

PROPERTY **E**ECONOMICS



R2 GROWTH CELL

EMERGING AREA

ECONOMIC MEMORANDUM

Client: CDL Land New Zealand Limited

Project No: 52380

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ECONOMIC MEMORANDUM

To: Jackson Bull

General Development Manager

CDL Land New Zealand Limited

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RE: R2 GROWTH CELL EMERGING AREA ECONOMIC OVERVIEW

INTRODUCTION

Property Economics has been commissioned by CDL Land New Zealand Limited (CDL) to provide a high-level economic overview of the appropriateness and economic efficiency of the proposed identification and subsequent development of the R2 Growth Cell for a mix of residential and industrial activities with a small commercial offering.

Note that although this Economic Memo focuses primarily on the industrial component of the proposed R2 development, for completeness, it also offers a high-level overview of the economic efficiency related to the proposed residential and small retail / commercial activities within the R2 land from an economic perspective.

The primary objective of this Memo is to evaluate the potential contributions that enabling industrial development within the R2 land would make toward accommodating future business and industrial demand in the Hamilton and broader Future Proof market.

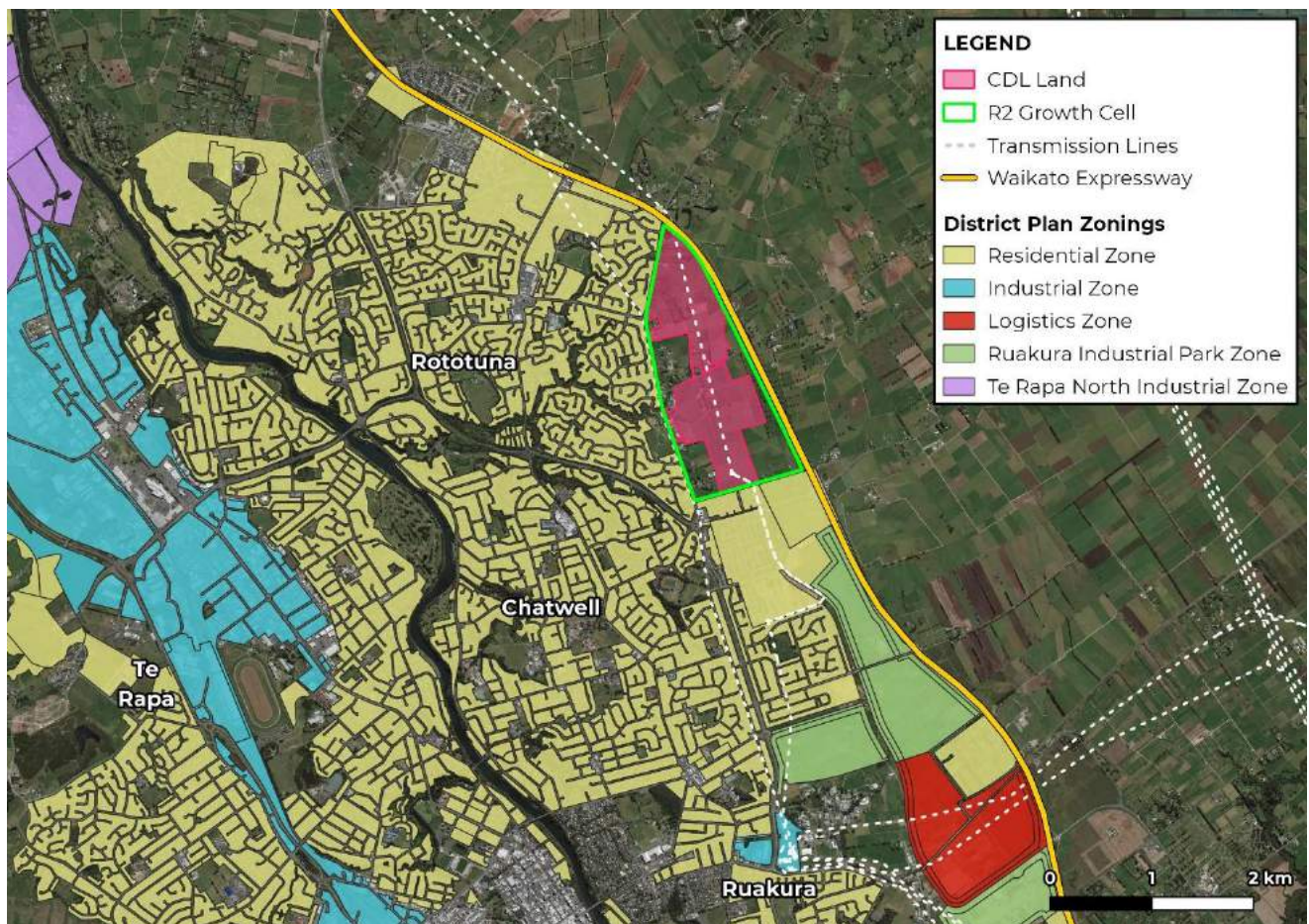
This involves reviewing the Future Proof Business Development Capacity Assessment 2021 (BDCA), assessing it in light of the recent industrial employment growth (i.e., 2020 – 2023) in Hamilton City and the wider Future Proof area. This analysis assists in understanding the base context and the economic implications of whether enabling a portion of the R2 land for industrial purposes would add positive economic benefits considering the current market conditions and growth.

Additionally, this Memo assesses the locational characteristics of R2 against industrial land / business location requirements and provides a high-level overview of the economic costs and benefits associated with the overall R2 development, from an economic perspective.

R2 GROWTH CELL AND PROPOSED DEVELOPMENT OVERVIEW

The CDL land, covering approximately 132.2ha, is located on the western side of Waikato Expressway. It constitutes a significant portion of the broader R2 Growth Cell which spans around 210ha positioned between the current eastern urban form boundary of Hamilton and the Waikato Expressway.

The location and extent of R2 Growth Cell and the CDL land in the context of the surrounding residential and industrial zoned environments are illustrated in Figure 1 below.

