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Overview of key considerations – Residential zoning (over/under-zoning)

The Far North District Council (FNDC) is in the process of reviewing the District Plan. As part of the overall process, FNDC has asked Market Economics (M.E) to provide commentary around the economic principles associated with zoning for residential development. There are adverse effects of over zoning, but similarly, there are economic effects if sufficient residential land is not zoned. This memorandum outlines the key considerations relating to zoning sufficient land to accommodate residential growth.

ZONING SUFFICIENT LAND TO ACCOMMODATE GROWTH

An essential part of the planning process is to ensure the sustainable management of resources and minimising environmental effects, while ensuring that communities can provide for their needs. Aligning anticipated demand levels with supply is a key aim to avoid significant costs. In a residential context, these costs occur if too much, or too little, land is zoned for development. When there is a deficit of residentially zoned land, housing development activity is constrained, and the potential economic costs include:

- Increase in land and housing prices. Due to the scarcity of developable land, land prices move upwards negatively impacting land and housing prices. This reduces housing affordability and increases housing cost stress. The higher cost of housing through rents or mortgage payments reduces disposable income.
- Restriction of new housing supply/construction. With insufficient developable land, developers cannot meet demand for growth, restricting construction activity. Lower construction activity means that economic activity is suppressed and the timelines to access new dwellings are extended.
- Pressure on urban intensification. Development and growth are redirected to existing areas that might not be appropriately located. Such growth leads to overloading of social amenities (e.g., schools), and social disharmony that manifests as increased social conflicts. In turn the rise of NIMBY-ism slows down development approval processes.
- Speculation and land banking. Limited supply makes land more valuable, encouraging speculative holding instead of development. Speculation delays housing supply and creates artificial scarcity.

Similarly, zoning too much land for development also generates negative effects and costs. These costs can be significant and while over-zoning is sometimes put forward as a pro-affordability measure, it can undermine urban-efficiency, infrastructure economics and have adverse environmental effects across the wider location. The main economic costs of over-zoning are:

- Inefficient infrastructure investment. When development is spread over a large spatial area, then infrastructure must be delivered over greater distances. This increases the per unit/dwelling cost of infrastructure for both the initial investment (capex) as well as operational stages (opex). In addition, some parts of the network might be underutilised due to low use densities.
- Increase transport costs. Over-zoning can lead to a fragmented spatial pattern with car-dependent developments establishing far from employment/economic centres causing households to incur high



costs that manifest in the form of long(er) commuting times and higher direct transport costs (fuel and vehicle costs), contribution to congestion and lower productivity due to additional time in traffic.

- Unnecessary consumption of rural land. Over-zoning displaces other land uses leading to trade-offs with other economically valuable land uses (e.g., horticulture).
- Weakening market signals for intensification. When there is a surplus of greenfield development opportunities, then market incentives for intensification are diluted. Lowering the potential return on intensification options will lead to slower housing densification. In turn lower densification has other effects, such as changing the economics of public transport services i.e., lower densification means that it will take longer to reach the thresholds needed to make public transport viable.
- Land banking and delayed development. Large-scale zoning may outpace infrastructure or demand, allowing developers to hold land undeveloped. This can constrain the market despite an apparent land supply. In turn, this behaviour undermines the link between zoning and actual delivery.
- Environmental externalities. Over-zoning of greenfield areas increases the reliance on greenfield areas to accommodate growth. Valuable economic activity is slowly reduced due to lower investment and potential neglect (non-exercising) of economic options. A consequence of over-zoning is that the resulting development patterns are sub-optimal, leading to additional emissions, and consumption of land that would otherwise not be needed.

There are economic costs associated with under- and over-zoning land. Aligning zoning with anticipated demand means that the downside risks of both situations are avoided. It can be challenging to ensure perfect alignment between demand and supply but the modelling and projection techniques that are used to estimate future demand are advanced and sophisticated. In the case of the Far North District Council, several growth scenarios have been assessed and underpin the zoning processes e.g., the Housing and Business Capacity Assessment as prepared in line¹ with National Policy Statement on Urban Development (NPS-UD) guidance. The NPS-UD requires a 'competitiveness margin' of 20% to be added over the short and medium terms, and 15% over the long term to ensure that there is sufficient capacity in the market to avoid constraining growth. The NPS-UD sets the thresholds. Using this margin as a guide to identify the quantum of land to zone suggests that going above the stated margin could generate some/all the adverse effects outlined above.

Providing sufficient capacity in appropriate locations, and supported by coordinated infrastructure investment and monitoring, tends to offer the best long-term economic value, avoiding unnecessary direct costs, and avoiding wider inefficiencies and costs.

¹ The NPS-UD was used as guidance even though the Far North District or the Kerikeri-Waipapa area are not a Tier 3 area.