

**IN THE MATTER** of the Resource Management Act 1991

**AND**

**IN THE MATTER** of a submission in respect of the **PROPOSED WAIKATO DISTRICT PLAN** by **AMBURY PROPERTIES LIMITED** pursuant to Clause 6 of Schedule 1 of the Act seeking the rezoning of land at Ohinewai

## **STATEMENT OF EVIDENCE OF PHILIP MARK OSBORNE**

### **1. INTRODUCTION**

1.1 My name is Philip Mark Osborne. I am an economic consultant for the company Property Economics Ltd ("PEL"), based in Auckland. The company provide property development, land use research and impact assessment services to both the private and public sectors throughout New Zealand.

#### **Qualifications and experience**

1.2 My academic qualifications include Bachelor of Arts (History/Economics), Masters in Commerce, and a Masters in Planning Practice and I have provisionally completed my doctoral thesis in developmental economics.

1.3 I have provided economic advice for both local governments throughout New Zealand and central government agencies. Areas of advice relevant to this evidence have included the potential economic impacts of public projects as well as the economic impacts in relation to industrial, commercial and residential land use issues and their influence on economic well-being. I also provide consultancy services to a number of large private sector clients in respect of a wide range of property issues, including economic impact assessments, commercial and industrial market assessments, and forecasting market growth and land requirements across all property sectors.

### **Involvement in the Ohinewai project**

- 1.4 PEL was engaged by Ambury Properties Limited ("APL") to undertake an assessment of economic effects of the proposed Ohinewai Structure Plan ("OSP"), which will enable the development of the "Sleepyhead Estate", on the local and wider regional economies and potential effects on the industrial provision under the WDP.
- 1.5 Two other economists are involved, namely:
- (a) Tim Heath of PEL; and
  - (b) Dr Brent Wheeler of Brent Wheeler Group Limited.
- 1.6 The three of us have collaborated closely in analysing the data available and have all focussed on a different aspect of the economic picture. The retail effects and residential implications outlined in this statement should be read in conjunction with Mr Heath's and Dr Wheeler's statements on the economic impacts of the OSP on the economy. Cumulatively, they provide a more complete picture of the potential economic impacts of APL's proposed development.

### **Purpose and scope of evidence**

- 1.7 The purpose of my evidence is to:
- (a) Assess the potential economic effects, arising out of development of the OSP on the local and regional economies.
  - (b) Provide an economic impact overview quantifying where possible the high-level economic impacts arising out of the development of the components within the OSP that represent a shift of activity into the Region during both the initial construction phase and on an ongoing basis on the regional economy.
- 1.8 Specifically, my evidence will:
- (a) Provide an overview of the OSP and Sleepyhead Estate (Section 3);
  - (b) Outline the localised Ohinewai and Waikato regional economic markets (Section 4);
  - (c) Examine the industrial provision within Waikato District (Section 5);
  - (d) Discuss general economic costs and benefits (Section 6);

- (e) Highlight potential high-level economic activity generation, both during the development phase and the ongoing input to the economy of the development of specific development aspects (Sections 7 - 9); and
- (f) Provide a brief conclusion (Section 10).

1.9 A summary of my evidence is provided in Section 2.

### **Expert Witness Code of Conduct**

1.10 I have read the Code of Conduct for Expert Witnesses, contained in the Environment Court Consolidated Practice Note (2014) and I agree to comply with it. I can confirm that the issues addressed in this statement are within my area of expertise and that in preparing my evidence I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed.

## **2. SUMMARY OF MY EVIDENCE**

2.1 APL proposes a fully masterplanned 178ha mixed-use urban development located around 7km north of Huntly. The primary activity on the site will be a newly built 100,000sqm factory for the Comfort Group ("TCG"), which is intended to be an amalgamation of TCG's Auckland production operations, eventually employing up to 1,000 staff.

2.2 The development will also provide for 106,000 sqm of general industrial activity with an estimated 32,400sqm of commercial space. The residential component is proposed to be approximately 1,100 medium and higher density dwellings targeted specifically at the company's employees in terms of affordability and suitability.

2.3 The market in which TCG is proposing to develop has seen limited growth over the past 18 years. The local catchment has approximately one third of the Waikato District's growth and has seen a relative consistent drop in retention of employment over this period. While the District itself has seen significant growth in employment over the past 18 years (55%), it continues to exhibit lower employment retention than other surrounding districts. This has been driven in part through more rapid population growth without the subsequent employment base, i.e. people living in the district but outside the district, especially in Auckland, and in particular Pokeno.

2.4 The OSP does not represent not simply the provision of additional business and residential capacity but the direct provision of jobs. As indicated earlier,

there are fundamental operational reasons underlying the choice of this specific site for TCG to relocate its operations to. A site selection process did not identify any other sites that met TCG's locational criteria.

- 2.5 The development itself has some more general benefits associated with its development and operation and including:
- (a) Increased employment opportunities;
  - (b) Improved amenity and infrastructure efficiencies;
  - (c) Providing a catalyst for further investment;
  - (d) Increased rating database;
  - (e) Housing options that are more affordable than in the Auckland market; and,
  - (f) Improved employment retention and productivities.
- 2.6 More specifically, the development and operation of The Sleepyhead Estate and the additional (unique) increased households will have a direct impact upon the regional and local economies.
- 2.7 In terms of the construction impact over the 10-year period, it has been estimated that the development will contribute \$644m in NPV and provide for approximately 225 jobs per annum within the Region. Locally this level of development is likely to add \$100m over the 10-year period of construction and provide for an additional 42 jobs per annum.
- 2.8 To be conservative, the operative impacts are limited to the TCG operations as well as the estimated additional households that would be accommodated within the region and local catchment due these specific operations. As such, these activities (at capacity – 100,000sqm factory and 30% of the households being associated with the TCG relocation), the impact on the Region would be in the order of \$222m per annum supporting 1,265 jobs.
- 2.9 While the local catchment would support an additional 5,000sqm of retail GFA capturing a further \$25m in retail spend and provide for an additional 1,088 jobs within the Ohinewai catchment. In terms of the OSP's other key findings:
- (a) This development is unique which means it generates additional employment, and hence residents who would likely not have located there in the absence of the development. Because it is unique and

therefore unaccounted for in the relevant plans, it is not expected to undermine the strategic industrial nodes or planned residential developments.

