The Hill, Ellerslie

Economic Impact Assessment

14 September 2023

m.e consulting

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Prepared for

Fletcher Residential Limited

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Executive Summary

Fletcher Residential Limited (FRL) have applied for a Fast-track consent to accelerate the development of a multi-stage residential development on a section of the Ellerslie Racecourse site. In addition to bringing forward the development of residential dwellings in Auckland, the project helps sustain construction jobs. Given Auckland has been particularly hard hit by the effects of a COVID-19 driven downturn in tourism, this has the potential to be beneficial. An assessment was previously provided for a fast track application. This assessment has been updated to address the relevant matters for a plan change to the same area of land, in order to accommodate the development envisaged in the resource consent.

The development site is located within a section on the eastern side of the racecourse, within the Auckland suburb of Ellerslie. The site was formerly used for steeplechasing and is no longer required by ATR. The development site is referred to as The Hill. The proposed development provides a mixture of detached houses, terrace houses and apartment buildings which results in approximately 370 dwellings.

To assess the potential effects, an economic impact model (IO) has been developed. Tattico Limited has forwarded forecasted cashflows from Fletcher Residential Limited by development stage with time estimates under the Fast-track pathway, while the alternate plan change consent scenario is expected to have the same cashflows but with the addition of extra consenting costs and a delay to construction of 3 years. As the purpose of this report is focused on the impact of the development proceeding with a plan change, only the results of the plan change scenario are considered. A plan change process will see the main construction phases commencing in 2027 and running through to 2030.

Results

Project Granted Plan Change											
	Total	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Direct Spend ($m)	$ 296	$ -	$ 1.8	$ 2.5	$ -	$ -	$ 6.0	$ 48.2	$ 113.0	$ 98.1	$ 26.5
Direct Value Added ($m)	$ 55.2	$ -	$ 0.9	$ 1.2	$ -	$ -	$ 1.2	$ 9.3	$ 20.9	$ 17.2	$ 4.4
Direct Employment (MECs)	1,083	-	13	18	-	-	21	174	408	354	95
Total Value Added ($m)	$ 218.6	$ -	$ 2.3	$ 2.9	$ -	$ -	$ 4.9	$ 37.6	$ 83.8	$ 69.3	$ 17.8
Total Employment Sustained	3,278	-	26	35	-	-	66	532	1,246	1,082	292

Contribution to GDP

Fletcher Residential Limited (FRL) is expecting a sum of $300m (excluding GST) is required to carry out the development over the next 7 years. Under the plan change scenario, the cumulative **direct value added** from the present to completion of the project is projected to be around **$55.2 million**.

Based on the IO modelling, the development will stimulate a total of $218.6 million of direct plus indirect and induced value added (GDP).

Contribution to Employment

In 2026, the plan change scenario for the development will directly sustain employment of approximately 21 MECs (for the year) in the construction sector when construction of stage 1a and 1b begin (see Figure 1 below) and this is expected to peak at 408 in 2028. In total the development proposed could directly sustain a cumulative total of around 1,052 MEC's (for a year) by completion in 2030, under the plan change scenario. The Direct jobs are assumed to be sustained in the Auckland Region.

The plan change scenario is projected to sustain the equivalent of 3,278 MECs working for one year, once the indirect and induced effects are added. While all the direct impacts are assumed to occur in the Auckland region, the indirect impact of the proposed development will have effects reaching the rest of the North Island and the rest of New Zealand.

