PROPERTY ECONOMICS

JOHNSONVILLE TOWN CENTRE

STAGE 1 DEVELOPMENT

ECONOMIC IMPACT OVERVIEW

Client: Stride Property Group

Project No: 52131

Date: December 2021

W: www.propertyeconomics.co.nz s 9(2)(a) P: 09 479 9311 PO: Box 315596, Silverdale 0944

SCHEDULE

Code	Date	Information / Comments	Project Leader
52131.9	Dec 2021	Report	Phil Osborne / Tim Heath

DISCLAIMER

This document has been completed, and services rendered at the request of, and for the purposes of Stride Property only.

Property Economics has taken every care to ensure the correctness and reliability of all the information, forecasts and opinions contained in this report. All data utilised in this report has been obtained by what Property Economics consider to be credible sources, and Property Economics has no reason to doubt its accuracy.

Property Economics shall not be liable for any adverse consequences of the client's decisions made in reliance of any report by Property Economics. It is the responsibility of all parties acting on information contained in this report to make their own enquiries to verify correctness.

COPYRIGHT

CONTACT DETAILS

Phil Osborne

s 9(2)(a)

s 9(2)(a)

Web: www.propertyeconomics.co.nz

1. JOHNSONVILLE STAGE 1 DEVELOPMENT

This economic impact overview relates to a fast-track consenting application for Stage 1 of a new mixed-use development in the Johnsonville Town Centre. The development is located on land between Johnsonville Road and Moorefield Road and predominantly encompasses the current Johnsonville Town Centre and land use activities south to Broderick Road.

Stage 1 of the Johnsonville Town Centre redevelopment comprises 6,390sqm GFA of residential apartments and around 20,550sqm of total commercial GFA - split 3,800sqm of loading and back of house amenities and 16,750sqm of commercial space[1].

The economic impact estimates the total additional gross economic injection (added Gross Domestic Product (**GDP**)) into the Wellington (City for the purposes of this assessment) economy brought about by the proposed development. The initial specifications and details have been provided by Stride Property (Stride) and represent the development's configuration and costings at this point in time.

It is important to note that this is a gross injection and is not site specific. It also assesses the likely economic impacts upon Wellington business activity given the composition of activities proposed.

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

[1] *Buchan November 2021*

The economic impacts likely to be experienced as a result of the anticipated development are broken down by the development phase which includes the construction costs (CAPEX[2]) of the development and the proportion of those costs that are retained within the City.

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] *CAPEX – Capital Expenditure*

2. EXECUTIVE SUMMARY

Stage 1 of the proposed development at Johnsonville and Moorefield Roads will result in development of 16,750sqm of commercial space (excluding loading and back of house amenity) and a further 6,390sqm of residential apartments. The direct economic injection of this development is likely to provide $380m and nearly 4,800 FTEs[3] over a 10-year period. In relation to the proposed FastTrack option, this in itself contributes an additional $50m and 600 FTEs over and above a standard consenting process.

Table 1 summarises the total economic impacts resulting from the development and construction of Stage 1 of the Johnsonville project. It also sets out the estimated direct employment FTEs attributable to each of these sectors.

TABLE 1: TOTAL AND DIRECT ECONOMIC AND EMPLOYMENT IMPACTS SUMMARY

($m)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Total Wellington Output		$55.5	$57.9	$61.3	$64.2	$62.8	$19.2	$17.4	$15.7	$14.1	$12.7	$380.7
Development Employment		99	125	121	97	44	0	0	0			
Construction Employment		392	368	346	318	305	0	0	0	0	0	
Net Displaced Employment		*-100*	*-100*	*-80*	*-80*	*40*	*40*	*40*	*40*	*40*	*40*	
Net Total Employment (FTE)		582	739	774	779	831	272	241	215	190	170	4,793
Direct Employment												
Direct Development		62	78	75	61	28						
Direct Construction		221	207	195	179	172						
Direct Total (FTE)		412	508	516	493	454	98	85	74	63	55	

In terms of the on-site net employment position, there is an estimated net loss of 120 job years over the 10-year period due to the short-term closure of businesses on the site while construction of the new development takes place. However, when construction and development employment is taken into account this comfortably offsets this short term loss.

