

# PROPERTY **E**CONOMICS



## **SLEEPYHEAD FACTORY & RAIL SIDING OHINEWAI**

### **FAST-TRACK REFERRAL**

### **ECONOMIC EFFECTS REPORT**

**Client:** Ambury Property Limited

**Project No:** 51919

**Date:** March 2021



## SCHEDULE

Code	Date	Information / Comments	Project Leader
51919.4	March 2021	Report	Tim Heath / Phil Osborne

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# 1. OHINEWAI STAGE 1 & 2 ECONOMIC IMPACTS ASSESSMENT

## Outline

This economic assessment relates to Stages 1 and 2 of the Sleepyhead Factory which forms part of the Ambury Properties Limited (APL) Ohinewai Structure Plan.

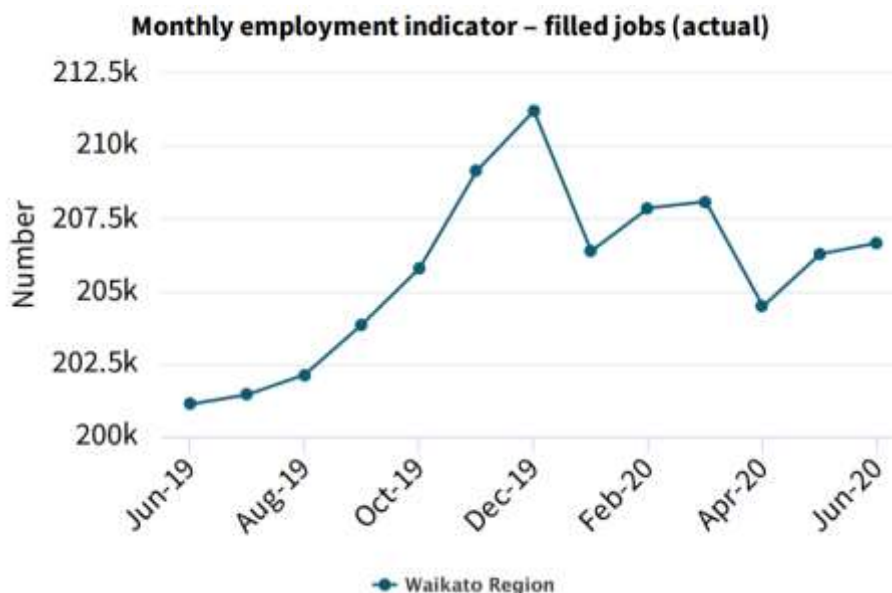
This involves the development of the first 23,000sqm of the proposed 100,000sqm Sleepyhead factory as well as the associated rail siding required to support the operation of the Sleepyhead facilities on site.

The following economic assessment outlines the expected impacts on the regional economy resulting from the development and operation of the proposed Sleepyhead factory (Stages 1 and 2).

This assessment should be considered in relation to the potential regional economic impact of the COVID-19 pandemic on the level of economic activity both short and medium term.

Figure 1 illustrates the more recent levels of economic activity within the Waikato Region in terms of employment. It indicates that employment growth within Waikato has shown strong growth over the year ended to 2019, more recently however this measure has dropped by over 5,000 jobs with the more recent 'rebound' potential impacted further by the more recent lockdown.

**FIGURE 1: WAIKATO REGIONAL EMPLOYMENT CHANGE**



Importantly both Manufacturing and Construction employment represented a greater proportion of Regional employment than at a national level. These two sectors have shown consistent growth over the past decade and are increasingly critical to the economic wellbeing of the region.

The following summarises the expected economic impact of Stages 1 and 2 of the Ohinewai Structure Plan in terms of both the development and operational phases of the proposal expressed in relation to Regional GDP and employment.

## 2. ECONOMIC ENVIRONMENT (PRE COVID-19)

The following sections outline the economic environment and trends (pre-COVID) within the regional market. While the impacts of COVID-19 will inevitably alter this environment (as discussed in the following section), no historic or recorded data is currently available to accurately assess the impacts of the projects on a post COVID-19 economy. That is, any commentary would be based on forecast scenarios. As such, the projects are assessed in light of recorded data from Statistics NZ and the relativity of the results can subsequently be considered conservative (compared to if they were assessed against post COVID-19 data).