Figure 1: Employment sustained by sector under Plan Change: 2024-2030 (MECs)

Economic Sector	2024	2025	2026	2027	2028	2029	2030	Total Job years
Direct Employment (MECs)								
Construction	0.0	0.0	21.5	174.0	407.7	353.9	95.4	1,052
Professional Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
Total Direct (FTEs)	***0***	***0***	***21***	***174***	***408***	***354***	***95***	***1,052***
Direct, Indirect and Induced (MECs)								0
Primary Sector	0.0	0.0	1.0	7.9	18.4	16.0	4.3	48
Mining and Quarry	0.0	0.0	0.1	1.1	2.5	2.2	0.6	7
Manufacturing	0.0	0.0	6.2	50.0	117.2	101.8	27.4	303
Utilities	0.0	0.0	0.4	3.0	6.9	6.0	1.6	18
Construction	0.0	0.0	31.5	255.6	598.8	519.8	140.2	1,546
Wholesale trade	0.0	0.0	3.0	24.7	57.9	50.3	13.6	149
Retail Trade	0.0	0.0	4.5	36.5	85.4	74.2	20.0	221
Accommodation and food services	0.0	0.0	2.7	21.9	51.2	44.5	12.0	132
Road transport	0.0	0.0	1.8	15.0	35.0	30.4	8.2	90
Information media and teleco	0.0	0.0	0.8	6.8	15.9	13.8	3.7	41
Finance	0.0	0.0	0.7	5.6	13.1	11.4	3.1	34
Insurance and funds	0.0	0.0	0.7	5.6	13.1	11.4	3.1	34
Rental, hiring and real estate services	0.0	0.0	0.9	7.7	18.0	15.7	4.2	47
Professional Services	0.0	0.0	6.7	54.6	127.9	111.1	29.9	330
Government Admin (local and central)	0.0	0.0	0.3	2.6	6.1	5.3	1.4	16
Education and training	0.0	0.0	0.7	5.9	13.9	12.0	3.2	36
Health care and social assistance	0.0	0.0	1.1	9.3	21.8	19.0	5.1	56
Arts, Rec., Personal & Other services	0.0	0.0	2.2	18.2	42.7	37.0	10.0	110
Total Direct, Indirect and Induced (MECs)	**0**	**0**	**66**	**532**	**1246**	**1082**	**292**	**3,217**

1 Introduction

Auckland Thoroughbred Racing has decided to divest approximately 6.2 hectares of land from the eastern corner of the Ellerslie Racecourse Precinct. FRL has purchased this area of land and has obtained resource consent (through the fast trach process to construct approximately 357 residential dwellings. The proposed 357 dwellings comprise a mix of detached, duplex and terrace houses, market apartments, and an apartment building for active retirement use. Building heights range from 1 to 7 storeys (above any basement levels). The Precinct is located at the western end of the racecourse site and is bound by Ladies Mile and Derby Downs Place. The area of land subject to this plan change is currently part of a Special Purpose – Major Recreation Facility Zone and a plan change is now proposed to recognise the consented residential development. The precinct is to be referenced as the Remuera Precinct.

1.1 Background

Fletcher Residential Limited (FRL) have applied for a consent under the COVID-19 Recovery (Fast Track) Consenting Act 2020 to accelerate the development of around to 360 apartments and terraced houses on an area currently located on the Ellerslie Racecourse site which is surplus to ATR's requirements. Tattico Limited commissioned Market Economics to assess the economic effects of bringing forward the proposed project, to quantify the effect granting consent under the COVID-19 Relief legislation will have. Market Economics have previously provided an assessment for a fast track application. This assessment has been updated to address the relevant matters for a plan change to the same area of land, in order to accommodate the development envisaged in the resource consent application. As such, the original analysis is used with only the economic impacts of the development under a plan change considered.