FIGURE 1: R2 AND SURROUNDING INDUSTRIAL AND RESIDENTIAL ZONING ENVIRONMENTS


Source: Hamilton City Council, LINZ, Property Economics

In terms of the surrounding zone environment, the CDL land or the broader R2 Growth Cell is located adjacent to the Chartwell Expressway interchange, the next interchange north from the Ruakura interchange facilitating the development of the Ruakura Inland Port & Logistics Hub. As such, all the economic benefits and efficiencies associated with locating the Ruakura Logistics Hub next to the Ruakura interchange can similarly be applied to the industrial activity for the R2 Growth Cell.

The R2 land is contiguous to the extensive Residential Zone on its immediate west and south. This suggests for R2 to develop an industrial precinct there is a need to transition from a residential urban form to industrial to minimise and better manage potential reverse sensitivity.

This is shown in CDL's proposed concept plan of land uses with residential activity proposed on the western and northern areas of the R2 Growth Cell and industrial activity on the eastern edge adjacent the expressway. The concept plan also incorporates all the necessary infrastructure such as roading network, stormwater management and amenity assets. The land use allocations for these activities are as follows:

- **Industrial:** 56ha gross, concentrated in the southeastern section.
- **Residential:** 80.1ha gross covering the northern half extent and the southwestern corner.

- **Industrial or Residential** (Section of North Block SE Corner): 29ha gross
- **Small Local Centre**: circa 2ha gross, located at the main intersection on Puketaha Road
- **Spine Road**: 7.6ha gross
- **Stormwater / Amenity Assets**: 47.1ha gross

A visual representation illustrating these proposed land uses is provided in the following figure.

FIGURE 2: PROPOSED LAND USES WITHIN R2 GROWTH CELL



Source: CDL, Isthmus

The proposed small Local Centre / Mixed Use area is positioned centrally within the R2 Growth Cell enabling efficient and convenient access for all R2 residents, workers and visitors. The convenience centre is also efficiently located to service the Puketaha rural settlement further east with direct access from Puketaha Road.

DRAFT FUTURE DEVELOPMENT STRATEGY CONTEXT

The Draft Future Proof Strategy (**Draft FDS**) is a 30-year growth management and implementation plan for the Hamilton, Waipā, Waikato and Matamata-Piako sub-region.

To support the Draft FDS vision, Future Proof Partners have identified seven Transformational Moves, which are key components facilitating a long-term shift towards a more sustainable model of urban growth development within the broader Future Proof area.

Specifically, Transformational Move 5 requires:

"establishing economic corridor that connect centres of production to metro areas of employment and ports and airports with a particular emphasis on access to the highly productive employment areas between Hautapu, Ruakura, Hamilton Central City and north of Horotiu and Ngaaruawaahia".

The following figure shows the strategic transport corridors identified in the Draft FDS.

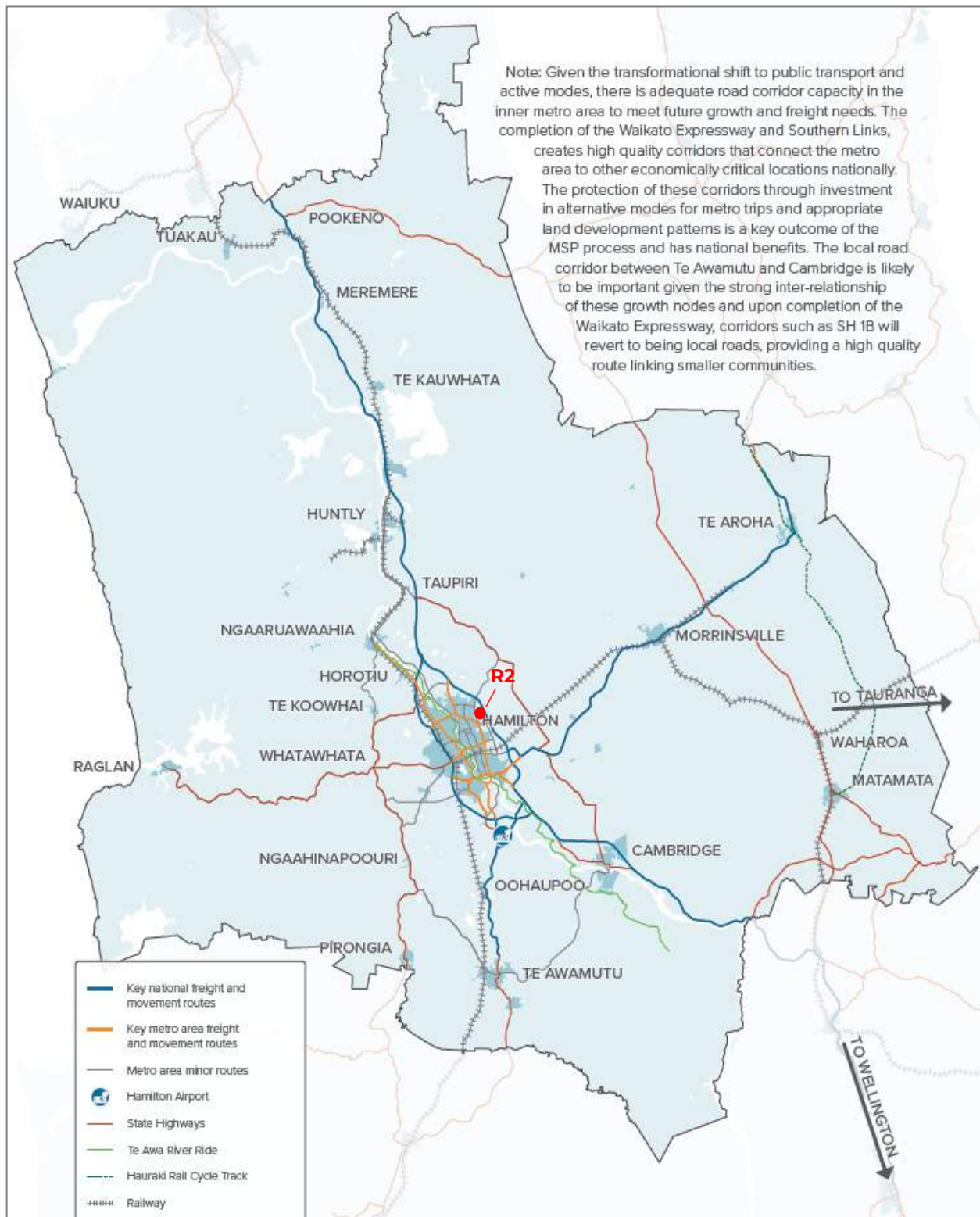
With the completion of the Waikato Expressway, several high-quality corridors now link the metro area to economically significant locations nationwide. This has opened up substantial new opportunities for further growth in the broader Future Proof area.

