

PROPERTY **E**CONOMICS



KARAKA NORTH DEVELOPMENT

ECONOMIC IMPACT

OVERVIEW

Client: Karaka North Village Limited

Project No: 51945

Date: June 2022



SCHEDULE

Code	Date	Information / Comments	Project Leader
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CONTACT DETAILS

Tim Heath

Mob: 021 557713

Email: tim@propertyeconomics.co.nz

Web: www.propertyeconomics.co.nz



1. KARAKA NORTH – AUCKLAND

This economic impact overview relates to a FastTrack consenting referred project to subdivide an 81-hectare block in Karaka North. This development will create an integrated rural village settlement, comprising residential development and a local centre at the intersection of Dyke, Blackbridge and Linwood Road.

The application is for a subdivision of the land to create up to 627 residential sites, comprising medium density and more traditional residential development, the creation of residential superlots, and an integrated network of large private open spaces. The proposed project work will occur at Karaka North Village, 69a Dyke Road and 348 Linwood Road, Papakura, Auckland.

The applicant, Karaka North Village, has applied for resource consents for land-use and subdivision, bulk earthworks and enabling works to provide the associated infrastructure, including vested roads, and the provision of an on-site water treatment and wastewater treatment and disposal system.

The project is consistent with the approved Master Plan, Landscape Management Plan and Infrastructure Management Plan, as well as the I417 Karaka North Precinct provisions, set out in the Auckland Unitary Plan (Operative in Part)

The economic impact estimates the total additional gross economic injection (added Gross Domestic Product (**GDP**)) into the Auckland economy brought about by the proposed development. The initial specifications and details have been provided by Karaka North Village Limited and represent the development's configuration and costings at this point in time. It is important to note that this is a gross injection and is not site specific. It also assesses the likely economic impacts upon Auckland business activity given the composition of activities proposed.

Although there are undoubtedly economic benefits that are specific to the location, they are primarily driven by proximity to transport corridors, efficiencies, ownership opportunities, site size and the opportunity costs associated with other sites.

The economic impacts likely to be experienced as a result of the anticipated development are broken down by the development phase which includes the construction costs (CAPEX¹) of the development and the proportion of those costs that are retained within the Region.

The direct economic impacts are derived from the actual spending / expenses incurred through the operation of the anticipated development.

Indirect economic impacts are the increased spending brought about by those firms / households and their employees / occupants, who supply the development, while induced economic benefits are measured in terms of the additional income that will be spent in the area due to increased business activity.

1.1. TOTAL ECONOMIC ACTIVITY

This includes construction costs, which have been valued for the overall development.

The impact of this injection on the initial business cycle has been calculated. This 'construction multiplier' was based on the national input-output tables produced by Statistics New Zealand (2016 based on 106 sectors), which were then assessed at a district level based on Auckland economic activity, composition and productivities.

This estimates the 'leakage' from the regional economy (within specified sectors), and therefore the overall regional production (within a given business cycle) for each \$1 injected.

This was performed for the general residential / commercial construction sectors. These multipliers are based on 'net' flows by broad sector type and are therefore approximations.

Total output impacts to the Auckland catchment for the proposed developments include:

- Direct Construction Cost x 'Construction Multiplier' +
- Direct Development Cost x 'Development Multiplier' +
- Direct Increased Commercial Spending x 'Commercial Multiplier' +
- Indirect Business Spend x 'Commercial Multiplier' +
- Induced Retail Spending x 'Retail Multiplier'

Each identified multiplier relates simply to the economic sector from which the activity is generated.

¹ CAPEX – Capital Expenditure

1.2. ASSUMPTIONS

The following assumptions have been applied in this impact analysis in order to assess the level of economic injection into the overall economy at this time. This has some (limited) impact on the distributional effects of the costs and benefits but can be quickly adjusted to accommodate more specific construction and on-going costs and injections.

