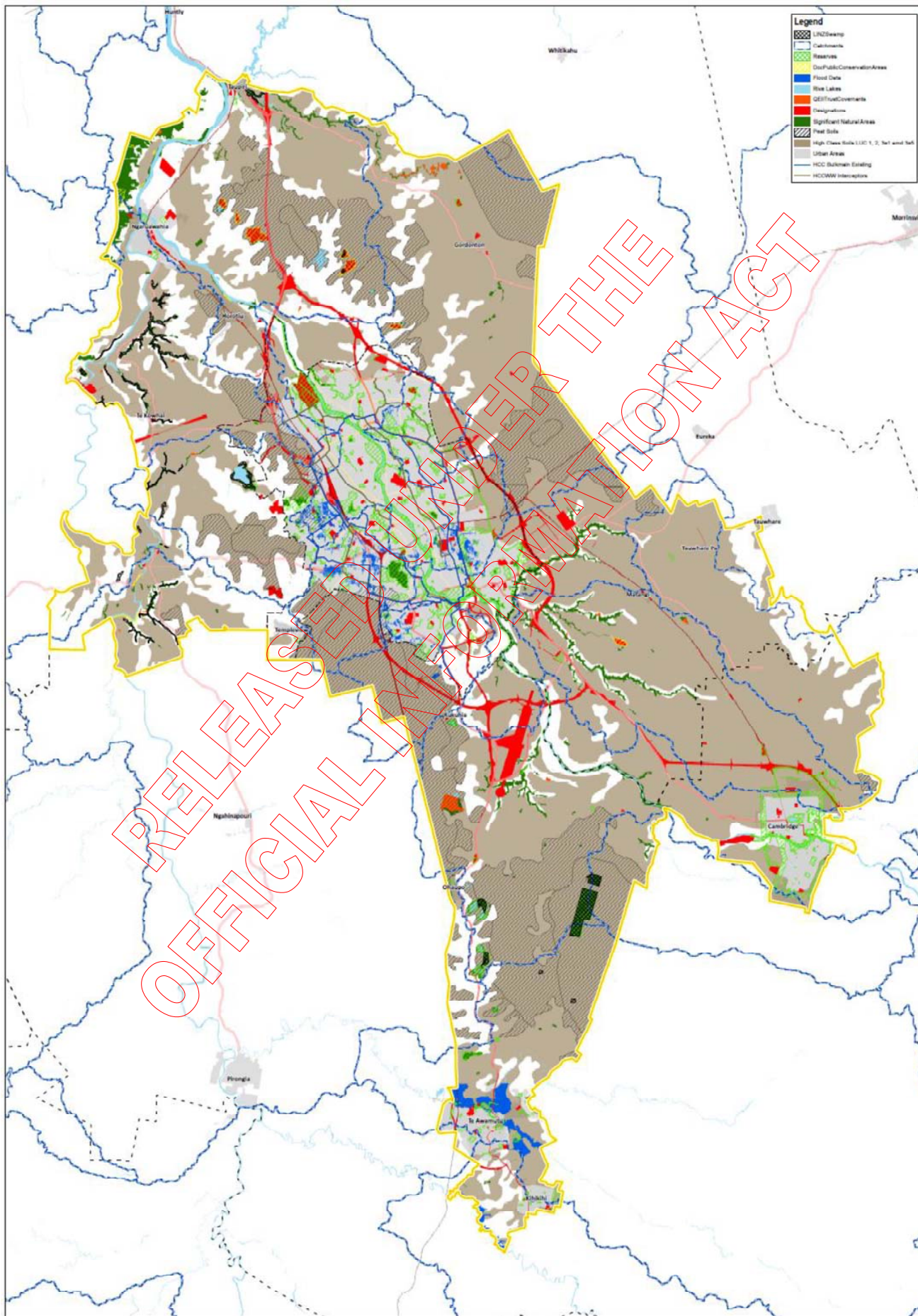
General

At a broader level, we have concerns about the assessment paradigm evident in the Treasury response, which adopts a micro-level, short term and marginal, on the basis that financial returns from individual land sale and land use decisions will in aggregate result in benefits to society.