1.2 The Site

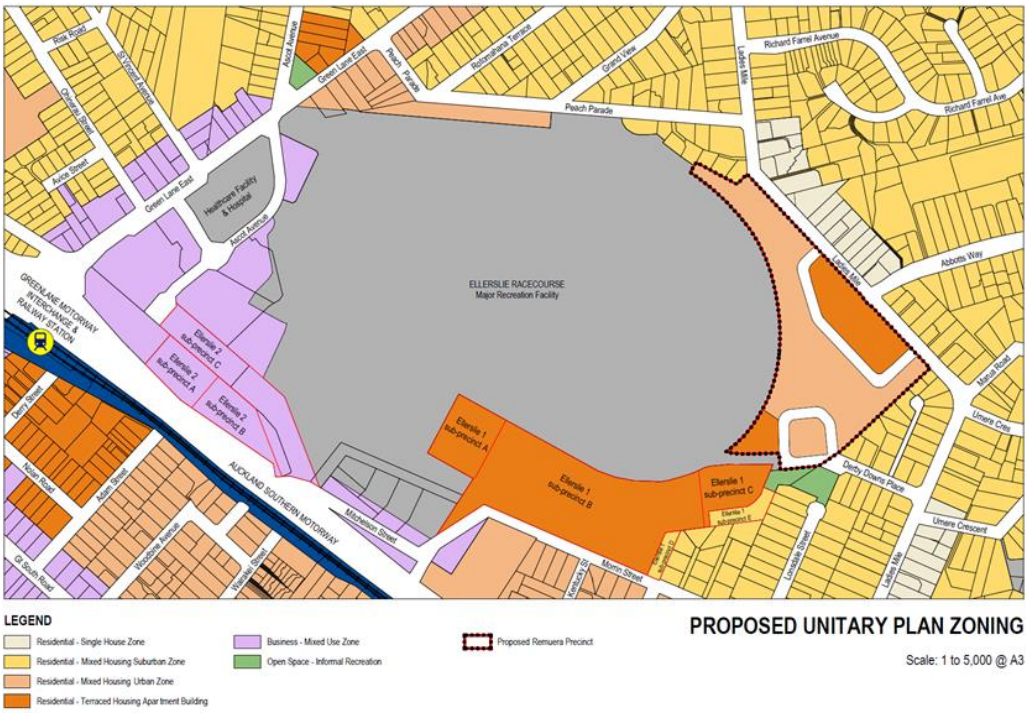
The development site is located on a 6.3ha area at the southern end of the Ellerslie Racecourse, known as 'The Hill'. While the site is currently part of the Ellerslie Racecourse site, as shown in Figure 1.1, and was previously used for steeplechasing, it is no longer required for the future operation of the racecourse. FRL is seeking a plan change to enable development of the area for residential purposes. The proposed development will see around 370 dwellings built over the period of approximately 5 years. The build will provide a range of dwelling types, with a mix of terraced houses and apartments.

The Precinct enables housing choice including both medium to high density living opportunities with development up to 25m in height provided within the THAB zones. Development of the Precinct is defined

by identified publicly accessible open spaces, areas of private open space, existing mature Pohutukawa trees (combined with a 6m setback in their vicinity) and garden streets.

Movement through the precinct is provided two new public roads, one of which connects to Ladies Mile while the other connects to Derby Downs Place. Entry markers are proposed at these locations. A series of interconnected commonly owned access lots in combination with identified pedestrian routes provide internal linkages within and through the Precinct. An existing tunnel also connects Derby Downs Place with the infield of the racecourse.

Figure 1.1: The Hill Site



2 Economic Impacts

2.1 Approach

This analysis relies on an estimated cashflow analysis for the proposed residential development of The Hill based on data provided by Fletcher Residential Ltd (FRL), in respect to their own forecast spending and the timing of that spending on site preparation, construction, design, approvals, and consultancy services. That is, costs and timeframes to obtain necessary consents, develop the land and the construction of several stages of construction. This spending is mostly directed to businesses within the Auckland region[1].

Specifically, M.E have assumed that all construction related professional services (i.e., engineering, land surveying etc), heavy and civil construction, and local government administration (i.e., council), will be carried out by businesses within the Auckland region. The balance of spending (i.e., finance, insurance, legal, advertising/market, central government administration and development project management costs) is also assumed to be directed to businesses based in Auckland, due to the regions status as New Zealand's major hub for the service sectors.

