LOGAN STONE

STRATEGIC PROPERTY SOLUTIONS

File Ref: 20894

21 May 2009

The Manager
Strategic Planning
Hastings District Council
Private Bag 9002
HASTINGS 4156

Attention: Mr Mark Clews

IRONGATE INDUSTRIAL PLAN CHANGE

Further to your request, we have reviewed the financial viability worksheets relating to the plan change for the Irongate Industrial node. The following brief comments are for you consideration.

- The project is sensitive to funding costs and we note the adoption of a 7% interest charge across the full period of the development. Testing of the project's sensitivity to that interest rate may be appropriate, but will not necessarily alter relativity between options.

- We consider the proposed uptake rate of land in the models to be optimistic in the current market. We have a pessimistic view of the industrial land market for the next three to five years. Nevertheless, given more normal economic circumstances, we consider the proposed rates to be achievable but emphasise the volatile nature of demand over time and its dependence upon supply ie alternative sites.

- We are unable to predict the market reaction (attraction to) to Irongate as it is developed.

- The location to the south of main population areas of the Heretaunga Plains and the more limited infrastructural development proposed has been fully reflected in our estimates of land value following rezoning. Nevertheless, the nature of initial development may well stigmatise (positively or negatively) the location from a future demand perspective.

- It is, therefore, possible that from year four or five on, uptake may stall.

- Uptake will also be affected by the availability of alternatives although our projections provide an appropriate value differential in that regard.

- A key premise in the model is our assumption that the added infrastructure to the existing Industrial 6 land will have minimal impact on existing land value. That premise is based upon the presumption that existing activities are likely to continue and as those are adequately catered for at present, no additional benefits will accrue to the existing operators as a result of the additional

infrastructure. We acknowledge that some operational savings may be made, however, these are unlikely to flow through to market worth in the short term.

- As advised by Ms Kendall, the models do not include the on site development costs for the treatment of yard storm water in those areas where reticulation will not be provided. The MWA estimate approximates $77,000 to $207,000 per hectare, which we agree appears high. These amounts are significant and marginalise the economic viability of the proposal.

- We have adopted variables at the conservative end of the range and have concluded at a positive outcome for options 1 to 3.

- On balance the model is a fair and soundly based projection

- We conclude that Option 1 is a preferred option and that Option 3, only has merit if long term demand can be sustained.

- We recommend a delay on Stage 2 until such time as Stage 1 is 75%. If uptake is slow towards the last third of Stage 1, a delay until 85% uptake is achieved may be appropriate.

The following table illustrates the margin which expresses the viability in a relative sense between options.

	Option 1 Greenfields Only	**Option 2** Greenfields & Existing	**Option 3** Greenfields + a & b	**Option 4** Greenfields & Existing + a b & c	**Option 5** All at Once
	Stage 1 & 2	Stage 1 & 2	Stage 1 & 2	Stage 1 & 2	(Roading stage 2)
Total Area Serviced (ha)	**72.5**	**89.8**	**86.7**	**110.3**	**110.3**
Aggregated Land Value	$3,610,400	$8,410,400	$5,054,400	$10,358,400	$10,358,400
Value per hectare	$49,799	$93,657	$58,298	$93,911	$93,911
Cost of Land	$369,475	$406,734	$344,601	$367,812	$387,930
End Value	$30,961,000	$38,573,000	$37,099,000	$39,997,000	$39,997,000
End Value/hectare	$427,048	$429,543	$427,901	$362,620	$362,620
Margin	$57,573	$22,810	$83,300	$5,192.23	$25,309.37

We trust that this brief communication is adequate for your purposes and invite you to contact the writer for further discussion.

Yours faithfully
LOGAN STONE LTD

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Tracey Kendall

From: Tracey Kendall
Sent: Tuesday, 19 May 2009 7:02 p.m.
To: 'frank.spencer@loganstone.co.nz'
Cc: Mark A. Clews; 'Tim Grace'
Subject: Irongate Plan Change Information for your Review
Attachments: Final Staging Plan 29-04-09.pdf; Irongate Options.xls

Frank,

Here is the information for the Irongate Plan Change. We have costed five options of varying sizes and staging - these are described at the top of the summary sheet and shown on the plan. Please also note that options 1 and 3 do not provide any services for the existing I6 zoned land. **The preferred option is either Option 1 or 2** - the only difference between these being the servicing or lack of servicing of the currently I6 zoned land.

All sites will be provided with sewer (no trade waste) and water ('domestic' rather than processing capacity) connections. All sites will be required to dispose of their clean stormwater off roof surfaces (either to the ground or to the Irongate Stream). Part of the Plan change area will be provided with a reticulated stormwater system (swales & attenuation) for their yard stormwater. The remaining areas will have to make their own provision for the disposal of their yard stormwater (at their cost). I will send you through a plan of these areas with & without stormwater reticulation tomorrow when I can get an electronic version of this off MWH.