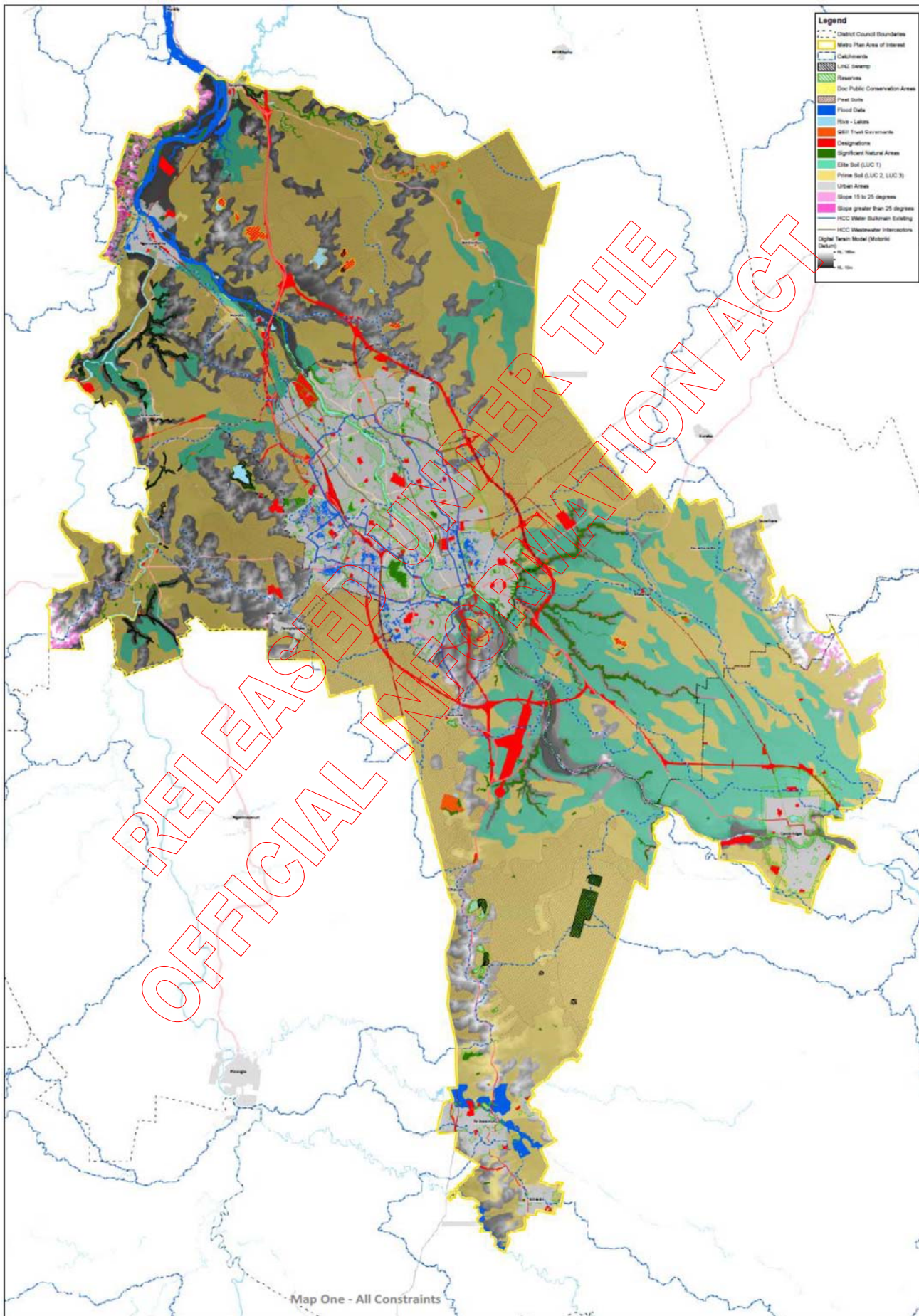
However, the nature of the HPL resource, and the processes of land use change through which the HPL resource will be reduced, mean that it is appropriate to assess outcomes at the aggregate level over the long term – particularly because the loss of highly productive land and its benefits are frequently irreversible.

⁶ <https://www.rbnz.govt.nz/statistics>

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Date: 31 May 2019 SH-18-4-1
To: s9(2)(a) (Ministry of Primary Industries)
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From: Chris Parker (Treasury)

