Date: 14/11/2022

Memorandum

To: Jack Larsen

From: Greg Akehurst

Kieran McLean

Re: Summerset Rotorua: Fast Track Economic Impact Assessment

KEY POINTS

- We have assessed the construction of the Summerset Rotorua Retirement Village in terms of the potential value added and employment impacts using an economic impact model (IO).
- Based on the analysis, the development, under a fast track consent scenario, is projected to sustain a total of $121.4 million in value added and has a total projected employment impact of 1,819 job years across the duration of the development timeline.
- When the fast track scenario is compared to a scenario reflecting a standard Resource Management Act (RMA) consent process, the fast track scenario generates a total value added which is $11.3 million greater. However, there is not projected to be any difference in the employment impact, apart from the timing of the impacts.
- Current plans indicate that the village will provide 317 retirement units, contributing towards increasing housing supply to the Rotorua District.

Summerset Villages (Rotorua) Limited ("Summerset") are seeking a consent under the COVID-19 Recovery (Fast-track) Consenting Act 2020 to accelerate the development of a retirement village in Rotorua. Given some sectors of the Rotorua economy have been particularly hard hit by the effects of a COVID-19 driven downturn, granting fast tracked development status has the potential to be beneficial. Summerset has commissioned Market Economics to assess the economic effects of bringing forward the proposed project, to quantify the effect granting consent under the COVID-19 Recovery (Fast-track Consenting) Act will have.

The analysis considers the impacts of the development in terms of:

- Value added,
- Employment, and
- The differences between two scenarios which represent the development proceeding under a fast track consent or through a standard consenting process.

To assess the potential effects an economic impact model (IO) has been developed. The Summerset team have provided forecasted cashflow estimates and a development stage timeline under the fast track pathway, while the standard consent scenario is expected to have the same cashflows but with a 24 month delay to construction activity.

Approach

This analysis relies on an estimated cashflow analysis based on data provided by Summerset, in respect to their own forecast spending and the timing of that spending on earthworks, building construction, infrastructure, and construction services. That is, costs and timeframes to develop the land up to and including the completion of the retirement village units and facilities. This spending by Summerset is mostly directed to businesses within the Bay of Plenty region. Specifically, M.E have assumed that all construction related activity will be carried out by businesses within the Bay of Plenty region. M.E. have matched this planned spending to 48 economic sectors in an input-output (IO) model which has been customised for the Bay of Plenty economy (using a 2016 base year). The IO model provides projections of the value added and employment generated and sustained in the economy as a result of this additional activity. Value added arises through the spending, directly and indirectly, as the new activity flows on to other sectors of the economy and businesses pay wages and make profits. The links between the study area and the surrounding regions are also captured, showing the extent of the spread of the additional economic activity. This is important as it captures the purchase of raw materials from surrounding regions to support additional construction activity.

The IO model contains data on gross output for each sector and employment in Bay of Plenty. We are then able to then generate an annual average ratio of gross output per person employed in each sector in order to translate additional economic activity into additional employment – by sector. As the cashflow analysis provides spending detail based on a mix of costs per stage of the development and for construction, we have split the year into quarters for this analysis. By applying these ratios to the quarterly revenue each sector is forecast to receive from Summerset spending, M.E have estimated the count of jobs (by sector and approximate location) sustained each quarter as a result of the proposed development ("job years and quarters").

Summerset have provided forecasted cashflow by development stage, with time estimates under the fast track pathway. The development has a projected spend of s 9(2)(b)(ii) and is expected to run from 2023 till 2030. Both the fast track and standard consent scenarios are expected to deliver the same scale of development; however, the standard consent scenario is expected to be subject to a 24 month delay to the start of construction. Therefore, the scenario under the regular consent process, pushes back construction related cashflows by 2 years.

The analysis compares the value added and job years, sustained over time for each scenario. As the IO model uses 2016 as a base year, the projected spending inputs to the model are deflated to 2016 terms. From here, the IO model value added outputs are reinflated to present terms, while the employment outputs reflect the 2016 proportions of gross output per MEC without reinflation. The value added results are then discounted on a quarterly basis at an annual rate of 5%. Discounting is used to reflect the rate of time preference and the opportunity cost of capital, reflecting the present value of future benefits. In other words, economic activity that happens today is worth more to the community in terms of the wages and salaries paid and the overall

[1] s 9(2)(b)(ii)

economic activity, than the same activity happening in 2 years' time. The difference in value added between those two scenarios represents the benefits achieved under the Act.