The Spreadsheet, prepared by HDC's Project Accountant Bruce Allan, takes into account HDC's finance and holding costs and has been based upon the cost estimates that we obtained from MWH. The "Assessment of overall economic viability of proposed plan change" per hectare cost includes all HDC expenditure, HDC's interest costs, and the developers on-site costs. The "Assessment of HDC investment" per hectare cost does not include the developers costs.

The developers on-site costs have been estimated & calculated at $14231 per hectare for water, $27672 per hectare for sewer (gravity), and $33300 per hectare for roof stormwater. I have just noticed that we have not taken into account the extra on-site costs associated with the disposal of yard stormwater where this is required. I can advise in this respect that MWH had previously estimated the costs of total on-site stormwater disposal (roof & yard) at between $110000 and $241000 per hectare. I note in this respect that we have the feeling that that estimate is likely to be too high. We have not however had the opportunity to further refine this estimate at this stage. You may well have a view in this respect.

I hope that this information is clear and sufficient for your purposes. However should you have any questions please ring me.

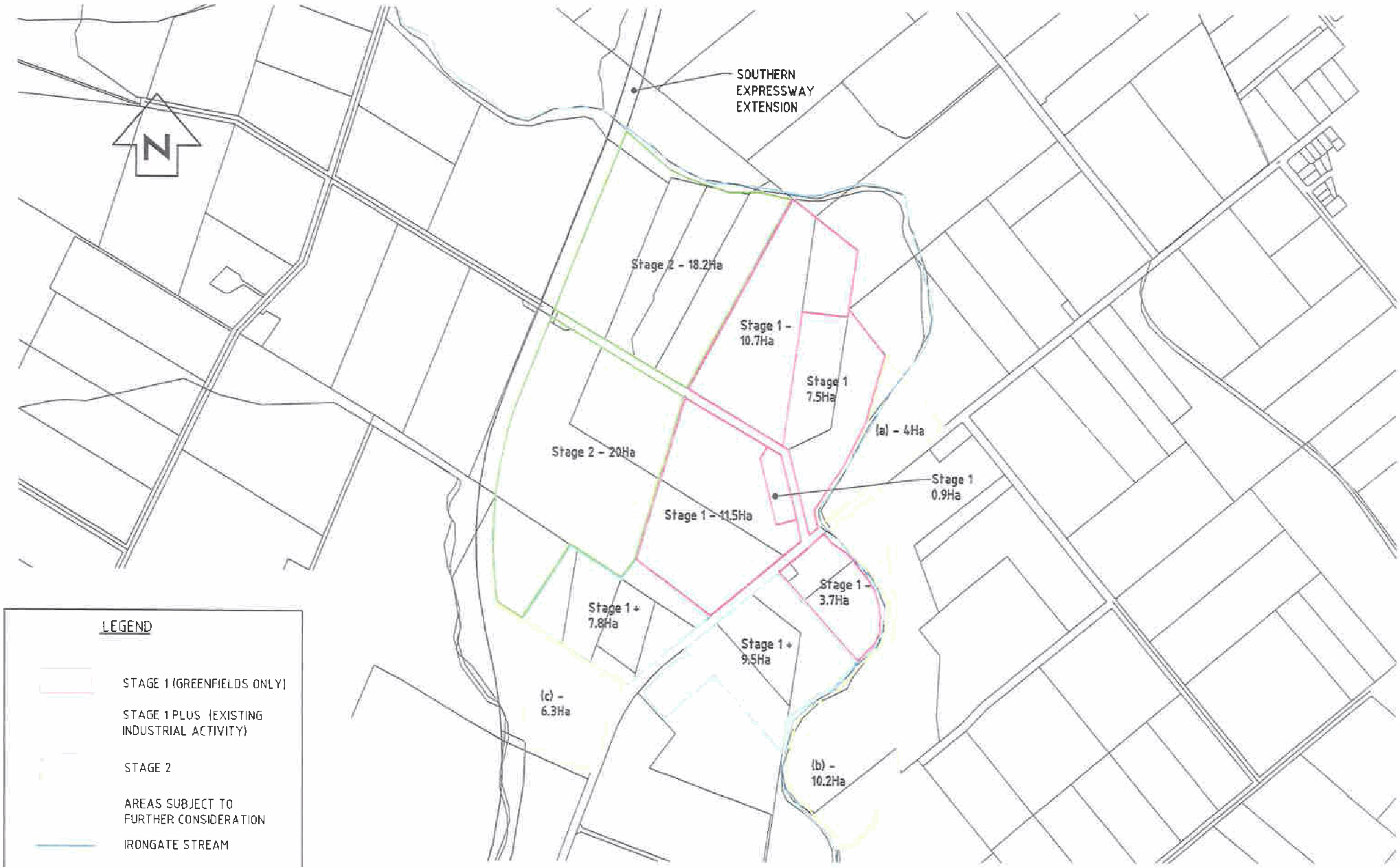
Tracey Kendall
Strategic Planner
Hastings District Council
traceyk@hdc.govt.nz
Phone 06 871 5000