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 - A classic example is the CBA of a transport project that reduces travel costs. The benefits are the reduced costs. However, a second round impact is an increase in demand for more accessible land (all else equal²), which increases the price of land. Counting the latter too would double count; one or the other can be counted, but not both.
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- ME's CBA ignores the very large losses in welfare from owners of HPL not being able to sell to higher value uses because it assumes owners of non-HPL land will benefit to the same extent. ME's CBA doesn't monetise this loss to HPL owners, but says "*the value of land for countryside living is usually several times that of land used for productive farming activity*" (p18). These costs would dominate by several magnitudes the claimed net-benefits.
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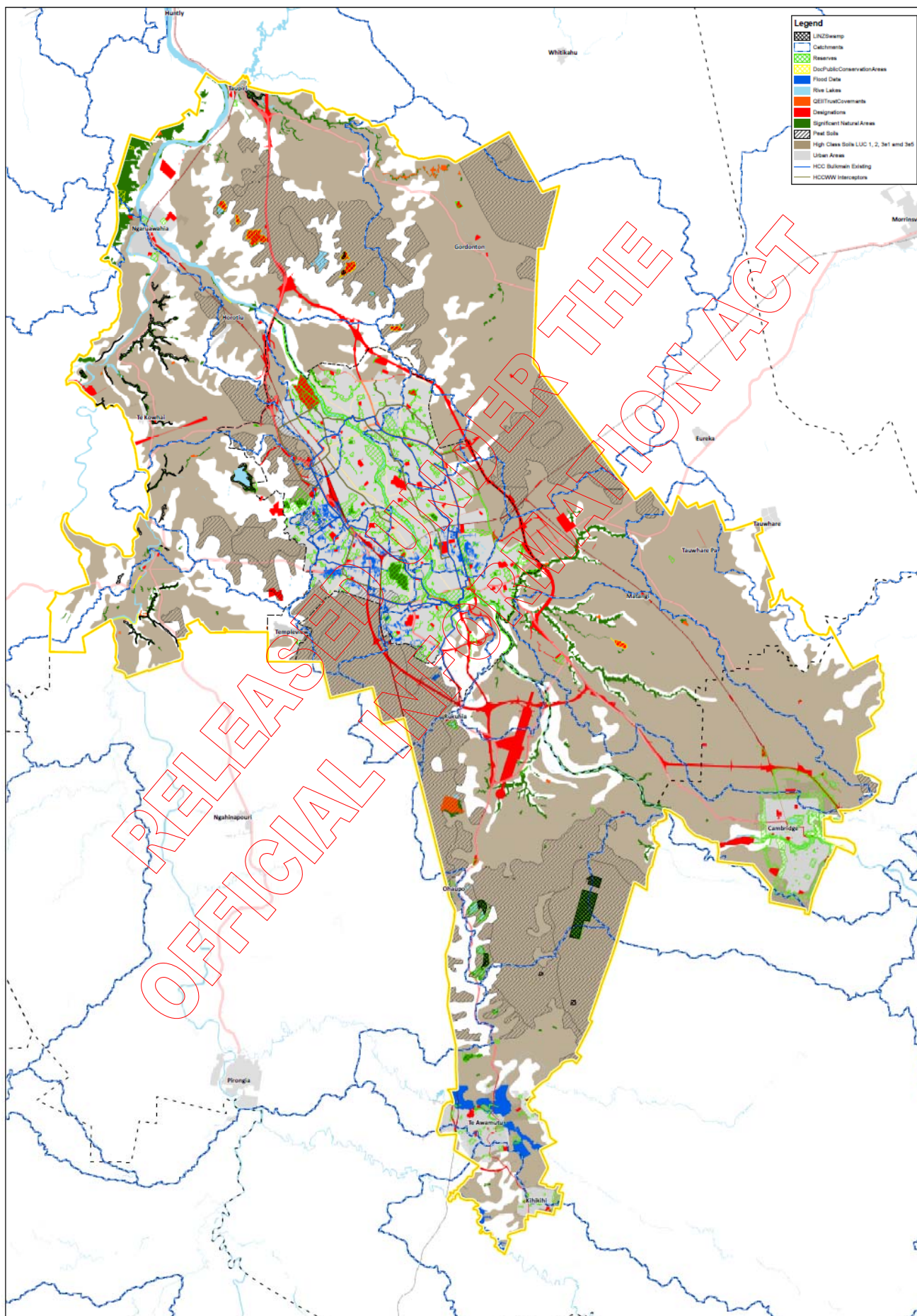
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- The excessive cost of urban land (perhaps in the order of \$600 billion nationally) is a key national challenge, and the NPS-HPL appears likely to exacerbate this, which would undermine the achievement of the central government's primary objective for the Urban Growth Agenda to "improve housing affordability, underpinned by affordable urban land".