M.E. have matched this planned spending to 48 economic sectors in an input-output (IO) model which has been customised for the Auckland economy (using a 2016 base year). The IO model provides projections of the value added and employment 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. The links between the study area and the surrounding regions are also captured, showing the extent of the spread of the additional economic activity. The IO model contains data on gross output for each sector and employment in Auckland. We are able to then generate an annual average ratio of gross output per person employed in each sector in order to translate additional activity into employment.

As the cashflow analysis provides spending detail based on cost per stage of the development and a timeline indicating the duration of each stage, for the economic impacts are analysed on a yearly basis. By applying these ratios to the annual revenue each sector is forecast to receive from spending, M.E have estimated the count of jobs sustained each year as a result of the development.

FRL has provided forecasted cashflow by development stage with time estimates under the Fast-track pathway, while the plan change consent scenario is expected to have similar cashflows but with a 3.5 year delay to construction and additional consenting costs[2]. Therefore, the scenario under the plan change consent process, retains the costs and timelines of the Fast Track consent process, and pushes back all construction cashflows by 3 years with the additional consenting activity occurring within the delay period. The analysis in this report only considers the impacts of the plan change scenario. The value added results are then discounted on an annual basis at an annual rate of 5%[3]. 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

[1] For the IO model all expenditure is assumed to be in Auckland for simplicity.

[2] See appendix for a full summary of assumptions.

[3] Treasury NZ default discount rate is 5%.

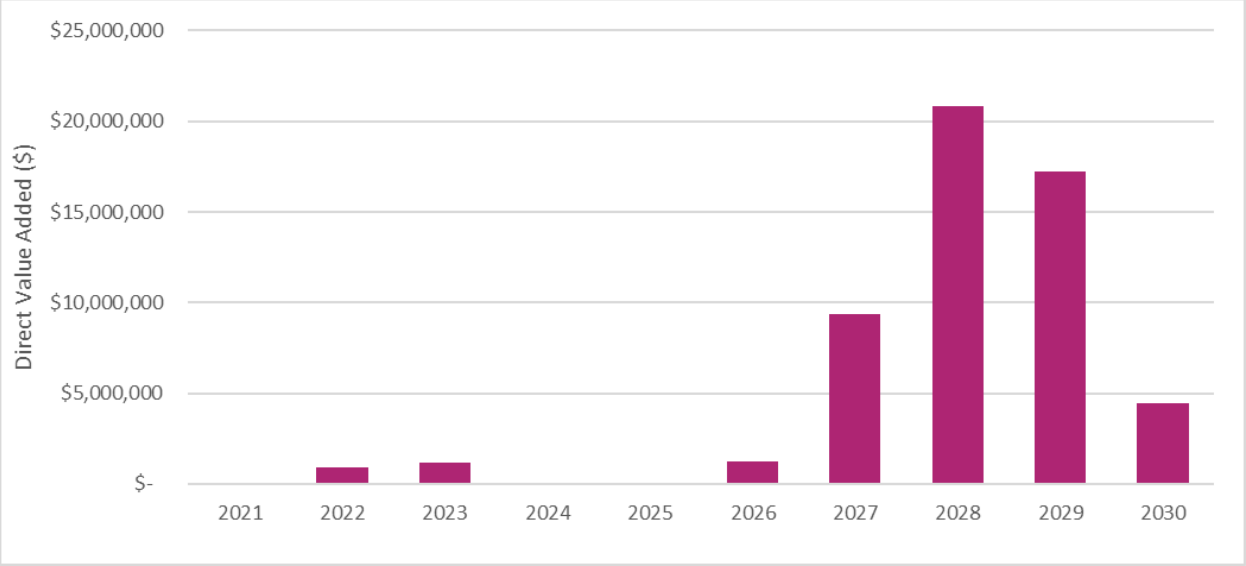
words, economic activity that happens today is worth more to the community in terms of the wages and salaries paid and the overall economic activity, than the same activity happening in 3 to 4 years' time.