Irongate Plan Change Assessment of Options

Stormwater Mixed, Waste Water Gravity

	Option 1	**Option 2**	**Option 3**	**Option 4**	**Option 5**
	Greenfileds Only	Greenfields & Existing	Greenfields + a & b	Greenfields & Existing + a b & c	All at Once (Roading stage 2)
Total Area Serviced	Stage 1 & 2 ***72.5***	Stage 1 & 2 ***89.8***	Stage 1 & 2 ***86.7***	Stage 1 & 2 ***110.3***	***110.3***
Assessment of overall economic viability of proposed plan change					
Stage One					
Land	1,269,000	1,480,450	1,004,000	1,004,000	995,000
Development	6,051,000	6,836,000	6,465,000	7,745,000	8,580,000
On-site (developers)	2,425,353	3,648,636	3,429,435	5,098,191	7,799,313
Safety Enhancements (Road)	500,000	500,000	500,000	500,000	500,000
Stage Two					
Land	-	-	-	-	-
Development	5,264,347	5,196,000	5,170,000	4,100,000	2,471,000
On-Site (Developers)	2,701,122	2,701,122	2,701,122	2,701,122	-
Total Development Expenditure	18,210,822	20,362,208	19,269,557	21,148,313	20,345,313
Interest on HDC Development	9,242,623	12,862,242	11,451,278	16,627,703	19,649,624
Total Development (incl Interest)	27,453,445	33,224,450	30,720,835	37,776,016	39,994,937
Total per hectare	**378,668**	**369,983**	**354,335**	**342,484**	**362,601**

Assessment of HDC investment					
Stage One					
Land	1,269,000	1,480,450	1,004,000	1,004,000	995,000
Development	6,051,000	6,836,000	6,465,000	7,745,000	8,580,000
Safety Enhancements (Road)	500,000	500,000	500,000	500,000	500,000
Stage Two					
Land	-	-	-	-	-
Development	5,264,347	5,196,000	5,170,000	4,100,000	2,471,000
Total Development Expenditure	13,084,347	14,012,450	13,139,000	13,349,000	12,546,000
Interest	9,242,623	12,862,242	11,451,278	16,627,703	19,649,624
Total Development (incl Interest)	22,326,970	26,874,692	24,590,278	29,976,703	32,195,624
Total per hectare	**307,958**	**299,273**	**283,625**	**271,774**	**291,891**



LEGEND

STAGE 1 (GREENFIELDS ONLY)

STAGE 1 PLUS (EXISTING INDUSTRIAL ACTIVITY)

STAGE 2

AREAS SUBJECT TO FURTHER CONSIDERATION

IRONGATE STREAM

	Name	Date
SURVEYED		
DESIGNED		
DESIGN CHECK		
DRAWN	P.CHILTON	
DRAWING CHECK		
APPROVED BY P.M.	TO	

REV	REVISIONS	DRAWN	CHECKED	APPROVED	DATE
A	REPORT - APRIL 2009	AP	WAH	TO	

MWH

HASTINGS DISTRICT COUNCIL

HASTINGS DISTRICT COUNCIL
IRONGATE INDUSTRIAL PLAN CHANGE

FINAL STAGING PLAN

PRELIMINARY

29/04/2009

SCALES (A1) NTS

Z1462302 | C 101 | A

ORIGINAL SIZE A1

DO NOT SCALE - IF IN DOUBT, ASK

LOGAN STONE

STRATEGIC PROPERTY SOLUTIONS

File Ref: 20465

15 January 2009

Hastings District Council
Strategic Planning Division
Private Bag 9002
HASTINGS 4156

Attention: Tracey Kendall

PROPOSED INDUSTRIAL RE-ZONING

Further to your enquiry of 14 January 2009, we confirm that the conclusion of our draft Industrial Land Demand Study of June 2008 is some 77 hectares. This amount is less than the 105 hectares, derived by way of simple deduction on page four of the report, due to the expectation of more efficient and effective use of future land than that that has occurred in the past.

The adjustment from the 105 Ha is necessary due to the methodology engaged in the demand study.

Accordingly, 77 hectares should be used for planning purposes.

You will be aware of our preliminary considerations of the impact of the global recession on the June demand, prepared in October 2008. That superficial review of our June projections was completed to take account of the rapid decline in the global financial sector that was beginning to be apparent in October.

Since October, the fears of a recession have been realised and the current economic crisis is significant and appears likely to continue for some time. It is our view that that will impact upon the industrial demand for Hawke's Bay and so on the land demand projections.