According to the Draft FDS, to support future growth in the area;

"communities and jobs will be focused in and around centres and corridors in locations which are supported by both rapid and frequent public transport and walking and cycling transport options so that people have choice and opportunity to live close to where they work and play. Employment areas will be focused on corridors that can be easily accessed by people and for freight movements".

Since the R2 Growth Cell is strategically positioned next to the SH1 Waikato Expressway, a key national route for freight and transportation, there is significant potential for R2 to play an important role in providing greater access to additional housing choices and local employment opportunities. This would assist in continuing to leverage of the pre-eminent transport corridor in Waikato and facilitate broader economic growth of the Future Proof area.

FIGURE 3: DRAFT FDS STRATEGIC TRANSPORT CORRIDORS

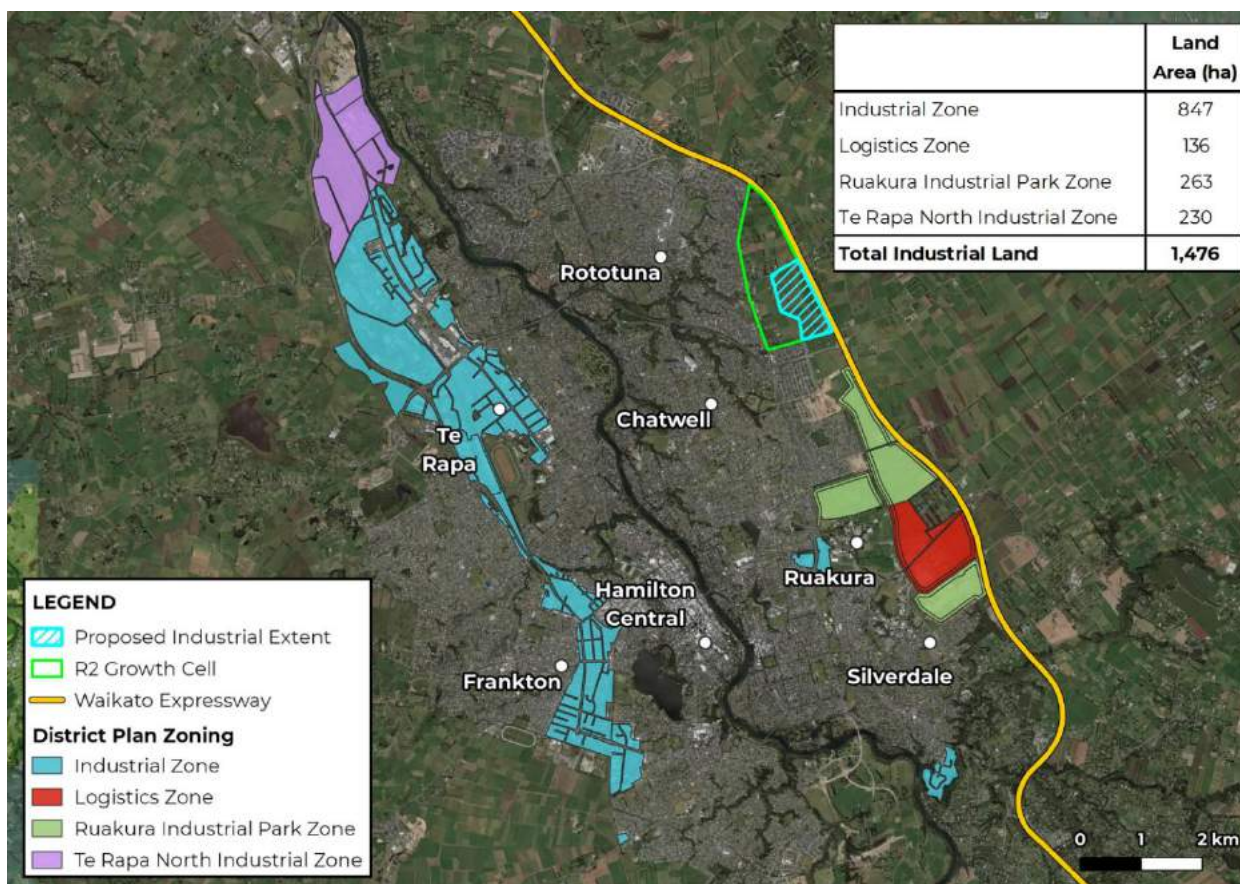


Source: Future Proof Partners

HAMILTON EXISTING INDUSTRIAL LAND SUPPLY

The following figure illustrates the current industrial zones within Hamilton City as defined by the ODP zonings. It shows that Hamilton's industrial zoned capacity encompasses four distinct zones: Industrial Zone, Logistics Zone, Ruakura Industrial Park Zone, and Te Rapa North Industrial Zone.

FIGURE 4: EXISTING INDUSTRIAL ZONES WITHIN HAMILTON CITY



Source: Hamilton City Council, LINZ, Google Maps

The general Industrial Zone reflects the more traditional industrial areas of Hamilton and are generally well-established industrial locations. These areas encompass the bulk of the industrial land provision in Hamilton at around 847ha, concentrated around Te Rapa and Frankton.

The Ruakura Industrial Park Zone and the Logistics Zone together constitute the broader Ruakura industrial hub, providing a combined industrial land area of around 400ha. Presently, the Logistics Zone consists of undeveloped land earmarked for future industrial use which Property Economics understands requires additional infrastructure investment to bring the land to market. So while the land may represent zoned capacity, it does not represent available capacity.

The Ruakura Industrial Park Zone is designed particularly for accommodating the inland port consented in Ruakura. Much of this area, presently undeveloped, is anticipated to be available to meet future demand (10+ years).

According to the Hamilton-Waikato Metropolitan Spatial Plan 2020 (**Spatial Plan**), the broader Ruakura industrial hub is anticipated to generate approximately 11,000 jobs and contribute an estimated \$4.4b regional GDP between its completion and 2061. Consequently, the emerging Ruakura industrial hub is expected to evolve into a significant industrial cluster in Hamilton, catering to existing and future industrial land demand.

