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Economic Assessment of Proposed Industrial Plan Change in Pukekohe

Prepared for: **GBar**

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1. Executive Summary

GBar Properties Limited (**GBar**) owns a 5.35-hectare tract of land in Pukekohe that is currently zoned Future Urban Zone (**FUZ**), but which is earmarked for light industrial activities in the Pukekohe-Paerata Structure Plan 2019 (**PPSP**). To enable anticipated future development of the site, GBar now seeks a private plan change to create a "live" zoning. To assist, this report briefly assesses the likely economic effects of the proposed plan change.

The assessment starts by identifying and describing the subject site, explaining how it fits into the broader strategic/planning context, and then summarising the latest indicative subdivision plan. It provides for nine new industrial buildings ranging in size from 900m^2 to 1,962m^2. Collectively, these provide 12,560m^2 of new industrial floorspace.

To provide context, we summarise the findings of various reports and studies, which consistently project the need for significant additional industrial land to meet growth in demand (in Pukekohe and Paerata). We also summarise various recent real estate research reports, which identify and explain strong and sustained demand for new industrial premises from both occupiers and investors.

Having set the scene, we then discuss the rationale for the proposal. We show that it not only directly responds to the need for additional industrial zoned land, but that it does so in an area that has already been identified as suitable for light industrial purposes and thus directly gives effect to the planning vision for the site. We then demonstrate that the site is a good fit with industrial site/location criteria.

Finally, we consider a range of economic effects of the proposal. They include:

- **Improved Supply Responsiveness** – the proposal will help the industrial land market to be more responsive to growth in demand, which will help slow the rate at which land prices grow. This will not only improve industrial land affordability, which is important given the land hungry nature of many industrial land uses, but it will also help to control the costs (and thus prices) of the various goods and services provided by industrial land users to other parts of the regional economy. This, in turn, helps improve the overall competitiveness of the Auckland region.
- **One-Off Economic Stimulus** – the various processes associated with obtaining consents, finalising the subdivision plan, preparing the land for development, installing necessary infrastructure, and constructing the various buildings enabled by the proposal will generate significant one-off economic impacts. In fact, we estimated that they will provide direct employment for more than 160 FTE-years, provide $11 million in household wages/salaries, and directly generate nearly $21 million in GDP.
- **Ongoing Employment Potential** – once operational, the nine buildings planned for the site could provide full-time employment for approximately 125 people.
- **Highest & Best Use of Land** – finally, we note that the proposal puts the land to its highest and best use, and hence maximises economic efficiency in the underlying land market.

The main economic cost/risk of the proposal relates to infrastructure servicing. However, the Council has tools to shift this cost and risk onto the developer, so it is a moot point.

Given the strong and enduring economic benefits of the proposal, as outlined above, and noting the absence of any material economic costs, we support it on economic grounds.

2. Introduction

2.1 Context & Purpose of Report

GBar Properties Limited (**GBar**) owns a 5.35-hectare tract of land in Paerata that is currently zoned Future Urban, but which is earmarked for light industrial uses in the Pukekohe-Paerata Structure Plan 2019 (**PPSP**). To enable anticipated future development to proceed, GBar now seek a private plan change to create a "live" zoning for the land. To assist, this report assesses the likely economic effects of the proposed plan change.

2.2 Scope and Depth of Assessment

Because eventual urbanisation of the land is anticipated by its zoning, and because the plan change essentially just gives effect to the underlying structure plan, most of its likely economic effects have already been considered during the structure plan formulation process. Accordingly, this report provides a brief and high-level assessment of the proposal.

2.3 Structure of Report

The remainder of this report is structured as follows:

- **Section 3** locates the subject site, summarises its strategic/planning context, and sets out the indicative subdivision and building plan enabled.
- **Section 4** assesses the current state of the industrial land market as context for the proposal.
- **Section 5** considers the rationale and need for the proposal.
- **Section 6** assesses the proposal's economic effects on the industrial land market.
- **Section 7** provides a summary and conclusion.