- (b) The development is expected to generate an additional \$6.4m in convenience retail spend which can support around 2,500 sqm of floorspace including commercial service.
- (c) Promoting the use of the rail ensures net benefits to the transportation network and supports the growth and development of the rail network within the 'Golden Triangle'.

### **3. THE SLEEPYHEAD ESTATE PROJECT**

- 3.1 TCG owns and operates two factories within the Auckland Region: the Dunlop Foams factory in Avondale and a Sleepyhead Manufacturing factory in Otahuhu, with warehousing in Glen Innes. As outlined in Mr Turner's evidence, the existing facilities have significant site restrictions and are considered to be past their "use by" date (or useful economic life).
- 3.2 This new development is designed to achieve two main goals for the company:
  - (a) To consolidate and expand their current operations at one location, thus improving TCG's productive efficiency.
  - (b) To create an opportunity to provide housing for their employees that are more affordable than in the Auckland housing market, given that TCG's workers typically earn lower wages and face financial difficulties securing more permanent living arrangements in Auckland.
- 3.3 TCG's full development is proposed to be a 178ha mixed-use urban development at the Ohinewai site, which is located at 52-58 Lumsden Road, 88 Lumsden Road and 231 Tahuna Road around 7km north of Huntly travelling on State Highway 1 ("the site").
- 3.4 The primary activity on the site will be a newly built 100,000sqm TCG factory (on a site of 37ha), which is intended to be an amalgamation of TCG's production operations, eventually employing more than 1,000 staff.
- 3.5 The development will also provide for 106,000 sqm of general industrial activity (on a further site area of 26ha) with an estimated 32,400sqm (8.7ha)

of commercial space and potential for a further estimated 1,000 jobs, giving an estimated 2,600 ongoing jobs operating across the whole development.

3.6 Currently, the site is predominantly vacant of improvements aside from a few rural properties and is primarily comprised of lower-lying rural farmland which has necessitated the requirement for significant civil works. The estimated economic contribution of this site as an operating farm is outlined in the economic evidence of Dr Wheeler (paragraph 10.3(d)) which indicates a minimal contribution of \$931,000 per annum or \$13.9 million (NPV) in total over an 18 year period.

3.7 Table 1 provides a summary of the land use areas including the factory, industrial and commercial components of the proposed development.

**Table 1: Proposed Ohinewai Development Land Uses**

| Land Use         | Net Land Use Area (ha) |
|------------------|------------------------|
| Industrial       | 56.5                   |
| Commercial       | 8.6                    |
| Residential      | 32.7                   |
| Open Space       | 59.8                   |
| Internal Roading | 20.9                   |
| <b>Total</b>     | <b>178.5</b>           |

Source: Property Economics, The Comfort Group

3.8 The residential component of the proposed development has a land coverage of 32.7ha net and is planned to accommodate approximately 1,100 homes. Two-thirds of these homes are expected to be higher density terraced housing, with the balance general density stand-alone housing.

3.9 The remaining 59.8ha of the development is accounted for by open space and reserve areas. It is my understanding that if the residential component of the TCG development does not proceed for want of a suitable zoning, the entire development is unlikely to proceed.

3.10 The development itself has some more general benefits associated with its operation and development including:

- (a) Increased employment opportunities;
- (b) Improved competitive industrial location (due primarily to the proposed rail siding);
- (c) Improved amenity and infrastructure efficiencies;

- (d) Expanded economic activity;
- (e) Housing options for employees associated with the industrial activities; and
- (f) Improved retention (retail and employment) and productivities.

3.11 The Sleepyhead Factory, commercial and other industrial activities are primarily located to the western half of the development (closer to SH1 and the main trunk railway line), while residential activities and open space / reserve areas extend to the east.

#### **4. ASSESSMENT OF THE ECONOMIC IMPACTS OF INDUSTRIAL COMPONENT**

4.1 This section outlines the key economic considerations that are relevant in the context of the Resource Management Act 1991 ("RMA") in relation to the proposed industrial activity in the OSP.

##### **Key industrial site requirements**

4.2 The location decision process of many companies is often complex and is specific to each business and its operational and functional requirements. There are, however, a set of key locational criteria that assist to provide an understanding of the factors shaping business location, albeit to varying degrees. These comprise:

- (a) Undisrupted water and electricity supply.
- (b) Digital capability.
- (c) Close proximity / good access to transportation hubs.
- (d) Proximity to an appropriate labour supply.
- (e) Location of customers/target markets (domestic and international).
- (f) Access to major road corridors.
- (g) Location of suppliers.
- (h) Room for potential expansion and growth on the site.
- (i) Land and property costs.
- (j) Potential to secure resource consent.

- (k) Level of congestion in peak times.
  - (l) Exposure / profile.
- 4.3 The considerable scale of the Sleepyhead factory itself, covering 37ha, and TCG's desire to support their employees by providing access to housing that they can better afford, has made it difficult to fit the development around current industrial hubs. By creating a unique complex with mixed land uses in a master planned environment, TCG is able to manage the negative externalities of mixing industrial or business land with residential dwellings that would otherwise be difficult to manage.
- 4.4 TCG has a strong commitment to its worker base with many employee families having worked for the company for generations. With housing affordability a growing issue in Auckland for many of the company's workers, TCG intends to provide housing that is more affordable than the Auckland market and is working on ways to assist their workers into housing ownership such as shared equity / ownership and rent to buy schemes.
- 4.5 TCG's existing manufacturing facilities in Auckland have significant restrictions and are past their useful economic life resulting in manufacturing inefficiencies that are adversely impacting upon the company's competitiveness. The consolidation of all its TCG's Auckland into a single hub would address these issues and allow for further expansion which is another important site requirement given the level of infrastructure investment required in the factory. In this regard, any potential site had to be larger than the existing requirements to provide scope for the company's future operations the company's operations.
- 4.6 Given the scale of the manufacturing operation, and the considerable raw material input requirements from Tauranga and Auckland Ports (and redistribution of products to those ports for export), significant efficiencies can be expected from a site with direct access to the main trunk railway line and SH1 network.
- 4.7 Additionally, significant portions of the land in the large industrial hub of Ruakura are currently leasehold which would not give TCG the certainty the company requires to justify the investment in such a significant facility, nor enable development of the residential dwellings proposed. The Ohinewai site was strategically chosen despite the additional costs required in civil works as it fits with the above criteria.