The Te Rapa North Industrial Zone spans around 230ha of land to the north of the extensive Industrial Zone in Te Rapa. Cumulatively, Hamilton has approximately 1,480ha of land specifically zoned for industrial activities under the ODP. This figure does not include the Business Zone and Knowledge Zone, which have the potential to accommodate some light industrial uses.

Considering the existing geospatial distribution of the industrial land supply, the proposed industrial component of R2 would greatly benefit from its close proximity to the high growth Rototuna and wider north-east Hamilton area where industrial land supply is lacking. The R2 site's close proximity to the Ruakura industrial hub is also beneficial from an economic perspective as this would facilitate greater business agglomeration effects, economies of scale and opportunities for close proximity for support businesses to the larger logistics hub and inland port activities.

HAMILTON CITY INDUSTRIAL LAND CAPACITY SUFFICIENCY

The Future Proof BDCA conducted a forecast of the future industrial land demand within the Future Proof sub-region (excluding the Matamata-Piako District) for the period 2020 to 2050. The summarised results for Hamilton are replicated and presented in Table 1 below.

According to the BDCA, the anticipated industrial employment growth within Hamilton suggests a need for approximately 63ha of industrial-zoned land in the short term. This demand is projected to increase to 266ha over the medium term and to around 621ha over the long term, with the appropriate NPS-UD margins are incorporated.

In light of the estimated vacant industrial land capacity, ranging from 270ha to 640ha, the BDCA concluded that Hamilton, at the TA level, has sufficient industrial land capacity to meet the anticipated demands over the short, medium, and long term.

However, for local areas excluding Ruakura, the BDCA projected a cumulative shortfall in long-term industrial land capacity exceeding 295ha.

As stated in the BDCA, on Page 90, *"Particularly for industrial land and floorspace demand, there appears to be a lack of capacity at the local level. This appears true for Hamilton City, but it obscures the fact that much of the demand can be accommodated within two areas – Ruakura and Te Rapa"*.

TABLE 1: HAMILTON INDUSTRIAL LAND SUFFICIENCY (HA)

	Industrial Land Demand + Margins (ha)		
	Short Term (2020 - 2023)	Medium Term (2023 - 2030)	Long Term (2030 - 2050)
Te Rapa	51.4	177.0	328.7
Chartwell	0.5	1.7	4.8
Frankton	0.8	25.8	92.3
CBD	5.2	21.0	64.5
Ruakura	0.3	6.0	22.0
Other	4.5	34.2	108.2
Hamilton Total	62.7	265.8	620.6
	Industrial Land Capacity (ha)		
	Short Term (2020 - 2023)	Medium Term (2023 - 2030)	Long Term (2030 - 2050)
Te Rapa	99.3	99.3	278.0
Chartwell	0	0	0
Frankton	21.1	21.1	21.1
CBD	0	0	0
Ruakura	145.8	212.6	336.6
Other	4.1	4.1	4.1
Hamilton Total	270.3	337.0	639.7
	Industrial Land Sufficiency (ha)		
	Short Term (2020 - 2023)	Medium Term (2023 - 2030)	Long Term (2030 - 2050)
Te Rapa	+47.9	-77.7	-50.7
Chartwell	-0.5	-1.7	-4.8
Frankton	+20.3	-4.7	-71.2
CBD	-5.2	-21.0	-64.5
Ruakura	+145.5	+206.6	+314.6
Other	-0.4	-30.1	-104.1
Hamilton Total	+207.6	+71.2	+19.1

Source: BDCA (Page 91, Figure 7.21)

Given the above forecasts, Property Economics undertakes a high-level cross-check of the recent growth of the Hamilton industrial market to evaluate the practical demand and likely industrial land sufficiency within the wider City. Overall, in Property Economics view, the industrial land demand estimates in the BDCA are considered largely understated, providing an unreliable reflection of the future demand for industrial zoned land in Hamilton as well as the wider Future Proof area. Also the industrial land capacity numbers appear 'at odds' with the market realities of available land for industrial development.

Note that the same concern on the BDCA modelling is reflected in the s42 Hearing Report¹ for Plan Change 17 – Hautapu Industrial Zones (PC17) by Waipā District Council, which notes that “*advice received from Council staff and from Future Proof is that industrial land is required earlier than originally anticipated*”².

According to the Panel’s Decision Report³ for PC17, which considers input from various experts, “*a demonstrable need for additional industrial zoned land is apparent*”⁴. While this finding specifically relates to the Cambridge industrial market, the same imprecise modelling in the BDCA may impact the assessment outcome for other Future Proof partner areas, being part of the same wider economic market and the higher-than-expected market growth in Hamilton over the last three years.

To put the recent growth in context, latest Business Demography data from Stats NZ reveals an approximately +10% increase in total employment count in the Future Proof 3TAs⁵ between 2020 and 2023, despite the challenges posed by the COVID-19 pandemic (refer to Table 2 below). This robust level of three-year growth is more than double the BDCA’s projection of +4.3% growth for the same period.

TABLE 2: SUB-REGION EMPLOYMENT COUNT BY ANZSIC SECTOR: 2020 - 2023

	2020	2021	2022	2023	2020-2023 Growth	
					#	%
Sub-Region Total Employment	138,800	140,500	147,200	152,000	+13,200	+10%
Hamilton City Total Employment	97,700	97,900	103,300	106,500	+8,800	+9%
Waikato District Total Employment	20,200	21,100	21,800	23,100	+2,900	+14%
Waipā District Total Employment	20,900	21,500	22,100	22,400	+1,500	+7%

Source: Stats NZ

Specifically, Figure 3.13 in the BDCA anticipated a growth of approximately +6,920 people in modified⁶ employment count across the 3TAs over the short term (2020 – 2023). However, the actual growth in employment count within the 3TAs, as indicated in the table above, reveals a substantial increase of around +13,200 people over the last three years. This reflects a market that has expanded significantly faster than originally anticipated in the BDCA modelling. Specifically, Hamilton

¹ Section 42A Hearing Report on Proposed Plan Change 17 Hautapu Industrial Zone, Beca Limited, dated 29 March 2023

² Paragraph 6.3.3

³ Plan Change 17 – Hautapu Industrial Zones: Decision of Hearing Panel and Section 32AA Evaluation Report, dated August 2023

⁴ Paragraph 1.7.9

⁵ i.e., Hamilton City, Waikato District and Waipā District

⁶ Including working proprietors.

experienced a proportional industrial employment growth of +9% or a nominal expansion of around +8,800 employees over the last three years. This is clearly partly catalysed by the Waikato Expressway and the industrial growth opportunities for the Future Proof area this significant infrastructure asset generates.