We also bring to your attention again, the issue of matching type of demand with space available. Of concern is the proposed staging of the industrial re-zoning to affect Irongate and Stage One Omahu within the coming 18 months. While that land will provide adequately for the expected demand, it is not necessarily of the category and location to suit demand. Wet industry and industry associated with the processing and production of our primary produce is more likely to wish to locate in the Tomoana Whakatu corridor than Stage One Omahu or Irongate.

This consideration needs to be given due weight in the strategic planning process.

We trust that these comments assist in your preparation of the Long Term Council Community Plan.

Yours faithfully
LOGAN STONE LTD

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LOGAN STONE

STRATEGIC PROPERTY SOLUTIONS

HASTINGS DISTRICT COUNCIL

INDUSTRIAL DEMAND STUDY

Prepared by:
Logan Stone Limited
June 2008

Table of Contents

1.0 CONCLUSIONS 3
1.1 TEN YEAR INDUSTRIAL DEMAND PROJECTION 3
1.1.1 Uptake Rate 3
1.2 2002 PROJECTIONS REVIEW COMPARISON 6
1.3 SUMMARY 8
2.0 INFORMATION SUMMARY 10
2.2 DRIVERS OF DEMAND 10
3.0 PROPERTY MARKET COMMENT 11
4.0 RESEARCH 13
4.1 DATA 15
4.1.1 Data Sets 15
4.1.2 Land Value and Growth 16
5.0 OUTCOMES 17
5.1 PROJECTIONS 17
5.1.1 Base Projections 17
5.1.2 Impact of Major Industry 18
5.1.3 Influence of Napier's Industrial Demand 18
6.0 CONCLUSIONS 21
7.0 TABLE & GRAPH INDEX 22

Appendices

A – Industrial Land Value Update
B – Land Value Comparisons
C – Commentary on Deferred Zoning Techniques

1.0 CONCLUSIONS

1.1 TEN YEAR INDUSTRIAL DEMAND PROJECTION

From our study, we have reached the following conclusions relative to industrial land demand by 2018.

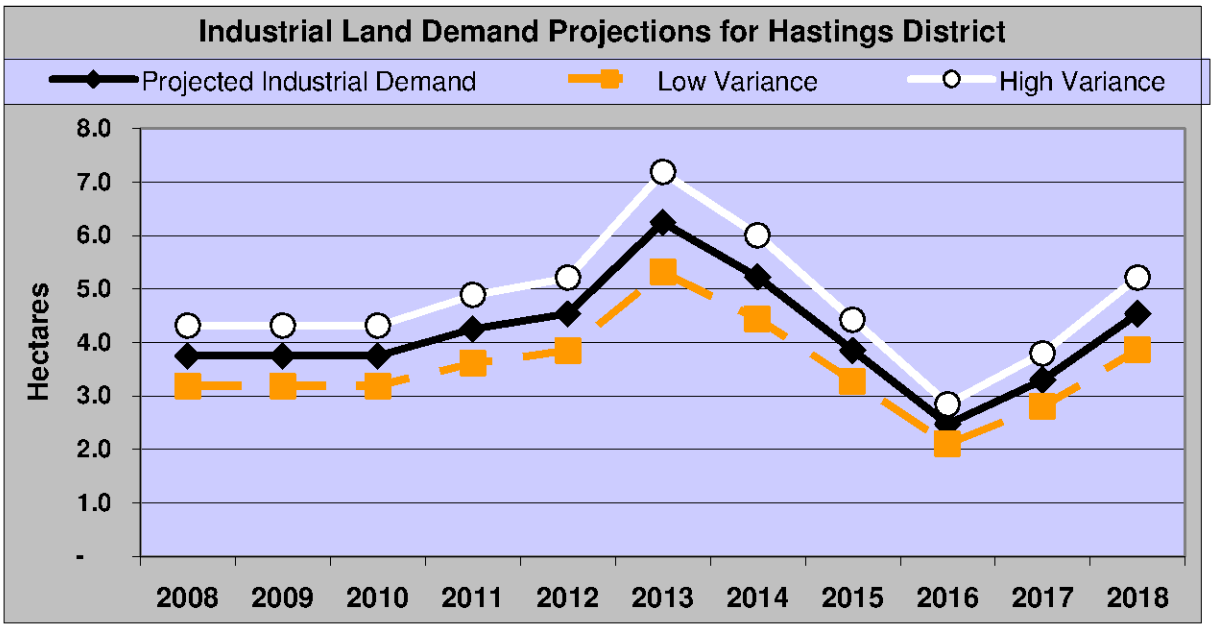
1.1.1 Uptake Rate

The uptake rate for industrial land is difficult to predict, however Table A illustrates the arbitrary spread of the expected growth over the coming ten years.