This is based on a short-term partial displacement of 140 on-site FTEs (which equates to a net loss of 100 FTEs regionally as some of these existing jobs will be relocated). This is balanced against a longer term on-site net gain of 60 FTEs (which equates to an additional 40 FTEs regionally) once the development is completed.

This means overall there are currently around 140 FTEs working on the subject site. Most of these will be lost during the construction period (albeit offset by direct and indirect construction employment as identified in Table 1), but a total of around 200 FTEs working from the site once the Stage 1 development is completed.

The timing around the redevelopment of these spaces is also crucial in the current market. The impact of COVID-19 and subsequent variants has resulted in a higher than normal vacancy rate

[3] *FTE (Full Time Equivalent) for the purposes of this analysis is comparable to an EC*

in the existing retail and commercial spaces. The older premises has also resulted in decreasing competitiveness both within the city and regionally.

The proposed redevelopment comes at a time where anticipation from existing stores is high, with these stores increasingly relying on the redevelopment to remain competitive. This is coupled with the development of affordable apartments within a market that is experiencing significant price increases and a continued undersupply of compact and accessible residential product.

Overall, the Johnsonville Stage 1 development is likely to provide significant economic impetus to the local market while providing improved competitiveness and amenity. It would also be a catalyst development for ongoing development of Johnsonville in the future.

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 (2016 based on 106 sectors), which were then assessed at a district level based on Wellington City economic activity, composition and productivities.

This estimates the 'leakage' from the city economy (within specified sectors) based on regional input output tables, and therefore the overall city 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 Wellington City economy 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 data[4] to March 2020.

5. This report deals with the economic impact of proposed development on Wellington. 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 city. 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 Wellington are based on standardised labour movements as well as employment, depicted in Tables 2, and production composition within the Region/District. The amount of each 'flow-on' dollar retained in Wellington are based on the movement of resources (including labour) between other districts and regions.

TABLE 2: REGIONAL AND CITY RELATIVE EMPLOYMENT RATIOS

ANSIC (2020)	Total Employment			Relative Employment Ratios	
	Wellington City	Wellington Region	New Zealand	Wellington City	Wellington Region
A Agriculture, Forestry and Fishing	80	3300	120,800	0.01	0.23
B Mining	210	390	5,700	0.53	0.59
C Manufacturing	3,900	13200	235,200	0.24	0.48
D Electricity, Gas, Water and Waste Services	1,100	2050	18,900	0.84	0.93
E Construction	5,700	17300	183,300	0.45	0.81
F Wholesale Trade	3,700	8100	116,700	0.46	0.60
G Retail Trade	9,100	22100	221,500	0.59	0.86
H Accommodation and Food Services	12,400	20100	174,300	1.02	0.99
I Transport, Postal and Warehousing	5,600	8300	98,500	0.82	0.72
J Information Media and Telecommunications	4,000	4750	32,200	1.79	1.27
K Financial and Insurance Services	9,400	11000	58,100	2.33	1.63
L Rental, Hiring and Real Estate Services	1,550	3000	34,900	0.64	0.74
M Professional, Scientific and Technical Services	26,400	32900	189,000	2.01	1.50
N Administrative and Support Services	8,000	13100	123,500	0.93	0.91
O Public Administration and Safety	32,900	40200	137,300	3.45	2.52
P Education and Training	12,900	24800	195,600	0.95	1.09
Q Health Care and Social Assistance	14,000	29000	250,100	0.81	1.00
R Arts and Recreation Services	4,150	6200	44,600	1.34	1.20
S Other Services	5,800	9700	76,600	1.09	1.09

Source: Stats NZ

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

Table 2 illustrates the clear, relative, focus of Wellington City economic activity directed towards the professional and service sectors (also observed at a regional level). This composition contributes to the potential retention of economic activity generated, especially through the construction phase of the development.