If the current modelled disparity in the BDCA against actual market growth is maintained, the cumulative effect on Future Proof's industrial land shortfall will be pronounced and sustained, leading to the existing industrial land provision being depleted much sooner than modelled in the BDCA.

In light of the aforementioned analysis, Property Economics considers that both the broader Future Proof market and Hamilton City are undergoing a more accelerated pace of growth in the industrial sector than estimated by the BDCA.

Property Economics also reviewed the industrial land assessment conducted by Frequency⁷ which indicates a substantial shortage of industrial land capacity across Hamilton Metro⁸ area and the need to inject additional industrial zoned land into the development pipeline as quickly as possible.

More specifically, Frequency's capacity estimation suggests that even within the immediate next decade, the Hamilton Metro area is anticipated to face a significant deficit of approximately 257ha – 452ha in industrial land supply unless additional supply is expedited. This assessment reflects the real need to expedite the development of additional industrial land within the Future Proof area, particularly in efficient locations attractive to the market.

Given this projected shortfall, Frequency identifies potential areas for future industrial land supply, considering factors such as market attractiveness (proximity to transport, customer / supply, labour), land ownership, soil classification, geotechnical conditions, topography, and environmentally sensitive areas. One of the suggested 'Blue Sky' areas is R2.

From an economic perspective, the R2 land stands strategically positioned on one of 14 key interchanges on Waikato Expressway providing significant benefits from transport, distribution, and accessibility efficiencies. These factors make R2 an increasingly appealing location for industrial businesses.

Given these considerations, enabling the proposed R2 development is considered pragmatic and economically beneficial for the future growth potential of Hamilton. This would allow for the provision of competitive industrial land supply in a market attractive location that has the potential to accelerate growth in Hamilton and wider Future Proof area. Such strategic industrial locations broaden the market potential for the City and has the ability to attract industrial activity that might not otherwise have considered Hamilton as a potential business location, i.e. the R2 location has the potential to grow industrial demand and not simply reallocate existing industrial demand.

⁷ *Industrial Land Scoping Study For Future Proof Partners, Frequency, dated April 2023.*

⁸ *Frequency defined the Hamilton Metro area as the area from Ohinewai to Hautapu Cambridge.*

INDUSTRIAL EMPLOYMENT TRENDS IN HAMILTON

Property Economics assesses the industrial employment trends of the wider Hamilton City based on the latest Stats NZ Business Demography Statistics for the last 23 years (2000 – 2023) utilising ANZSIC categories.

The table below shows that Hamilton has a current (2023) employment base of around 106,500 employees, equating to net growth of around +83% above the 2000 employment baseline of about 58,300 people.

TABLE 3: HAMILTON ANZSIC SECTOR EMPLOYMENT TRENDS

ANZSIC	2000	2005	2010	2015	2020	2023	2000-2023 Growth	
							#	%
 A - Agriculture, Forestry and Fishing	486	446	710	405	616	775	289	59%
 B - Mining	0	31	24	40	42	33	33	n.a
 C - Manufacturing	7,054	8,439	7,513	9,559	10,141	10,683	3,629	51%
 D - Electricity, Gas, Water and Waste Services	350	341	557	819	1,092	1,295	945	270%
 E - Construction	3,500	5,087	5,115	5,757	8,191	9,268	5,768	165%
 F - Wholesale Trade	3,407	3,974	3,922	3,711	4,490	4,810	1,403	41%
 G - Retail Trade	6,469	7,674	8,125	8,535	9,787	10,394	3,925	61%
 H - Accommodation and Food Services	3,330	4,560	4,119	4,720	5,887	6,555	3,225	97%
 I - Transport, Postal and Warehousing	2,244	2,338	1,805	1,844	2,170	2,596	352	16%
 J - Information Media and Telecommunications	1,948	2,235	1,399	1,155	962	987	-961	-49%
 K - Financial and Insurance Services	1,470	1,553	1,554	1,520	1,595	2,059	589	40%
 L - Rental, Hiring and Real Estate Services	571	871	823	854	1,285	1,408	837	147%
 M - Professional, Scientific and Technical Services	3,851	6,239	6,413	6,932	8,880	10,256	6,405	166%
 N - Administrative and Support Services	2,970	3,951	4,371	4,019	5,155	5,009	2,039	69%
 O - Public Administration and Safety	2,984	3,194	4,341	4,894	6,559	6,864	3,880	130%
 P - Education and Training	6,529	7,452	7,918	8,218	9,210	9,344	2,815	43%
 Q - Health Care and Social Assistance	8,000	10,392	11,899	14,131	16,396	18,861	10,861	136%
 R - Arts and Recreation Services	896	1,381	1,321	1,612	1,699	1,769	873	97%
... S - Other Services	2,278	3,250	3,150	3,054	3,524	3,509	1,231	54%
Total All Industries (Rounded)	58,300	73,400	75,100	81,800	97,700	106,500	+48,200	+83%

Source: Stats NZ, Property Economics

In terms of the industrial sectors (refer Appendix 1), Manufacturing is the largest sector within the Hamilton industrial economy with nearly 10,700 employees in 2023. However, this sector has represented a diminishing proportion of Hamilton's employment base over the last two decades from 43% in 2000 to 38% in 2023.

This represents a steady proportional decline but is a trend that has been observed across the country. This slowing of employment growth is attributed in part to the adoption of new technologies and increased capital investment in automation by businesses, resulting in enhanced productivity and outputs, i.e. higher Manufacturing GDP with fewer employees. Such measures are

crucial for maintaining competitiveness on both national and international scales. It also highlights an economy in transition from a more productive base shifting to a growing service-based economy.