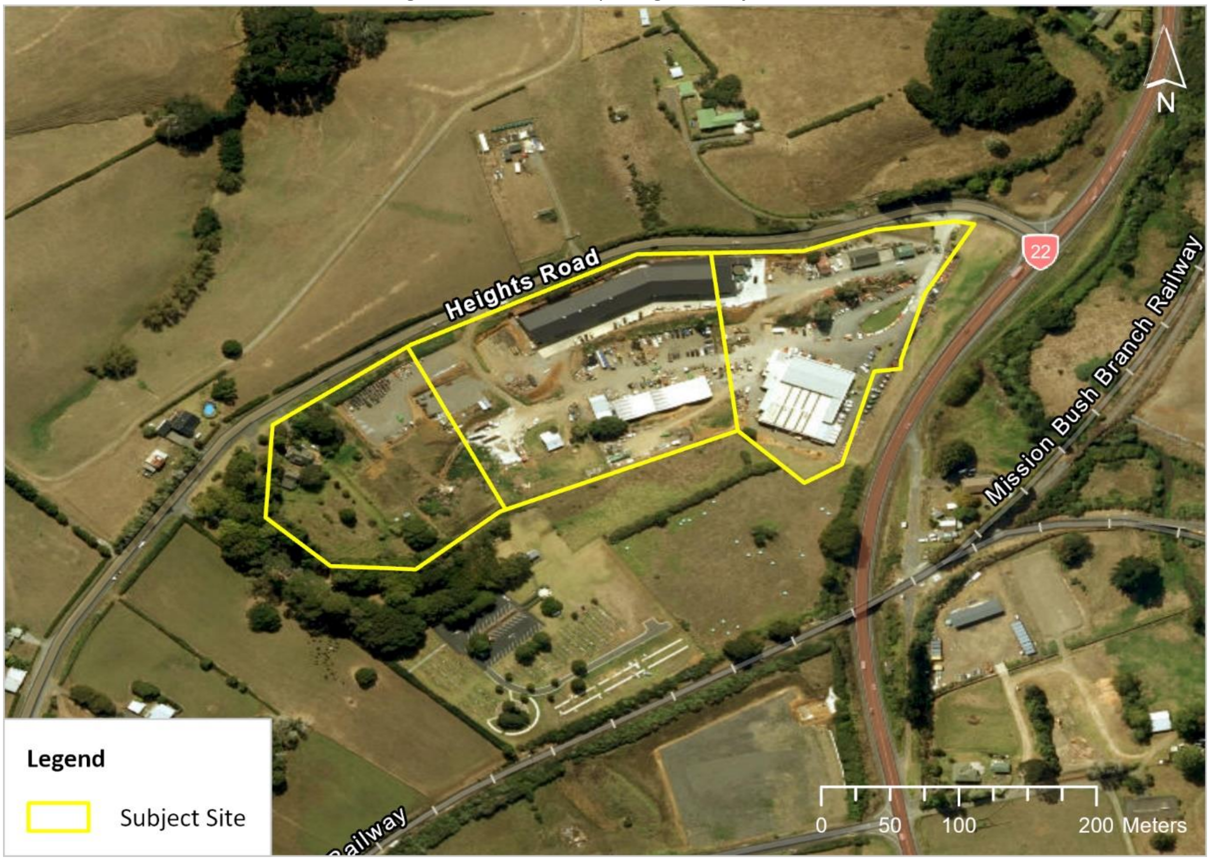
3. About the Proposal

This section identifies the subject site and describes the proposal.

3.1 Site Location & Description

The subject site spans three contiguous parcels (9, 33, and 49 Heights Road in Paerata), which are illustrated by the yellow outlines in the map below.