2.2 Economic Effects

2.2.1 Direct Impacts

Under the plan change scenario, we have assumed that the development will be completed in 2030. The cumulative direct value added from the present to completion, is projected to be around $55.2 million. It is estimated that earthworks on the site could start towards the end of 2026, with construction to begin in 2027 and run across three main stages till completion towards the end of 2030. Figure 2.1 summarises estimated value added generated directly by the planned development under plan change scenario. The results include the economic value added generated by firms directly involved in the development inside the Auckland region, as it is assumed all direct activity is limited to the region. Breaking the results down annually, by the end of 2027, the development could have directly created $9.3 million in value added across a range of sectors. Once construction is at its peak in 2028 and 2029, annual direct value added would increase to around $20.9 million for 2028, then $17.2 million in 2029, and $4.4 million in 2030 covering the final stages of the development. In the years when construction occurs (2026 -2030), the development as proposed would create an estimated $53.1 million in direct value added, an average of $10.6 million per year, if approved by plan change consent.

Figure 2.1- Direct Value Added Sustained by Year of the Plan Change Scenario

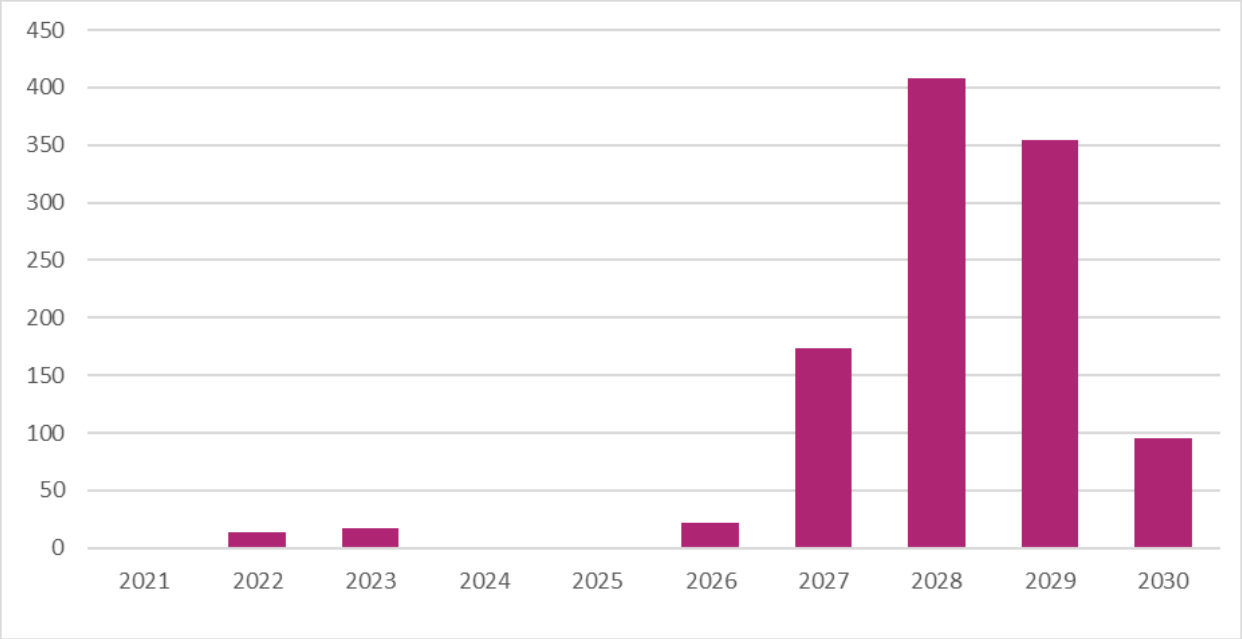


2.2.2 Employment

Under the plan change scenario, directly sustained construction employment begins with earthworks towards the end of 2026, stages 1a and 1b running through to the completion of stage 3 towards 2030. Sustained employment in the professional services sector is concentrated throughout the full span of the consenting and design phases. This is based on the project timeline and the budget estimates provided, where costs are evenly distributed across the duration of consenting and design phases. In reality, this is unlikely to be linear, altering the timing of spend, however the overall amounts would be the same.