DEMAND FOR INDUSTRIAL LAND			
Year	**Actual Total Demand**	**Projected Demand (Ha)**	**Impact of Unmatched Napier Demand (Ha)**
1970s	2.8		
1980s	3.5		
1990s	2.9		
2000	5.3		
2001	3.9	2002 Projections	
2003	2.1	6.4	
2004	3.6	5.4	
2005	4.2	5.2	
2006	6.0	4.6	
2007	6.6	4.3	
2008		3.8	0
2009		3.8	0
2010		3.8	0
2011		4.3	0.2
2012		4.5	0.5
2013		6.3	1
2014		5.2	1
2015		3.9	1
2016		2.5	1
2017		3.3	1
2018		4.5	1
Aggregate Projected Growth		45.7	6.7
Percentage Increase over existing use		13.0%	
Ideal Portion of Vacant Industrial Land		30%	
Therefore Total Zoning Requirement		**566.13**	**hectares**
Area of land to be rezoned		**77.28**	**hectares**

TABLE A

The following graph illustrates the projected annual consumption of industrial land over the next ten years.



GRAPH A

2008		2018		Additional Land to be Zoned (hectares)
Used	Zoned	Used	Required Zoning	
351	456	396	566	77.3

TABLE B

The annual average uptake of industrial land since the 1970s is 3.36 hectares. Our projections will result in a 47 year average of 3.54 hectares with our projections adding, on average, over the next ten years almost 4.2 hectares per annum.

	Ten Year Annual Average Uptake (hectares)
1970s	2.8
1980s	3.5
1990s	2.9
2000s	4.4
2010s	4.2

TABLE C

It is appropriate to proceed with the rezoning of land to industrial to accommodate the additional demand over the next ten years. Our projections derive a need to rezone a further 77.3 hectares of land before 2018. The market will be the prime determinant and projected demand should be reviewed periodically.

1.2 2002 PROJECTIONS REVIEW COMPARISON

In the 2002 report on Industrial land demand, Logan Stone Ltd made projections for the ten years until 2012. Before updating the projections of 2002, it is appropriate to compare the actual uptake after 2002, with the projections made in 2002.

Year	Actual Uptake	Projected Demand
2003	2.1	6.4
2004	3.6	5.4
2005	4.2	5.2
2006	6	4.6
2007	6.6	4.3
Aggregate	**22.5**	**25.9**

TABLE D

The table above illustrates that actual take up of industrial land was less than the core projection but within the 15% tolerance range. This was due to a slower than anticipated take-up at the start of the projection period.

The end result is that the aggregate actual demand was some 13% less than projected. While close to the lower threshold (-15%) of the expected tolerance range, the take up is within the range expected.

Reasons include:

- Demand for industrial land was affected by the proposed HDC rezoning initiative of 2002, as users waited for the rezoning to occur and then when delays lengthened decided to proceed anyway. Thus, take up was deferred.
- The 2002 belief that the considerable effort being applied to attract new industry to the region would be successful. This proved not to be the case.
- New industrial development has been the result of organic growth in existing industries and growth associated with servicing the consumer market, in particular the construction, tourism and retail sectors.
- Constraints within the planning and construction sectors, together with elongated planning and consent periods for significant development, retarded activity until 2005.
- The strong economic performance of Hawke's Bay during 2004 and 2005 increased business confidence and their willingness to commit to expansion plans.

Further, the major new industry option considered a realistic possibility in 2002 is now most unlikely to occur in Hawke's Bay. Among other reasons, the tight labour force, the lack of competitiveness of New Zealand across a broad range of manufacturing activities and the long term concerns regarding transportation costs have all contributed to the reduced prospects for the major new industry possibility.

It is our view that the basis of the projections was therefore valid.

1.3 SUMMARY

Demand drivers going forward are limited to two main categories:

- **Secondary sector - particularly local construction and related service industry**
- **Primary sector.**

Other sectors are expected to average consistent slow growth.

Local construction and related service industry

- The construction industry between 2002 and 2007 experienced a period of strong growth, and has built capacity to cope with the recent high demand levels.
- Statistics show the national construction industry is experiencing a sharp recession with building consent applications in 2008 well down on 2007 levels. Anecdotal evidence suggests Hawke's Bay is consistent with the national trend.
- The outlook is for demand to remain subdued below 2007 levels for some years. Market forecasters are suggesting that by 2011/2012 activity will probably recover to a level just below 2007 levels.
- Statistics New Zealand's forecast is for a total population growth in Hawke's Bay of just 4% for the period between 2006 and 2031 (an annual average of just 0.16%). This compares with a growth of 3.4% experienced between 2001 and 2006 (an annual average of 0.68%). While this may be on the conservative side, it suggests that the pressure of the past six years will not be sustained.
- Population is a key driver of the construction industry and the forecasted lower population growth is likely to reduce demand.

Conclusion: There will be little demand from the local construction, building and related services industry for the next three to five years, then demand will gradually strengthen in sync with the property sector cyclical performance.

