

Economic Assessment of:
Apartment Development, 6
The Strand, Takapuna

PREPARED FOR
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P: 09 963 8776

5b Crummer Road, Ponsonby, Auckland

s 9(2)(a)

www.ue.co.nz



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1. Executive Summary

- As at the end of 2020, Auckland Region has an estimated undersupply of 44,530 - 56,530 dwellings. This is an increase over the past two years of 1,530 dwellings.
- Covid-19 has forced New Zealand's to in large part close its borders. Record high immigration has been replaced with near to zero immigration. This is likely to result in a decline in the number of houses demanded and thus constructed, and place considerable pressure on the construction sector over the coming years.
- It is estimated that the construction of the proposal would generate 140 Full Time Equivalent (FTE) jobs per annum in the construction industry over the life of the project, or a total of 420 FTE jobs.
- Once construction is completed the project provides employment across a range of industries. The proposal includes 100 serviced apartments, 195 private apartments and 2,500m² of commercial floorspace. This creates an estimate 2 FTE jobs in the real estate management industry and 6 FTE jobs in the cleaning services industry.
- Commercial floorspace at grade may be tenanted by businesses in a range of industries. While tenancies have not been finalized at this stage, it is estimated that the majority of tenancies will be filled by jobs in hospitality and retail with the additional provision of a gym or medical centre. The proposal is estimated to create 63 FTE jobs between these industries per annum post-construction.
- The proposal effects many different components of GDP. The present value (PV) of the benefits of the proposal to GDP is ^{s 9(2)(b)(ii)} million and the PV of the costs of the proposal to GDP is ^{s 9(2)(b)(ii)} million. The Net Present Value (NPV) of the proposal is ^{s 9(2)(b)(ii)} million. The economic benefits outweigh the costs.
- The proposal produces 295 apartments in a high amenity location as part of a masterplanned development. Studies¹²³ have shown that high quality apartments designed with outlook onto natural environments can positively impact mental health. 6 - 10 The Strand overlooks Takapuna beach providing an outlook of a high-quality natural environment. This will provide a social benefit to residents.
- The proposal contributes to alleviating pressure from Auckland Region's severe and growing housing shortage.

¹ Tennesen CM, Cimprich B. Views to nature: effects on attention. *Journal of Environmental Psychology* 1995;15:77-85

² Wells NM. At Home with Nature: Effects of "Greenness" on Children's Cognitive Functioning. *Environment and Behaviour* 2000;32:775-95

³ Kaplan R. The nature of the view from home: psychological benefits. *Environment and Behaviour* 2001;33:507-42



2. Introduction

This report provides an economic and market commentary to support the possible fast-tracking of a Resource Consent application for a proposed residential development located at ■ - 10 The Strand, Takapuna.

2.1. The Proposal

The proposed development site is displayed in figure 2. It encompasses several properties outlined as follows:

- 1 Hurtsmere Road
- 7 Hurtsmere Road
- 11 Hurtsmere Road
- 2/15 Hurtsmere Road
- 2 The Strand
- 6 - 10 The Strand

The site is approximately 7,100m² of land zoned Metropolitan Centre Zone. The development has approximately 295 apartments spread across two buildings, and an additional 2,500m² of commercial floorspace at grade. The composition of these apartments is displayed in figure 1.

A market analysis report has been prepared by Urban Economics. This report concluded that a sale rate of 70 - 90 units per annum is achievable. If this sell-down rate eventuates, a sufficient portion of the development will be sold down that construction can begin within 6 - 12 months.

