

PROPERTY **E**CONOMICS



MISSION BAY DEVELOPMENT

FAST TRACK ECONOMIC IMPACT

ASSESSMENT OVERVIEW

Client: Drive Holdings Limited

Project No: 52189

Date: September 2022



SCHEDULE

Code	Date	Information / Comments	Project Leader
52189.10	September 2022	Report	Phil Osborne

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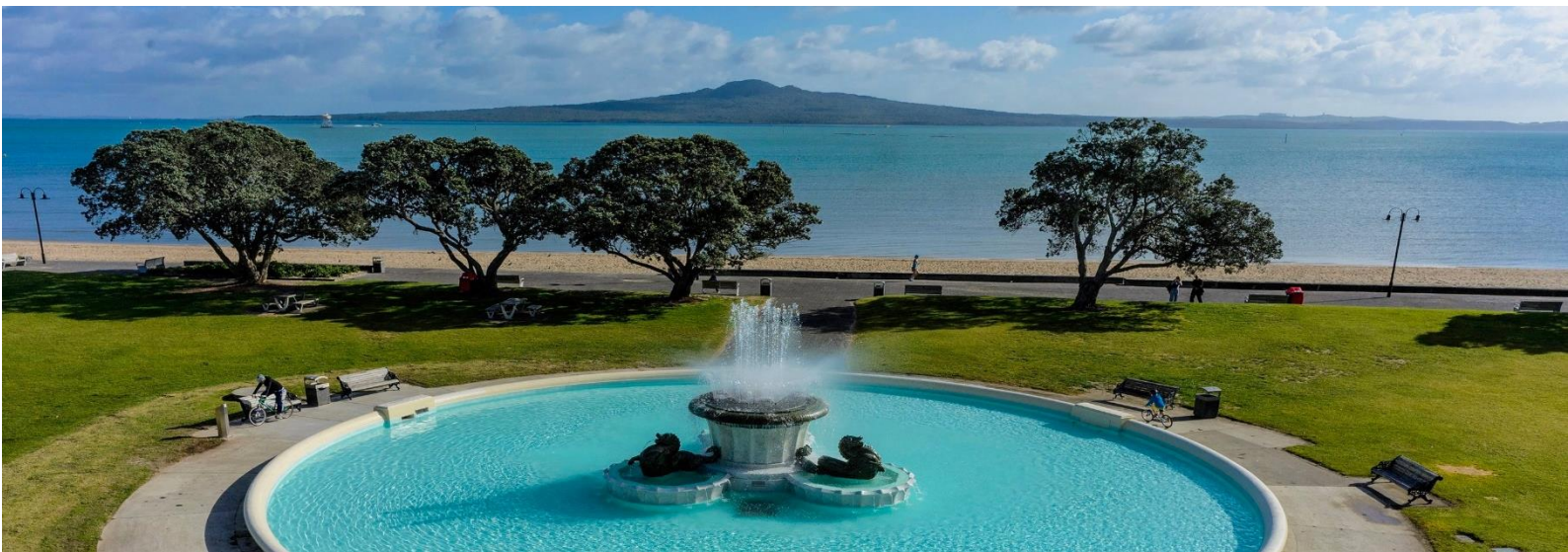
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1. MISSION BAY – AUCKLAND

Property Economics have been asked to summarise the economic impacts that will flow from the application by Drive Holdings Limited for resource consents regarding the construction of a new multilevel development at 75-79, 81-87 & 89-97 Tamaki Drive, 6, 8-10, 12 and 14 Patteson Avenue, 26, 28, and 30 Marau Crescent, Mission Bay (“**the Site**”) providing for retail, food and beverage, and residential activities and supporting car parking, loading bays, vehicle manoeuvring areas, landscaping and plant (“**the Project**”).

This economic impact overview relates to application to have the Project referred to the FastTrack process. The Site is a contiguous land holding at the corner of Patteson Avenue, Marau Crescent and Tamaki Drive, Mission Bay, Auckland.

This economic impact assessment relates to a development comprising a total of 140-170 residential apartments and approximately 2,421 sqm of small commercial / retail tenancies as well as a public park to serve the local community.

The economic impact estimates the total additional gross economic injection¹ (added Gross Domestic Product (GDP)) into the Auckland economy that would be brought about by the Project. The initial specifications and details have been provided by the applicant and represent the development’s configuration and costings at this point in time. It is important to note that this is not site specific (i.e.: I have not endeavoured to identify the extent to which particular parts of the Auckland Region will benefit economically). It also assesses the likely economic impacts upon aggregate Auckland business activity given the composition of activities proposed.