1. For the purposes of this Economic Impact Assessment it has been assumed that the construction costs will fall within the definition of the following categories (based on a standard 'special' commercial ratio): 'non-residential construction', 'non-building construction', 'other construction services'.
2. Associated (and estimated) land costs have been included in the financial repayment assessment for the project.
3. Financial or loan costs on capital primarily fall outside of the local catchment and impact the national economy.
4. The origin of labour has been assessed based on regional labour movements furnished by Statistics NZ based on 2018 data. However, employment data has been updated as per the Statistics NZ Business Frame data² to March 2020.
5. This report deals with the economic impact of proposed development on Auckland. These are specifically the direct impacts related to the operation and construction of the proposed development.
6. The economic activity generated is based on the development's gross activity and does not consider this redirecting growth opportunities from elsewhere in the catchments. As stated, this assessment is not site specific.
7. For the purposes of this report a 6% discount rate has been applied.
8. Labour movements are based on average retention rates rather than specific company locations.
9. The proportion of materials and labour internalised in direct benefits to Auckland are based on standardised labour movements as well as employment, depicted in Tables 1, and production composition within the Region. The amount of each 'flow-on' dollar retained in Auckland are based on the movement of resources (including labour) between other districts and regions.

² Business Frame Data – provides Statistics NZ measure of employment in an area by ANZSIC sector.

Table 1 outlines the resulting impacts on the Auckland economy as a result of the development.

TABLE 1: TOTAL GROSS AUCKLAND ECONOMIC INJECTION (FASTTRACK)

(\$m)	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Earthworks and Civil		\$21.0	\$21.0	\$20.0	\$20.0							\$82.0
Civil Consultants		\$1.5	\$1.5	\$1.5	\$1.5							\$6.0
Levies					\$2.5	\$2.5	\$2.4					\$7.4
Infrastructure		\$7.5	\$7.5									\$15.0
Development Costs		\$30.0	\$30.0	\$21.5	\$24.0	\$2.5	\$2.4					\$110.4
Construction			\$23.2	\$31.0	\$49.0	\$53.6	\$54.3	\$45.6	\$42.5	\$36.3	\$24.5	\$360.0
Land	\$100.0											\$100.0
Total Costs	\$100.0	\$30.0	\$53.2	\$52.5	\$73.0	\$56.1	\$56.7	\$45.6	\$42.5	\$36.3	\$24.5	\$570.4
Operating Production (Non-Residential)				\$5.5	\$6.5	\$9.0	\$10.3	\$10.6	\$10.9	\$10.3	\$10.3	\$73.4
												\$0.0
CAPEX (Plus Final Demand)		\$30.0	\$53.2	\$58.0	\$79.5	\$65.1	\$67.0	\$56.2	\$53.4	\$46.5	\$34.8	\$543.7
Multiplier												\$0.0
Total Auckland output		\$58.6	\$95.0	\$102.5	\$135.1	\$106.2	\$102.8	\$82.8	\$75.4	\$63.0	\$47.1	\$868.6
Development Employment		396	396	284	317	32	32					
Construction Employment			282	506	753	772	719	580	513	461	296	
Total Employment		396	707	909	1,197	941	911	734	668	560	388	7,411

The preceding table illustrates that the total impact on business activity within Auckland as a result of the Karaka North development over a 10-year period is estimated to be in the order of \$867 million.

In terms of employment multipliers this would contribute nearly 1,200³ jobs during the peak construction year within Auckland, with a total number of FTE's at 7,410 over the period.

The following table outlines the potential distribution of costs and timeframes based on a standard consent procedure. The fundamental differences here are not only the extended consenting timeframe but the fact that the applicant is more likely to apply for a consent on a stage-by-stage basis, also separating out consents for the local centre and venue building.

³ NB These are all jobs created through the direct construction phase including indirect and induced employment through all business sectors (not solely construction jobs).