Table 3 outlines the resulting impacts on the Wellington economy as a result of the development.

TABLE 3: TOTAL GROSS WELLINGTON ECONOMIC INJECTION (FAST TRACK)

($m)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Earthworks and Civil	s 9(2)(b)(ii)											
Consultants												
Levies												
Infrastructure												
Development Costs												
Construction												
Post Construction Costs												
Land												
Total Costs												
Operating Production (Non-Residential)												
OPEX (Plus Final Demand)												
Multiplier												
Total Wellington Output		$55.5	$57.9	$61.3	$64.2	$62.8	$19.2	$17.4	$15.7	$14.1	$12.7	$380.7
Development Employment		99	125	121	97	44	0	0	0			
Construction Employment		392	368	346	318	305	0	0	0	0	0	
Net Displaced Employment		*-100*	*-100*	*-80*	*-80*	*40*	*40*	*40*	*40*	*40*	*40*	
Net Total Employment		582	739	774	779	831	272	241	215	190	170	4,793

Source: Property Economics

The preceding table illustrates that the total impact on business activity within Wellington as a result of Stage 1 of the Johnsonville Town Centre development over a 10-year period is estimated to be in the order of $380 million.

In terms of employment multipliers this would contribute over 830 [5] net additional jobs during the peak construction years within Wellington, with a total number of FTEs at nearly 4,800 over a 10-year period.

In terms of the on-site net employment position, there is an estimated net loss of 120 job years over the 10-year period due to the short-term closure of businesses on the site while construction of the new development takes place. However, when construction and development employment is taken into account this comfortably offsets this short term loss.

This is based on a short-term partial displacement of 140 on-site FTEs (which equates to a net loss of 100 FTEs regionally as some of these existing jobs will be relocated). This is balanced

[5] *NB These are all jobs created through the direct total construction and post construction phases including indirect and induced employment through all business sectors (not solely construction jobs).*

against a longer term on-site net gain of 60 FTEs (which equates to an additional 40 FTEs regionally) once the development is completed.

The following table outlines the potential distribution of costs and timeframes based on a standard consent procedure. The fundamental differences here are not only the extended consenting timeframe but the fact that the applicant is more likely to apply for staged consents on a slower basis.

A potential consideration in terms of ongoing activity relates to the fact that the proposed commercial aspect of this development will replace a larger amount of business space. There are several economic considerations in relation to this including:

- The majority of the economic activity uniquely generating within Wellington City is through the development and construction itself
- The proposed commercial development represents a significantly improved quality and as such is likely to facilitate higher productivities
- With the accompanying residential development this is likely to provide greater levels of amenity for the local community.

TABLE 4: TOTAL GROSS WELLINGTON ECONOMIC INJECTION (STANDARD)

($m)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Earthworks and Civil	s 9(2)(b)(ii)											
Consultants												
Levies												
Infrastructure												
Development Costs												
Construction												
Post Construction Costs												
Land												
Total Costs												
Operating Production (Non-Residential)												
OPEX (Plus Final Demand)												
Multiplier												
Total Wellington Output		$0.0	$0.0	$33 2	$55.0	$67.0	$65.3	$40 2	$35.8	$16.0	$14.4	$327.0
Development Employment		0	0	97	126	123	97	0	0	0	0	
Construction Employment		0	0	173	318	407	386	145	145	0	0	
Total Employment		0	0	409	799	933	874	506	433	185	160	4,300