4.8 On balance, the site is considered to better satisfy the key industrial locational criteria in this unique circumstance than other industrial zoned options in the wider Waikato Region. The scale of TCG’s site requirement of circa 35-40ha narrows down the options considerably, and is of such a scale that the Sleepyhead Factory could not be sleeved into an existing industrial area and meet TCG specific site requirements from an operational and function perspective, as well as its objective of increasing the competitiveness of the business from both an international and domestic perspective.

**Existing Industrial Nodes**

4.9 A key economic consideration for in respect of APL’s submission is whether the development would impact upon the role of the strategic industrial nodes as previously identified in the Waikato Regional Policy Statement (WRPS).

4.10 The most relevant policy of the WRPS from an economic perspective relating to the TCG development is Policy 6.14 (e) which states:

*‘new industrial development outside the strategic industrial nodes or outside the allocation limits set out in Table 6-2 shall not be of a scale or location where the development undermines the role of any strategic industrial node as set out in Table 6-2;’.*

4.11 For completeness, see is Table 6-2 of the WRPS below:

Table 6-2 WRPS:

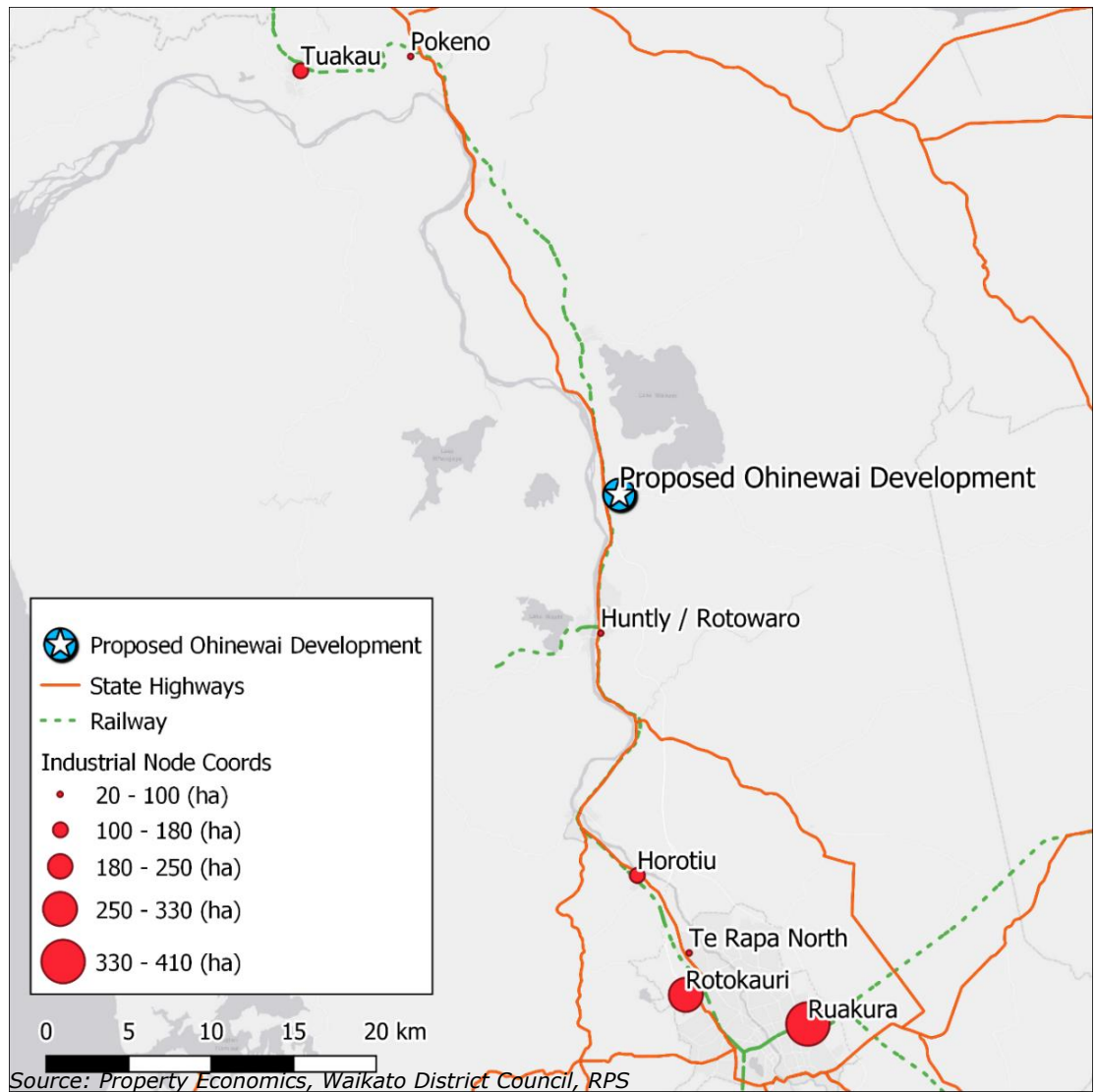
| Strategic Industrial Nodes located in Central Future Proof area (based on gross developable area) | Industrial land allocation and staging (ha) |              |              | Total Allocation  |
|---|---|--------------|--------------|-------------------|
|   | 2010 to 2021                                | 2021 to 2041 | 2041 to 2061 | 2010 to 2061 (ha) |
| Rotokauri   | 85  | 90           | 90           | 265               |
| Ruakura   | 80  | 115          | 210          | 405               |
| Te Rapa North   | 14  | 46           | 25           | 85                |
| Horotiu   | 56  | 84           | 10           | 150               |
| Hamilton Airport  | 74  | 50           | 0            | 124               |
| Huntly and Rotowaro   | 8   | 8            | 7            | 23                |
| Hautapu   | 20  | 30           | 46           | 96                |
| <b>TOTAL HA</b>   | <b>337</b>                                  | <b>423</b>   | <b>388</b>   | <b>1,148</b>      |

4.12 The policy position adopted by the RPS is that in order to release alternative land for industrial development, a proposal would only be considered if doing so would maintain or enhance the safe and efficient function of existing or

planned infrastructure when compared to the release of land within the industrial nodes.

