

PROPERTY **E**CONOMICS



CLIVE ROAD DEVELOPMENT

FAST TRACK ECONOMIC IMPACT

ASSESSMENT OVERVIEW

Client: Tomorrow Development Ltd

Project No: 52240

Date: September 2022



SCHEDULE

Code	Date	Information / Comments	Project Leader
52440.3	September 2022	Report	Phil Osborne

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1. CLIVE – HASTINGS

Property Economics have been asked to summarise the economic impacts that will flow from the application by Tomorrow Developments Limited (**TML**) for resource consent regarding the development and construction of 173 new residential dwellings on School Road, Clive in Hastings.

This economic impact overview relates to an application to have the proposal referred to the FastTrack process. The development is split in two land parcels divided School Road – a 6.37ha parcel and a 5.62ha parcel.

This economic impact assessment relates to a development comprising a total of 173 residential dwellings across both land parcels.

The economic impact estimates the total additional gross economic injection¹ (added Gross Domestic Product (GDP)) into the Hawkes Bay 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 Hawkes Bay Region will benefit economically). It also assesses the likely economic impacts upon aggregate Hawkes Bay 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

TML propose to develop 173 residential dwellings across two parcels of land on School Road, Clive in Hastings.

The direct impact on the Construction and Construction Services sectors associated with direct employment measure approximately 816 FTE years. Direct economic injection from construction and development phases equate to § 9(2)(b)(ii)

The total economic impact on business activity within Hawkes Bay as a result of the subject TML development over a 4-year period is estimated to be just over \$174m (NPV)³. In terms of employment multipliers⁴ this would contribute just over 780⁵ FTEs during the peak development and operation year within Hawkes Bay, with a total number of FTE years at just over 1,529 over the 4-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 Hawkes Bay 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 Hawkes Bay 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): 'residential construction', '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 Hawkes Bay. 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 Hawkes Bay 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 Hawkes Bay are based on the movement of resources (including labour) between other districts and regions.

Table 1 following outlines the resulting impacts on the Hawkes Bay economy as a result of the development under a FastTrack consenting timeframe.

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

3.2. TOTAL HAWKES BAY ECONOMIC ACTIVITY

TABLE 1: TOTAL GROSS HAWKES BAY ECONOMIC INJECTION (FASTTRACK)

	2021	2022	2023	2024	2025	Total
Direct Expenditure (\$m)						
Land	\$16.3					\$16.3
Demolition						
Earthworks / Civil Works			\$10.0	\$2.5		\$12.5
Civil Consultants		\$1.5	\$1.5			\$3.0
Levies				\$2.9	\$2.1	\$5.0
Infrastructure						
Total Development Costs (excl. land)		\$1.5	\$11.5	\$5.4	\$2.1	\$20.5
Construction				\$54.7	\$39.3	\$94.0
Total Construction and Development Costs (excl. Land)		\$1.5	\$11.5	\$60.1	\$41.4	\$114.5
Increased Local Spend*					\$1.8	\$1.8
§ 9(2)(b)(ii)						
Level 2 Multiplier Impacts						
Total Hawkes Bay Output NPV (48 sector multipliers)**		\$2.6	\$18.1	\$88.8	\$64.6	\$174.1
Employment (FTE Years)						
Development Employment		20	139	86	57	302
Construction Employment				492	428	920
Other Employment			21	204	82	307
Total Employment (FTE years)		20	160	782	567	1,529

Source: Property Economics

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

** The impacts on Hawkes Bay as a result of direct, indirect and induced activities.

The preceding table illustrates that the total impact on business activity within Hawkes Bay as a result of the development at Clive Road over a 4-year period is estimated to be just over \$174 million.

In terms of employment multipliers this would contribute 782⁷ jobs during the peak development and operation year within Hawkes Bay, with a total number of FTE years at approximately 1,529 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 HAWKES BAY ECONOMIC INJECTION (STANDARD)

