

Delmore Fast-Track

25/06/2025 – Auckland Council Response

Annexure 3:

Economics (Peer Review)

Dr Richard Meade

Comments on Assessment by James Stewart of Auckland Council of Economic Evidence Provided in Support of Delmore Fast-Track Application

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1. Introduction

1. I have been asked to provide a peer review of materials prepared by James Stewart, an economist at Auckland Council, in which he assesses economic materials provided by Adam Thompson of Urban Economics on behalf of Vineway (the Applicant). I understand the latter has made a fast-track application (the Application) to develop a new residential suburb (Delmore) on the Hibiscus Coast.
2. In preparing this memorandum, I have reviewed the following documents:

- 2.1. Report by Urban Economics dated 13 February 2025, *Proposed Delmore Residential Development, Hibiscus Coast, Auckland: Economic Assessment (Urban Economics Report)*;
- 2.2. Memorandum by James Stewart of Auckland Council dated 16 May 2025, *Review of Proposed Delmore Residential Development, Hibiscus Coast, Auckland Economic Assessment by Urban Economics – BUN60444768 (Stewart Memo)*;
- 2.3. Memorandum by Urban Economics dated 30 May 2025, Response to Auckland Council Review of Proposed Delmore Residential Development (**Urban Economics Response to AC**);
- 2.4. Memorandum by Urban Economics dated 17 June 2025, *Response to EPA Questions re Proposed Delmore Residential Development (Urban Economics Response to EPA)*;
- 2.5. Addendum by James Stewart of Auckland Council dated 25 June 2025, *Addendum to review of economic assessment (16 May) BUN60444768 (Stewart Addendum)*;
- 2.6. Letter by Helen Shaw of Watercare dated 13 June 2025, *BUN60444768 – Delmore Fast-Track Application (Watercare Letter)*;
- 2.7. Memorandum by Tessa Craig of Auckland Transport dated 23 June 2025, *Delmore Fast-Track Consent – BUN60444768 (AT Memo)*;
- 2.8. Memorandum by Brigid Duffield and Ian Kloppers of Auckland Council dated 25 June 2025, Funding and Financing input: Auckland Council (**Duffield/Kloppers Memo**).
3. In the following sections I set out my comments on Mr Stewart’s assessment of the Urban Economics materials provided in support of the Application. By way of summary, I agree with Mr Stewart that:
 - 3.1. Any benefits of the Application must be assessed relative to a suitable counterfactual, which in this case involves the Delmore development likely occurring later rather than not at all if the Application is not approved;

- 3.2. The Application's benefits need to be measured net of all relevant costs, including opportunity costs and displacement effects (including within Auckland, and also as between Auckland and other regions), but have not been;
 - 3.3. A full cost-benefit analysis (CBA) of the Application's benefits is warranted and feasible given the scale of the proposed development, and should properly assess the impacts of uncertainties in key input assumptions to test the robustness of any assessed net benefits (in current or present value terms);
 - 3.4. Any assessment of latent/excess demand should more systematically account for drivers of housing choice beyond price and location (and be compared relative to suitable counterfactuals, including alternative housing possibilities);
 - 3.5. The methodology used for assessing economic value contributed by the proposed development has certain known limitations, meaning assessed benefits can be overstated;
 - 3.6. Any assessment of housing affordability needs to consider a fuller range of factors affecting housing choice, and recent trends in outward migration from Auckland to other regions is not necessarily due to housing affordability;
 - 3.7. The proposed development is likely to create additional opportunity costs in terms of infrastructure; and
 - 3.8. The significance of the claimed benefits is not clearly established.
4. In conclusion, I consider that Mr Stewart has raised a number of pertinent and properly-framed issues regarding of the economic assessment of the Delmore application, and made sensible proposals for how the Application's benefits might better be assessed. Based on those issues – some individually, but certainly collectively – I consider the Application's assessed benefits have not been reliably established.
 5. I therefore agree with Mr Stewart that a comprehensive assessment of the Application's costs and benefits – more comprehensive than that currently available – would be prudent to assist the Panel in its deliberations.