The automation of many components of the manufacturing process is dampening the rate of employment growth in this sector. This has seen improved production efficiencies and growth in the value of outputs based on this automation rather than increased employment. This trend is likely to continue for manufacturing businesses to remain competitive, but places increased importance on maintaining and facilitating large employment manufacturing businesses.

Contrastingly, employment in the Construction sector has grown over the 23 years to now be Hamilton's second largest industrial employment sector and has experienced the most significant nominal (+5,770 employees) and second-highest proportional (+165%) growth over the period. This growth can be attributed to escalating housing demand and the need for significant commercial and infrastructure projects to accommodate the expanding population.

Wholesale Trade, with a current employment base of around 4,810 employees, has the third largest industrial employment base within Hamilton, contributing around 17% of the total industrial employment base.

In terms of industrial employment growth over the assessed period, around half was within the Construction sector. With supply side constraints and a significant pipeline of construction projects required to better service and accommodate Hamilton's future population and business base, this industrial sector is anticipated to continue its strong growth performance over the next few decades, particularly around strategic industrial hubs such as the Ruakura industrial hub.

Considering the evolving business composition of the City, the proposed industrial component of R2 is deemed strategically positioned to accommodate the shifting employment structure and evolving business activities within the economy. This would offer enhanced choice and flexibility in land uses, enabling adaptation to the transitioning employment landscape and meeting the rising demand for diversified employment and business activities in the surrounding communities.

The proposed industrial development will enable a variety of light industrial activities, environments and amenities while also allowing for complementary commercial land uses. This approach aligns with the changing dynamics of the local business environments, better business amenity requirements for employees and facilitates a more versatile and responsive land use to better accommodate future demand.

Furthermore, Property Economics notes that there has been a shift in industrial land uses over the last two decades from the more traditional 'resource hungry' higher emission uses toward 'cleaner' lower emission, more sustainable higher-tech industrial uses, and a noticeable trend toward greater mixed-use developments with multiple uses working within a single development structure. The COVID-19 pandemic has sped this process up with worker flexibility, flexi-hours, co-working spaces, hot desking, etc all requiring reconsideration of workspace environments.

As such, the proposed industrial development within the R2 land would better reflect current market trends by providing more diversified business typology choices for light industrial activities in a mixed-use environment and help facilitate to transitioning of this sector in Hamilton's economy.

R2 EMPLOYMENT ACCOMODATION FORECAST

From an economic perspective, it is important to provide a balanced community rather than simply a dormant residential suburb. A growing community requires increased local services and employment opportunity to support and facilitate that growth in an efficient manner. The proposed industrial and small-scale retail / commercial development within the R2 land therefore would represent a positive step to satisfy the growing local employment opportunities and demand.

The total industrial activity within the R2 development is proposed to span at least 56ha (gross) of land. With a typical mix of commercial and light industrial activities Property Economics estimates that 56ha of industrial land could contribute to the accommodation of approximately 4,100 jobs in the identified industrial area.

The proposed small centre, including a potential Childcare / Early Education Centre, is proposed cover approximately 2ha and is projected to generate an additional circa 200 jobs in the retail and commercial sectors for the local market.

Overall, it is estimated that the proposed mix of activities within the R2 land would provide a total of around 4,300 employees. This projected level of employment accommodation within the R2 land is considered beneficial and essential to ensure there is a meaningful increase in employment internalisation within the localised area. That is, more local employment opportunities for local R2 and north-eastern Hamilton residents.

Note that a potential additional 29 gross of industrial land in R2 (in the south-eastern corner of the North Section) would result in an increase in the overall employment accommodation within R2, bringing the total number of accommodated employees to approximately 5,800. This represents an addition of 1,500 jobs within the R2 land.

Note this is an estimated level of employment once the development of R2 as proposed is completed. This excludes the economic injection into the economy and employment generated during the planning, earthworks, infrastructure and construction phases of R2.

SITE LOCATIONAL CHARACTERISTICS OVERVIEW

Having assessed the R2 land against key industrial business location criteria, the R2 land is considered appropriate for industrial activities based on the following reasons:

- The land directly adjoins Waikato Expressway, providing efficient access to strong transport networks connecting to the industrial market in Auckland and the broader Waikato / Future Proof regional market. The land is efficiently located on a primary connection in the high growth golden triangle area of Auckland-Hamilton-Tauranga.
- The proximity to Waikato Expressway also offers quick and reliable access to the site, enhancing convenience for the transportation of equipment, materials, and personnel during both the construction and operation phases of the proposed development.

- The land adjoins the largest urban environment within the Future Proof market, namely, Hamilton. This advantageous location provides the site with a competitive advantage in efficiently catering to the industrial demand particularly stemming from Hamilton and its surrounds.
- The land is adjacent to existing local and major roads in three directions. This means that the future development within the land would utilise this existing infrastructure making the land a more efficient use of existing infrastructure capacity. This reduces the marginal public infrastructure cost of developing R2.
- The land has good access to the growing population base and resident-worker base in the surrounding growth areas. This growth means new employment land will be required to cater for this growth efficiently in the local area.
- R2 provides employment land in a high growth area of Hamilton which lacks industrial land supply. As such, R2 would improve the economic efficiency of the city and its growth aspirations.
- The land would provide cost-effective industrial land supply relative to potential alternative locations, or more internalised urban locations, in more distant locations from the expressway.
- The land is large enough to provide the opportunity to appropriately manage / mitigate the surrounding areas from reverse sensitivity effects associated with industrial land uses.
- The land has a relatively flat landform. This characteristic not only makes the business location more competitive and feasible for development but also offers greater flexibility for potential future expansions, thereby future-proofing substantial capital investments in these industrial properties.

Overall, the R2 land would provide for a competitive and appealing industrial location within the sub-region that positively contributes to a well-functioning urban environment over the long term.

R2'S ACCESSIBILITY TO EXISTING AMENITIES VIA 20-MINUTE ACTIVE MODES

In addition to the above locational attributes, the R2 land boasts access to an extensive array of established services and amenities via active transport modes, rendering it suitable for urban development.

The figure following illustrates that within a 20-minute walking and cycling distance from the R2 land, future residents can find a wider range of fundamental community services and amenities such as supermarkets, schools, medical facilities, community amenities, as well as passive and active recreational reserves and parks. This existing high level of access for R2 future communities enhances development and market efficiency, and limits duplication of existing resources.