Primary sector

- The Hawke's Bay primary sector comprises a number of sectors each with varying economic performance cycles. Of greatest influence to the industrial land demand is the performance of the pastoral, horticulture, cropping and viticultural sectors. Support functions to the dairying sector may become an increasing influence in the region, but are unlikely to have much direct impact on industrial activity.
- The rural sector on the whole has been weak over the past few years, due to drought and low commodity prices.
- There is currently a period of strong international commodity price rises. These rises range from construction materials, fuel, and food. A number of international factors have lead to these rises.

- Of greatest influence to New Zealand primary industry has been the rise in value of milk solids. This has lead to dairy conversions nation wide. The Hastings District has been largely unaffected by this development, however, Southern Hawke's Bay and the rain belt of the western ranges have been influenced.
- Other sectors are now showing signs of price growth/recovery including cropping, and pastoral sectors.
- Higher commodity prices are likely to see investment in more intensive production.
- Forecasting commodity prices over a prolonged period is fraught with difficulty. However, in a report released in June 2008, the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization (FAO) of the United Nations suggest that, on the whole, commodity prices are peaking about now

  "that commodity prices – in nominal terms – over the medium term will average substantially above the levels that prevailed in the past 10 years."

Conclusion: The strong primary sector will spur demand for industrial land.

Current industrial demand

- Hawke's Bay industrial land values have risen sharply over the past five years, due both to a shortage of supply over user demand in preferred areas and speculator activity.
- The land earmarked for industrial rezoning along Omahu Road and in Irongate has been subject to strong demand.
- Once this land is rezoned Industrial it seems that current demand will be well supplied.
- There is still vacant industrial zoned land in the Whakatu locality available to the market at reasonable (in a local and national sense) prices.

Predicted future demand

- The probable increased demand from the primary sector is not expected to make up for the reduced demand from the construction industry.
- We predict much lower demand in the short term (1 – 3 years) than experienced between 2004 and 2007.
- Over the Medium term (4 – 10 years) we expect to see demand recover to historic levels on the back of a strengthening construction industry.

  The uptake rate for industrial land is difficult to predict, however, Table A illustrated the arbitrary spread of the expected growth over the coming ten years.

2.0 INFORMATION SUMMARY

2.1 Key Statistics

Population

	Hawke's Bay	National
Total population growth between 2001 and 2006	3.4%	7.8%
Projected population growth for period 2006 to 2031	4%	22%

Statistics New Zealand predict that the population growth rate will slow steadily due to the narrowing gap between the number of births and deaths.

Work and income

For the quarter ending 30 June 2007:

	Gisborne/Hawke's Bay	National	Variance
Average Income per week	$588	$667	-11.8%

For the quarter ending 31 March 2008:

	Gisborne/Hawke's Bay	National	Variance
Unemployment rate	5.4%	3.6%	+1.8%

The rate of unemployment in the Gisborne and Hawke's Bay regions has averaged 4.62% over the past eighteen months, while the national average has remained below 4%.

Industry

Hastings District has 26.4% primary sector (16.4% NZ wide), 13.6% secondary sector (15.1% NZ Wide) and 60.0% tertiary sector (68.5% NZ Wide).
Small increase in Port of Napier cargo throughput.

2.2 DRIVERS OF DEMAND

Economic Activity

From 1998 until the start of 2007, the Hawke's Bay economy has enjoyed a period and strong and consistent economic activity and growth. That said Hawke's Bay has underperformed on a national basis. Over this period Hawke's Bay growth was built largely from the construction industry built largely on domestic consumer spending. The housing boom created much work and wealth for local industry. As noted earlier, the Hawke's Bay population increased by 3.4% between 2001 and 2006.

From 2006 to present, we have seen a general slowdown in local as well as national and developed international economies. There is now uncertainty regarding the economic performance of the region affected by a strong New Zealand dollar, interest rates, high oil costs and the flow on effects which may result in reduced export competitiveness, job losses or reduced job growth.

That said, there are a number of positive economic factors which overtime are likely to boost Hawke's Bay's economy. These include, rising international commodity prices and a predicted fall in the official cash rate/interest rates and the New Zealand dollar. However the effect of these positives will be delayed.

The success of Hawke's Bay industry is intrinsically tied to the performance of the local economy as a whole. Hawke's Bays' industry is increasingly dependant on the service and primary sectors. The service sector is largely dependant upon the performance of the property market, in particular, construction. The primary sector is largely dependent upon commodity prices as well as natural occurrences, for example, droughts. These natural occurrences also generally have downstream effects for the transport and processing industries.

The industrial sector in New Zealand is under pressure from high employment costs and low productivity levels when compared to alternative manufacturing locations particularly within Asia. Hawke's Bay, being largely primary industry focused is less exposed to this aspect, however, growth in the manufacturing sector seems unlikely over the next ten years.

The growth in industrial land use since 2002 has primarily been generated from activity in the sectors servicing (support and post harvest) the primary sector, activities associated with the construction industry and the organic growth of existing industrial activities over a period of an economic boom, albeit, Hawke's Bays' performance is less than the national average.

