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Brief Economic Assessment of Proposed Fast-Track Development in Christchurch

Prepared for:

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1. Introduction

1.1. Context and Purpose of Report

LMM Investments 2012 Limited owns a large tract of land in Spencerville, in the northeastern reaches of Christchurch City, which is currently zoned for rural purposes. To enable residential development to occur and bring the land to market as quickly as possible, LMM Investments 2012 Limited & Mike Greer Homes (the applicants) seek consent under the COVID-19 Recovery (Fast-track Consenting) Act 2020. To assist, this report briefly assesses the likely economic effects of the development, particularly its impacts on GDP, jobs, and incomes. In addition, this report briefly considers a range of wider economic effects of the proposal.

1.2. Structure of Report

The remainder of this report is structured as follows:

- **Section three** identifies the location of the proposal and profiles the proposed new residential lots created.
- **Section four** estimates the proposal's impacts on GDP, jobs, and wages, and
- **Section five** briefly describes other likely economic effects of the proposal.

1.3. Summary of Findings

The proposed development will create a significant uplift in jobs and incomes for the local workforce, particularly during house construction, while also generating a range of wider economic benefits. These include including helping land/dwelling supply keep pace with demand (and therefore helping to contain house price pressures), increased land market competition, providing a range of homes/sections to meet differing needs, enabling the highest and best use of the land, and providing a strong signal of investment confidence for the city. Accordingly, we support the proposal on economic grounds.