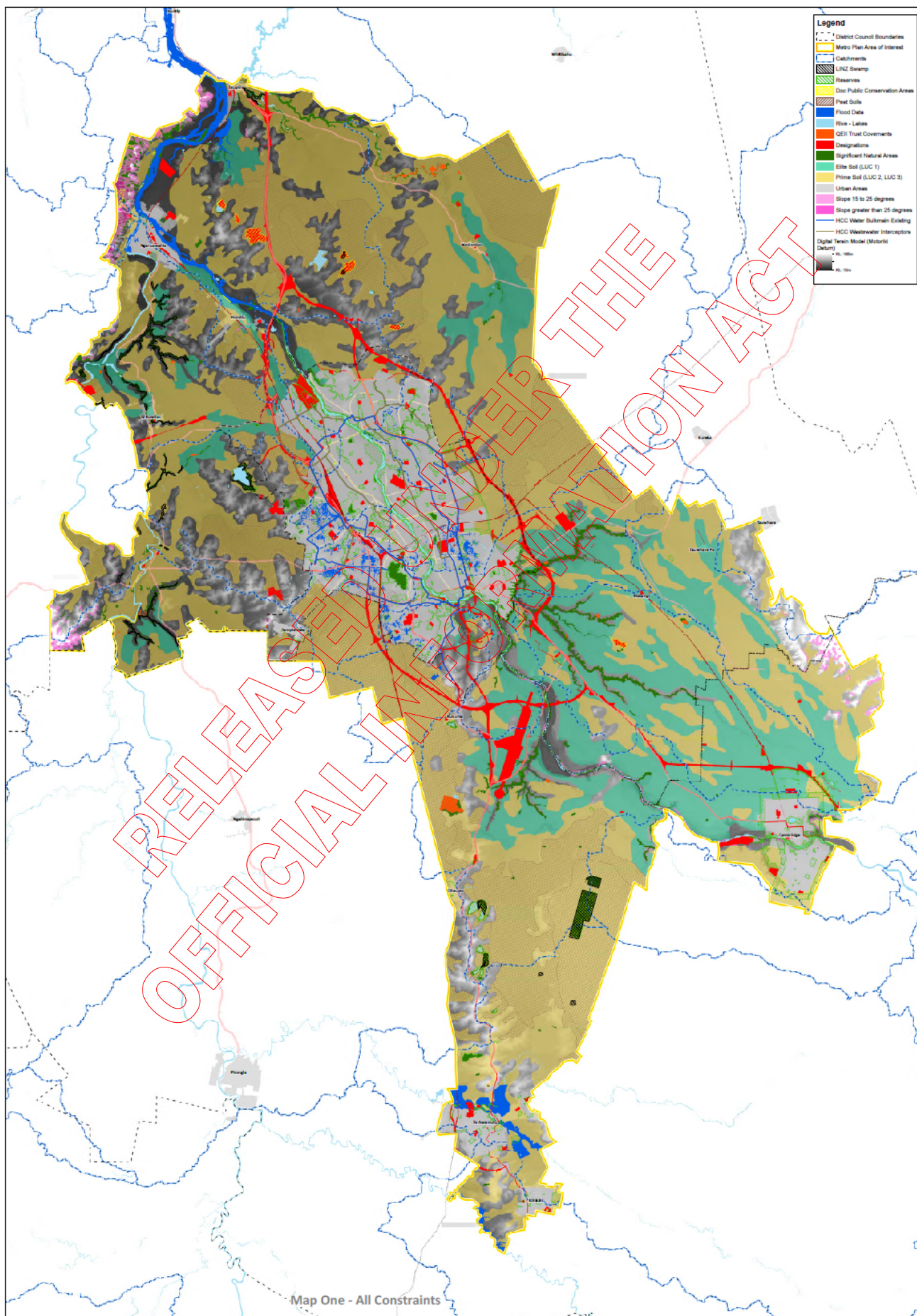
RELEASED UNDER OFFICIAL INFORMATION ACT

⁴ Eg Dixit, Avinash, and Pindyck, Robert (1994) *Investment Under Uncertainty*, Princeton University Press

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Deleted - Not Relevant to Request

From: Corwin Wallens [TSY]

Sent: Wednesday, 19 June 2019 4:01 PM

To: s9(2)(a) @mpi.govt.nz; s9(2)(g)(i) @treasury.govt.nz;
s9(2)(g)(i) @treasury.govt.nz; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) @mpi.govt.nz; Kay Baxter <Kay.Baxter@mpi.govt.nz>; s9(2)(g)(ii) @mfe.govt.nz; s9(2)(a) ;
s9(2)(g)(ii) @mfe.govt.nz; Melody Guy [TSY] <Melody.Guy@treasury.govt.nz>

Subject: RE: Highly productive land - updated documents recognising potential costs

[IN-CONFIDENCE]

Hi s9(2)(a)

I'm sorry we couldn't come to an agreement on communicating the benefits, risks and costs to decision makers. Please find our Treasury comment and split recommendation below. If you wish to discuss with leadership you can contact Melody Guy (copied, s9(2)(k) in the first instance.

Please can you add the following to the cabinet paper after the Financial Implications section:

Treasury Comment

The NPS-HPL's aim to increase protections on productive land is likely to work against the goal of housing affordability set by the Government in its Urban Growth Agenda (UGA). As a result of the NPS-HPL the supply of urban land is likely to be further restricted overall, for three reasons: councils are likely to increase protections including by more than is intended; the NPS-HPL may create more regulatory uncertainty for property developers; and it will increase consideration performed by councils before effect is given to any policy with the intent of freeing up land for housing development.

Current supply constraints and unmet housing demand have resulted in a price differential between urban-zoned and agricultural land that is very large, even small increases in restriction risk being very costly. The difference in prices either side of urban-rural boundaries for a 600 m² section of undeveloped land in Auckland, Tauranga, and Hamilton is estimated to be at least \$136,000 – \$207,000. This differential translates to lost value in the region of \$120 million to \$182 million for an 80 hectare farm at the urban periphery, prevented from switching to urban land.

The Treasury considers the NPS has a weak problem definition and rationale for intervention. This creates risks of low benefits, high costs, unintended consequences, and risks to achieving other policy objectives. The Cost Benefit Analysis (CBA) did not quantify the costs of restricting urban development, owing to the assumption that urban development can be relocated without any cost.

Split Recommendation

EITHER [supported by Ministry for Primary Industries]

5. **Agree** to release the attached discussion document for public consultation over a 8 week period between August and September 2019.