The employment impact is shown in Figure 3.3, which summarises estimated job years (MECs) sustained directly by the development under the plan change scenario. The results include job years estimated to be sustained inside Auckland region, as it is assumed all direct activity is limited to the region. Of the local jobs, they are not limited to jobs occurring on the development site, as construction companies for example, will have office-based staff included in the estimated ratios. By the conclusion of 2027, the development could have directly sustained a cumulative total of around 174 job years across a range of sectors through consenting, design, and earthworks. In 2028 and 2029, when the effects of construction begin to peak, around 408 and 534 job years are sustained. In total, the development proposed could sustain a cumulative total of around 1,083 job years by completion in 2030 if approved by Fast Track consent.

Figure 2.2 - Direct Quarterly Jobs Sustained by Quarter/Year and Industry – Plan Change Scenario



2.2.3 Indirect Impacts

M.E's analysis of value added, and employment sustained (above) considers only the direct economic impacts. That is, the effects that are directly associated with the amount of expenditure required to develop the site. From a comprehensive economic impact perspective, 'indirect' and 'induced' impacts – also known as flow-on impacts – are also relevant. These reflect the additional activity, stimulated by the development, across the whole economy. Many of the products required in construction are manufactured by industries based in Auckland. Therefore, as construction demands more girders, wall panels and so on, manufacturing sector increases output. In addition, when more labour is required, the workers are paid wages which they then spend at retail outlets generating more demand for goods and services. Thus, the indirect and induced impacts measure how much additional activity the direct spend will stimulate.

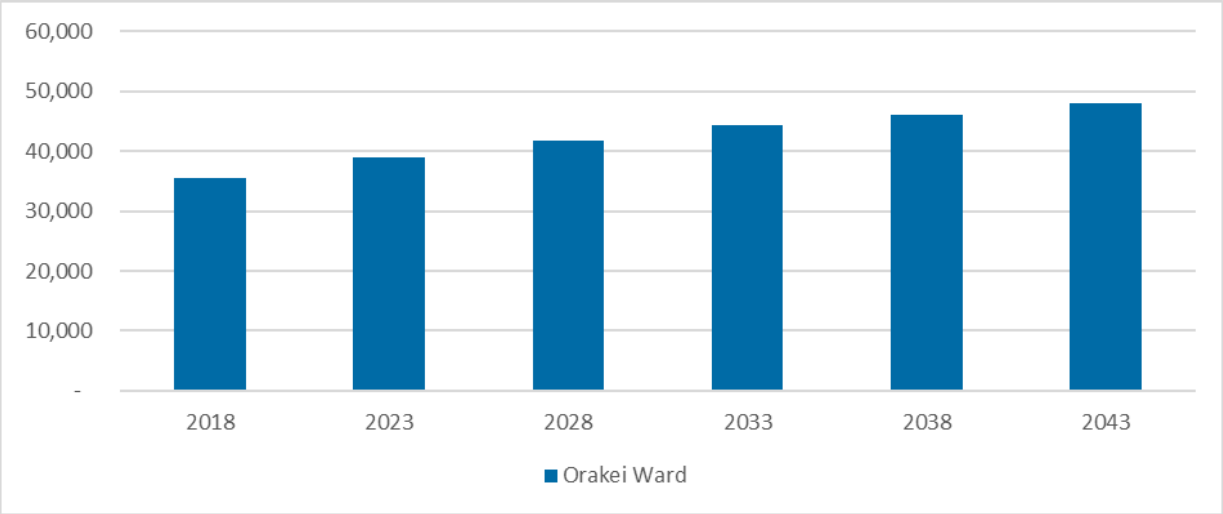
Based on the IO modelling, the development of The Hill, through the plan change scenario, will stimulate a total of $139.5 million of direct plus indirect value added (GDP). Once the induced effects are included, this rises to $218.6 million value added (GDP) across the duration of the development under the plan change scenario. The plan change scenario is also projected to indirectly contribute to sustaining the equivalent of 3,278 job years, once the indirect and induced effects are added. While all the direct impacts are assumed to occur in the Auckland region, the indirect impact of the proposed development will have effects reaching the rest of the North Island and the rest of New Zealand. Further detail of the indirect impacts can be found in the Appendix[4].