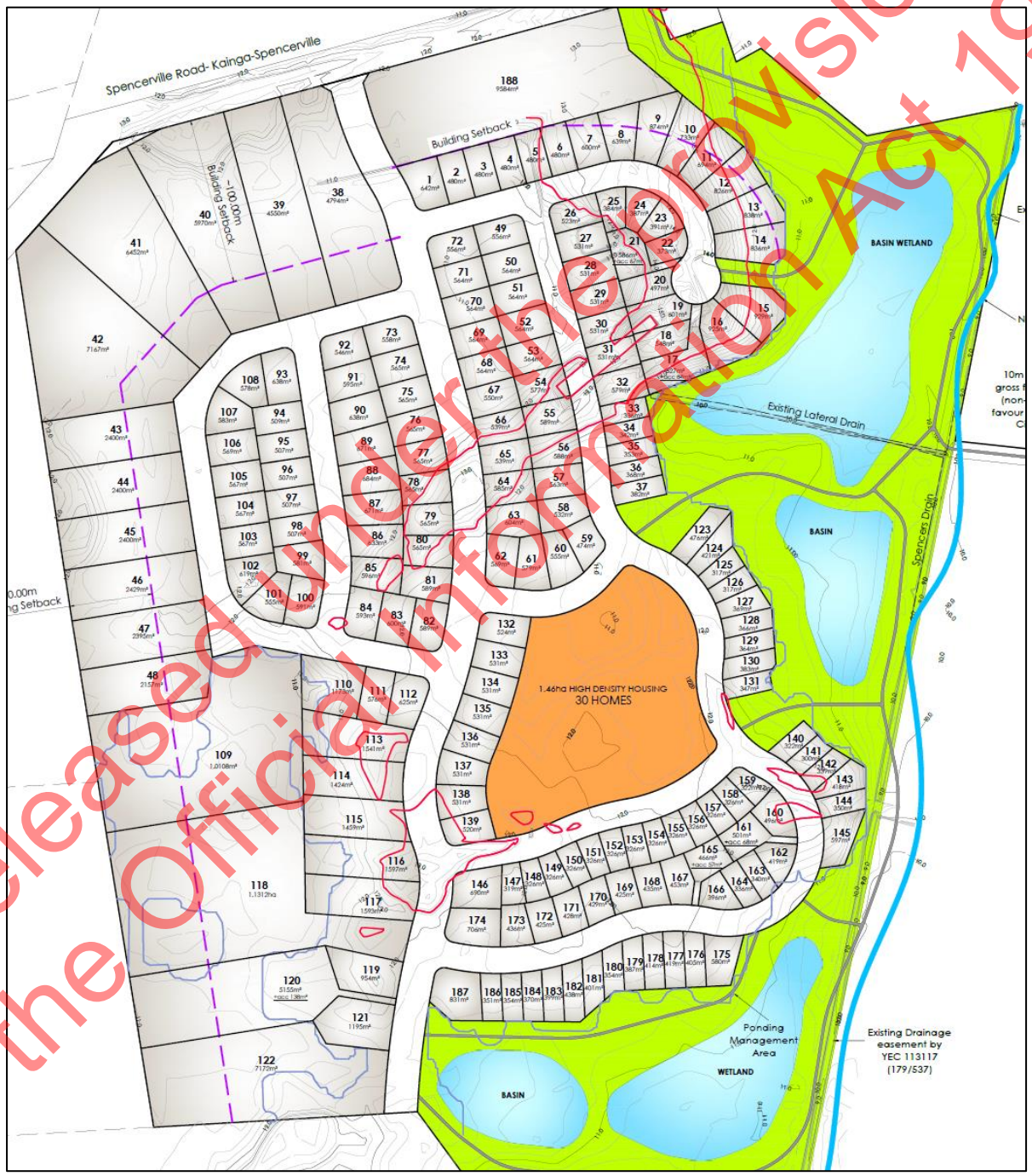
2. About the Proposal

This section briefly describes the proposed development for which Fast Track consent is sought.

2.1. Location and Description

The proposed development is located in Spencerville, in the north-eastern reaches of Christchurch City. The site itself is bound by Spencerville Road to the north, the Styx River to the south-east and rural/lifestyle land to the south and west. The diagram below illustrates the latest site plan.

Figure 1: Indicative Site Plan (10 November 2021)



2.2. Indicative Lot Sizes

As illustrated above, the proposal includes a wide range of section types. These include:

- 30 dwellings on a comprehensive development site of nearly 1.5 hectares;
- 50 smaller lots of 300m² to 400m², which are narrower to encourage duplex builds;
- 117 standard lots that range in size 400m² to 1200m²; and
- 20 large lots from 1400m² to 1.13ha, which provide a buffer to surrounding properties.

The figure below presents this information graphically. It assumes an average section size of less than 300m² for new lots created within the comprehensive development site.