OR [supported by The Treasury]

6. **Defer** consideration until more targeted options are provided that reduce the risk of restricting housing supply accompanied by a cost benefit analysis that quantifies the costs of restricting urban development.
7. **Direct** the Ministry for Primary Industries to provide targeted options that reduce the risk of restricting housing supply accompanied by a cost benefit analysis.

Regards



**TE TAI ŌHANGA
THE TREASURY**

Corwin Wallens | Senior Analyst | Te Tai Ōhanga – The Treasury

s9(2)(k) | Email: Corwin.Wallens@treasury.govt.nz

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From s9(2)(a) <[redacted]@mpi.govt.nz>

Sent: Wednesday, 19 June 2019 1:05 PM

To: s9(2)(g)(i) <[redacted]@treasury.govt.nz>; s9(2)(g)(i) <[redacted]@treasury.govt.nz>;

Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) <[redacted]@mpi.govt.nz>; Kay Baxter <Kay.Baxter@mpi.govt.nz>; s9(2)(g)(ii) <[redacted]@mfe.govt.nz>; s9(2)(a) <[redacted]>;

s9(2)(g)(ii) <[redacted]@mfe.govt.nz>

Subject: RE: Highly productive land - updated documents recognising potential costs

Kia ora koutou,

Thanks for your message below.

For a number of reasons, we are not going to include that detail/ paragraphs in the executive summary of our Ministers cabinet paper. These paragraphs are significantly stronger, and much broader, than we had expected following our discussion on Monday afternoon. I will also note, we disagree with the framing of the issues and see new reasoning not previously discussed has been included in the proposed para 8.

As an alternative, please see attached here for our revised cabinet paper with edits made to reflect Treasury concerns and feedback. In particular, please note the following changes:

- Para 8: increased visibility of Treasury concerns around alignment with the UGA and the trade-offs required up front in the paper
- Paras 27-30: clarification of the problem including around failure of the planning framework (rather than the land market directly) to consider the value of highly productive land and where land price differentials are seen in this
- Paras 63-69: edits made in consultation with UGA teams to clarify interactions between the NPS-HPL and NPS-UD
- Para 73 and 78: brought forward discussion on the limitations of the CBA around opportunity costs for landowners not being monetised / quantified at this stage.

Could you please review the changes and advise whether:

- these sufficiently address your concerns; or
- you would like to include a standalone 'Treasury comment' as a part of the Departmental Consultation section?

In parallel, Charlotte Denny, Director Environment and Communities would like to speak with the appropriate Director at Treasury on any additional comments Treasury may like to include as a separate comment under *Departmental Consultation*. Could you please advise who she should be talking to?

You will appreciate this is an urgent issue, we are needing to provide Ministers updated documents for Ministerial and cross-party consultation as soon as possible to meet very tight timeframes.

Ngā mihi

s9(2)(a)

s9(2)(a) | Senior Policy Analyst, Land & Water Policy
Environment and Communities Directorate | Policy & Trade

s9(2)(k) E s9(2)(a) [@mpi.govt.nz](mailto:s9(2)(a)@mpi.govt.nz)

From: s9(2)(g)(i) [@treasury.govt.nz](mailto:s9(2)(g)(i)@treasury.govt.nz)
Sent: Tuesday, 18 June 2019 5:04 PM
To: s9(2)(a) [@mpi.govt.nz](mailto:s9(2)(a)@mpi.govt.nz)>
Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) [@mpi.govt.nz](mailto:s9(2)(a)@mpi.govt.nz)>; Jeff de Jong <[s9\(2\)\(g\)\(i\)@treasury.govt.nz](mailto:s9(2)(g)(i)@treasury.govt.nz)>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>
Subject: RE: Highly productive land - updated documents recognising potential costs

Hi s9(2)(a)

We have drafted some text (in blue) intended to be inserted into the Cabinet paper on page 2 after paragraph 7. Sorry for the delay in getting this to you. Happy to discuss.

7. The proposed NPS-HPL would sit alongside other RMA national direction instruments. This would include the proposed National Policy Statement for Urban Development (NPS-UD), which is designed to strengthen and build from the existing National Policy Statement on Urban Development Capacity. The proposed NPS-UD is a key component of the Government's Urban Growth Agenda which aims to remove barriers to the supply of land and infrastructure and make room for cities to grow out and up.
8. The Treasury is concerned the NPS-HPL's aim to increase protections on productive land could work against the goal of housing affordability set by the Government in its Urban Growth Agenda (UGA). The NPS-HPL is not intended to restrict urban development, but to deflect development from HPL to other land where possible. Nonetheless the Treasury is concerned the supply of urban land could be more restricted overall, for three reasons: the NPS-HPL may create more regulatory uncertainty for property developers; councils may increase protections by more than is intended; and it will increase consideration performed by councils before effect has been given to any policy with the intent of freeing up land for housing development.
9. Current supply constraints and unmet housing demand have resulted in a price differential between urban-zoned and agricultural land that is very large. Given the large quantity of land that could potentially be restricted under the NPS-HPL (14% of all New Zealand land) and the comparatively small extent of urbanised land (less than 1%), even small increases in restriction risk being very costly. The difference in prices either side of urban-rural boundaries for a 600 m² section of undeveloped land in Auckland, Tauranga, and Hamilton is estimated to be at least \$136,000 – \$207,000. For the owner of an average 88 hectare outdoor vegetable farm at the urban periphery, prevented from switching to urban land, the lost value would be at least \$120 million to \$182 million. The Treasury expects the NPS-UD alone will be insufficient to address these and other land-use constraints restricting urban growth.