[4] See Appendix B – Indirect Impacts

3 Housing Supply

The population of Auckland is expected to grow significantly over the long term. The Orakei Local Board area will experience this trend, especially as the importance of higher density residential property increases. The Orakei ward area is projected to accommodate around 39,000 households in 2023, then rising to around 48,000 in 2043. This long term growth in household numbers is shown in Figure 3.1, where household numbers are projected to increase by around 500 households per year till 2043. As household numbers reflect the number of dwellings demanded, residential construction must keep up with this additional 500 households each year. This highlights the need for new dwellings to be constructed in the Orakei area.

Figure 3.1 - Projected Household Numbers for Orakei Ward (2018 base year)[5]



Overall, the proposed development of The Hill is planned to deliver approximately 370 residential units split across terraced houses and apartments. This can be achieved by 2030, pending plan change consent. The development creates additional capacity for residential dwellings that will more effectively help meet demand in the Orakei ward area. The more intensive development helps to address a shortfall in residential capacity. Higher density residential apartments translate to lower priced units (all else being equal) and subsequently lower housing costs. The plan change therefore provides greater opportunities for more affordable housing[6] compared with the status quo.

Overall, M.E consider that the anticipated economic and social benefits of the proposed net increase in residential dwellings is likely to outweigh the anticipated economic and social costs. On that basis, a plan change will achieve the intended development outcome.

[5] Source: ME Area Unit Households Projections – Market Meter

[6] "More affordable" in a relative sense. The resulting dwellings may or may not meet existing definitions of affordable housing.

4 Conclusion

The proposed residential development of 'The Hill' section of Ellerslie Racecourse is expected to positively contribute to the future economic and social wellbeing of the Auckland Region, and through flow on effects, other areas of New Zealand. As discussed throughout this report, the proposed development project will result in economic benefits for the Auckland economy and will assist in sustaining the large construction sector (and many other sectors) within the Auckland region (including upstream suppliers). The benefit of the plan change is clear. It means that a large number of local jobs can be sustained in the short-term future, with the residential construction expected to begin in late 2026. In total, the development proceeding with the support of a plan change will sustain total value added of $218.8 million and sustain a total employment impact of 3,278 MECs.

Once fully developed, the project will deliver approximately 370 stand-alone, terraced houses and apartments to Auckland. This equates to around three-quarters of an average year of projected household growth. The development will help ensure that the Orakei area and wider Auckland has a range of residential options available for prospective households as well as help sustain Auckland's residential construction sector.

Based on the above analysis, the proposed plan change is supportable and no specific economic related provisions are considered to be required for this plan change.