It remains prudent to assess the flow-on effects of the proposed projects based on this economic structure due to the fact that construction projects will serve to retain employment and businesses within the targeted industries, therefore more likely to create the 'multiplier effects' that would have been seen pre-COVID.

Table 1 illustrates the economic 'make up' of employment composition and employment trends in the Waikato Region over the past 20 years.

TABLE 1: WAIKATO REGIONAL EMPLOYMENT COMPOSITION TRENDS (2000 -2020)

ANZSIC	2000	2006	2015	2019	2020
A - Agriculture, Forestry and Fishing	15,400	15,400	17,700	18,300	17,500
B - Mining	810	1,200	1,350	1,400	1,400
C - Manufacturing	19,100	22,300	23,200	24,700	24,600
D - Electricity, Gas, Water and Waste Services	960	1,150	1,950	2,250	2,350
E - Construction	7,600	12,300	12,500	17,200	17,700
F - Wholesale Trade	5,100	6,600	6,300	7,400	7,600
G - Retail Trade	14,900	17,800	17,900	19,600	20,100
H - Accommodation and Food Services	9,300	11,600	12,200	14,800	14,800
I - Transport, Postal and Warehousing	5,700	6,300	5,600	6,100	6,200
J - Information Media and Telecommunications	2,950	2,550	1,750	1,500	1,450
K - Financial and Insurance Services	2,200	2,700	2,300	2,550	2,550
L - Rental, Hiring and Real Estate Services	1,450	2,050	2,200	2,700	2,700
M - Professional, Scientific and Technical Services	6,100	9,300	10,900	13,000	13,400
N - Administrative and Support Services	4,250	7,600	5,900	7,700	7,900
O - Public Administration and Safety	5,400	6,400	8,400	10,100	10,400
P - Education and Training	13,400	14,000	16,600	18,200	18,100
Q - Health Care and Social Assistance	12,600	15,800	20,500	23,300	24,100
R - Arts and Recreation Services	2,500	3,450	4,050	4,250	4,300
S - Other Services	4,350	5,900	5,900	6,400	6,600
<b>Total All Industries</b>	<b>134,070</b>	<b>164,400</b>	<b>177,200</b>	<b>201,450</b>	<b>203,750</b>

Over this period (2000 – 2020) the regional economy has seen substantial growth in Construction and Support Services. At the same time Manufacturing has seen a proportional fall with its regional representation decreasing by 20% over the period.

While Manufacturing remains the second largest contributor to the region (in terms of GDP) the year 2019 to 2020 saw a significant drop in growth from the previous 10 years, while the Construction sector continues to experience amongst the highest growth rates of the regional economy.

It is also important to note that at a district level Waikato District has a decreasing population to employment ratio. In 2006 the Statistics NZ Census measured 46,000 residents compared to 14,000 jobs, a nationally low ratio of 30%. By 2018 the 76,000 district residents had only 20,000 jobs with the district boarders a ratio of 26%.

Table 2 outlines the relative composition of the Waikato regional economy (to the national economy) and highlights the comparative economic advantage afforded to the Region by sector. It shows the clear strength in industrial and agricultural sectors within the region with limited representation in commercial sectors.

TABLE 2: REGIONAL PROPORTIONAL EMPLOYMENT SECTOR COMPOSITION (2020)