Figure 1: Proposed Apartment Development Composition

Type	Number of Apartments	Average Size (m ²)	Price Range (\$m)	Value (\$m)
Serviced Apartments	100	40	s 9(2)(b)(ii)	
Private Apartments	1 bed	30	80	
	2 bed	90	110	
	3 bed	75	140	
Total	295	-		

Source: Urban Economics, Moller Architects



Figure 2: Proposal Site



Source: Google Earth

3. Regional Housing Shortage

The Auckland regional housing market is currently experiencing an undersupply of dwellings. In 2018 this shortage was estimated at between 43,000 - 55,000 dwellings in independent estimates conducted by MBIE, Auckland Council and the Reserve Bank. The purpose of this section is to briefly examine the current level of the regional housing shortage. The following figure displays the code of compliance certificate (CCC) numbers issued over the 2018 - 2020 period and compares them to the Statistics NZ estimated population growth over that period. The key points to note are:

- Between 2018 - 2019, 9,150 CCCs were issued. During this time an estimated 8,890 new households moved to Auckland, resulting in a net annual surplus of 260 dwellings.
- This results in an accumulated shortage at the end of the 2019 year of 42,740 - 54,740 dwellings.
- Between 2019 - 2020, 10,980 CCCs were issued. During this time an estimated 12,770 new households moved to Auckland, resulting in a net annual shortage of 1,790 dwellings.
- This results in an accumulated shortage at the end of the 2020 year of 44,530 - 56,530 dwellings.
- While a small surplus was reported in the year ended 2019, less dwellings were completed in 2020 than demanded resulting in the shortage starting to build again. The region is currently still suffering from a severe undersupply of housing of 44,530 - 56,530 dwellings.



Figure 3: Auckland Regional Housing Shortage (2018 - 2020)

Year	CCCs Issued	Household Growth	Annual Surplus/ Shortage	Cumulative Shortage	
				Low	High
2019	9,150	8,890	260	42,740	54,740
2020	10,980	12,770	-1,790	44,530	56,530

Source: Statistics NZ, Auckland Council

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4. Impact of Covid 19

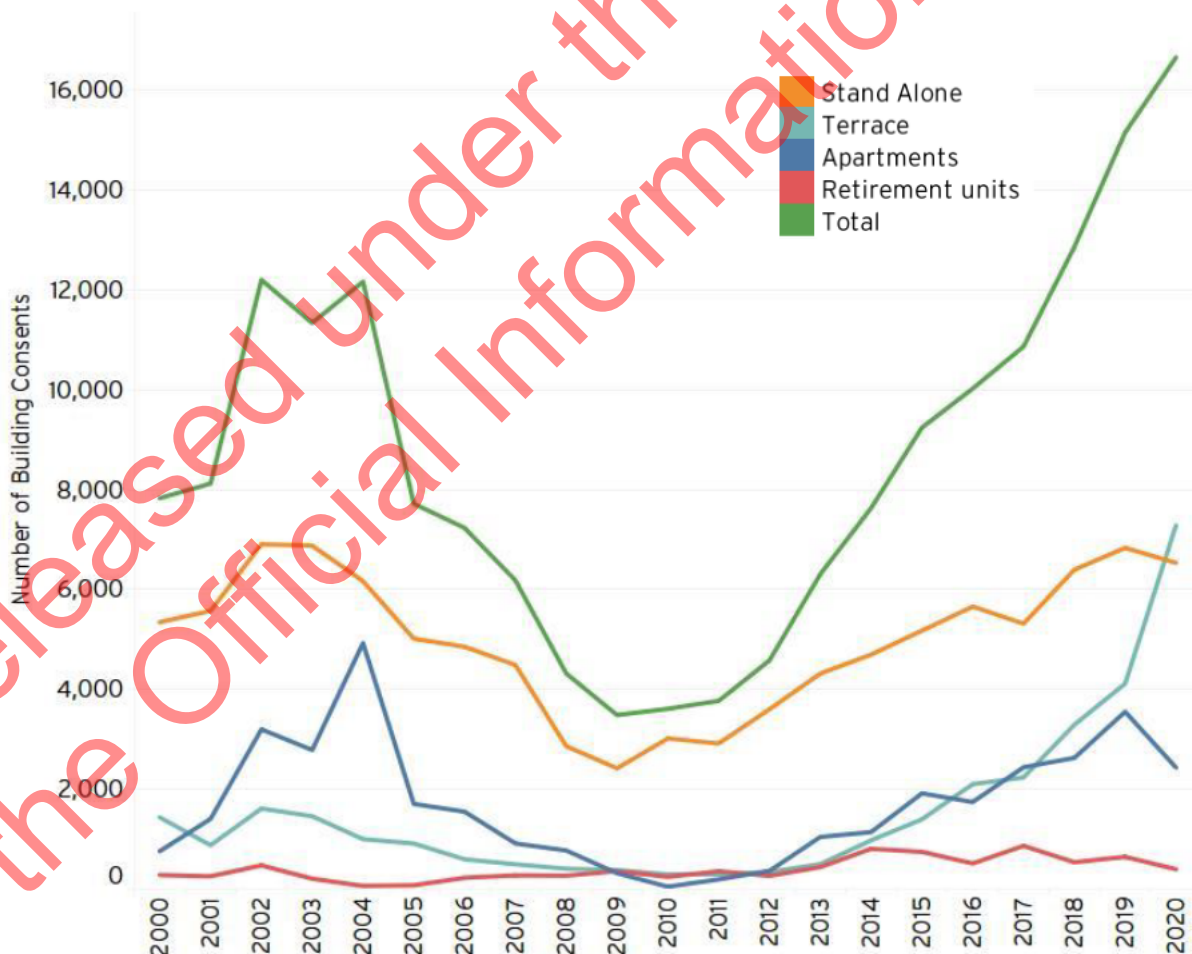
The COVID-19 Recovery (Fast-track Consenting) Act 2020 requires consideration of costs and benefits of those involved in the construction sector, as follows.