Appendix A – IO Model Assumptions

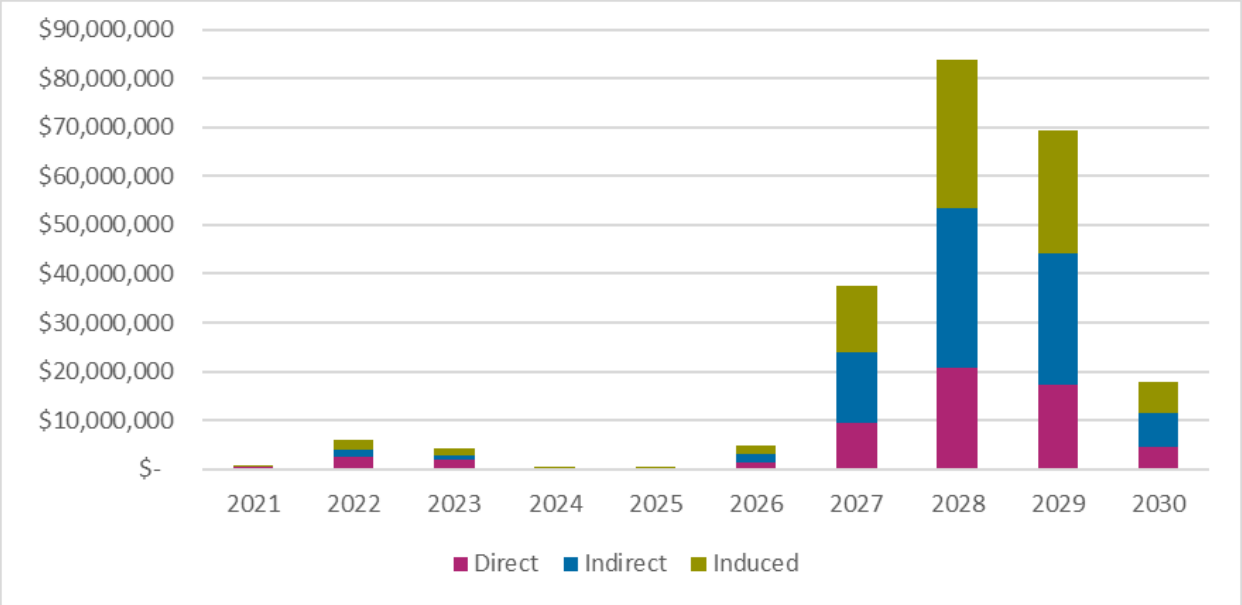
The following assumptions were made in order to run the input-output analysis:

- The analysis is based on a series of estimates for project expenditure and the timing of project stages. Annual expenditures are estimated, and the impacts are calculated based on the year in which they are expected to occur.
- It is assumed that all direct expenditure of the development is received in the Auckland region. This was made for simplicity and the high likelihood that the major of spending is directed to Auckland as it is the region which surrounds the site and as New Zealand major financial and service hub, has the capability to be largely self-sufficient in completing the development.
- Tattico estimate for construction duration of around 3.5 years from start of stage 1a and 1b. Earthworks are to be completed prior at an estimated duration of 12 months.
- The estimated construction cost (excluding GST) was given on a per stage basis with indicative timeline. From here it is assumed that site preparation costs are incurred in the first six month period. Across the duration of construction, the sum of the total stage cost is spread equally across its construction period, from start to finish. This assumption therefore creates figure close to an average expenditure per year, depending on stage, rather than the potential distribution of construction activity and expenditure. These are all classified as expenditure to the construction industry.
- Other costs are assumed to be spread evenly across the timeline stage in which they are expected to occur (total cost per year). Other costs provided by Tattico include costs for obtaining consents and project design.
- Two scenarios were provided, one which reflects approval of a COVID-19 Fast Track consent and the other a delayed consent, which reflects a plan change process. Tattico have estimated that the timing difference is between 3-4 years (midpoint of 3.5 years is used) and the only change in expenditure is an additional $1 million (excluding GST) to obtain consent through a plan change.
- The results of the input-output model are discounted (except for employment) quarterly at an annual rate of 5%, which is line with the default discount rate recommended by Treasury NZ.
- Inflation is not accounted for.

Appendix B – Indirect Impacts

The following graphs show the indirect impacts from the IO model of yearly value added and employment totals. Direct, indirect, and induced impacts are shown. Type 1 multipliers account for the direct and indirect impacts based on how goods and services are supplied within a region. Type 2 multipliers not only account for these direct and indirect impacts, but they also account for induced impacts based on the purchases made by employees.

Yearly Value Added Impacts– Plan Change Scenario



Yearly Employment Impacts– Plan Change Scenario