	2021	2022	2023	2024	2025	2026	2027	Total
Direct Expenditure (\$m)								
Land	\$16.3							\$16.3
Demolition								
Earthworks / Civil Works					\$10.0	\$2.5		\$12.5
Civil Consultants				\$1.5	\$1.5			\$3.0
Levies						\$2.9	\$2.1	\$5.0
Infrastructure								
Total Development Costs (excl. land)				\$1.5	\$11.5	\$5.4	\$2.1	\$20.5
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Total Construction and Development Costs (excl. Land)				\$1.5	\$11.5	\$60.1	\$41.4	\$114.5
Increased Local Spend							\$1.8	\$1.8
s 9(2)(b)(ii)								
Level 2 Multiplier Impacts								
Total Hawkes Bay Output NPV (48 sector multipliers)				\$2.3	\$16.0	\$78.5	\$57.1	\$153.9
Employment (FTE Years)								
Development Employment				19	133	82	54	288
Construction Employment						469	403	872
Other Employment				0	20	194	78	292
Total Employment (FTE years)				19	153	745	535	1,452

Source: Property Economics

Table 2 illustrates a total contribution to GDP through to 2027 of nearly \$154m with just over 1,450 total job years created. The reasons for the material decrease from the FastTrack application include:

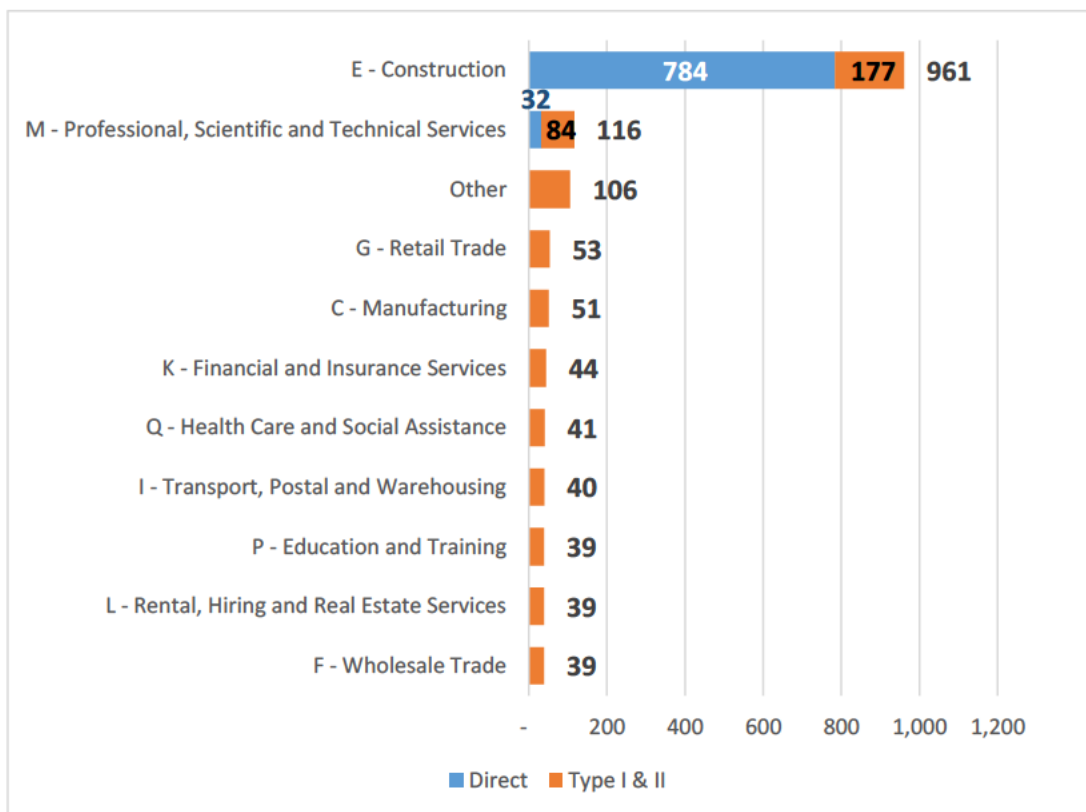
- The delayed time for development
- The application of Net Present Value (where \$1 early is worth more than the same \$1 a year later, the discount rate 6%)

3.3. TOTAL HAWKES BAY 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 816 FTE years with the remaining 713 resulting from indirect and induced activity.

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



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 173 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 120sqm) within the wider area is likely to have the impact on reducing counterfactual land values.

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. **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.
4. **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

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

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

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)(i)). Additional employment opportunities contribute positively to improving income levels of many households in the Hawkes Bay, and therefore improve the economic, social and cultural wellbeing of both current and future generations (s19(b) of the Act).

5. SUMMARY

Overall, TML's proposed Clive Road 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.

¹⁰ National Policy Statement on Urban Development 2022, Objective 2 and Policy 1(a)(i)