2. Methodology

2.1 Importance of Measuring Benefits Relative to Appropriate Counterfactual

6. I agree with Mr Stewart that any economic assessment of the Application must assess the Application's benefits relative to those arising under an appropriate counterfactual.¹ In short, it is highly unlikely that any benefits of the Application will either be realised as proposed, or not at all.
7. I note that this is how Mr Thompson appears to have conducted his assessment, stating that the proposed construction "would not otherwise [i.e. presumably absent fast-track approval] occur".² It may be true that Delmore would invest its resources outside of Auckland or outside of New Zealand if the Application is declined – I am not aware of any evidence being presented by the Applicant on this question.
8. But even if that were true, I believe that the most likely counterfactual in the case that the Application is declined is that residential housing of the sort proposed would simply occur at a later date (i.e. 2050+, as zoned), even if a different project sponsor was involved:
 - 8.1. I therefore agree with Mr Stewart that an economic assessment of the Application is not comparing the benefits of Delmore against no such benefits, but rather the benefits of Delmore now, versus the benefits of something like Delmore occurring at a later date.³
9. Critically, this means absolute benefits are not relevant for the assessment, Rather, the benefit of those benefits being realised sooner rather than later is what must be considered, after accounting for all relevant costs of accelerating the development (see the discussion of non-assessed costs below for more).
10. Furthermore, in any counterfactual it is necessary to consider whether other housing developments will provide housing options if the Application is not fast-tracked – including outside of the subject area. Mr Thompson notes that Auckland has historically enjoyed inbound migration from (more recently, outbound migration to) other parts of New

¹ Stewart Memo, p. 4.

² Urban Economics Response to AC, p. 11.

³ Stewart Addendum, pp 3-5.

Zealand.⁴ This indicates that the relevant housing market is not necessarily regional, and hence points to consideration of housing options in other parts of the country as being relevant in the counterfactual:

10.1. Mr Thompson's analysis does not appear to reflect this;

10.2. For example, I agree with Mr Stewart that Mr Thompson has not assessed the Application displacing similar low-priced dwellings in a different future urban zone area.⁵

11. Relatedly, other than for immigrants from other countries or homeless people, I agree with Mr Stewart that any benefits enjoyed by potential buyers/renters of the proposed residential dwellings need to be assessed relative to their other housing alternatives.⁶ Once again, the comparison would not appear to be as stark as being between enjoying being housed versus being not housed.

2.2 Necessity of Using Net Benefits

12. I agree with Mr Stewart that net benefits must be considered in any economic assessment of the Application, after deducting all relevant costs.⁷ Not to do so could lead to perverse results – favouring applications with large gross benefits, while rejecting those with lower gross benefits, but higher net ones. That would be economically inefficient – wasting resources that society needs for other purposes:

12.1. As such, in the balance of this memorandum, I use “benefits” to mean “net benefits” unless otherwise stated or clear from the context.

13. Hence, for there to be significant regional or national benefits, I consider it necessary for any economic assessment of a fast-track application to demonstrate that any claimed regional benefits are:

⁴ Urban Economics Response to EPA, Item 19.1, pp 4-6.

⁵ Stewart Addendum, p. 3.

⁶ Stewart Addendum, p. 5.

⁷ For example, Stewart Memo, p. 4; Stewart Addendum, p. 3.

- 13.1. Net regional benefits, including after accounting for any displacement of activity within the given region – it would not be economically sound to prioritise a project that simply transfers benefits within a given region;
 - 13.2. Not displaced by larger losses in other regions – if an economic activity creates benefits in a given region but larger costs/losses in another (e.g. due to displacement of activity from the latter to the former) then national net benefits would be negative, requiring further motivation for favouring economic activity in one region over another;
 - 13.3. Also net national benefits – as a corollary to the above, unless there are clear demonstrated reasons to favour economic activity in one region over that in another, even if net benefits within a region are positive, it would be socially undesirable to advance the relevant project if it gives rise to offsetting costs/losses at the national level.
14. Mr Thompson's analysis does not seem to account for this – for example prioritising gains to Auckland from having greater affordable housing and attracting/retaining certain population demographics, and not accounting for the cost to other regions if Auckland outbound internal migration is reduced or reversed.