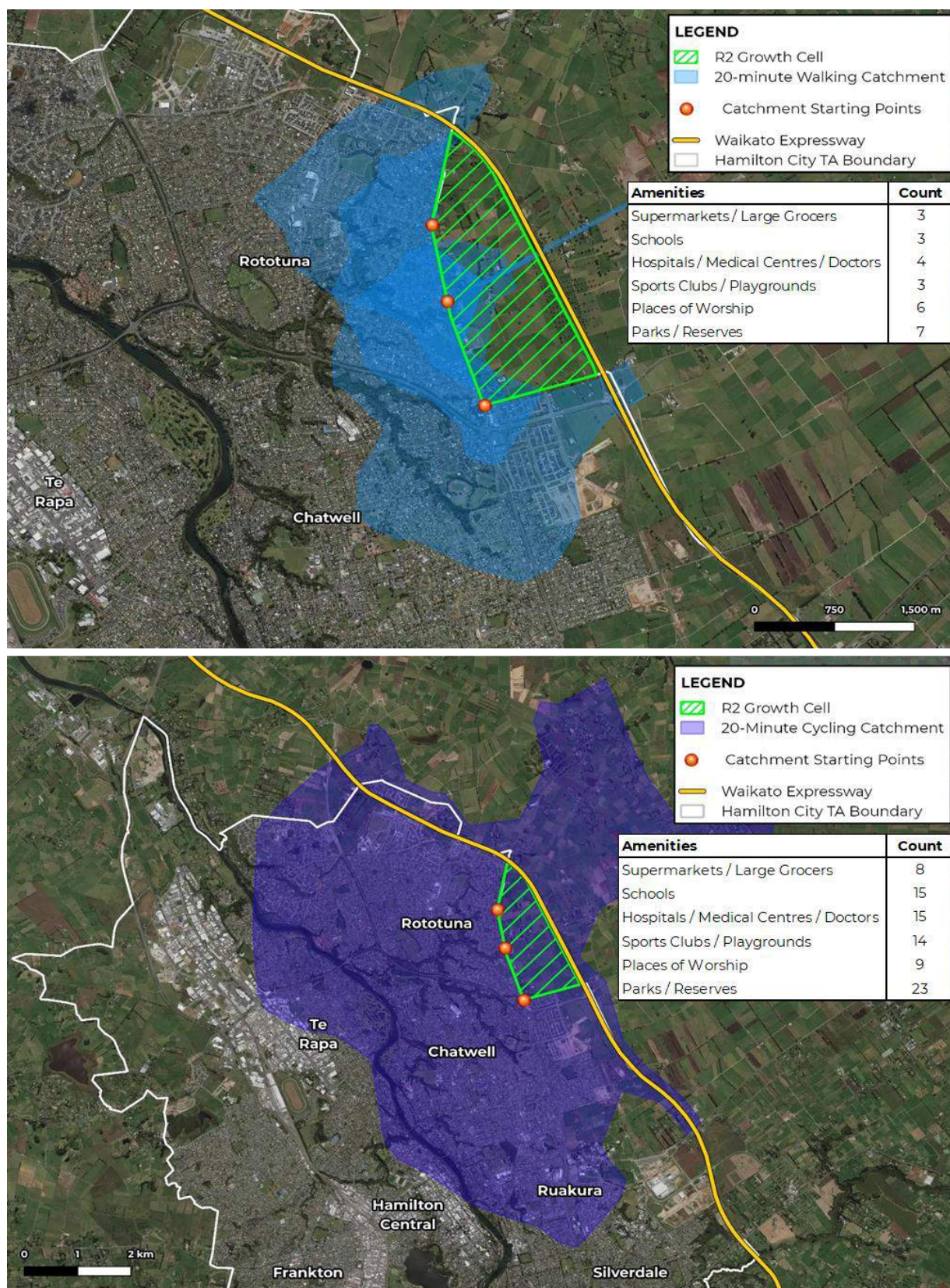
Particularly, a significant portion of the existing eastern Hamilton urban environment falls within the 20-minute cycling catchment for the R2 land. This reflects that the R2 development is in effect a 'plug-in' extension that can establish a direct connection to an extensive existing urban environment, resulting in a more effective utilisation of the land resource. Additionally, it will enhance the efficiency and reduces the marginal community cost of essential services and facilities, thereby making a positive contribution to the area as a well-functioning urban environment.

Having such an extensive range of community services, amenities and facilities within a 20-minute active mode catchment of the R2 Growth Cell represents a significant advantage for R2 over other alternatives. Particularly when considered cumulatively with the Waikato Expressway benefits, industrial land distribution and additional growth and employment opportunities available to the local economy as a result of the location.

Given the above, in Property Economics' view, the R2 land area serves as a seamless extension of the existing urban environment on land already anticipated to be urbanised in the future, making integration easier without the need for substantial additional public infrastructure funding or amenity investments.

Note, given the R2 Growth Cell covers an extensive area, Property Economics has identified three starting points for the 20-minute active mode catchment overview rather than single point to better identify its access benefits. The amenity count is not intended to represent an exhaustive list of facilities within each catchment, but some of the more important / frequently required amenities.

FIGURE 5: EXISTING AMENITIES WITHIN 20-MINUTE WALKING & CYCLING CATCHMENTS



Source: Open Route Service, Google Maps, LINZ, Property Economics. Note that Cycling and walking catchments are generated via the Open Route Service considering existing road infrastructure.

RESIDENTIAL AND SMALL RETAIL / COMMERCIAL DEVELOPMENT IMPACTS

As mentioned earlier, the R2 Growth Cell has been identified as suitable for future urbanisation in the 2020 Strategic Agreement on Future Urban Boundaries. This suitability is also illustrated in the Spatial Plan, where the R2 Growth Cell is identified as part of the “Eastern Corridor” of the Metro Area, with a net target density ranging from 30 to 50 dwellings per ha. This indicates that the proposed residential development within the R2 land aligns with the anticipated expansion of the Metro Area’s urban footprint, contributing positively to the overall residential growth of the area.