3.0 PROPERTY MARKET COMMENT

The commercial property market in general is currently slow. Pessimistic economic forecasts for 2008 combined with a tightening of debt funding and its increased cost is causing some indecision from owner occupiers and a more considered approach to acquisitions. Investors are limiting their commitment to quality property, and are more lowly geared than in the past few years. Developers are adopting a watching stance on the market as tenants are becoming more cautious regarding occupancy costs and are beginning to have more choice. Speculators are inactive due to reduced growth expectations and the increasing costs of funds. However, Hawke's Bay is still seen as a relatively safe haven for capital and providing cash return is commensurate with potential capital growth and risk, investment will continue.

The industrial land market remains strong due in the main to a scarcity of supply. Demand for sites is driven by both potential owner occupiers and developers who continue to seek opportunities for development. The general lift in land values is

now well acknowledged and recent sales have continued to set new levels in the market place. In some cases these values are difficult to justify from a residual approach and appear partially speculative and partially driven by the desire to future proof for potential business growth. With the softening market we anticipate little upward price pressure for the remainder of 2008 with consolidation likely through until at least 2010.

The proposed and widely anticipated industrial rezoning in both Hastings and Napier will almost certainly prevent further value growth in industrial land and could, given a reduced demand, bring about a decline in values.

While there has been much speculative purchase of vacant land, Hawke's Bay industrial land use remains well founded on the traditional regional strengths in the primary industry sector and local industrial services. This primary industry sector has undergone a gradual transformation from raw product to increased added value production. The opportunities of adding value prior to export are well recognised in a far broader range of products including meat, fruit, and the timber and wine industries with further potential for development.

In the short term (1 to 5 years) the industry appears to be entering a period of rationalisation. Processing industries are increasingly challenged to remain competitive and nationwide we have seen a recent period of job cuts, with this trend likely to continue. However over the medium term the activity has a sound footing on the traditional strengths of the region. Increasing international free trade provides both risks and opportunities.

The industrial sector could be partitioned into three areas as scheduled in Table E;

Sector	Drivers	Expected Growth Short term (1 – 5 years)	Expected Growth Medium Term (1 – 10 years)
Service Industrial	Demographics, Economic Activity, Domestic Demand, Development.	Week outlook in the near term. Slight decrease in demand and some rationalisation possible.	Likely to recover following slowdown to maintain historical levels.
Processing Sector	Construction, Global Economy, Commodity Prices, Primary Production & Transportation.	Growth in more intensive primary production. Move toward further added value. Rationalisation possible.	Steady growth, but increasing focus on added value and efficiencies.
Remainder (including manufacturing)	Regional Economy, NZ Economy, Land Prices, International and national Labour Costs, Transportation, Raw Material, Lifestyle.	Continued expansion of existing niche industries, Limited chance of new industry. Some rationalisation/ centralisation probable. Low demand projection.	Continued expansion of existing niche industries, Limited chance of new industry. Increasing international competition. Low demand projection.

TABLE E

4.0 RESEARCH

It is important to note that any projections are fraught with risk and, in our contemporary dynamic environment, have a low chance of being accurate. Nevertheless, through an understanding of current industry and economic conditions, analysis of the past and global perspective; future trends can be identified and quantified.

Projections must be based on the current framework with an acknowledgement that a shift in influential aspects, such as government policy, technological innovation, or global trading conditions, will impact on projections.

The conclusions of the 2002 study have borne strong resemblance to the actual eventualities in the marketplace. For that reason we regard these methodologies as remaining sound grounds for future projections.

While past industrial demand has occurred within a differing economic, political, technological and social framework than will apply in the future, it is the starting point to determine industrial growth projections. In that regard we have researched past industrial growth within the Hastings District, Hawke's Bay and comparable provincial regions in New Zealand.

We have researched and obtained data under the following headings;

- Industrial Building Growth
- Industrial Land Growth
- Regional economic performance
- Population Growth
- Household Growth
- Income Growth
- Port of Napier Activity

Of most relevance has been the historical data relating to growth in the building stock, which although not fully conclusive is a consistent measure and guide. Through our property expertise, we have been able to interpret that data in a meaningful way, for forward projection.

We have gathered the following inventory of statistical data;

- Hastings District historical building consent and floor area data for industrial zones
  - Industrial land zoning
  - Industrial land supply

- Hastings District demographic information - historical data relating to:
  - Employment/unemployment
  - Weekly Income
  - Contribution to national economy
  - Other economic data

Industrial activity is both a derivative and driver of economic activity and population change. It is diverse, and includes activities ranging from service industrial activity, to added value processing and manufacturing activities.

Decisions leading to industrial growth are affected by confidence and political stability, in addition to the availability of resources such as land, capital and labour. In a dynamic environment subject to technological developments and changing business cultures and philosophies, past growth patterns become less reliable for predictive purposes.