Figure 1: Parcels Comprising the Subject Site

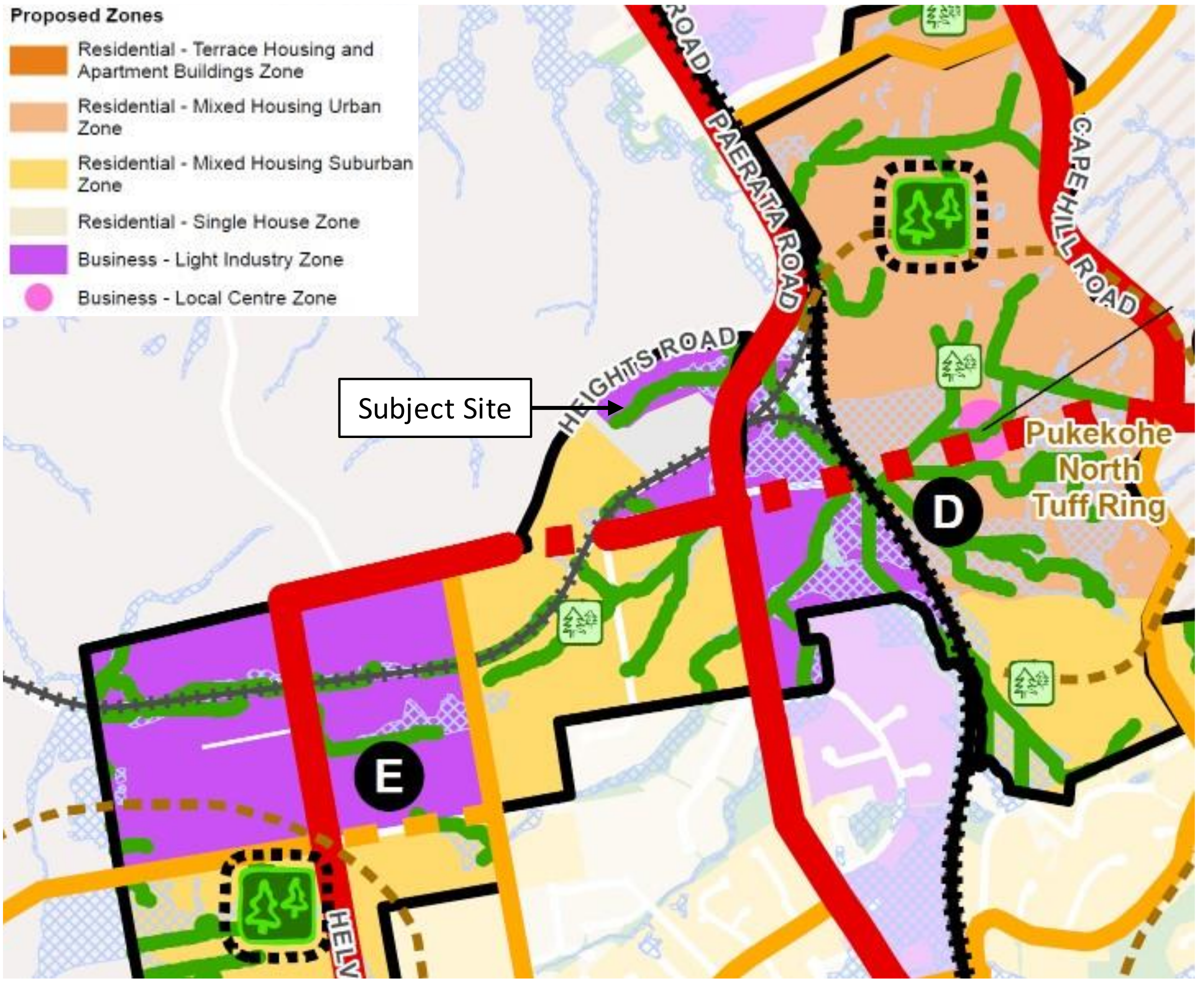


The site is bound by Heights Road to the north, and rural land in all other directions. It spans approximately 5.35 hectares and is currently used for industrial activities. The primary activity operating on the site is The Tractor Centre, which provides services for tractors and other farm machinery, including servicing and repair, retail of new and used tractors, machinery and parts, light engineering, and a panel and paint shop. A large new shed was recently constructed on the northern boundary of the middle site, and is used for the storage of industrial machinery and equipment associated with The Tractor Centre.