- 4.13 Figure 1 below shows the locations of the identified industrial nodes within the region with the comparative scale of the land encompassed.
- 4.14 Importantly, being a unique and unforeseen proposal in the industrial land demand projections, TCG's Sleepyhead mega factory (in a NZ context) is unlikely to detract from the forecast demand utilised to support the above zoning of industrial land within FutureProof and the RPS, i.e. the industrial demand generated as a result of Sleepyhead Factory is additional to the industrial land demand projections in FutureProof.
- 4.15 In fact, the development of such an extensive facility within Waikato would require additional support services that are likely to positively contribute to jobs and the local economy by providing a stimulus to increase demand for the identified industrial areas, i.e. the Waikato industrial market is likely to grow at a faster rate than projected in strategic planning documents with the injection of the Sleepyhead Factory in the market, rather than the counterfactual. This is particularly true with the OSP encouraging industrial growth in Huntly given its close proximity and large township.

**Figure 1: Industrial Nodes in Waikato District and Northern Hamilton**



Source: Property Economics, Waikato District Council, RPS

4.16 For completeness, not all of the business operations that will utilise the balance of the Ohinewai industrial area will be unique / additional to Waikato. However, the opportunity at this location is only available as a direct result of the Sleepyhead factory establishing and the limited amount of developable and vacant industrial land in Huntly means the proposed Ohinewai node is the only practical industrial land provision in the Ohinewai / Huntly area for TCG development, especially when considering Sleepyhead’s unique site and location requirements as outlined earlier.

- 4.17 Furthermore, it is unlikely that industrial business serving the Hamilton market would garner significant benefit from locating in Ohinewai and therefore the Ohinewai industrial area is, in my opinion, unlikely to have any consequential impact on the WRPS and FutureProof strategy industrial nodes.
- 4.18 Overall, the industrial node within the OSP is likely to provide a net economic benefit to Huntly, Waikato District and the Waikato Region without undermining existing strategic industrial nodes by generating a net increase in industrial employment and employment opportunities across the areas, increase business activity within the local, district, and regional economy and improve the economic wellbeing of the community.
- 4.19 There is further support for this location as a competitive industrial area beyond that outlined in the Waikato District Council's 'District and Local Area Blueprints'<sup>1</sup> and the Waikato District Growth and Economics Development Strategy, Waikato 2070. In January 2020, Waikato District Council commissioned a report from 'Prosperous Places'.<sup>2</sup> This report found that under a 'high growth strategy' there was demand for 460ha<sup>3</sup> of industrial land within the District over the next 30 years, which is well in excess of the currently planned capacity.
- 4.20 The report found under a 'minimum regrets policy' that '*a developable, useable' industrial area of at least 280ha should be immediately planned for at Ohinewai*<sup>4</sup>.

## **5. EXISTING LOCALISED OHINEWAI ECONOMY**

- 5.1 The following sections assess the potential economic impact of the OSP at a regional level, in terms of both initial construction phase benefits and on an annualised ongoing economic benefit once the development is operational and functioning.
- 5.2 Figure 2 below illustrates the localised Ohinewai economic catchment for the OSP. It extends from Taupiri in the south, incorporates Huntly, and encompasses rural areas northwards to Mercer. The catchment is based on

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1 Waikato Blueprint District and Local Area Blueprints Waikato District Council June 2019, Ohinewai page 76

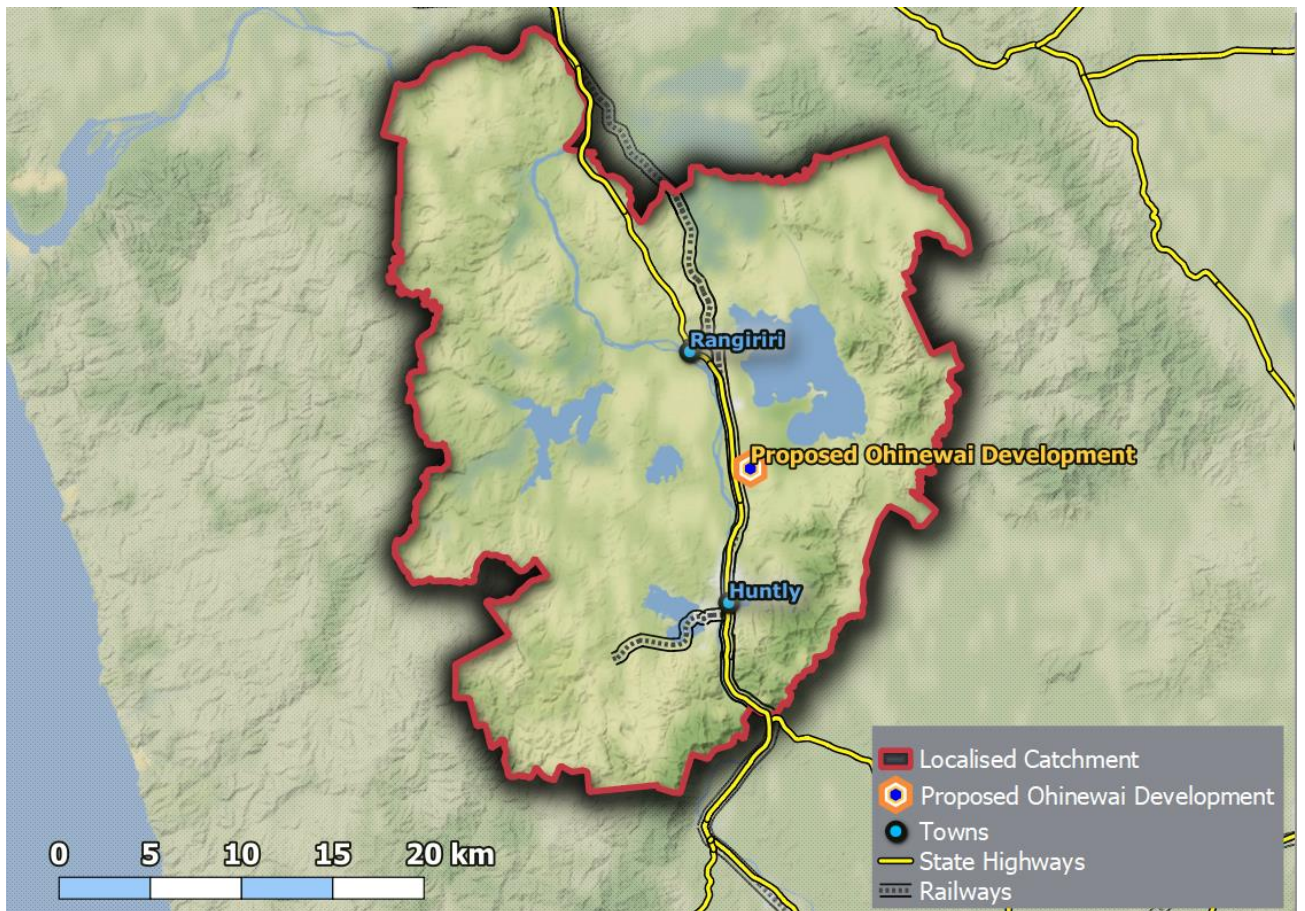
2 Industrial Land Evaluation: Suitability of Industrial Land for Different Types of Industrial and Services Uses, North Huntly / Ohinewai and Taupiri, January 2020