ANZSIC	New Zealand	Waikato Region	Relative Employment Ratio
A - Agriculture, Forestry and Fishing	120,800	17,500	1.65
B - Mining	5,700	1,400	2.79
C - Manufacturing	235,200	24,600	1.19
D - Electricity, Gas, Water and Waste Services	18,900	2,350	1.41
E - Construction	183,300	17,700	1.10
F - Wholesale Trade	116,700	7,600	0.74
G - Retail Trade	221,500	20,100	1.03
H - Accommodation and Food Services	174,300	14,800	0.97
I - Transport, Postal and Warehousing	98,500	6,200	0.72
J - Information Media and Telecommunications	32,200	1,450	0.51
K - Financial and Insurance Services	58,100	2,550	0.50
L - Rental, Hiring and Real Estate Services	34,900	2,700	0.88
M - Professional, Scientific and Technical Services	189,000	13,400	0.81
N - Administrative and Support Services	123,500	7,900	0.73
O - Public Administration and Safety	137,300	10,400	0.86
P - Education and Training	195,600	18,100	1.05
Q - Health Care and Social Assistance	250,100	24,100	1.10
R - Arts and Recreation Services	44,600	4,300	1.10
S - Other Services	76,600	6,600	0.98
<b>Total All Industries</b>	<b>2,317,000</b>	<b>203,801</b>	

### 3. POST COVID-19 ECONOMIC IMPLICATIONS FOR WAIKATO

COVID-19 has had a profound economic and social impact across the globe and within New Zealand.

The standout and likely enduring characteristic of the COVID-19 pandemic is the high level of uncertainty which it has generated and which permeates large swathes of social and economic activity, process and structure throughout the country and the society in which it takes place. While a recession seems likely, the depth and duration of recession, and characteristics of the recovery, are highly uncertain.

While historic numbers are not available to assess projects against a post-COVID economy, it is however important to consider the economic effects from proposed development projects on a potential post-COVID economy.

In economic terms, a considerable premium lies on the restoration and recovery of economic wellbeing in production, distribution and employment. It is therefore important to consider potential economic impacts in light of this recovery rather than simply benchmarking these impacts against past economic performance.

Given this, a reasonable approach to understanding the impacts of proposed developments is to consider impacts in the context of:

- Their direct impact on employment. Employment is commonly the biggest determinant of social, economic and wellbeing outcomes for individuals, families, and communities. Employment and the creation of jobs will be critical to recovery at a regional and national wide level.
- The level of investment and the confidence this can re-establish in a given market. In particular, how it may stimulate re-investment in jobs, infrastructure, and systems (for example housing, health, and education assets).
- Their ability to provide impact within and over the short term.
- How flexibility, innovative, and adaptive they are in responding to current and future needs.

Projects such as those proposed by at Ohinewai provide the much-needed catalyst to the economy supporting the previously buoyant construction industry from also falling over and creating new jobs for those previously employed in sectors such as tourism. This activity not only significantly enhances the post-COVID economy, responds to demand that was already present pre-COVID, but it also provides a base for future growth and sustainability once the economy stabilises.

## 4. ECONOMIC IMPACTS

This economic impact estimates the total additional gross injection (Added Gross Domestic Product (GDP)) into the Waikato economy brought about by the proposed development.

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 business activity given the composition of activities above.

Although there are undoubtedly economic benefits that are specific to the locations, 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 into two phases:

1. The development phase which includes the construction costs (CAPEX<sup>1</sup>) of the development and the proportion of those costs that are retained within the Region; and
2. The second phase is the on-going operations (OPEX<sup>2</sup>) of the anticipated development.

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.

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.

### 4.1. TOTAL ECONOMIC ACTIVITY

Phase one 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 regional level based on Waikato's economic activity, composition and productivities.

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<sup>1</sup> CAPEX - Capital Expenditure

<sup>2</sup> OPEX - Operational Expenditure

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 commercial / industrial construction, commercial and retail sectors. These multipliers are based on 'net' flows by broad sector type and are therefore approximations.

Total output impacts to the Waikato catchment for the proposed development 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.

## 4.2. 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 each project.
3. Financial or loan costs on capital primarily fall outside of the local region and impact the national economy.
4. 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<sup>3</sup> to March 2020.
5. This report deals with the economic impact of proposed development on the Waikato region. These are specifically the direct impacts related to the operation and construction of the proposed development.

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<sup>3</sup> Business Frame Data – provides Statistics NZ measure of employment in an area by ANZSIC sector.



6. The economic activity generated is based on the developments 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 an 6% discount rate has been applied.
8. Labour movements are based on average retention rates rather than specific company locations.