3.2 Strategic/Planning Context

The site is currently zoned “Future Urban Zone” (**FUZ**) under the Auckland Unitary Plan (**AUP**), but it is earmarked for a light industrial zoning under the PPSP. This is shown in the map of the PPSP below, where the purple shaded area represents the Business - Light Industry zone.

Figure 2: Intended Site Zoning under the PPSP



Auckland Council's recently adopted Future Development Strategy (**FDS**) reassesses all future urban areas (**FUA**s) to evaluate their appropriateness for future growth. The subject site is located within the Pukekohe-Paerata FUA cluster and is part of the Pukekohe North-West node. The reassessment of this cluster does not identify any significant challenges that would make development inappropriate, provided plan changes occur in line with the associated structure plan and after all infrastructure provisions are met.[1]

3.3 Indicative Masterplan

The proposal seeks to rezone the land to match the light industry zone proposed for it in the structure plan diagram above. The figure below shows the indicative masterplan prepared to show a potential build-out of the site under the proposed LIZ provisions. The buildings shaded in light blue represent proposed developments enabled by the rezoning.

[1] Auckland Future Development Strategy 2023-2053. Auckland Council. Appendix 7. Appendix Page 53.

Figure 3: Indicative Masterplan

The indicative plan provides for nine new industrial buildings of varying sizes, as indicated below. These range from 900m^2 to 1,962m^2 GFA, with a total of more than 12,560m^2.

Table 1: Table of Indicative Buildings Enabled

Building	**GFA (m^2)**
1	1,819
2	1,962
3	950
4	1,000
5	900
6	1,550
7	1,500
8	1,500
9	1,382
Total	**12,563**

4. Current State of Industrial Land Market

This section assesses the current state of the industrial land market as context for the proposal.

4.1 Regional Context

The availability of suitable land to accommodate light industrial activity in the region is under growing scrutiny. High industrial land values, increased construction costs, and the current high interest rate environment are all affecting development feasibility. This is likely to be exacerbated over time as intensification of centrally-located land drives land values even higher. Accordingly, land-extensive activities, including light industry, are under growing pressure through competition from more valuable land uses.

This issue is highlighted in Council's latest housing and business development capacity assessment (HBA), which was released in September 2023. The assessment, prepared under the National Policy Statement on Urban Development 2020 (**NPSUD**), finds that Auckland has sufficient aggregate industrial capacity to accommodate projected growth over the short, medium, and long terms.

However, as acknowledged in the HBA, market feedback indicates that land suitable for industrial use is in short supply and that new opportunities can only be realistically provided in greenfield locations where land is both available to be identified in advance, and relatively cheaper per square metre. This is also reflected in elevated demand for industrial premises, with vacancy rates at historic lows.

4.2 Local Context

The need for extra industrial land in and around Pukekohe and Paerata has long been recognised in a suite of background documents and strategies. For example, a 2018 report by Property Economics (**PE**) assessed the likely future business land needs for the "West Franklin" catchment in which the site falls. They estimated industrial employment growth of 8,000 people between 2028 and 2048, which translates to an additional 396 hectares of industrial land (including a 15% NPSUD competitiveness margin).

Although the PE report also identified 580 hectares of vacant industrial land in West Franklin, most of that was concentrated in Glenbrook/Waiuku/Tuakau, rather than in the more urbanised areas where demand will be strongest. When attention is limited to the key employment nodes in the catchment, particularly Pukekohe, PE identify an industrial land supply deficit of 286 hectares to 2048. In the words of the report:

> *"This is the result of, at a broad level, the Pukekohe Urban Area generating the majority of demand for industrial activity in the wider West Franklin catchment, but exhibiting minimal capacity at present."*

MRCagney peer reviewed the PE report just summarised and similarly noted the large tracts of vacant industrial land residing in the catchment's rural fringes. They concluded that 80 to 100 hectares of developable industrial land will be required in Pukekohe-Paerata to 2048 if the vacant land in Glenbrook and Waiuku is taken up. If not, the requirements for Pukekohe-Paerata will be correspondingly higher.