2.3 Necessity of Adjusting for Benefit Timing

15. It appears Mr Thompson has treated all ongoing benefits as if they are realised immediately even though they arise over time. This effectively means there is no time value of money, or that benefits received in the future are just as valuable as benefits received now:
- 15.1. This is contrary to standard economic approaches for comparing future values with current ones, and means that his assessed benefits are overstated relative to their current or present value, which is what I consider to be required here;
 - 15.2. Failing to adjust benefits for their timing could lead to perverse decisions – e.g. leading to approval of projects that create large future benefits when alternative projects with smaller but sooner benefits that have a higher current or present value are rejected. This would be economically inefficient.

2.4 Necessity of Adjusting for Benefit Riskiness/Uncertainty

16. Furthermore, unless all decision-makers are assumed to be indifferent to risk or uncertainty, it is standard in economic analysis to allow for not just the timing of any benefits or costs, but also their inherent riskiness/uncertainty. Hence, for example, if there is uncertainty regarding the realisation of claimed benefits, irrespective of their timing, those benefits ought to be discounted when arriving at their equivalent risk-adjusted value:

16.1. I agree with Mr Stewart that using methods like sensitivity testing is important for testing the robustness of any claimed benefits.⁸

17. Mr Thompson's assessment has not systematically identified key risks or uncertainties to the Application's claimed benefits, nor analysed whether the claimed benefits become negative under plausible future scenarios (e.g. such as scenarios in which construction costs continue to rise faster than house prices, especially if competing greenfields developments continue to the relevant environs).

2.5 Need for Full Cost-Benefit Analysis

18. Mr Stewart recommends the use of cost-benefit analysis (**CBA**) to properly assess the economics of the Application, so as to ensure all relevant costs and benefits – including wider social costs and benefits beyond private ones – are considered, and also treated appropriately.⁹
19. I agree, since not conducting such a full CBA risks arriving at an incomplete and potentially highly-biased assessment of regional or national benefits. For example, if a proposal has strong financial benefits for its promoters, but for argument's sake carried significant social, environmental or cultural costs, then assessing only the former could bias a decision in favour of the proposal even if on balance it was highly costly from a wider societal perspective. That too would be economically inefficient.
20. Economists have a well-established framework – the total economic value (**TEV**) framework for depicting the wider range of values to account for in a thorough CBA. Mr Thompson's assessment does not explicitly reference this framework, and at best can be said to apply it in a very narrow way.

⁸ Stewart Memo, p. 4.

⁹ Stewart Memo, p. 4.

21. I further agree with Mr Stewart that it is reasonable and feasible for the Application's economic assessment to provide a full CBA.¹⁰ The Application is claimed to involve benefits in the order of hundreds of millions of dollars (albeit gross, not adjusted for time or risk, and not relative to a counterfactual in which the benefits are simply realised later instead of sooner). As such, it would seem proportionate for the related economic analysis to be more comprehensive – especially if it creates material displacement effects or other costs that are borne by parties other than the Applicant (including, for example, displacement of other greenfield developments, as Mr Stewart highlights).¹¹

2.6 Measurement of Latent/Excess Demand

22. A key rationale offered for the Application is that there is latent/excess demand for greenfield housing in the subject area, in turn worsening housing affordability.¹²
23. I agree with Mr Stewart that Mr Thompson's assessment of latent/excess demand rests on a relatively simplistic assessment of demand for greenfield residential land.¹³ In particular, Mr Thompson draws on existing planning materials, conflating previously planned greenfield housing with current or future required or demanded housing.¹⁴ He also argues that housing shortfalls are permanent.¹⁵
- 23.1. I consider that wider macroeconomic factors such as interest rates, economic growth, and expected house price growth are also relevant drivers of aggregate housing demand, which previous planning documents will have anticipated only imperfectly (if at all), so current or future required housing might materially differ from previously planned housing;
- 23.2. Indeed, had the Delmore development been delivered right now, in the current subdued property market and wider economy, I would expect that many of the housing units would either currently remain unsold/untenanted (i.e. a situation of excess supply, not excess demand), or would only have been able to be sold if the Applicant was prepared to sell them at low prices;

¹⁰ Stewart Addendum, p. 4.

¹¹ Stewart Addendum, p. 6.

¹² Urban Economics Report, sections 6-7.