Figure 2: Distribution of Lots by Size Bands

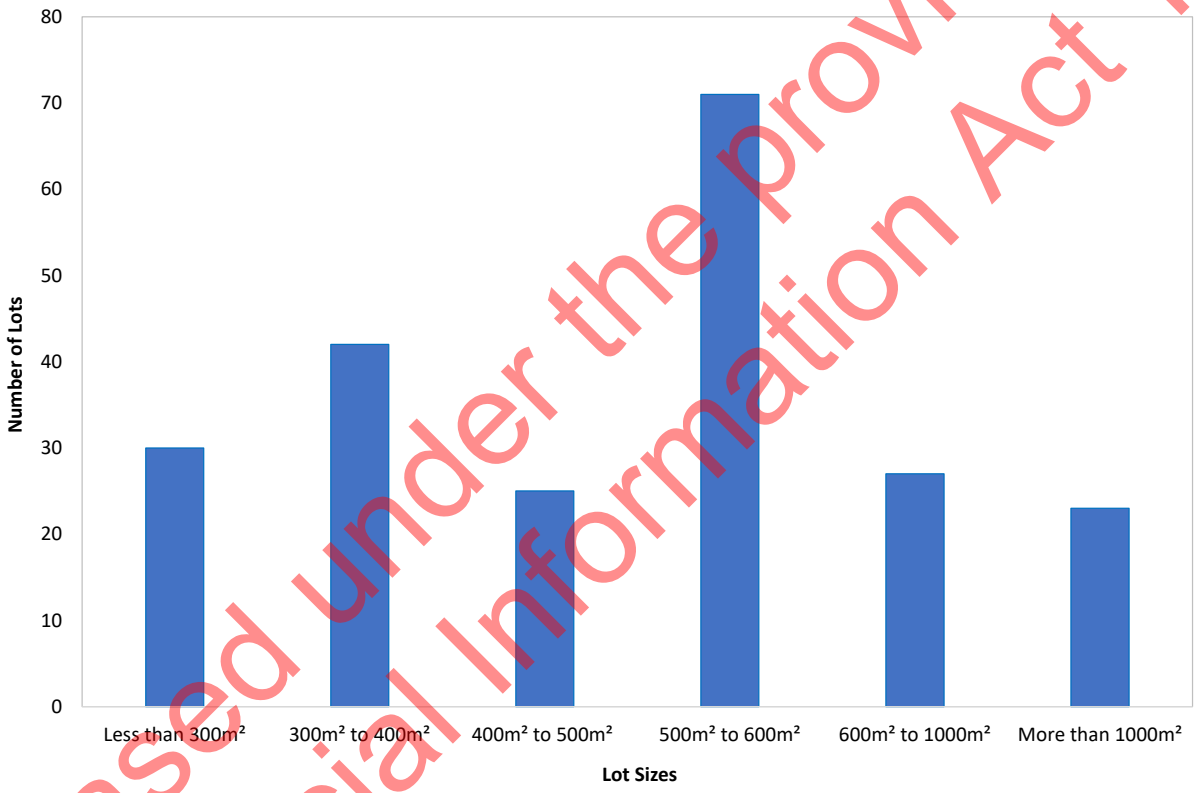


Figure 2 shows that the development will provide a wide range of lot sizes, including some smaller than 300m² in the comprehensive development area, and some greater than 1,000m² on the larger lots that buffer the site on its northern and western boundaries. Overall, however, the greatest concentration of lots is in the 500 to 600m² range, which appears to be the "sweet spot" for many of the residential developments across Greater Christchurch that we have recently worked on.

3. Impacts on GDP, Jobs, and Wages

This section describes the methodology used to estimate the development's economic impacts.

3.1. Overview

The process of developing the land, then planning for, designing, and constructing the various homes that comprise the proposal will employ a wide range of workers across the city and region, and generate millions in wages and salaries. We quantified the likely one-off economic impacts of this activity using a technique called multiplier analysis, which is based on detailed matrices called input-output tables. These describe the various supply chains that comprise each economy, and therefore enable the wider economic impacts of a change in one sector (or sectors) to be traced through to estimate the overall impacts, including flow-on (supply chain) effects. These economic effects are usually measured in terms of:

- **Contributions to value-added (or GDP).** GDP measures the difference between a firm's outputs and the value of its inputs (excluding wages and profits). It captures the value that a business adds to its inputs to produce its own outputs.
- **The number of people employed** – this is measured in terms of employment counts, which include both part-time and full-time workers.
- **Total wages and salaries** paid to workers, which are reported as 'household incomes.'

3.2. Methodology

We developed a land development and building construction model to capture the likely costs of the activities by stage, including planning/design/consent, land development, and building construction. Then, we overlaid those cost estimates with corresponding economic multipliers to derive the one-off impacts on GDP, incomes, and employment. In addition, we captured the impacts of future spending by people directly or indirectly employed by the process, to estimate the overall impacts of the development, including its flow-on effects.

3.3. Inputs and Assumptions

The applicant provided us with estimates of planning/design/consent costs, which totalled s 9(2)(b)(ii) plus land development costs, which were s 9(2)(b)(ii) These cover all costs required to ready the site for development, including onsite infrastructure, but exclude development contributions payable to Christchurch City Council.

To estimate likely building costs, we first grouped sections by size to estimate the likely size of new homes built on them. Then, we converted implied total residential GFA to an estimate of total residential construction costs using average build rates provided in consent data, which suggest an average of about s 9(2)(b)(ii) This results in a total build cost of just over s 9(2)(b)(ii) Table 1 presents our assumed dwelling sizes by section size band.

Table 1: Assumed Dwelling Sizes by Section Size

Section Size	No. of sections	Assumed FAR[1]	Avg. Land Area	Avg. GFA
Comprehensive development site	30	0.50	280	140
Up to 400m^2	42	0.45	350	155
400m^2 to 500m^2	25	0.40	445	180
500m^2 to 600m^2	71	0.35	555	195
600m^2 to 1000m^2	27	0.30	725	215
Over 1,000m^2	23	0.25	4,190	385
Total Development	**218**		**830**	**200**

3.4. Estimated National Economic Impacts

We combined the methodology and inputs/assumptions above to estimate the one-off national impacts of the proposal by key stage of the development. Table 2 presents the results.