In light of PE's findings and MRCagney's peer review, the PPSP identified 100 hectares of additional industrial land to be provided in and around Pukekohe and Paerata, five hectares of which is on the subject site. Accordingly, and as previously mentioned, the proposal responds – and directly gives effect – to the land use pattern identified via the structure planning process.

4.3 Current Market Situation

The high demand for industrial floorspace signalled in the various reports above is also confirmed by real estate research, which reports strong demand from both occupiers and investors. We briefly tease these out below.

4.3.1 Occupier Demand

A major driver of industrial floorspace demand is the sustained shift towards online shopping and the associated growth of the logistics sector. These activities require modern, high-stud, large-footprint warehousing space, which is usually located in light industrial zones. Further, the rapid emergence of demand from the datacentre sector is creating additional impetus for the demand for larger, modern fit outs.

Auckland's position within the golden triangle also plays an important role. Containing more than half of the nation's population and generating more than half its GDP, the Golden Triangle is home to the country's two biggest seaports and its largest airport.[2] It is widely recognised as the engine room of the national economy.

Bayleys' Q3 2023 Commercial Market Update for South Auckland indicates low vacancy rates[3] due to ongoing demand for warehousing. At the same time, it points to a scarcity of industrial land available for development, as well as industrial properties of all types and qualities.

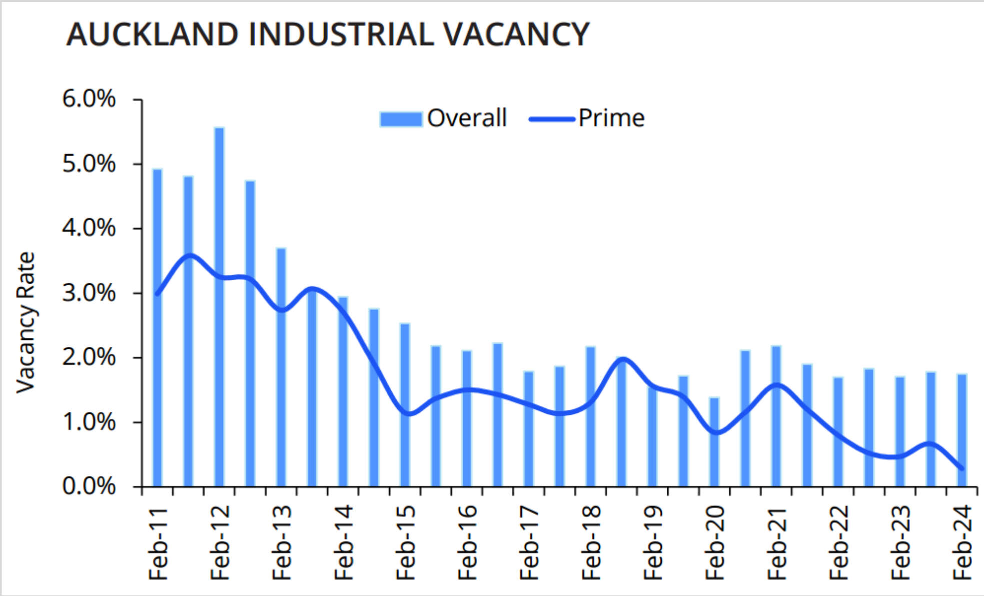
A similar dynamic is playing out at the regional level. Colliers' latest regional update[4] shows prime industrial vacancies at an historic low of 0.3%, with overall vacancies at 1.75%, as illustrated in Figure 4 below. In comparison, a vacancy rate of about 5% is considered desirable to ensure that businesses can move in and out of premises as required to meet evolving needs.

[2] The Golden Triangle Logistics, Bayleys, 2019

[3] 1.5% overall.