The project's economic benefits and costs for people or industries affected by COVID-19 (see section 19(a)).

Historically the construction sector has followed the wider economy closely. The global financial crisis of 2008 saw an accompanying drop off in new dwellings consented. As displayed in the following figure, recovery was also particularly slow. It wasn't until 2017 that building consents recovered to the previous peak of 12,000 consented dwellings per annum last seen in 2005.

Covid-19 has forced New Zealand's to in large part close its borders. Record high immigration has been replaced with near to zero immigration. This is likely to result in a decline in the number of houses demanded and thus constructed, and place considerable pressure on the construction sector over the coming years.

Figure ■ Building Consents by Product Type: Auckland Region (2000 - 2020)





4.1. Employment Contribution of Proposal

As shown in Figure 4.1 the project would create a considerable number of jobs within the construction, accommodation, cleaning, retail and medical industries. The national 'value added per employee' for each sector has been used to estimate the full time equivalent (FTE) employment for this project. The key points to note are:

- It is estimated that the construction of 6 - 10 The Strand would generate 42 FTE jobs in the construction industry over the life of the project. This number can be interpreted as the number of FTE jobs created on an annualized basis. i.e if construction takes three years and is split evenly between the years then 14 FTE jobs would be created in each year.
- Once construction is completed the project provides employment across a range of industries. The proposal includes 100 serviced apartments and 2,500m² of ground floor commercial floorspace creating jobs in property management and cleaning services. An additional 70 apartments are expected to be rented out based on market trends and the proposed size composition, creating more work for the property management industry. In total an estimated 2 FTE jobs in the real estate industry, and 6 FTE jobs in cleaning services per annum are created by the proposal post-construction.
- Commercial floorspace at grade may be tenanted by businesses in a range of industries. While tenancies have not been finalized at this stage, it is estimated that the majority of tenancies will be filled by jobs in hospitality and retail with the additional provision of a gym or medical centre. The proposal is estimated to create 63 FTE jobs between these industries per annum post-construction.
- The proposal displaces a number of existing buildings of mixed age, with most built between 1960s - 1980s. This results in a loss of an estimated 110 FTE jobs per annum.
- The proposal results in a net -39 FTE employees on an ongoing basis after the construction period has occurred. This is to be expected, as the proposal displaces retail and commercial floorspace with primarily apartment floorspace.
- It should be noted that there is sufficient vacancy at a local or regional property market level to absorb the estimated 110 FTE jobs displaced as a result of the proposal.