¹³ Stewart Memo, pp 1-2, Stewart Addendum, pp 10-11.

¹⁴ Urban Economics Response to EPA, Item 17, p. 3.

¹⁵ Urban Economics Response to EPA, Item 19.1, p. 6.

- 23.3. Furthermore, I think it is inaccurate to suggest any housing shortfalls are permanent – the source Mr Thompson relies upon for this claim only indicates that they may be permanent, and in that case as an artifact of modelling (i.e. indicating that the modelling might be unrealistic), not an actual prediction.¹⁶
24. I further agree with Mr Stewart that a more proper assessment of demand for any type of housing in any locale requires consideration of a broader range of factors such as land cost, dwelling characteristics, travel times (and costs), proximity to services, amenity values, etc.¹⁷ As discussed further below, I consider that buyers or renters trade off a range of costs and benefits when choosing between greenfield and infill housing:
- 24.1. A methodology often used for quantitatively assessing how decision-makers like renters or buyers trade off such multiple price and non-price considerations is so-called discrete choice modelling (**DCM**).
- 24.2. I consider that a more thorough and robust way of assessing demand for greenfield and infill housing in the subject area and relevant catchment areas would require use of a methodology such as DCM – without such modelling it is unclear how Mr Thompson’s analysis addresses the relevant trade-offs in any systematic way;
- 24.3. An implication of this approach is that greenfield and infill housing will involve some degree of substitutability, hence I agree with Mr Stewart’s remark that greenfield housing must compete with other housing.
25. Finally, I observe that if the subject area genuinely was suffering from excess greenfield housing demand, this would be reflected in premiums being realised on available such housing, after controlling for all relevant considerations (including house characteristics, locational factors, general level of house price movements, etc). Evidence of this nature has not been provided in the Application.

2.7 Use of Input-Output Analysis

26. Mr Stewart argues that Mr Thompson’s use of input-output tables suffers from pitfalls such as assuming significant latent capacity in the economy (i.e. that resources needed for Delmore can be secured without placing pressure on other parts of the economy –

¹⁶ See second para of first quote in Urban Economics Response to EPA, Item 19.1, p. 6.

¹⁷ For example, Stewart Addendum, pp 1-2.

including via increased input costs or infrastructure costs, which Mr Stewart also refers to).¹⁸

27. I agree that these are limitations of the approach Mr Thompson has used, which can serve to overstate assessed benefits. An alternative approach, computable general equilibrium (CGE) modelling, is feasible at regional levels, and more comprehensively accounts for the wider economic impacts the Application would likely cause if implemented – including across regions.

3. Evidence/Analysis

3.1 Affordability

28. I agree with Mr Stewart that Mr Thompson’s analysis does not address affordability per se, just relative selling prices.¹⁹ As Mr Stewart suggests, there is a need to consider other factors, such as house prices relative to incomes, and I would add interest rates, general economic outlook, and trajectory of house prices (affecting returns from home ownership).
29. I further agree with Mr Stewart that economies of scale and lower land costs for greenfield developments do not establish that any resulting low-cost housing is per se more affordable than infill housing.²⁰ Mr Stewart rightly points out that more remote (e.g. greenfield) housing can involve higher travel costs (which include direct transport costs, as well as time costs) as well as lower amenity values (e.g. less access to libraries, public transport, shops, etc). Hence home-buyers or renters must trade off a range of costs and benefits when choosing between greenfield and infill housing – the cost of buying or renting a house is an important factor, but must be weighed against many others when assessing overall affordability.
30. I note Mr Stewart’s clarification that when he acknowledged that it is plausible for the same house and land package to be less expensive in a greenfield location than in an infill one (M2) he meant this in an “all other things being equal” (ceteris paribus) sense.²¹ I had understood his acknowledgement in this sense. As such, his position (like mine) is

¹⁸ Stewart Memo, p. 3; Stewart Addendum, p. 4.

¹⁹ Stewart Memo, p. 3.

²⁰ Stewart Memo, p. 2; Stewart Addendum, p. 2.

²¹ Stewart Addendum, p. 2.

consistent with that above – namely that buyers or renters must trade off a range of costs and benefits when choosing between greenfield and infill housing.