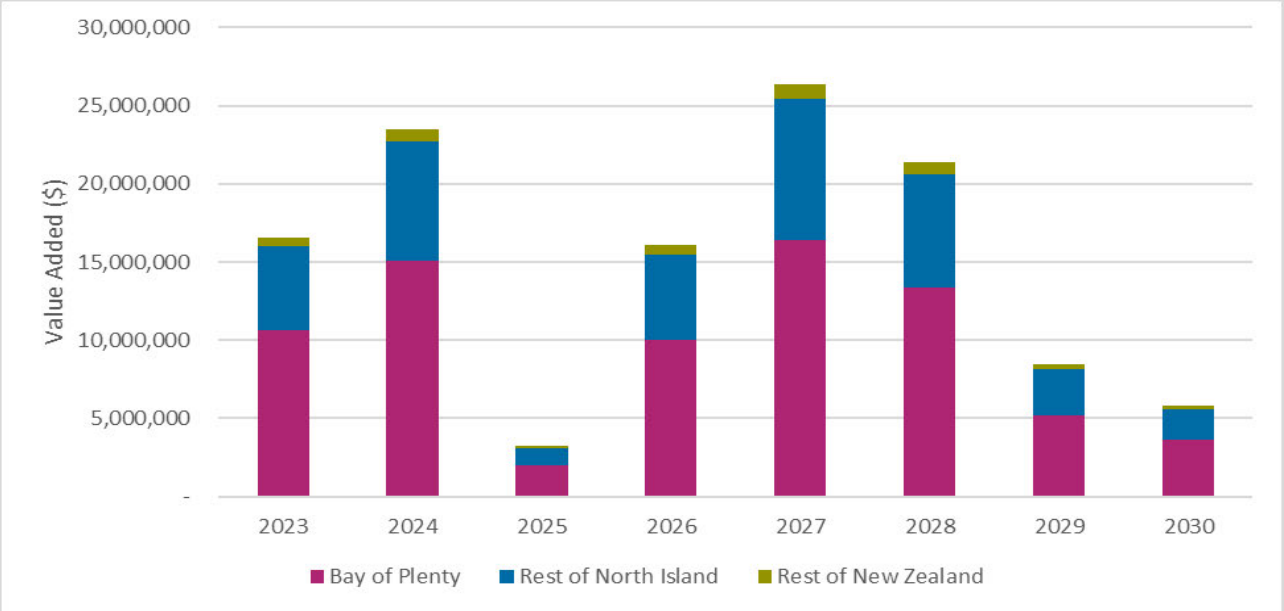
Contribution to GDP

The most appropriate measure of the economic impacts that occur in an area as a result of the development of a project such as proposed, is value added. Value added is effectively the contribution to GDP (less GST) that a project generates, as such it is the value of construction minus the intermediate costs to generate the construction (such things as the cost of building materials, consents, electricity, business services and imported goods). It captures wages and salaries paid, operating surpluses generated for owners, depreciation, and tax. In the construction sector it is equivalent to approximately 30% of total output.

Based on the IO modelling, under the fast track scenario, the cumulative value added from the present to completion of the project under this scenario, is projected to be around $121 million. As construction spending is directed towards the Bay of Plenty region, the majority of value added is directed towards the region for a total of $76.3 million. However, a significant proportion of the value added impact is received across the rest of the North Island and a small proportion to the rest of New Zealand.

Breaking the results down annually, in 2023, the fast tracked development could have created around $16.5 million in value added and $23.5 million in 2024 across civil construction and earthworks as well as the professional services sector as consent and design work is undertaken. While the impact falls in 2025 due a gap between civil construction and building construction, from 2026, the scale of retirement village building construction starts to increase, with annual value added reaching around $16.1 million for the year, before peaking at a projected value added of $26.4 million for 2027. As construction moves past its peak stages, the value added is $21.4 million in 2028 followed by $8.4 million in 2029 and $5.8 million in 2030 over the final two years. The development as proposed would create an estimated $10.0 million value added per year, on average, if approved by fast track consent.

Figure 1: Annual Total Value Added Impact by Region - Fast Track Scenario



Contribution to Employment

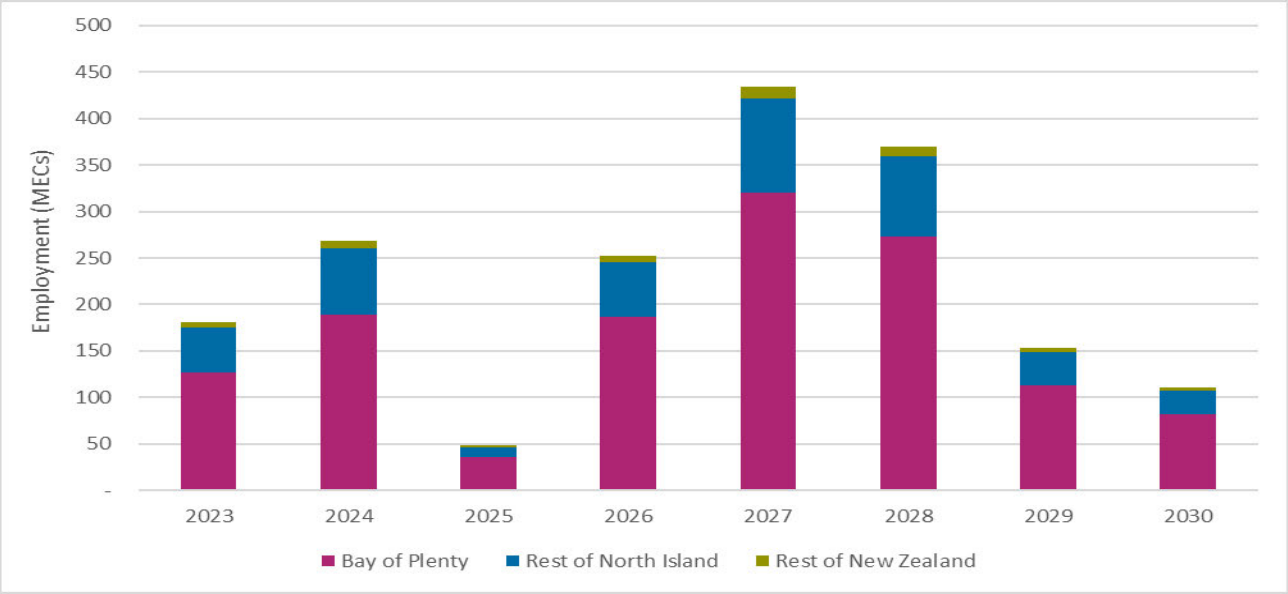
Under the fast track scenario, sustained employment begins in 2023 and is completed by 2030. Based on the IO modelling, the total employment impact of the project under the fast track scenario is projected to sustain the equivalent of 1,819 Full Time Equivalent (FTE) workers working for one year. For all activity, an assumption is applied that costs are averaged out across each development stage. In reality, this is unlikely to be linear,