Phase 2 involves the on-going activity generated by the project.

There are several key assumptions that are included for the project including during Phase 2:

1. All activity resulting from the on-going operations is net to the economy. In terms of specific projects, this assumes that the development of additional facilities meets a demand that would not otherwise be met (or it creates its own demand), e.g. the location of an international bedding company not represented in the Waikato
2. Where possible specific operational accounts have been utilised, in all other cases industry averages have been applied.

Table 3 below outlines the proposed level of capital investment over the following 4 years including both the Sleepyhead factory development and the essential rail siding. This shows a total investment of \$118m from 2021 with the development complete and operational by 2023.

**TABLE 3: TOTAL OHINEWAI (STAGE 1 & 2) CAPITAL INVESTMENT**

(\$m)	2020	2021	2022	2023
Earthworks and Civil		\$19.0		
Sleepyhead factory			\$29.0	\$30.0
Railsiding and Civil			\$20.0	\$20.0
		\$19.0	\$49.0	\$50.0
<b>Total Investment</b>		<b>\$19.0</b>	<b>\$68.0</b>	<b>\$118.0</b>

Table 4 following summarises the expected total economic impact of the development and operation of Stages 1 and 2 of the Sleepyhead operation and rail siding at Ohinewai over a 5-year period.

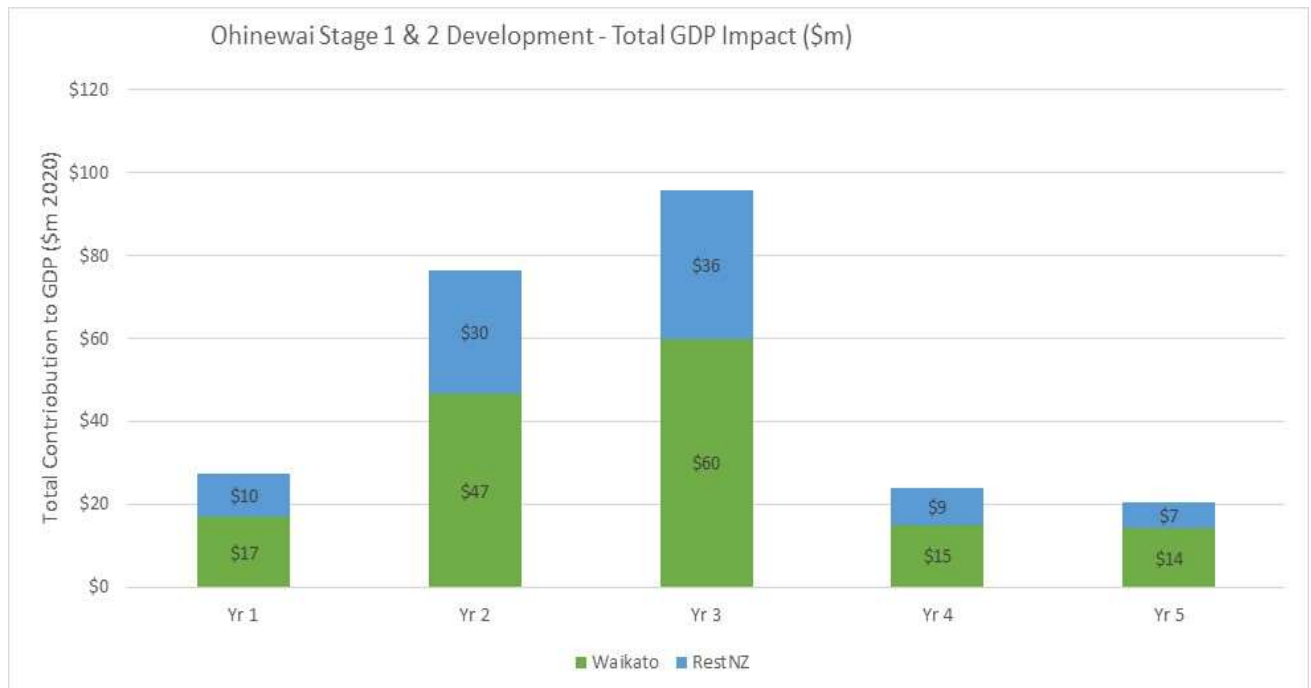
It shows a total injection into the Regional economy of \$152m to 2025 along with a total 5-year employee count equivalent of approximately 2,100 jobs.