Table 2: One-Off National Economic Impacts (spread over 2 to 3 years)

Planning/Design/Consent	**Direct**	**Indirect**	**Induced**	**Total**
GDP $m	$0.31	$0.15	$0.17	$0.63
Employment (People-years)	2.8	1.5	1.5	5.9
Household Incomes $m	$0.17	$0.08	$0.06	$0.30
Land Development/Infrastructure	**Direct**	**Indirect**	**Induced**	**Total**
GDP $m	$6.2	$8.2	$5.3	$19.7
Employment (People-years)	52	76	49	177
Household Incomes $m	$3.9	$4.0	$2.0	$9.9
House Construction	**Direct**	**Indirect**	**Induced**	**Total**
GDP $m	$26	$55	$28	$109
Employment (People-years)	302	555	258	1,115
Household Incomes $m	$14	$27	$11	$51
Development Totals	**Direct**	**Indirect**	**Induced**	**Total**
GDP $m	$32	$63	$34	$129
Employment (People-years)	357	633	308	1,298
Household Incomes $m	$18	$31	$13	$61

Including flow-on effects, over a two- or three-year period, we estimate that the various tasks associated with developing the land and constructing dwellings could have the following impacts:

- A one-time boost in national GDP of $129 million;
- Employment for 1,298 people-years (or 649 people employed full-time for 2 years); and
- Household incomes of $61 million.

While this economic stimulus is spread across the entire development lifecycle, house construction represents the most significant component overall.

[1] For sections larger than 1,000m2, we assumed a floor ratio of 0.25 up to a maximum dwelling size of 400m^2.

3.5. Direct & Indirect Full-Time Jobs by Project Stage

Below we set out the expected number of direct and indirect full-time jobs by project stage based on the results in Table 2, and assuming 0.9 FTEs per employee.[2]

- In 2022, about 2.6 direct FTE jobs will be created in the planning/design/consent stages, with a further 1.4 FTEs created indirectly in sectors that support planning/design/consent.

- In 2023, 47 direct FTE jobs will be created in the land development and local infrastructure stages, with a further 69 FTE jobs created indirectly in sectors that support earthworks and local infrastructure.

- In 2024, 271 direct FTE jobs will be created in house construction, with a further 500 FTE jobs created indirectly in sectors that support house construction.

3.6. Support for Covid-Affected Workers

Although New Zealand has done an outstanding job of stopping the spread of Covid-19 by entering lockdown earlier than most other countries, and has also benefitted from its isolated geography, the pandemic's economic effects have still been profound. While the proposed development is not a panacea for the economic woes foisted on the region by the pandemic, it will provide a strong, short-term demand for labour, some of which can potentially be filled by workers that have lost their jobs to Covid-19. Indeed, with construction expected to provide full-time employment for 649 kiwis for two years, it will provide a much-needed boost in short term employment.

[2] The ratio of 0.9 FTEs per worker was derived from detailed Australian data on employment for the construction industry, which we assume reflects New Zealand's workforce.

4. Wider Economic Effects of Proposal

This section briefly considers a range of wider economic effects of the proposal.

4.1. Boost in Residential Land Supply

The proposed development will provide a substantial, direct boost in the city's dwelling capacity, thereby helping to ensure that supply keeps pace with demand over time. This, in turn, will help the market to be more responsive to growth in demand, thereby reducing the rate at which city house prices grow over time (relative to the status quo).

This seems particularly important given the recent surge in city house prices, as demonstrated in the chart below (which incorporates the latest data NPSUD data to 30 September 2021).