altering the timing of spend and the subsequent employment impact, however, the overall amounts would be the same.

In 2023, the fast tracked development will directly sustain approximately 181 Full time equivalent jobs (for a year). By 2027, this total is projected to peak at 434 as the level of activity is at its highest. The yearly employment impact increases over time as residential and retirement village construction takes place, contributing the most between 2026 and 2028. Across the development timeline 227 job years are sustained per year, on average.

While all the direct impacts are assumed to occur in the Bay of Plenty region, the wider impacts of the proposed development will have effects reaching the rest of the North Island and the rest of New Zealand.

Figure 2: Annual Total Employment Impact by Region - Fast Track Scenario



Fast Track Benefits

When the indirect impacts of the two scenarios are compared, differences arise based on the timing of benefits. Due to the discounting of future activity, value added is greater under the fast track consent scenario. In total, in current dollar terms, the fast track development pathway generates approximately $11.3m more in total value added (GDP) than the traditional RMA consenting pathway ($110.1 million). As there is no difference in the scale of the development and the level of spending between the two scenarios, both have total employment impacts of 1,819.

Table 1: Comparison of Total Impacts between Consent Scenarios

	Fast Track Consent Scenario	Standard Consent Scenario	Difference
Total Value Added ($m)			
Bay of Plenty	$ 76.3	$ 69.2	$ 7.1
Rest of North Island	$ 40.7	$ 36.9	$ 3.8
Rest of New Zealand	$ 4.3	$ 3.9	$ 0.4
Total	**$ 121.4**	**$ 110.1**	**$ 11.3**
Total Employment (MECs)			
Bay of Plenty	1,325	1,325	-
Rest of North Island	439	439	-
Rest of New Zealand	54	54	-
Total	**1,819**	**1,819**	**-**

Housing Supply

The population of Rotorua is projected to keep growing and new housing is required to keep up with this growth in numbers and needs to keep pace with changes to the characteristics of this population. Of particular importance is the significant growth in retirement ages. In Rotorua, people over 65 years will grow from 14% of the population in 2018 to 22% by 2043 under the StatsNZ medium growth projection. This age cohort in Rotorua increases by around 77% in size, with a further 8,200 people over 65 years from 2018 to 2043. This means that not only is more housing required, but it must also cater for a population which is older.

Construction of the development as proposed will provide 317 retirement units across different care levels. The provision of retirement units through the village will have the consequential effect of making available an amount of the existing housing stock, as residents move into the village. Not only does this help address the needs of an aging population, but it also has the benefit in boosting housing supply, with consequential positive effects on housing affordability through increasing overall housing stock. Overall, M.E consider that the anticipated economic and social benefits of the proposed net increase in residential dwelling capacity is likely to outweigh the anticipated economic and social costs. On that basis, a fast track consent is the most efficient approach to achieve the intended development outcome.

Concluding Remarks

The proposed construction of the Summerset retirement village in Rotorua is expected to positively contribute to the future economic and social wellbeing of the Bay of Plenty region, and through flow on effects, other areas of New Zealand. As discussed, the proposed development project will result in economic benefits for an economy significantly affected by COVID-19 and will assist in sustaining the construction sector (and many other sectors) within the Bay of Plenty region (including upstream suppliers) suffering as a direct and indirect result of a downturn in economic activity and the uncertainty of the economic climate. Furthermore, once built, the ongoing operation of the retirement village will also create ongoing value added and employment impacts.

The benefit of the fast track consent pathway is clear. It means that a large number of local jobs can be sustained in the short-term future, with the subdivision construction expected to begin in 2023, 24 months sooner that could be likely under a standard consent approach. Numerically, providing consent under the COVID-19 fast track pathway for this development generates a net additional value added contribution of approximately $11.3 million in current dollar terms, that is over and above the scenario reflecting a standard RMA development timeline.

Yours sincerely,

Greg Akehurst Kieran McLean