¹ For example, this has not taken into account the short-term loss of operational employment currently on site

Although there are undoubtedly economic benefits that are specific to the location, they are primarily driven by proximity to transport corridors, efficiencies, ownership opportunities, site size and the opportunity costs associated with other sites.

The economic impacts likely to be experienced as a result of the Project are broken down by the development phase which includes the construction costs (CAPEX²) of the development and the proportion of those costs that are retained within the Region.

The direct economic impacts are derived from the actual spending / expenses incurred through the operation of the anticipated development.

Indirect economic impacts are the increased spending brought about by those firms / households and their employees / occupants, who supply the development, while induced economic benefits are measured in terms of the additional income that will be spent in the area due to increased business activity.

2. EXECUTIVE SUMMARY

Drive Holdings Limited proposes to develop the Site into 140-170 residential apartments and circa 2,421 sqm of commercial / retail activity.

The direct impact on the Construction and Construction Services sectors associated with direct employment measure approximately 1,940 FTE years. Direct economic injection from construction and development phases equate to \$344m.

The total economic impact on business activity within Auckland as a result of the subject Drive Holdings Limited development over an 8-year period is estimated to be just over \$540 million (NPV)³. In terms of employment multipliers⁴ this would contribute nearly 955⁵ FTEs during the peak development and operation year within Auckland, with a total of just under 4,500 FTE years over the 8-year development period.

² CAPEX – Capital Expenditure

³ Net Present Value

⁴ Employment Multipliers relate to the level of indirect and induced employment activity generated through the expenditure on and off site.

⁵ NB These are all jobs created through the direct construction phase including indirect and induced employment through all business sectors (not solely construction jobs) and relate to job years rather than one employee.

3. TOTAL ECONOMIC ACTIVITY

This includes construction costs, which have been valued for the overall development.

The impact of this injection on the initial business cycle has been calculated. This 'construction multiplier' was based on the national input-output tables produced by Statistics New Zealand (based on 106 sectors), which were then assessed at a district level based on Auckland economic activity, composition and productivities.

This estimates the 'leakage' from the regional economy (within specified sectors), and therefore the overall regional production (within a given business cycle) for each \$1 injected.

This was performed for the general residential / commercial construction sectors. These multipliers are based on 'net' flows by broad sector type and are therefore approximations.

Total output impacts to the Auckland catchment for the proposed developments include:

- Direct Construction Cost x 'Construction Multiplier' +
- Direct Development Cost x 'Development Multiplier' +
- Direct Increased Commercial Spending x 'Commercial Multiplier' +
- Indirect Business Spend x 'Commercial Multiplier' +
- Induced Retail Spending x 'Retail Multiplier'

Each identified multiplier relates simply to the economic sector from which the activity is generated.

3.1. ASSUMPTIONS

The following assumptions have been applied in this impact analysis in order to assess the level of economic injection into the overall economy at this time. This has some (limited) impact on the distributional effects of the costs and benefits but can be quickly adjusted to accommodate more specific construction and on-going costs and injections.

1. For the purposes of this Economic Impact Assessment, it has been assumed that the construction costs will fall within the definition of the following categories (based on a standard 'special' commercial ratio): 'non-residential construction', 'non-building construction', 'other construction services'.
2. Associated (and estimated) land costs have been included in the financial repayment assessment for the Project.

3. Financial or loan costs on capital primarily fall outside of the local catchment and impact the national economy.
4. The origin of labour has been assessed based on regional labour movements furnished by Statistics NZ based on 2018 data. However, employment data has been updated as per the Statistics NZ Business Frame data⁶ to March 2022.
5. This report deals with the economic impact of proposed development on Auckland. These are specifically the direct impacts related to the operation and construction of the proposed development.
6. The economic activity generated is based on the development's gross activity and does not consider this redirecting growth opportunities from elsewhere in the catchments. As stated, this assessment is not site specific.
7. For the purposes of this report a 6% discount rate has been applied.
8. Labour movements are based on average retention rates rather than specific company locations.
9. The proportion of materials and labour internalised in direct benefits to Auckland are based on standardised labour movements as well as employment and production composition within the Region. The amount of each 'flow-on' dollar retained in Auckland are based on the movement of resources (including labour) between other districts and regions.

Table 1 following outlines the resulting impacts on the Auckland economy as a result of the development.

⁶ Business Frame Data – provides Statistics NZ measure of employment in an area by ANZSIC sector.