Figure 4.1 FTE Employee Estimates

	Industry	FTE Per Annum	Time Period
Benefits	Construction	140	2022 - 2024
	Real Estate	2	2025 - 2055
	Cleaning Services	6	2025 - 2055
	Hospitality & Retail	60	2025 - 2055
	Medical/Gym	3	2025 - 2055
Costs	Office & Retail	110	2025 - 2055
Ongoing Net Cost/Benefit		-39	2025 - 2055

Source: Statistics NZ, Urban Economics



Figure 9 shows the estimated national 'value added per FTE employee' for the construction industry⁴. These value added per employee figures are used to estimate the FTE employees created by the construction project expenditure outlined in Figure 8. Figure 9 shows that the construction sector has a \$18.5B contribution to national GDP and a workforce of 139,800 FTEs. This results in a value added of \$133,000 per FTE employee.

Figure 9 Industry GDP and Value Added per Employee

Industry	Contribution to GDP (\$m)	FTE Workers	Value Added Per Employee
Construction	\$18,540	139,800	\$133,000

Source: Statistics NZ, Urban Economics

5. Local Economy Impact of the Proposal

The following figure displays the estimated impact of the proposal on the local economy. The key points to note are:

- The proposal would result in the construction of 295 apartments and 2,500m² of retail and commercial floorspace over three years, at an estimated total cost of \$9(2)(b)(ii). This translates to a value-added figure per annum figure of \$9(2)(b)(ii) million to the construction industry or a present value (PV) of \$9(2)(b)(ii) million.
- After dwellings have been constructed, they provide accommodation services to new residents⁵. Based on a rental yield of 4% per annum, this is valued at \$9(2)(b)(ii) million per annum once all dwellings are built, or a PV of \$9(2)(b)(ii) million over the next thirty years.
- After commercial floorspace has been constructed it provides value over time to the businesses that choose to occupy that floorspace. Based on a rental yield of 5% per annum, this is valued at \$9(2)(b)(ii) million per annum once all floorspace is built, or a PV of \$9(2)(b)(ii) million over the next thirty years.
- New residents spend money across a wide array of sectors including but not limited to: retail trade, recreation, health services, utilities and education. The value added to these sectors as a result of the proposal is \$9(2)(b)(ii) million per annum or a PV of \$9(2)(b)(ii) million over the course of thirty years.
- It should be noted that estimates of the value of accommodation services over time and of the impact of spending in other sectors of the economy have been confined to that portion of the population expected to come from outside the Auckland Region. These values should

⁴ Figure 10 displays the contribution not GDP, FTE workers and Value Added Per Employee figures for the construction industry. Other industries similarly analysed include but are not limited to: retail, food and beverage operation, medical services, real estate rental services and cleaning services.

⁵ Only the proportion of growth applicable to migration from is included in estimates on the value of accommodation services and household expenditure in order to avoid double counting existing residents. This has been determined through examination of census migration data and reinforced through real estate agent interview answers on buyer origin.



therefore be seen as a net increase and not a displacement of spending occurring elsewhere in the Auckland Region.

- The proposal displaces a number of existing buildings of mixed age, currently used for office and retail uses, this carries an estimated value added of $\$9(2)(b)(ii)$ million per annum, or a NPV over 30 years of $\$9(2)(b)(ii)$ million.
- After the construction period, the proposal results in a net value added per annum figure of $\$9(2)(b)(ii)$ million or a net present value of $\$9(2)(b)(ii)$ million.
- The PV of the benefits of the proposal is $\$9(2)(b)(ii)$ million and the PV of the costs of the proposal is $\$9(2)(b)(ii)$ million. The Net Present Value (NPV) of the proposal is $\$9(2)(b)(ii)$ million. The economic benefits in other sectors of the economy significantly outweigh the cost to the existing office and retail floorspace provision.