Source: Property Economics

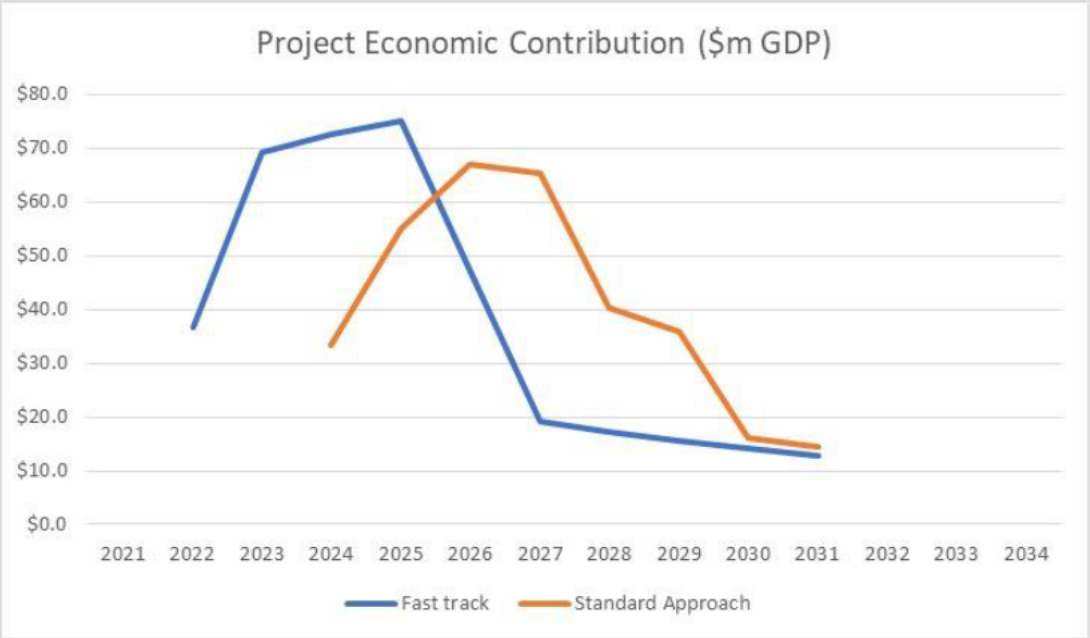
The table illustrates a total contribution to GDP through to 2031 of $327m with 4,300 total jobs created. The reasons for the significant decrease from the FastTrack application include:

- The longer time for development and therefore lower sell down rate
- The application of Net Present Value (where $1 early is worth more than the same $1 a year later, the discount rate 6%)
- The potential continuation of operational activity (the existing Johnsonville Mall) has not been included in the standard assessment

- While the above point has not been considered, even at the new rate of operation the standard construction contribution is s 9(2)(b)(ii) and 300 FTEs (equivalent) less over the 10-year period than the FastTrack option.

Figure 1 graphically illustrates the temporal economic contribution of each approach.

FIGURE 1: ECONOMIC CONTRIBUTION BY APPLICATION



4. OTHER ECONOMIC POTENTIAL BENEFITS

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

Economic Benefits:

1. Increased Dwelling Supply: The proposed development (at Stage 1 alone) has the ability to supply the market with an additional 6,390sqm of efficient higher density residential floorspace increasing capacity within a single master-planned area. This provides not only the ability for the area to improve its responsiveness to growth demands but itself facilitate further growth within the area with an increase in overall competitiveness.

   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 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 development is likely to reduce price pressure in the local and surrounding markets.

3. Greater Housing Choice: The development of a significant level of apartments offers with it the opportunity for a mix of residential options, increasing density rather than contributing to a more fragmented urban environment.

4. Decreased Marginal Infrastructure Costs: Once again the opportunity to masterplan an area has the potential to bring with it, economies of scale and lower marginal infrastructure costs. Additionally, the 'future provision and identification' of this area allows for the future proofing of the area and the community and private infrastructure requirements.

5. Impact on Current Employment Levels: While Covid-19 has had a less significant impact on the general economy than 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' sectors 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. Additionally, the development is likely to contribute to the retention of employment as well as disposable spend within the localised area.

5. SUMMARY

Overall, the project represents a significant opportunity for the city and local economies to protect, sustain and grow jobs and income, provide additional job opportunities and income, while also providing additional competitive residential opportunities and higher amenity shopping environment.

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 city economy.