**TABLE 4: TOTAL OHINEWAI STAGE 1 & 2 REGIONAL ECONOMIC IMPACT**

(\$m)	2021	2022	2023	2024	2025	TOTAL
Earthworks and Civil	\$19.0					\$19.00
Sleepyhead factory	\$0.0	\$29.0	\$30.0			\$59.00
Railsiding and Civil	\$0.0	\$20.0	\$20.0			\$40.00
<b>Development Costs</b>	<b>\$19.0</b>	<b>\$49.0</b>	<b>\$50.0</b>			<b>\$118.49</b>
Multiplier						
CAPEX	\$16.9	\$46.6	\$48.3			\$111.73
OPEX (plus Household Income)	\$0.0	\$0.0	\$11.7	\$15.0	\$14.1	\$40.80
<b>TOTAL WAIKATO OUTPUT</b>	<b>\$16.9</b>	<b>\$46.6</b>	<b>\$60.0</b>	<b>\$15.0</b>	<b>\$14.1</b>	<b>\$152.53</b>
<i>Development Employment</i>	234	652	626	0	0	1,512
<i>Operating Employment</i>	0	0	188	216	202	606
<b>Total Employment*</b>	<b>234</b>	<b>652</b>	<b>814</b>	<b>216</b>	<b>202</b>	<b>2,118</b>

\*Total employment includes operational employment for factory and any other non-construction or development activity

Figure 2 below illustrates the distribution of economic activity to both the Region and New Zealand over the following 5 years. It shows significant contributions to the national economy through both the construction and operation phases.

**FIGURE 2: REGIONAL IMPACT DISTRIBUTION (WITH NATIONAL CONTRIBUTION)**

### 4.3. ADDITIONAL POTENTIAL ECONOMIC BENEFITS

While the economic contribution of this project is in itself significant, there are other potential economic benefits to the Waikato Regional economy likely to result from this project including:

1. **Opportunity and Equity:** The development of proposed Stage 1 & 2 Sleepyhead factory and associated facilities has the potential to increase the competitive profile of both the Regional and local economy providing opportunity for employment growth and retention within and between the local economies.

The opportunity to retain employment is vital for the economic well-being of the Region's economies. This in turn is likely to increase population growth and provide greater economies of scale and productivity.

2. **Safeguarding of existing infrastructure.** While a potential short-term loss of jobs is an obvious impact of COVID-19, loss of business infrastructure, construction capital, and skills are difficult for an economy to regain over the short to medium term, further repressing the district and region's potential recovery.

3. **Operational Efficiencies and Increased Competitiveness:** Along with increasing labour productivities, the development of additional employment is likely to improve overall business efficiencies increasing the competitive environment for the region. In addition, one of the purposes of the project is to improve the productivity and economic efficiency of the Sleepyhead manufacturing business which is currently constrained by its outdated facilities in Auckland.

The development of accessible and competitive industrial opportunities around a rail siding provides increased efficiencies and competitive opportunities for the Region and local economy.

4. **Sector Specific Growth:** It is clear from the Region's changing economy that the predominance of agricultural activities has been significantly reduced over the past decade. This development facilitates a change to both secondary and tertiary business sectors through both a competitive location and the introduction of unique manufacturing activities to support employment and business growth.

5. **Initial Stages of Larger Development:** These initial stages form the critical first part of the much larger Ohinewai Structure Plan (OSP) development which includes the full 100,000sqm Sleepyhead factory within an industrial estate of 56ha. They have the potential to act as a catalyst for other development within the OSP and provide a signal to the wider regional (and national) economy regarding the willingness of the market to accept risk post-COVID.



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 industrial opportunities for the medium to long-term recovery.

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.