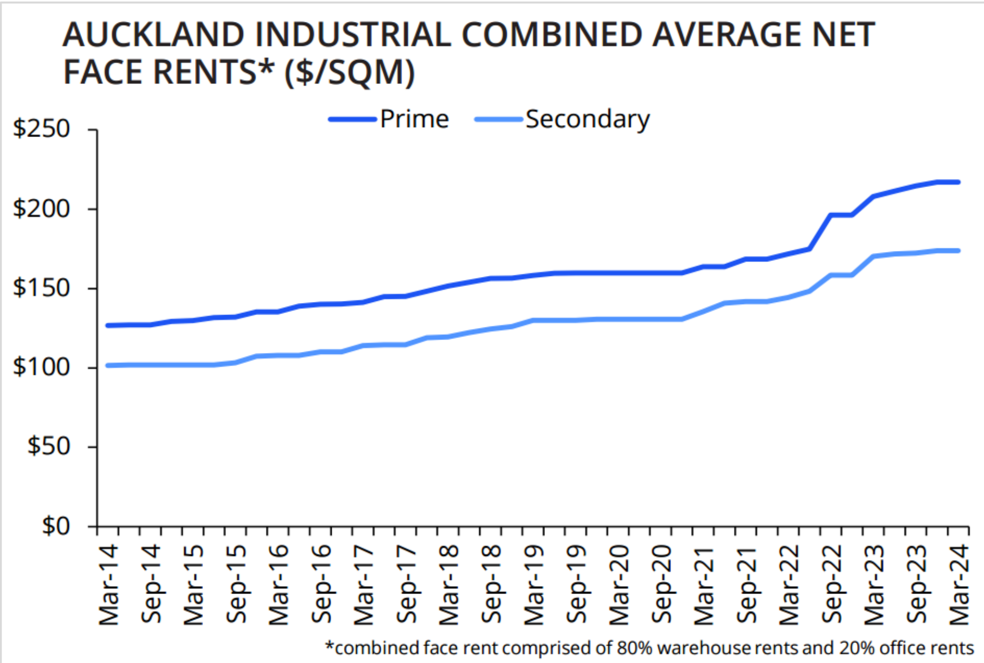
[4] Colliers Essentials Auckland Industrial Report 1H 2024. Available at https://www.colliers.co.nz/en-nz/real-estate-research/colliers-essentials-akl-industrial-1h-24

Figure 4: Colliers Regional Industrial Vacancy (1H 2024)



Unsurprisingly, this very high and sustained demand for industrial premises has caused rents to rise. This is illustrated in the chart below, which shows a strong uptick in the second half of 2022 followed by sustained rental growth in recent years.

Figure 5: Colliers Regional Industrial Rent Trends (1H 2024)



In summary, recent research suggests that the demand for industrial property will continue to be strong, including in the south of Auckland where the subject site is located.

4.3.2 Investor Demand

Not only is occupier demand for industrial space strong, but so too is investor demand. There are several factors at play. First, New Zealand has relatively high property yields compared to other parts of the Asia Pacific region. And, within the "commercial" property sector, industrial property often has healthy returns.

A recent article entitled *"Industrial property: the property's sector's new black?"*[5] points to several other factors underpinning strong investor demand. First, industrial property has proven largely resilient in the face of economic ups and downs. Second, tenants tend to be stable, with leases frequently lasting seven years or more. Third, investing in industrial property is becoming more accessible, with the lending environment increasingly comparable to residential investment, and with syndicates now also emerging to enable investment at lower entry points.

Finally, there has recently been a flight from residential property investment, following legislative changes that remove tax relief against interest costs on new residential property investment. Coupled with extensions to the bright-line test, residential property investment has become less attractive. This was noted by *Bayleys*, who describe an influx of new buyers in the industrial market chasing yield in response to the new regulations.[6]

As a result, despite higher interest rates, tightening bank lending criteria and an uncertain economic outlook, industrial property remains an attractive investment option.[7]

[5] https://www.stuff.co.nz/business/124968669/industrial-property-the-propertys-sectors-new-black

[6] Bayleys Auckland Industrial Market Update 2021

[7] https://www.barfoot.co.nz/commercial/auckland-market-reports/auckland-property-market-commentary-october-2023

5. Rationale for the Proposal

This section assesses the rationale for the proposal.