3 Industrial Land Evaluation: Suitability of Industrial Land for Different Types of Industrial and Services Uses, North Huntly / Ohinewai and Taupiri, January 2020 Table 2.1, page 5

4 Industrial Land Evaluation: Suitability of Industrial Land for Different Types of Industrial and Services Uses, North Huntly / Ohinewai and Taupiri, January 2020, page 35

the road network, geographic features, Statistics NZ statistical areas, proximity to major urban areas and proximity to commercial centres.

**Figure 2: OSP Localised Catchment**



Source: Property Economics

- 5.3 While the development will inevitably draw commercial and industrial employees from beyond this catchment, the identified area represents a core economic market that localised activity would service on a more frequent basis.
- 5.4 As indicated by Table 2, this area is dominated by primary and secondary industries which are transiting away from the staple agriculture (in terms of employment).

**Table 2: 'Localised' Ohinewai Employment Activity and Trends**

|   | 2000         | 2003         | 2006         | 2009         | 2012         | 2015         | 2018         | Net Growth (2000-2018) | Percentage Growth (2000-2018) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------------------|-------------------------------|
| A Agriculture, Forestry and Fishing               | 895          | 943          | 510          | 523          | 813          | 515          | 503          | -392                   | -43.8%                        |
| B Mining  | 238          | 392          | 442          | 496          | 373          | 265          | 166          | -72                    | -30.3%                        |
| C Manufacturing                                   | 346          | 468          | 555          | 331          | 350          | 446          | 437          | 91                     | 26.3%                         |
| D Electricity, Gas, Water and Waste Services      | 85           | 200          | 259          | 329          | 377          | 393          | 371          | 286                    | 336.5%                        |
| E Construction                                    | 184          | 205          | 293          | 255          | 250          | 329          | 359          | 175                    | 95.1%                         |
| F Wholesale Trade                                 | 64           | 51           | 48           | 76           | 57           | 63           | 51           | -13                    | -20.3%                        |
| G Retail Trade                                    | 311          | 282          | 241          | 198          | 245          | 268          | 254          | -57                    | -18.3%                        |
| H Accommodation and Food Services                 | 213          | 232          | 177          | 193          | 227          | 224          | 198          | -15                    | -7.0%                         |
| I Transport, Postal and Warehousing               | 129          | 121          | 199          | 202          | 193          | 136          | 148          | 19                     | 14.7%                         |
| J Information Media and Telecommunications        | 6            | 15           | 12           | 12           | 21           | 21           | 24           | 18                     | 300.0%                        |
| K Financial and Insurance Services                | 36           | 23           | 31           | 36           | 31           | 12           | 18           | -18                    | -50.0%                        |
| L Rental, Hiring and Real Estate Services         | 33           | 30           | 40           | 50           | 59           | 52           | 63           | 30                     | 90.9%                         |
| M Professional, Scientific and Technical Services | 65           | 56           | 64           | 74           | 64           | 63           | 56           | -9                     | -13.8%                        |
| N Administrative and Support Services             | 27           | 18           | 63           | 128          | 124          | 81           | 78           | 51                     | 188.9%                        |
| O Public Administration and Safety                | 103          | 87           | 67           | 49           | 432          | 439          | 497          | 394                    | 382.5%                        |
| P Education and Training                          | 379          | 382          | 395          | 420          | 475          | 490          | 438          | 59                     | 15.6%                         |
| Q Health Care and Social Assistance               | 175          | 178          | 240          | 246          | 324          | 339          | 400          | 225                    | 128.6%                        |
| R Arts and Recreation Services                    | 39           | 45           | 39           | 48           | 27           | 24           | 67           | 28                     | 71.8%                         |
| S Other Services                                  | 105          | 118          | 110          | 111          | 103          | 78           | 85           | -20                    | -19.0%                        |
| <b>Grand Total</b>                                | <b>3,433</b> | <b>3,846</b> | <b>3,785</b> | <b>3,777</b> | <b>4,545</b> | <b>4,238</b> | <b>4,213</b> | <b>780</b>             | <b>22.7%</b>                  |
|   | 2000         | 2003         | 2006         | 2009         | 2012         | 2015         | 2018         | Net Growth (2000-2018) | Percentage Growth (2000-2018) |
| Commercial  | 345          | 320          | 389          | 483          | 643          | 581          | 625          | 280                    | 81.0%                         |
| Industrial  | 862          | 1,039        | 1,268        | 1,065        | 1,082        | 1,170        | 1,173        | 311                    | 36.1%                         |
| Other   | 1,734        | 2,008        | 1,737        | 1,868        | 2,382        | 2,029        | 1,992        | 259                    | 14.9%                         |
| Retail  | 492          | 479          | 391          | 362          | 438          | 458          | 422          | -70                    | -14.2%                        |
| <b>Grand Total</b>                                | <b>3,433</b> | <b>3,846</b> | <b>3,785</b> | <b>3,777</b> | <b>4,545</b> | <b>4,238</b> | <b>4,213</b> | <b>780</b>             | <b>22.7%</b>                  |

Source: Property Economics, Statistics NZ

5.5 The data shows an overall net employment increase within Ohinewai's localised economy of 23% over the assessed period, with the key growth sectors being Utilities, Public Service and Health having significant proportional growth, albeit the nominal employment base across many of these sectors are relatively low. Without these three sectors the productive sectors of the local economy fell over this period.

5.6 Over the same time frame, Auckland employment rose by a net 40% and the Waikato District by over a net 55% with the two key growth sectors being Construction and Manufacturing, which accounted for over 2,200 new jobs for this period. While these sectors grew in Ohinewai's local economy, they grew considerably slower in that are than in the wider district and the Waikato Region.