10. The Treasury considers the NPS has a weak problem definition and rationale for intervention. This creates risks of low benefits, high costs, unintended consequences, and risks to achieving other policy objectives. The Cost Benefit Analysis (CBA) did not quantify the costs of restricting urban development, owing to the assumption that urban development can be relocated without any cost and the uncertainty of the impact of the NPS-UD.
11. We consider that the HPL and UGA and should work alongside and complement each other to better assess and balance these trade-offs between protecting highly productive land for primary production while providing for greater urban capacity.

Ngā mihi,

s9(2)(g)(i)

s9(2)(g)(i)

| Transition & Regional Economic Development | Te Tai Ōhanga – The Treasury

s9(2)(k)

| s9(2)(g)(i)

@treasury.govt.nz

treasury.govt.nz, [Twitter](#), [LinkedIn](#), [Instagram](#)



TE TAI ŌHANGA
THE TREASURY

From: s9(2)(a)

@mpi.govt.nz

Sent: Tuesday, 4 June 2019 5:31 PM

To: Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) @mpi.govt.nz; s9(2)(g)(ii)

s9(2)(g)(ii) @mfe.govt.nz; s9(2)(a)

s9(2)(a) @mpi.govt.nz; s9(2)(g)(i) @treasury.govt.nz; s9(2)(g)(i)

s9(2)(g)(i) @treasury.govt.nz; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>

Subject: RE: Highly productive land - updated documents recognising potential costs

Kia ora Corwin,

Just wanted to let you know we have received this and are working through it now and tomorrow morning. We appreciate you have concerns on this work, and I had understood the edits made last week adequately addressed two of the concerns raised.

We are keen to further understand the comments below, so we are likely to take you up on your offer to discuss this. Let me come back to you tomorrow.

Ngā mihi

s9(2)(a)

s9(2)(a)

| Senior Policy Analyst, Land & Water Policy

Environment and Communities Directorate | Policy & Trade

s9(2)(k)

E s9(2)(a)

From: Corwin Wallens [TSY] [<mailto:Corwin.Wallens@treasury.govt.nz>]

Sent: Tuesday, 4 June 2019 4:34 PM

To: s9(2)(a) @mpi.govt.nz

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) @mpi.govt.nz; s9(2)(g)(ii)

s9(2)(g)(ii) @mfe.govt.nz; s9(2)(a)

s9(2)(a) @mpi.govt.nz; s9(2)(g)(i) @treasury.govt.nz; s9(2)(g)(i)

s9(2)(g)(i) @treasury.govt.nz; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>

Subject: RE: Highly productive land - updated documents recognising potential costs

Hi s9(2)(a)

Thanks for meeting with us last week. Can you please add the following to the cabinet paper after the Financial Implications section:

Treasury Comment

Maintaining current protections of productive land, or increasing them as envisioned by this proposal, will work against the goal of housing affordability set by the Government in its Urban Growth Agenda. Land prices for housing are artificially-high due to existing land use restrictions. The high cost of housing reduces social, human and physical capital.

Regulatory protections have already created a difference between the value of land permitted to be used for housing, and other land uses at the boundary of our cities. At the boundary of northern cities surrounded by productive land such as Auckland, Tauranga and Hamilton this difference is calculated at \$136,000 – \$207,000 per section in 2014 and will be substantially higher now. The costs of restricting land use have not been quantified in the Cost Benefit Analysis (CBA) and we expect these costs will far exceed the benefits. We consider a better CBA is needed to help inform public discussion of the options, benefits and costs.

And please replace paragraph 88 with:

The discussion document substitutes for a Regulatory Impact Assessment. The Ministry for Primary Industries [**and other reviewing agency if applicable**] has reviewed the discussion document and has confirmed that it is likely to lead to effective consultation and support the delivery of Regulatory Impact Analysis to support subsequent decisions.