TABLE 2: TOTAL GROSS AUCKLAND ECONOMIC INJECTION (STANDARD)

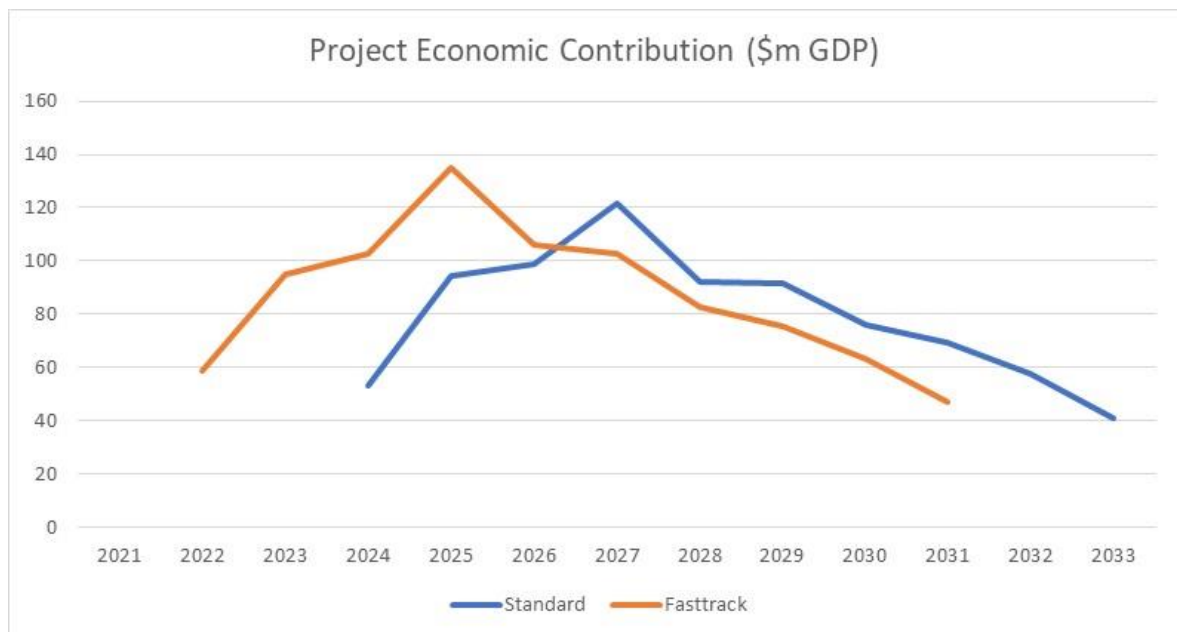
(\$m)	2021	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
Earthworks and Civil		\$21.0	\$21.0	\$20.0	\$20.0							\$82.0
Civil Consultants		\$1.5	\$1.5	\$1.5	\$1.5							\$6.0
Levies			\$2.5	\$2.5	\$2.4							\$7.4
Infrastructure		\$7.5	\$7.5									\$15.0
Development Costs		\$30.0	\$32.5	\$24.0	\$23.9							\$110.4
Construction			\$23.2	\$31.0	\$49.0	\$53.6	\$54.3	\$45.6	\$42.5	\$36.3	\$24.5	\$360.0
Land	\$100.0											\$100.0
Total Costs	\$100.0	\$30.0	\$55.7	\$55.0	\$72.9	\$53.6	\$54.3	\$45.6	\$42.5	\$36.3	\$24.5	\$570.4
Operating Production (Non-Residential)				\$5.5	\$6.5	\$9.0	\$10.3	\$10.6	\$10.9	\$10.3	\$10.3	\$73.4
												\$0.0
CAPEX (Plus Final Demand)		\$30.0	\$55.7	\$60.5	\$79.4	\$62.6	\$64.6	\$56.2	\$53.4	\$46.5	\$34.8	\$543.7
Multiplier												\$0.0
Total Auckland output		\$53.0	\$94.6	\$98.7	\$121.8	\$92.2	\$91.4	\$76.2	\$69.1	\$57.5	\$40.9	\$795.4
Development Employment		396	429	310	316							
Construction Employment		0	342	429	623	655	629	604	518	424	272	
Total Employment		435	776	810	999	756	749	627	567	471	336	6,529

The table illustrates a total contribution to GDP through to 2034 of circa \$800m with just over 6,500 total year jobs created. Additionally, by 2030 the standard application process will have contributed approximately \$200m less than the FastTrack applications. The reasons for the significant decrease from the FastTrack application include:

- The longer time for development and therefore lower proportional sell-down
- The application of Net Present Value (where \$1 early is worth more than the same \$1 a year later, the discount rate 6%)
- The FastTrack application assessment runs 2 years less (to 2031) the period of activity is less under this scenario, and therefore the NPV is higher.