Figure 3: Christchurch City Median Dwelling Prices (from NPSUD Data)

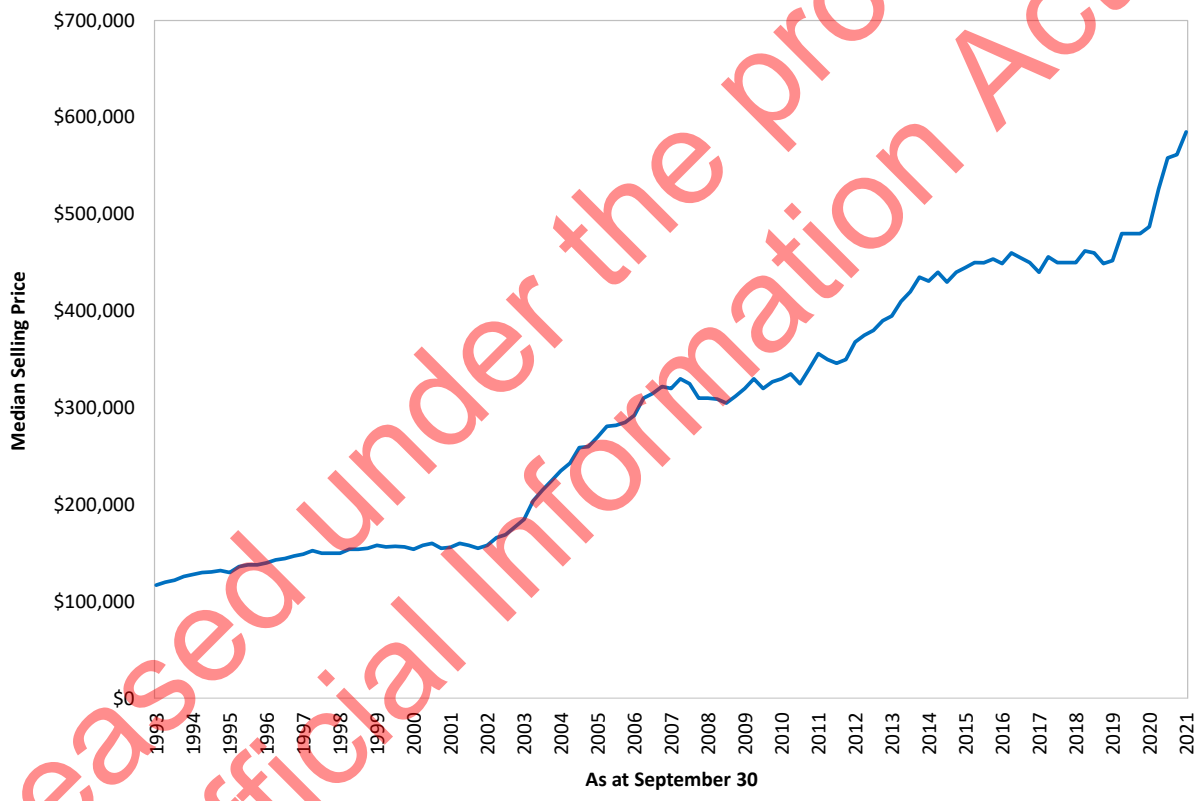


Figure 3 confirms that district dwelling prices have increased steadily over time, but that they recently shot up after a prolonged period of consolidation. In fact, they increased 20% over the 12 months ended 30 September 2021, which will be contributing to affordability issues.

4.2. Land Market Competition

In addition to directly boosting city dwelling capacity, the proposal will also help to foster competition in the local land market. This is important because, as recognised through objective 2 of the NPSUD, competition is the cornerstone of economic efficiency. When the land market becomes more competitive, land developers have a greater incentive to get their product to the

market in a more timely and cost-effective manner, thus further helping to keep district housing as affordable as possible.

Absent competition, landowners experience "market power", which enables them to charge more for land and be slower in releasing it to the market. Both outcomes conspire against affordability and reduce the overall efficiency of the housing market.

4.3. Providing for a Range of Dwelling Types

As noted earlier, the proposal also provides a wide range of section sizes, which in turn will enable a wide range of dwelling types and sizes to be constructed on the land over time. This diversity of end use helps the proposal further give effect to the NPSUD, particularly Policy 1, which requires planning decisions to contribute to well-functioning urban environments that provide a variety of homes to meet the needs of a diverse population.

4.4. Highest & Best Use of Land

The proposal will also enable the land to be put to its highest and best use, which is a precondition for economic efficiency to hold in the underlying land market.

4.5. Investment Signal Effects

Finally, we note that the development will provide a strong signal of confidence in the city's economy, which may help spur on, accelerate, or bring forward other developments.