Happy to discuss



Corwin Wallens | Senior Analyst | Te Tai Ōhanga – The Treasury

Tel: +s9(2)(k) | Email: Corwin.Wallens@treasury.govt.nz

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From: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>

Sent: Friday, 31 May 2019 4:23 PM

To: s9(2)(a) <[redacted]@mpi.govt.nz>; s9(2)(g)(i) <[redacted]@treasury.govt.nz>;

Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>; s9(2)(g)(i) <[redacted]@treasury.govt.nz>

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) <[redacted]@mpi.govt.nz>; s9(2)(g)(ii) <[redacted]@mfe.govt.nz>; s9(2)(a) <[redacted]@mpi.govt.nz>

s9(2)(a) <[redacted]@mpi.govt.nz>

Subject: RE: Highly productive land - updated documents recognising potential costs

[UNCLASSIFIED]

Hi s9(2)(a), thanks for the update, and the text below in your email does adequately cover off two of the substantive issues in the memo (about direct costs and land market competition). There's also an opportunity for further elaboration of the problem definition (which we suggested a couple of possible avenues), and option testing.

Thanks, and you have a great weekend too.

Cheers
Chris

Chris Parker | Principal Advisor, Housing and Urban Growth | Te Tai Ōhanga – The Treasury

DDI: s9(2)(k) | Cell: s9(2)(a) | chris.parker@treasury.govt.nz



From s9(2)(a) @mpi.govt.nz

Sent: Friday, 31 May 2019 12:31 PM

To: s9(2)(g)(i) @treasury.govt.nz; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>;

Corwin Wallens [TSY] <Corwin.Wallens@treasury.govt.nz>; s9(2)(g)(i) @treasury.govt.nz

Cc: Highly Productive Soils <soils@mpi.govt.nz>; s9(2)(a) @mpi.govt.nz; s9(2)(g)(ii)

s9(2)(g)(ii) @mfe.govt.nz; s9(2)(a)

s9(2)(a) @mpi.govt.nz

Subject: Highly productive land - updated documents recognising potential costs

Kia ora koutou

Thanks for taking the time to meet with us yesterday (and the memo you sent through a short while ago). I'd like to keep you in the loop with our progress, please see attached for our latest version of the Cabinet Paper and Discussion Document (both now with Ministers for review ahead of Ministerial consultation).

Of particular note, we thought it would be a good idea to add text to the papers now in line with our conversation yesterday about the risks of the qualitative costs having the potential to be relatively substantial.

- *Discussion document: ... Key qualitative costs identified in the indicative CBA include the value of sub-dividable land, as an indicator of opportunity cost to land owners from less flexibility to subdivide their property when this is identified as highly productive land. Likewise, the costs of potential restrictions on urban expansion have not been quantified in the CBA. These two categories of costs may be significant, depending on how councils respond to the NPS. Further analysis on the costs and benefits of urban expansion and opportunity costs to land owners from less flexibility to subdivide their land will be completed as a part of the final CBA following consultation.*
- *Cab Paper - para 75:Likewise, the costs of potential restrictions on urban expansion have not been quantified in the CBA. These two categories of costs may be significant, depending on how councils respond to the NPS.*

Following both points above, we reinforce the plan to complete further analysis of the costs and benefits following (well, alongside) consultation. We are keen to involve you all in this process.

In the event we receive additional comments or feedback from Ministers, we will let you know. Otherwise, this may / should be shared with you early next week.

Have a lovely long weekend and talk soon.

Ngā mihi

s9(2)(a)

s9(2)(a) | Senior Policy Analyst, Land & Water Policy

Environment and Communities Directorate | Policy & Trade

Ministry for Primary Industries - Manatū Ahu Matua | Charles Fergusson Tower 34-38 Bowen Street | PO Box 2526 | Wellington | New Zealand

s9(2)(k) | s9(2)(a)



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From: Corwin Wallens [TSY]
Sent: Friday, 19 July 2019 12:35 PM
To: ^Parliament: Daniel Cruden
Cc: s9(2)(g)(i) [TSY]
Subject: NPS Highly Productive Land

[IN-CONFIDENCE]

Title of paper	Public Consultation on the Proposed National Policy Statement for Highly Productive Land
Minister and agency	Hon David Parker, Hon Damien O'Connor Ministry for Primary Industries
Description	<i>The paper seeks agreement to consult the public on a proposed National Policy Statement for Highly Productive Land (NPS-HPL), which would strengthen the requirements under the Resource Management Act 1991 (RMA) for local authorities to protect New Zealand's most productive land from urban development and subdivision. The aim is to ensure primary production for export.</i>
Comments	<p><i>Planning restrictions have increased the price of land and reduced housing affordability. While the intention of the policy is to redirect rather than restrict urban development this NPS risks increasing restrictions from the status quo to protect productive soils from housing. We can provide more information at your request.</i></p> <p><i>Our judgement is the problem definition for policy intervention in land use is weak. The analysis does not consider the impact that cumulative planning restrictions are having on house prices or that additional restrictions will impose net opportunity costs on society.</i></p> <p><i>Due to this approach, the option set has not been developed to avoid potentially large negative impacts on wellbeing through supporting high house prices. The policy will reduce local government options to respond to the housing affordability policies in the NPS on Urban Development.</i></p> <p><i>Restrictions are already adding over \$136,000 to the cost of a section at the edges of Tauranga and Hamilton, and over \$206,000 in Auckland. Land use restrictions without a strong public good rationale will work against the goals of the Urban Growth Agenda.</i></p> <p><i>Given the very large price differential between urban-zoned and agricultural land, even small increases in restriction on urban development risk being extremely costly. The potential magnitude of costs are so large that even a small likelihood of increased restriction represents a very significant risk. Increases in house prices and rents will lead to increased fiscal costs through housing affordability policies like the Accommodation Supplement and public housing.</i></p>
Fiscal implications	<i>There are no immediate fiscal impacts.</i>
Recommended action	<p><i>We recommend that you suggest Ministers seek further information from officials before progressing to Cabinet committee, such as:</i></p> <ul style="list-style-type: none"> <i>• Revise the paper to provide a full outline of the potential costs and risks</i> <i>• Consider options to mitigate housing risks such as more targeted, limited or time-bound restrictions</i>