5.1 Meets Short-Term Need for Additional Supply

With more than five hectares of developable industrial land being brought to the market, the proposal represents a significant and much-needed boost in industrial land supply. As summarised in the previous section, the region's industrial property sector is running hot, with strong demand from both occupiers and investors. This has caused vacancy rates to approach or hit 20-year lows in many key industrial areas.

The proposal acknowledges and directly responds to this need for additional industrial zoned land by enabling the development of nine new lots/buildings of varying shapes and sizes in an area that has already been identified as suitable for light industrial purposes.

5.2 Gives Effect to Planning Vision

Not only does the proposal significantly boost industrial land supply, but it also directly gives effect to the long-held planning vision for the site.

5.3 Fit with Location Criteria

Unsurprisingly, then, the site is a good fit with common industrial site and location criteria. This is demonstrated by the summary in Table 2 below.

Table 2: Assessment Against Site/Location Criteria

Industrial Land Success Criteria for the Pukekohe-Paerata Structure Plan area[8]	**Application to GBAR Site**
Access to major road/transport routes	Immediate access to SH22 Paerata Rd. 10min drive to SH1. Both prevent traffic movements through Pukekohe town centre.
Appropriate land features (flat land, no floodplain, large contiguous site)	GBar is >5ha contiguous site, adjacent to large light industrial zone. Master plan details site levelling works.[9]
Ability to buffer adverse effects	Site is buffered from existing and future residential activity by Heights Road, Paerata Road, railway, and Heights Park cemetery. Prevents reverse sensitivity.
Exposure/profile/visibility	Adjacent to Paerata Rd, main commuter route to Auckland.
Existing or proposed public transport	1.5km from planned train station at Paerata, northward residential expansion of Pukekohe will improve bus services.
Additional Criteria from 2011 Harrison Grierson report[10]	
Proximity to ports	Reasonably close to Auckland Airport via road (30 – 35min), has rail access to Ports of Auckland and (forthcoming) Ruakura Inland Port, which connects via eastern trunk to Tauranga.

[8] From MR Cagney (2018) Technical Note: Locational prerequisites for commercially successful business land

[9] Note though that about half of the site is in a floodplain per the climate layer at GeoMaps: https://geomapspublic.aucklandcouncil.govt.nz/viewer/index.html

[10] Harrison Grierson (2011) Auckland Council Group 1 Business Land Assessment. A report for Auckland Council.

Close to other industrial land	Sizeable existing light industry along Adams Drive, structure plan will expand this all the way to GBar site, and add even more at Helvetia Road. Strong opportunity for co-location, local economic linkages, thus agglomeration economies.
Access to rail	Adjacent to North Island Main Trunk.
Proximity to workforce	Rapidly growing workforce from Pukekohe, Pokeno, Tuakau, Drury.
Complementary business services	Adjacent light industry, commercial services in Pukekohe centre.

6. Likely Economic Effects

This section considers the likely economic effects of the proposal.

6.1 Improved Supply Responsiveness

In addition to directly boosting industrial land supply, the proposal may also help the market to be more responsive to growth in demand over time. This causes the market price of industrial land to increase slower, and more new land to be released, in response to ongoing growth in demand.

By flattening the price path and hence reducing the rate at which land prices grow, the proposal will help to improve industrial land affordability. This is particularly important for two reasons. First, industrial land uses are typically land hungry, so even a small decrease in land prices (relative to the status quo) can significantly aid affordability.

Second, industrial land uses often have strong linkages with the rest of the economy through the provision of various goods and services. Hence, by keeping industrial land prices as affordable as possible, the proposal – and others like it – can help control the costs (and thus prices) of the various goods and services provided by industrial land users to other parts of the regional economy. This, in turn, helps improve the overall competitiveness of the Auckland region.

6.2 Impacts on GDP, Jobs, and Wages

The process of obtaining all necessary consents, finalising the subdivision plan, preparing the land for development, installing necessary infrastructure, and constructing the nine buildings associated with the proposal will generate one-off economic impacts on GDP, jobs, and wages.