Figure 1 graphically illustrates the temporal economic contribution of each approach.

FIGURE 1: ECONOMIC CONTRIBUTION BY APPLICATION



2. OTHER ECONOMIC COSTS AND BENEFITS

Due to the nature of the project assessed, there are a range of potential economic costs and benefits that are likely to be achieved within the market beyond the direct economic activity (employment and GDP) generated.

ECONOMIC BENEFITS:

1. **Increased Land / Dwelling Supply:** The proposed land area has the ability to supply the market with an additional 627 dwellings increasing capacity within a single master-planned area. This provides not only the ability for the area to improve its responsiveness to growth demands but itself facilitate further growth within the area with an increase in overall competitiveness.

Additionally, this provides clear direction to the market regarding both its ability to meet future demand pressures and its provision through an efficient site location and size.

2. **More Affordable Housing:** The potential provision of additional feasible residential development capacity within the wider area is likely to have the impact on reducing counterfactual land values. A significant contributor to residential property values is the underlying land values impact by growth expectations and supply.

The identification of additional residential land areas suitable for development is likely to reduce price pressure in the local and surrounding markets.

3. **Greater Housing Choice:** A development area over 627 sites offers with it the opportunity for a mix of residential options, with potential for increased density than that offered in a more fragmented development environment.
4. **Decreased Marginal Infrastructure Costs:** Once again the opportunity to masterplan an area has the potential to bring with it, economies of scales and lower marginal infrastructure costs. Additionally, the 'future provision and identification' of this area allows for the future proofing of the area and the community and private infrastructure requirements.
5. **Impact on Current Employment Levels:** While Covid-19 has had a less significant impact on the general economy than initially estimated, it is clear that the next few years represent uncertain times with several crucial sectors likely to experience significant downturns and considerable restricting.

While the sectors that are likely to benefit directly by this proposed development are not necessarily the hardest 'hit' sectors of the economy, they do contribute substantially to overall community wellbeing and will support greater spend and general economic activity that in turn supports greater activity in the affected sectors

6. **Local Centre Employment and Convenience:** Centres generate employment opportunities and convenience retail / services and amenity for residents. These are highly valued hedonic characteristics for homebuyers, particularly when so proximate for frequently required purchases.
7. **Lower Transport Costs:** Reduced congestion and traffic in larger, destination centres. Convenience centres are able to ease pressure off larger centres by providing some day-to-day retail and commercial service options that would otherwise be provided by larger centres.

ECONOMIC COSTS:

1. **Decreased Residential Intensity Impetus:** As with the provision of any residential locational choice that provides for new areas, the development of greenfield land is likely to impact upon the impetus for the intensification of existing urban areas.
2. **Opportunity Cost of Land:** An essential part of urban development economics is ensuring the efficient allocation of land to maximise the efficiency of the network and provide the greatest value. Although most land, is ultimately more valuable on a per sqm basis when it is used for residential activity, there is a cost associated with the loss of production. With moderate productive uses on the Karaka land at present, this reduces the opportunity cost of loss of productive land

On balance, Property Economics consider the potential economic benefits of the Karaka North Village development significantly outweigh the potential economist costs



3. SUMMARY

Overall, the project represents a significant opportunity for the Regional and local economies to protect, sustain and grow jobs and income, provide additional job opportunities and income, while also providing additional competitive residential opportunities.

It is important to note that these benefits exist within a timeframe that is likely to see significant uncertainty in development opportunities and a lower appetite for risk, impacting on both the construction and productive base of the Regional economy.