TABLE 1: TOTAL GROSS AUCKLAND ECONOMIC INJECTION (FASTTRACK)

s 9(2)(b)(ii)

* Increased Local Spend by employees, construction workers and additional local business spend through the different stages of development.

The preceding table illustrates that the total impact on business activity within Auckland as a result of the Drive Holdings Limited development in Mission Bay over an 8-year period is **estimated to be just over \$540 million.**

In terms of employment multipliers this would **contribute 955⁷ jobs during the peak development and operation year** within Auckland, with a total number of FTE years at approximately 4,500 over the period.

⁷ NB These are all jobs created through the direct construction phase including indirect and induced employment through all business sectors (not solely construction jobs).

The following table outlines the potential distribution of costs and timeframes based on a standard consent procedure.

TABLE 2: TOTAL GROSS AUCKLAND ECONOMIC INJECTION (STANDARD)

s 9(2)(b)(ii)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Level 2 Multiplier Impacts											
Total Auckland Output (48 sector multipliers)	\$6.1	\$78.1	\$110.1	\$126.6	\$146.7	\$148.7	\$36.5	\$15.9	\$15.9	\$15.9	\$700.5
Total Auckland Output (NPV) \$m	\$0.6	\$1.2	\$4.6	\$63.6	\$88.5	\$94.3	\$103.4	\$100.6	\$23.1	\$9.5	\$489.4
Employment (FTE Years)											
Development Employment	4	9	36	85	76	118	118	134	134		714
Construction Employment				333	496	438	497	497			2,261
Other Employment			5	153	166	195	77	166	69	83	916
Total Employment (FTE years)	4	9	41	571	738	751	692	797	203	83	3,891

Source: Property Economics

Table 2 illustrates a total contribution to GDP through to 2027 of \$490m with just under 3,900 total FTE year jobs created. The reasons for the significant decrease from the FastTrack application include:

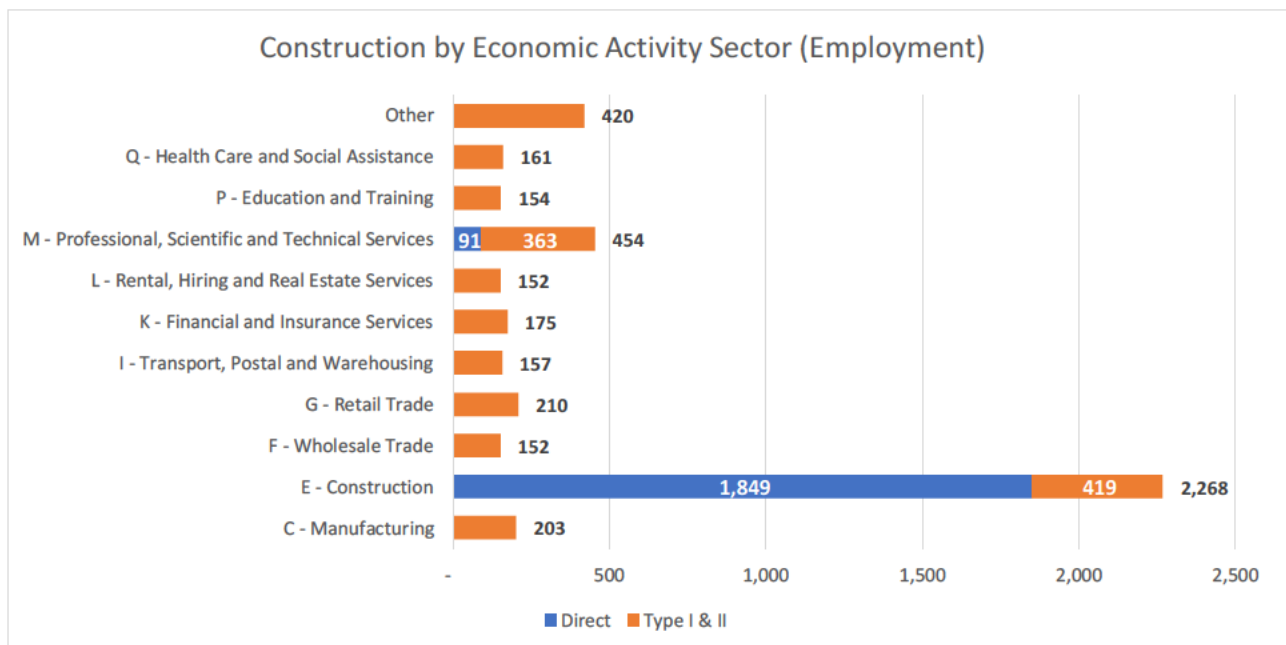
- The longer time for development
- The application of Net Present Value (where \$1 early is worth more than the same \$1 a year later, the discount rate 6%)

3.3. TOTAL AUCKLAND DIRECT AND INDIRECT EMPLOYMENT

Figure 1 below disaggregates employment generated by sector and Direct and Indirect (including induced) FTE employment over the identified period. It illustrates the significant direct impact on the Construction sector (as well as Construction Services).