We quantified these using a technique called multiplier analysis, which enables the wider economic impacts of a change in one sector (or sectors) to be traced through to estimate the overall impacts.

These impacts include:

- **Direct effects** – which capture onsite activities directly enabled by the proposal; and

- **Indirect effects** – which arise when businesses working directly on the project source goods and services from their suppliers, who in turn may need to source goods and services from their own suppliers, and so on.

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/salaries). It captures the value that a business adds to its inputs to produce its own outputs.

- **The number of people employed** – which is measured in terms of full-time equivalent employees (FTEs).

- **Total wages and salaries** paid to workers, which are often labelled 'household incomes.'

Having defined these key terms, the following table shows the estimated economic impacts of the various activities enabled by the proposal.

Table 3: One-Off Economic Impacts of Development

Planning/Design/Consent	**Direct**	**Indirect**	**Total**
FTEs – 1 year	3	2	5
GDP $m	$0.5	$0.2	$0.7
Wages/Salaries $m	$0.3	$0.1	$0.4
Land Development			
FTEs – 1 year	5	13	18
GDP $m	$0.8	$1.7	$2.4
Wages/Salaries $m	$0.3	$0.9	$1.2
Building Construction			
FTEs – 2 years	21	48	69
GDP $m	$5.1	$12.5	$17.6
Wages/Salaries $m	$3.2	$6.3	$9.5
Project Totals			
FTE-Years	50	110	160
GDP $m	$6.3	$14.3	$20.6
Wages/Salaries $m	$3.7	$7.3	$11.0

In summary, we estimate that:

- Future planning/design/consenting work will create full-time employment for about 5 people for 12 months, generating $400k in wages/salaries;
- Land development (including infrastructure) will generate full-time work for approximately 18 people for 1 year, with $1.2m in wages/salaries paid; and
- Construction of industrial buildings will provide full-time work for around 69 people for two years, with around $9.5 million paid in wages and salaries.

6.3 Ongoing Employment Potential

In addition to the one-off economic impacts estimated above, the proposal will also enable businesses to establish onsite, which themselves will have ongoing economic impacts.

To estimate this, we reviewed recent work for Auckland Council by Market Economics, which estimated an average industrial workspace ratio (WSR) for each part of the region.[11] It suggested that a typical industrial area in the south employs about one person per 100 square metres of gross floorspace. Applying this ratio to the proposal's estimated industrial floorspace of 12,560 square metres indicates that the proposal could support permanent future employment for 125 people.

[11] https://knowledgeauckland.org.nz/media/1583/nps-udc-housing-and-business-development-capacity-assessment-for-auckland-dec2017.pdf

6.4 Higher & Better Use of Land

The subject land is currently used for relatively low-value rural purposes. The proposal addresses this and enables the land to be put to a higher and better use. As a result, it maximises economic efficiency in the underlying land market while also supporting the overarching purpose of the RMA (to enable the sustainable use and development of natural and physical resources).

6.5 Infrastructure Servicing Cost and Risk

A potential economic downside of the proposal is the cost and risk of providing the infrastructure needed to enable it, such as roads, water, wastewater, and parks/reserves. However, all works within the boundary of the development are the sole responsibility of the applicant, with the cost and risk of works beyond the subject site also able to be (mainly or largely) transferred to them via development contributions levied on future industrial land use development. Accordingly, any infrastructure costs and risks on the Council should be negligible.

7. Summary and Conclusion

The need for additional industrial land in the south has been clearly signalled in various background reports and studies, which led to 100 hectares of light industrial land being provided for in the PPSP. This high demand continues today, with numerous real estate research reports noting unprecedented demand, which has led to historically low vacancy rates.

The proposed plan change directly acknowledges and responds to the need for more industrial land in the general locality, while also giving direct effect to the underlying structure plan. Moreover, enabling the land to be put to the proposed industrial uses will unlock significant and enduring economic benefits. Accordingly, we support the proposal on economic grounds.