3.2 Interpretation of Internal Migration Data

31. I agree with Mr Stewart that recent data showing more residents are leaving Auckland than arriving may in part be due to housing affordability.²² I note that Mr Thompson argues this is the cause.²³ However, while the materials Mr Thompson provides are suggestive that this may be true, they do not establish it to be the case – e.g. alternative explanations cannot be ruled out.
32. For example, an equally plausible interpretation of the data Mr Thompson presents is that Aucklanders are cashing up in Auckland and moving to lower-cost regions in order to enjoy improved lower mortgage costs, better lifestyles, and lower traffic congestion (which his own survey indicated are major reasons for people to consider relocating from Auckland), facilitated by greater ability to work remotely post-pandemic (e.g. due to video conferencing).
33. Hence, more evidence would be required to show that a lack of affordable greenfield houses in Auckland is the sole or dominant driver of actual relocation choices. If high prices were the sole driver of location choices, Auckland should have a lower population than centres with lower-cost housing.

3.3 Non-Assessed Costs

34. Mr Stewart points to costs which Mr Thompson's analysis has not accounted for. These include, for example, opportunity costs in relation to Watercare's three-waters infrastructure, as well as transport infrastructure.²⁴ To this could be added costs of providing schools and medical services, given taxpayer subsidisation of such services.
35. In particular, current infrastructure financing and funding plans are predicated on residential and other relevant developments occurring in a scheduled and coordinated way. As noted in the Watercare Letter, AT Memo and Duffield/Kloppers Memo, if the Application were approved, and the Delmore residential development was advanced out of sequence relative to the current 2050+ zoning of the relevant land for future urban use,

²² Stewart Memo, p. 3.

²³ Urban Economics Response to EPA, Item 19.1, p. 4.

²⁴ Stewart Memo, p. 3; Stewart Addendum, pp 3-5.

then under existing infrastructure budgets for the subject area and more widely, this would require reallocations away from other current or planned developments.

36. Doing so not only creates opportunity costs in terms of poorer infrastructure for parties who would otherwise have enjoyed those developments, but would also create the risk of adverse effects (such as greater frequency of wastewater overflows following heavy rain events, affecting the environment). I agree with Mr Stewart that these are relevant costs which Mr Thompson's analysis has not allowed for.
37. Alternatively, additional infrastructure funding would be required to accelerate the infrastructure development needed for the Application, beyond what has been offered or committed to by the Applicant. I agree with Mr Stewart that this could involve socialising additional infrastructure costs or passing them onto other private parties for the benefit of the Applicant.²⁵

3.4 Significance of Benefits

38. I concur with Mr Stewart where he observes that key terms like "regional or national benefits" and "significant" are not defined in the relevant legislation, and that there are no obvious metrics/quantitative thresholds than can be used to assess the significance of any claimed benefits.²⁶
39. That said, as discussed above, I agree with Mr Stewart that any net benefits as assessed by a thorough and rigorous CBA should be compared with a suitable counterfactual baseline, and that expressing the results as a range (reflecting uncertainties in key assumptions) would be sensible.²⁷
40. For the reasons discussed above, I consider that the available economic assessment of the Application does not adequately identify net benefits or fully account for all relevant costs or displacement effects, and does not apply an appropriate counterfactual. For these reasons alone, I do not consider the claimed benefits to have been reliably established, and hence they cannot be considered "significant". It would only be after a more comprehensive and properly framed CBA was provided that any assessment of the significance of claimed benefits could be undertaken.

²⁵ Stewart Addendum, p. 5.

²⁶ Stewart Addendum, p. 6.

²⁷ Stewart Addendum, pp 6-7.

4. Conclusion

5. In conclusion, I consider that Mr Stewart has raised a number of pertinent and properly-framed issues regarding of the economic assessment of the Delmore application, and made sensible proposals for how the Application's benefits might better be assessed. Based on those issues – some individually, but certainly collectively – I consider the Application's assessed benefits have not been reliably established.
6. I therefore agree with Mr Stewart that a comprehensive assessment of the Application's costs and benefits – more comprehensive than that currently available – would be prudent to assist the Panel in its deliberations.²⁸

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²⁸ Stewart Addendum, p. 12.