The figure below illustrates the sectors associated with direct employment measure approximately 1,940 FTE years with the remaining around 2,560 FTE years resulting from indirect and induced activity. It is also of note that the ongoing commercial operations at the site have been estimated at just over 100 FTE's per annum.

FIGURE 1: AUCKLAND EMPLOYMENT GENERATION BY SECTOR (DIRECT AND INDIRECT)



Source: Property Economics

Table 3 below endeavours to breakdown the direct employment generation by year. The highest year for direct employment under the FastTrack scenario is 2025 with an estimated 416 FTEs.

TABLE 3: DIRECT TEMPORAL EMPLOYMENT (FTE) UNDER FASTTRACK SCENARIO

	Direct Employment
2022	14
2023	223
2024	390
2025	416
2026	408
2027	372
2028	65
2029	52

Source: Property Economics

4. OTHER ECONOMIC COSTS AND BENEFITS

Due to the nature of the Project assessed, there are a range of potential economic costs and benefits that are likely to be achieved within the market beyond the direct economic activity (employment and GDP) generated.

ECONOMIC BENEFITS:

1. **Increased Land / Dwelling Supply:** The proposed land area has the ability to supply the market with up to an additional 170 dwellings. This provides not only the ability for the area to improve its responsiveness to growth demands but will itself facilitate further growth within the area with an increase in overall competitiveness and efficiency due to the intensity of the proposed development. This is in keeping with one of the key purposes of the FastTrack Act⁸ of increasing overall housing supply (s19(d)(ii)).

Additionally, this provides clear direction to the market regarding both its ability to meet future demand pressures and its provision through an efficient site location and size.

2. **More Affordable Housing:** The potential provision of additional feasible residential development capacity (with dwellings at an average of 90sqm) within the wider area is likely to have the impact on reducing counterfactual land values. The residential density proposed also creates more affordable / serviceable properties, with lower land costs per dwelling due to land and development costs able to be amortised over a higher number of homes.

A significant contributor to residential property values is the underlying land values impact by growth expectations and supply. The identification of additional residential land areas and residential densities suitable for development is likely to reduce price pressure in the local and surrounding markets.

3. **Greater Housing Choice:** A development of up to an additional 170 dwellings offers with it the opportunity for higher density residential options and improved housing choice in the market.
4. **Decreased Marginal Infrastructure Costs:** Once again the opportunity to masterplan an area has the potential to bring with it, economies of scales and lower marginal infrastructure costs.

⁸ COVID-19 Recovery (Fast-track Consenting) Act 2020

5. **Impact on Current Employment Levels:** While Covid-19 has had a less significant impact on the general economy than was initially estimated, it is clear that the next few years represent uncertain times with several crucial sectors likely to experience significant downturns and considerable restricting.

While the sectors that are likely to benefit directly by this proposed development are not necessarily the hardest 'hit' sectors⁹ of the economy, they do contribute substantially to overall community wellbeing and will support greater spend and general economic activity that in turn supports greater activity in the affected sectors.

This supports a key FastTrack Act purpose of resulting in a public benefit through generating additional employment (s19(d)(ii)). Additional employment opportunities contribute positively to improving income levels of many households in the Auckland, and therefore improve the economic, social and cultural wellbeing of both current and future generations (s19(b) of the Act).

5. SUMMARY

Overall, the proposed Mission Bay project represents a significant opportunity for the regional and, potentially more importantly, the local economies to protect, sustain and grow jobs and income, provide additional job opportunities and income, while also providing additional competitive residential opportunities.

This development also positively contributes to the outcomes sought in the NPS UD¹⁰ by providing additional housing capacity across a range of typologies and providing more choice in the market in relation to price points and location.

It is important to note that these benefits exist within a timeframe that is likely to see significant uncertainty in development opportunities and a lower appetite for risk, impacting on both the construction and productive base of the regional economy.

⁹ *Albeit this sector is coming under increasing pressure with decreasing sales prices and rapid increases in interest rates.*

¹⁰ *National Policy Statement on Urban Development 2020*