- 5.7 Although Agriculture remains, marginally, the largest single employment sector in Ohinewai’s localised economy, it has diminished as an employer by over 40% in the last 18 years. This indicates that the local economy has developed (and continues to develop) a more diversified economic base and places increasingly less reliance on its traditional rural base. Hence, for this area to continue to provide for the local resident population, the local economy must seek to encourage employment in other sectors at least at a rate commensurate with the District.
- 5.8 Table 3 outlines the comparative Waikato Regional employment and illustrates the significant role Agriculture, Mining and Utilities play in the economy. Locally, the economic reliance on mining and utilities have the potential to leave the sustainable medium- and long-term economic well-being vulnerable without significant investment in alternative industries.

**Table 3: Comparative Regional Employment Activity and Trends**

|   | Employment | Industry share of the Region | Employment | Industry share of the Nation |
|---|------------|------------------------------|------------|------------------------------|
| Agriculture, Forestry and Fishing               | 17,900     | 9.2%                         | 121,000    | 5.4%                         |
| Mining  | 1,150      | 0.6%                         | 5,100      | 0.2%                         |
| Manufacturing                                   | 24,200     | 12.4%                        | 249,600    | 11.1%                        |
| Electricity, Gas, Water and Waste Services      | 2,350      | 1.2%                         | 18,800     | 0.8%                         |
| Construction                                    | 15,900     | 8.2%                         | 169,300    | 7.6%                         |
| Wholesale Trade                                 | 7,000      | 3.6%                         | 111,800    | 5.0%                         |
| Retail Trade                                    | 19,300     | 9.9%                         | 217,500    | 9.7%                         |
| Accommodation and Food Services                 | 14,100     | 7.2%                         | 164,700    | 7.4%                         |
| Transport, Postal and Warehousing               | 6,100      | 3.1%                         | 96,200     | 4.3%                         |
| Information Media and Telecommunications        | 1,700      | 0.9%                         | 33,700     | 1.5%                         |
| Financial and Insurance Services                | 2,450      | 1.3%                         | 58,300     | 2.6%                         |
| Rental, Hiring and Real Estate Services         | 2,650      | 1.4%                         | 35,100     | 1.6%                         |
| Professional, Scientific and Technical Services | 12,400     | 6.4%                         | 161,500    | 7.2%                         |
| Administrative and Support Services             | 7,600      | 3.9%                         | 117,400    | 5.2%                         |
| Public Administration and Safety                | 9,700      | 5.0%                         | 136,400    | 6.1%                         |
| Education and Training                          | 17,700     | 9.1%                         | 187,500    | 8.4%                         |
| Health Care and Social Assistance               | 22,000     | 11.3%                        | 239,500    | 10.7%                        |
| Arts and Recreation Services                    | 4,150      | 2.1%                         | 40,900     | 1.8%                         |
| Other Services                                  | 6,200      | 3.2%                         | 74,600     | 3.3%                         |
| Total   | 194,550    | 100.0%                       | 2,238,900  | 100.0%                       |

## 6. GENERAL ECONOMIC COSTS AND BENEFITS

- 6.1 The following analysis of the economic costs and benefits associated with the Ohinewai development is not intended to be an exhaustive list of all impacts of the proposed development, but rather a primary list of the costs and benefits considered most appropriate to assess.
- 6.2 At this stage the counterfactual position is considered to be that the site continues to operate as agricultural without the additional activity. This cost

has been identified in Dr Wheeler's evidence as \$13.9 over 18 years (see paragraph 3.6 above).

- 6.3 There are essentially seven primary issues that relate to the net economic benefit of aspects of the proposed development.

#### **Opportunity and equity**

- 6.4 The development of the TCG factory and associated housing has the potential to increase the opportunity for employment retention within the region, district and local catchment. The opportunity to retain employment is vital for the economic well-being of these economies. This, in turn, is likely to increase population growth and provide greater economies of scale and productivity.

#### **Sign of investment confidence**

- 6.5 This aspect involves both APL and TCG's commitment to the investment and its potential impact as a catalyst to other developments within the OSP and a general signal to the wider regional (and national) economy regarding the willingness of the market to accept risk post Covid.

#### **Increased rating database**

- 6.6 The relocation of activities and growth from areas such as Auckland brings with it rating value to the Regional and district economies.

#### **Improved competitiveness**

- 6.7 Development of the site requires a considerable level of investment into infrastructure (such as the rail siding) that provides improves the attractiveness of the local area as well as the District for industrial activities.

#### **Increased retention**

- 6.8 Increased retention of employment provides for less travel, greater levels of amenity, and improved community investment.

#### **Operational Efficiencies**

- 6.9 Along with increasing labour productivities the development of additional employment and households is likely to improve overall business efficiencies increasing the competitive environment both locally and for the District. These improved densities are also likely to improve community infrastructure provision and lower marginal costs.



## **Housing**

- 6.10 A key consideration for TCG is the ability for employees to be located within an area that is more affordable to them than Auckland. A key driver of unaffordable housing is the demand directed through business location. TCG's motivation is to redirect that demand to an area that typically has lower demand and therefore lower land and build values. This provides their employees with the opportunity to own their own homes.
- 6.11 Additionally, the development of approximately 1,100 dwellings is likely to provide some additional options to the general market while providing greater levels of amenity afford by a masterplanned development. Provision of housing options of \$500,000 and below have been recognised within the housing capacity assessment for the District<sup>5</sup>, indicating insufficient capacity even in the short term.

## **7. POTENTIAL ECONOMIC ACTIVITY GENERATION FROM THE PROPOSED DEVELOPMENT**

- 7.1 My economic impact overview has estimated the total additional gross injection into Waikato Region's business activity brought about by the aspects of the proposed development that are assumed to be 'unique' in terms of an unexpected addition to the regional economy. The proposed development for the purposes of this assessment includes:
- (a) 100,000sqm bespoke Sleepyhead Factory: 22,000sqm to be built within 18 months with a further circa 20,000 every 18 months thereafter;
  - (b) Approximately 20% of the additional 106,000sqm of industrial floorspace (capacity), to be built over 8 years;
  - (c) Approximately 35% (as per Mr Heath's origin of spend from outside the Region for the DFO) 32,400sqm of commercial space: to be built over 6 years; and
  - (d) A total of 350 of the 1,100 dwellings: to be built within the first 3 years with the first 100 entering the market in 2022.