- *Look at and outline options to increase primary production outside of land use policy*
- *Look at options to bring the 90% of highly productive soils into crop or horticulture use that are not currently.*



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Corwin Wallens | Senior Analyst | Te Tai Ōhanga – The Treasury

s9(2)(k)

Email: Corwin.Wallens@treasury.govt.nz

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From: Corwin Wallens [TSY]
Sent: Friday, 26 July 2019 2:11 PM
To: s9(2)(g)(i)
Cc: Melody Guy [TSY]; Chris Parker [TSY]
Subject: DEV NPS - Revised to be shorter

[IN-CONFIDENCE] Comments	Fiscal implications	Treasury Recommendation
<p>Consultation on the Proposed National Policy Statement for Highly Productive Land Treasury contact: Corwin Wallens</p>		
<p>Description: <i>The paper seeks agreement to consult the public on a proposed National Policy Statement for Highly Productive Land (NPS), which would strengthen the requirements under the Resource Management Act 1991 (RMA) for local authorities to protect New Zealand's most productive land from urban development and subdivision. The aim is to ensure primary production for export.</i></p>		
<p>This NPS asks councils to increase housing restrictions in favour of protecting soils that are growing or have the potential to grow crops. Planning restrictions have increased the price of land and reduced housing affordability.</p> <p>The impacts of the proposal are uncertain because it is vague and open to interpretation by councils. Asking councils to increase protections threatens the Government's goal of everyone having a warm, safe, and dry house, as containing cities will increase house prices and rents. This is especially so given the frame of analysis in developing the NPS-HPL assumes no net costs to society from protecting productive soils.</p> <p>To avoid increasing house prices and rents we suggest avoiding using land use policy and using other policy tools to increase primary production if this is your goal. Land required to meet your housing goals may not be available for housing as a result of this NPS, for example northern cities have lots of productive soils around them.</p>	<p>There are no immediate fiscal impacts. However, increases in house prices and rents would lead to increased fiscal costs through housing affordability policies like the Accommodation Supplement and public housing. A \$10 per week increase in rents results in approximately \$65m in accommodation and hardship assistance per year.</p>	<p>Support the alternate recommendation 2.2:</p> <p>Agree to defer consideration until more targeted options are provided that reduce the risk of restricting housing supply accompanied by a cost benefit analysis that quantifies the costs of restricting urban development, and;</p> <p>Agree to direct the Ministry for Primary Industries to provide targeted options that reduce the risk of restricting housing supply accompanied by a cost benefit analysis.</p>

Deleted - Not Relevant to Request

Deleted - Not Relevant to Request



s9(2)(g)(i) | Graduate Analyst, Economic Strategy and Productivity | Te Tai Ōhanga – The Treasury

DDI: s9(2)(k)

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From: Corwin Wallens [TSY]
Sent: Monday, 29 July 2019 12:56 PM
To: ^Parliament: Daniel Cruden
Cc: Melody Guy [TSY]
Subject: NPS-HPL option to balance housing and productive land

[IN-CONFIDENCE]

National Policy Statement for Highly Productive Land at DEV on 31 July 2019.

Option to balance productive land and housing goals

The NPS-HPL seeks to protect highly productive land from inappropriate urban development. A particular worry is that the soils will be used for lifestyle blocks. The balance is between protecting soils and trying not to restrict housing. An option that could help achieve this balance is to stop lifestyle blocks but not to stop new suburbs that provide lots of housing for people from developing. This can be done by defining inappropriate subdivision under Objective 3 of the proposed NPS-HPL as below a minimum density of development. This amendment will not delay the NPS.

Action

Add a bullet point d) to page 35 of the discussion document under Objective 3: Protecting from inappropriate subdivision, use and development.

d) Allowing urban expansion on productive soils where a minimum density requirement is met to help enable housing. Appropriate subdivision on productive soils includes land use for housing where the density of the development is suburban rather than rural or lifestyle.



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Corwin Wallens | Senior Analyst | Te Tai Ōhanga – The Treasury

s9(2)(k) | Email: Corwin.Wallens@treasury.govt.nz

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