Figure ■ GDP Value Added of the Proposal

		Category	Value Added per Annum (\$M)	Present Value (\$M)	Time Period
Benefits	Construction Period	Apartment and Commercial Floorspace Construction	$\$9(2)(b)(ii)$		2022 - 2024
		Commercial Floorspace Provision			2025 - 2055
	Ongoing Benefits	Household Expenditure Accomodation Services			2025 - 2055
Costs	Floorspace	Office & Retail Floorspace Provision			2022 - 2055
Ongoing Net Benefit/Cost					2022 - 2055
Net Present Value					-

Source: Statistics NZ, Urban Economics



6. Other Fast Track Assessment Considerations

The COVID-19 Recovery (Fast-track Consenting) Act 2020 requires several other economic considerations, which are addressed as follows.

The project's effect on the social and cultural well-being of current and future generations (see section 19(b)).

The proposed development would provide employment and a diverse range of housing types. In particular, the project would have a positive impact on the social and cultural well-being of current and future generations. The proposal produces 295 apartments in a high amenity location as part of a masterplanned development. Studies⁶⁷⁸ have shown that high quality apartments designed with outlook onto natural environments can positively impact mental health. The site overlooks Takapuna beach providing an outlook of a high-quality natural environment. This will provide a social benefit to residents. It is worth also noting that the provision of any additional housing will contribute to alleviating the current regional housing shortage of 44,530 - 56,530 dwellings, and the associated social and health costs borne by those who are adversely affected by the provision of substandard, or insufficient quantities of housing.

If applicable, whether the project may result in a public benefit by generating employment (see section 19(d)(i)).

As outlined above, the project would create an estimated 1,420 FTE jobs per annum, and 420 FTE total over the life of the project. These jobs would be in roading, construction, landscaping, planting, land surveying, administration and support services and other related activities. The project also creates a net -39 FTE jobs per annum directly once complete, this is more than offset by the \$1,420 million of value added per annum to regional and national GDP.

If applicable, whether the project may result in a public benefit by increasing housing supply (see section 19(d)(ii)).

The proposal would increase housing supply by supplying 295 new 1, 2- and 3-bedroom dwellings to the market which had a regional shortage of approximately 44,530 - 56,530 dwellings.

⁶ Tennessen CM, Cimprich B. Views to nature: effects on attention. *Journal of Environmental Psychology* 1995;15:77-85

⁷ Wells NM. At Home with Nature: Effects of "Greenness" on Children's Cognitive Functioning. *Environment and Behaviour* 2000;32:775-95

⁸ Kaplan R. The nature of the view from home: psychological benefits. *Environment and Behaviour* 2001;33:507-42



7. NPS-UD Assessment

The NPS-UD 2020 requires planning decisions to contribute to well-functioning urban environments, which are urban environments which have (or enable) housing that is of a range, type and price that meets demand (Policy 1).

The proposal helps to achieve the NPS-UD objectives as it increases the range of housing available to the market. As outlined above, the proposal would provide additional housing to the market which is currently undersupplied by approximately 44,530 - 56,530 dwellings at the regional level.

8. Conclusions

The proposal would provide a range of apartments to the market in a high amenity location. This would help alleviate pressure from Auckland's growing housing shortage and result in a net increase in construction sector output, with an additional 420 construction sector FTEs expected over the life of the project. As the proposal displaces existing office and retail premises with apartments, the proposal results in a net -39 FTE jobs per annum on an ongoing basis. This is more than offset however, by the estimated \$1■■■ million in value added to GDP per annum as a result of the proposal. The proposal has a net present value of \$274.2 million over 30 years. This can be viewed as the additional contribution to regional and national GDP from the proposal. This is an economic benefit. The proposal would have a positive impact on new resident's social wellbeing by providing high quality apartments with an outlook onto natural environments. This has been shown to have positive mental health effects.

The proposal has one minor economic cost and many economic benefits and is therefore recommended for approval.