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<sup>5</sup> Housing Development Capacity Assessment 2017 Future Proof Area – Waikato District, Hamilton City and Waipa District, 2018. Figure 74 page 110

- 7.2 The take up of the industrial and commercial floorspace and the number of dwellings built will obviously be influenced by market conditions and the rate of take up may be slower post Covid, until the economy bounces back.
- 7.3 The initial specifications and details have been provided by APL 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 Waikato Regional business activity given the composition of activities above.
- 7.4 Although there are undoubtedly economic benefits that are specific to this location, they are primarily driven by proximity to transport corridors, ownership opportunities, site size and the opportunity costs associated with other sites.
- 7.5 The economic impacts likely to be experienced as a result of the anticipated development are broken down into two phases:
- (a) The development phase which includes the construction costs of the development and the proportion of those costs that are retained within the Region.
  - (b) The second phase is the ongoing operations of the anticipated development in terms of realistic retail spend and employment generation.
- 7.6 Both these phases are measured in terms of their expected direct, indirect, and induced economic impacts upon the regional economy. The direct economic impacts are derived from the actual spending / expenses incurred through the operation of the anticipated development.
- 7.7 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.
- 7.8 Impacts are measured based on initial injections of capital into the Waikato Region due to the 'construction' costs of the development, and the on-going spending and saving associated with the eventual operation of this development. This economic injection then gives rise to a chain of flow-on effects (multiplier effect) through indirect spending from suppliers and a general increase in economic activity.

## **8. THE DEVELOPMENT PHASE**

8.1 This section considers the first phase of the development as outlined above.

### **Total construction activity**

8.2 Stage One includes construction costs, which have been valued for the overall development in two parts. 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, which were then assessed at a Regional level based on Waikato's economic activity, composition and productivities. This estimates the 'leakage' from the regional economy (within specified sectors), and therefore the overall regional production (with a given business cycle) for each \$1 injected.

8.3 Due to build specifics not being available at the time of assessment this was performed for the general residential / commercial / industrial construction, commercial and retail sectors. These multipliers are based on 'net' flows by broad sector type and are therefore approximations.

### **Assumptions**

8.4 The following assumptions have been applied 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 ongoing costs and injections:

(a) For the purposes of preparing the economic impact assessment ("EIA") it was 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'.

(b) Not all economic impacts will be restricted to the Waikato Region, however, the distribution of these wider impacts were not assessed in the EIA or this statement of evidence.

(c) The origin of labour has been assessed based on Regional labour movements furnished by Statistics NZ based on 2013 data. However, employment data has been updated as per the Business Frame data to March 2019.

- (d) The EIA and this statement of evidence address the economic impact of proposed development on Waikato Region. These are specifically the direct impacts related to the operation and construction of the estimated unique aspects of the proposed development.
- (e) The economic activity generated is based on this development partially attracting activity that may not have otherwise located here. As stated, this assessment is not site specific (although the site has several attributes, as previously mentioned, that meet a specific need for TCG). As such several activities are not included in the final 'net' impact.
- (f) For the purposes of this assessment, a 6% discount rate has been applied.
- (g) Labour movements are based on average retention rates rather than specific construction company locations.
- (h) The proportion of materials and labour internalised in direct benefits to Waikato are based on standardised labour movements as well as employment (depicted in Tables 4 and 5 following) and production composition within the Region. Specific construction assumptions include:
  - (i) Civil works: \$225m.
  - (ii) Rail siding: \$60m.
  - (iii) Pedestrian / cycle lanes: \$10m.
  - (iv) Road alignments: \$15m.
  - (v) Three Waters infrastructure: \$60m.
  - (vi) TCG Factory build costs have been applied at \$1,100 per sqm.
  - (vii) Residential build costs have been applied at \$2,500 per sqm

8.5 While Dr Wheeler's evidence has identified the economic impact resulting from the entire OSP, I have assessed only the unique activities that will relocate to the Waikato Region as a result of the OSP.

8.6 This assessment gives a degree of perspective to the activities that do not simply cater for expected growth but provide increased impetus including:

- (a) The Sleepyhead Factory and its operations;

- (b) Approximately 35% of the retail provision (Table 7 of Mr Heath’s evidence); and
- (c) The development relocates approximately 300 new households into the Regional economy (primarily relocation of existing Sleepyhead workers).

**Table 4: Estimated Construction Economic Impact on Waikato Region (NPV)**

|                            | Total Impact (\$m) |
|----------------------------|--------------------|
| Factory                    | \$110              |
| Retail                     | \$29               |
| Industrial                 | \$30               |
| Residential                | \$132              |
| Civil Works                | \$168              |
| Infrastructure             | \$113              |
| Pre-Construction Services  | \$46               |
| Post-Construction Services | \$15               |
|                            | <b>\$644</b>       |

*Source: Property Economics*

- 8.7 Table 4 illustrates that the total initial impact on business activity within Waikato Region as a result of the construction of the proposed OSP development is estimated to be in the order of \$644 million.
- 8.8 In terms of employment multipliers, this would contribute, on average, approximately 225 employees per annum over the 10-year period. This is based on completion of the entire development by 2031.

**9. THE SECOND PHASE - ONGOING ECONOMIC INJECTION**

- 9.1 Once again, a key assumption of the economic activity generated through the OSP is that, although the location of this site is crucial, it is not site specific.
- 9.2 The key assumptions regarding the on-going activity are as follows:
  - (a) The TCG operation will employ circa 1,000 employees.
  - (b) The TCG operation has an indicative (non-labour) operating cost of \$45m per annum.
  - (c) The retention of retail expenditure (through increased employment and household spend) is based on the current level of retail provision with an additional 20% of the commercial retail space proposed

servicing the local population. Once again, the proposed provision of retail here does not necessarily result in unique activity as it will redirect existing and future growth from other regional locations. This split will be highly dependent on the specific developed retail offer.

- (d) It has been assumed that the development will be at full capacity by 2031.
- (e) 100% of TCG workers (at capacity) will live in the Waikato Region and no current workers reside within the Region (apart from the few that are currently bussed to Auckland for work experience).
- (f) The unique nature of the business impacts are limited to the TCG operations, additional retail spend attracted regionally, and associated 'additional' household growth.
- (g) Given the objective of TCG to provide housing that its staff can better afford, it is assumed that 70% of the residential development will be 'absorbed' through unique employment growth, i.e. if existing local workers move to 'new' TCG jobs their current job / existing employment creates an opportunity for the local market, so it creates net new jobs taken up by new employees. What the OSP would not result in is the loss of other jobs already in the economy.