Furthermore, the most recent (2023) Future Proof HBA⁹ anticipates a shortfall of 2,000 to 3,000 dwellings in Hamilton City over the short term, depending on the scenario. This shortage is expected to escalate to 2,800 to 4,500 dwellings over the medium term and reach up to 8,200 dwellings over the long term. This forecast indicates that the proposed R2 development, with a focus on providing additional residential capacity would be an important contributor to the necessary supply pipeline required to accommodate growth over the next 30 years to accommodate the projected growth.

From an economic standpoint, the reduced residential land capacity¹⁰ resulting from the proposed industrial development (or opportunity cost) would be more than offset by the significant economic benefits attributable to the industrial land provision and the benefits it brings the local economy.

The proposed Local Centre is relatively small in scale (i.e., 2ha) and is pitched to primarily serve the local community, local employs and businesses, and the rural area to the further east of the land.

Importantly, concerning the future development of identified greenfield growth areas, both the Spatial Plan and the Draft FDS emphasises that *“providing access to local employment and educational opportunities and delivering green spaces and community facilities will be important when planning for development in greenfield growth areas”*¹¹.

Essentially, this indicates that the proposed mix of activities within the R2 land is not only appropriate and anticipated but also aligns with the objective of better facilitating the employment and amenity demands of local communities in the area.

Considering the above economic factors, in Property Economics view, both residential and small retail / commercial land uses within the R2 land are appropriate from an economic perspective. For the purpose of this Economic Memo, other economic implications of these proposed land uses (such as sustainable land provision and the appropriate range of activities / type of businesses) are not assessed.

⁹ NPS-UD Housing Development Capacity Assessment for Future Proof Partners, 17 November 2023

¹⁰ Note that this does not necessarily mean a reduction in the expected yield within the R2 land; it will depend on the density. A density exceeding the anticipated net density of 30-50 dwellings per hectare would offset or partially offset the decrease, making this opportunity cost negligible.

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ECONOMIC COSTS AND BENEFITS SYNOPSIS

Development of the R2 Growth Cell would generate a range of potential economic costs and benefits. The following provides an overview of the high-level economic costs and benefits of R2's development.

Economic Benefits

- More certain pathway for required additional industrial land supply for Future Proof.
- Improved land use efficiency of future urbanised land.
- Increased local industrial employment opportunities and greater economic profile.
- Enablement of economies of scale and business agglomeration effects.
- Reduction in marginal cost of infrastructure provision.
- Potential for easing of industrial land price growth rates.
- Increased localised economic activity in the localised area and the wider Hamilton.
- Greater potential for industrial employment retention within Hamilton.
- Mitigation of reverse sensitivity effects by containing the activities within a defined area.
- Increased opportunity for industrial growth and new entrants.
- Increased housing capacity to accommodate anticipated demand (Residential only)
- Greater range of housing typologies, price points and locations (Residential only)
- More affordable housing (Residential only)
- Increased amenities for local community

Economic Costs

- Loss of LUC¹² Class 2 & 3 soil – This would be a minor cost, particularly in light of the anticipated (while not zoned) urban land use identified in Council's planning document such as the Spatial Plan.
- Additional infrastructure investment and servicing requirements – These capital costs are likely to be mitigated, at least in part, through either developer contributions or the level at which the developer provides the infrastructure itself. The existing infrastructure in this location also mitigates future public sector infrastructure investment requirements.
- Impact on existing residential / industrial zoned areas - The robust market growth of Hamilton and the wider Future Proof area in recent years indicates that any minor impact on other established residential / industrial areas would not be substantial and can be

¹² NZLRI Land Use Capability Classification

adequately mitigated by the overall market opportunity and increasing demand within the local market. R2 would enhance the overall demand profile, rather than merely redistributing the existing market demand.

In Property Economics view, balancing all the economic considerations, development of the R2 Growth Cell has the potential to generate significantly more economic benefits for the Hamilton local and Future Proof economies and communities than economic costs.

CONCLUSION

Overall, Property Economics considers there is a notable level of doubt associated with the industrial land capacity outlined in the BDCA. This doubt, coupled with the higher-than-expected industrial growth in Hamilton and the wider Future Proof area, suggest that the sufficiency estimates presented in the BDCA are unreliable. Therefore, there is a real need to inject additional industrial land capacity into the supply pipeline in the short term given extended lead times required to bring industrial land to the market.

Based on our assessment of its locational attributes, the R2 Growth Cell is an appropriate and economically efficient location for industrial activities to accommodate a portion of the imminent shortfall in industrial zoned land. Simultaneously, it exhibits high accessibility to a diverse array of existing infrastructure, services, employment hubs, parks, and reserves through both passive and active transport modes. These attributes collectively position R2 as a suitable and highly efficient location for urbanisation.

From an economic standpoint, the proposed residential and commercial land uses are also deemed appropriate and are not anticipated to have adverse effects on the existing residential or commercial market. This is based on the anticipated land use mix within greenfield growth areas in the Metro Area, coupled with the expected significant shortfall of residential capacity in Hamilton over the short, medium, and long term.

The developers of R2 are in a position to move quickly to bring the land to market and therefore address land supply shortfalls in a timely manner. This can bring forward the economic benefits associated with R2.

Considering all economic factors, the R2 Growth Cell has the potential to provide more certainty in the market and generate significant net economic benefits for the local economy, communities, and the broader economy of Future Proof over the long term. Therefore, Property Economics lends support to the acceptance of CDL's submission from an economic perspective.

If you have any queries, please give me a call.

Kind Regards

Tim Heath

APPENDIX 1. INDUSTRIAL BUSINESS CLASSIFICATIONS

Property Economics utilises the 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) as guidance, whereby businesses are assigned an industry according to their predominant economic activity.

Industrial activities, in general, refer to land extensive activities, including part of the primary sector, largely raw material extraction industries such as mining and farming; the secondary sector, involving refining, construction, and manufacturing; and part of the tertiary sector, which involves distribution of manufactured goods. The employees work for the following sectors are considered an industrial sector employee:

- 10% of Agriculture, Forestry and Fishing
- 10% of Mining
- Manufacturing
- 30% Electricity, Gas, Water and Waste Services
- Construction
- Wholesale Trade
- Transport, Postal and Warehousing
- 40% Rental, Hiring and Real Estate Services