9.3 At capacity the unique injection into the Waikato Regional economy is estimated at \$222m per annum (in 2019 dollars) with an additional 1,265 EC's generated (1,000 of which are Sleepyhead employees).

**Table 5: Total On-going Economic Activity Generated Regionally at Capacity (2019 \$)**

|                              | Impact (\$m) |
|------------------------------|--------------|
| Direct Factory Expenditure   | \$45         |
| Household Income             | \$38         |
| DFO Retail Spend             | \$29         |
| Direct Associated Industrial | \$14         |
|                              | \$222        |

Source: Property Economics

### **Local market impact**

- 9.4 The localised Ohinewai catchment has been defined earlier in this statement of evidence and currently accommodates 6,000 households with 4,200 jobs provided locally. The economy has seen muted growth over the past 18 years as indicated by a growth rate that is a third of the rest of the District.
- 9.5 Additionally, in 2001, the catchment had a retention rate of 27% compared to the regional rate of 35%; by 2018, the estimated regional retention rate had risen to 41% while the local catchment rate has fallen slightly over the same period.
- 9.6 While the economic impact of the proposed development and associated activities is substantial at a regional level, it is proportionately an economic windfall for the local catchment. In assessing the potential impact on the local market, fundamental assumptions must be made regarding the potential retention within the local catchment.
- 9.7 While it is not expected that all of the proposed residential component of the development will accommodate 'unique' demand (that is that some of the proposed residential dwellings will accommodate previously expected growth), the redistribution of direct (TCG) and indirect (the subsequently generated) jobs will create additional demand for the area.
- 9.8 Given that much of this demand is generated through relocated employment, the retention rate within the District and, more pronounced, the local catchment is expected to rise (locally to over 30%).
- 9.9 The two phases of impact outlined above, construction and operational also have significantly different impacts on the local economy. Firstly, the construction phase is less likely to impact upon the local economy due to the small construction labour force located here. With only 360 construction employees located in the catchment (and fewer specialist EC's<sup>6</sup>) it is highly likely that a larger proportion of the workforce will be sourced from the wider district (due to proximity and a base of 2,000 EC's) and regionally (due to the large 16,000 EC component). It is estimated that this phase could contribute up to \$100m to the localised catchment within the construction phase of the development.

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<sup>6</sup> EC or Employment Count, the Statistic NZ measure of employment

## Retail impact

- 9.10 A key consideration regarding the likely economic impact of the proposed development upon the local market is the increased level of retail expenditure captured due to the increased local income levels (through improved employment) and localised business spend.
- 9.11 Although the development of retail activity itself will produce additional economic activity within the local catchment, it is difficult to be sure that the proposed retail component will attract additional spend either from within or externally (given the uncertainty of the retail component).
- 9.12 Table 6 illustrate the level of retail spend generated within the catchment projected for 2028 (in 2019 dollars) on a comparative basis with the status quo and the proposed OSP development in the market.

**Table 6: Estimated Retail Spend Generated by Localised Catchment by 2028 (2019\$m)**

|   | Status Quo (\$m) | With TCG Development (\$m) |
|---|------------------|----------------------------|
| Food retailing  | \$68             | \$92                       |
| Clothing, footwear and personal accessories retailing             | \$11             | \$14                       |
| Furniture, floor coverings, houseware and textile goods retailing | \$7              | \$9                        |
| Electrical and electronic goods retailing                         | \$9              | \$13                       |
| Hardware, building and garden supplies retailing                  | \$20             | \$28                       |
| Pharmaceutical and personal care goods retailing                  | \$7              | \$9                        |
| Department stores   | \$14             | \$17                       |
| Recreational goods retailing                                      | \$7              | \$9                        |
| Other goods retailing   | \$10             | \$14                       |
| Food and beverage services  | \$28             | \$34                       |
| <b>Total</b>  | <b>\$181</b>     | <b>\$240</b>               |

Source: Property Economics, Statistics NZ RTS

- 9.13 A key component of the 'operational' phase of the proposed development is its potential impact on local businesses. It is clear that the additional 1,000 employees directly related to the TCG operation are unique and are unlikely to represent a considerable opportunity cost to the local market (that is attract current residents away from existing employment) and so represent a net gain to the local economy.
- 9.14 Additionally, as above, there are considerable 'flow-on' impacts attributable to the additional employees, business spend and induced household spend, that is likely to be retained in the local market.



- 9.15 The additional retail expenditure generated by the new residents is based on 30% of the households accommodating newly located TCG workers with a further 10% locating here due to associated businesses and the competitiveness of a master planned development.
- 9.16 Table 6 indicates an increased retail spend of 30% with the proposed development in the market. Given the current and potential provision of retail within the local catchment, it is anticipated that a significant proportion of this spend will not be captured by the local market. Even with these lower retention rates, it is anticipated that the proposed development will result in an increase in retail spend of \$25m per annum, and support further 5,000 sqm of retail within the local catchment. A significant proportion of this spend is likely to be spent locally and support Huntly.

### **Employment generation**

- 9.17 As indicated, the primary impact upon the local economy is the addition of 1,000 TCG. This is added to further through the indirect activity generated through their operations and, as identified above the induced impacts of the increased household income.
- 9.18 Based on the expected level of retention, it is anticipated that the operational component of the development will contribute an additional 88 jobs to the local economy on top of the 1,000. It is important to note that this is based on the current composition of the local economy.
- 9.19 There also exists the potential for current suppliers to move to the proposed 106,000sqm of industrial area and 32,400 of commercial floorspace. This has the potential to provide a competitive location that would attract additional industrial and commercial employment to the local area and District.
- 9.20 Based on these results, it is estimated that the construction activity generated by the development will contribute over 42 equivalent jobs for the local catchment per annum over a 10-year timeframe and contribute 1,088 equivalent jobs to the local catchment from ongoing activity.

## **10. CONCLUSIONS**

- 10.1 The OSP provides for a regionally significant level of land use at Ohinewai. The catalyst for this proposal is the development of a TCG factory of 100,000sqm providing approximately 1,000 jobs to the Waikato Region. The development will also provide for additional housing to support the local

workforce and a discounted retail offer that has the potential to attract retail spend into the Region.

- 10.2 The positive regional economic impact resulting from these activities is expected to be materially significant to the Waikato Region in terms of both jobs (in excess of 1,000 unique jobs) and economic activity, at over \$200m per annum.

**Philip Mark Osborne**  
**9 July 2020**