Future demand can best be estimated through the analysis and weighting of several different measures. A holistic view of both the District and the Nation is a key perspective in interpreting the research. To a large degree, intuitive interpretation, based on an understanding of the regional economy and industry is key in the projection model.

Regardless of industry needs, potential growth and/or future opportunities, we subscribe to the theory that economics and the market will drive activity and therefore demand. In relation to industrial land usage, the market theory impacts in both the value of industrial land, given the provincial shortage nationwide and the demand for products in global markets.

While subject to political posturing and a number of hurdles, the general trend is for freeing of global world trade. In an environment where food safety and environmental integrity are becoming more scarce and of greater value, the demand from world markets for Hawke's Bay product is likely to be unmatched by supply, and therefore a driver for increased investment.

Similarly a comparison of industrial land values on a national base indicates an opportunity for growth and current market dynamics illustrate that expectation within Hawke's Bay.

4.1 DATA

4.1.1 Data Sets

Table F summarises the growth in industrial floor areas over the past twenty years within Hastings District.

Decade/Year	Total added Floor Area (m^2)	Annual Average Floor Area (m^2)	Derived Average Annual Land Usage (Ha)
1970	99,496	9,950	2.84
1980	123,810	12,381	3.54
1990	100,970	10,097	2.88
2000	18,671	18,671	5.33
2001	13,554	13,554	3.87
2002	7,407	7,407	2.12
2003	12,685	12,685	3.62
2004	14,853	14,853	4.24
2005	21,051	21,051	6.01
2006	23,110	23,110	6.60
2007	10,677	10,677	3.05
Average Annual Growth since 1970	**11,744**		

TABLE F

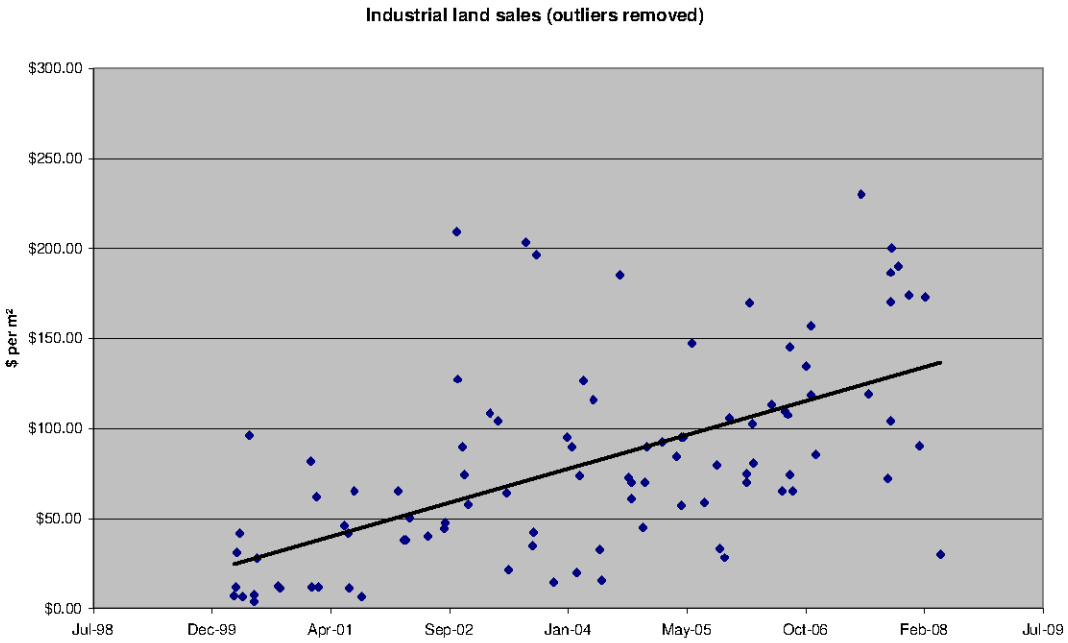
The annual average growth for the 30 years from 1970 to 1999 is 10,809 m^2 with the average growth so far this decade of 15,251.

The fourth column is the derived annual industrial land usage as a result of the added floor area.

These figures indicate that the last 38 years has seen a demand of 127 hectares of land, or an annual average of 3.36 hectares. The average for 2000 and 2007 however is 4.36 hectares which corresponds with the regions economic activity and anecdotal evidence in relation to demand.

4.1.2 Land Value and Growth

The following graph shows the increase in value of vacant land sale values since 2000.



GRAPH B

The graph illustrates the extent of demand over supply which has caused the growth to continue so consistently over the past eight years.

This growth in industrial land values is likely due to;

- Increasing demand from the industrial sector.
- Active developers and speculators.
- The lack of supply of new industrial land.
- The general increase in property values.
- The increased capacity of purchasers to pay.

Consequences of the increased value levels include;

- Increased interest from speculators and developers.
- Reduced land banking due to cost.
- Increased intensity of use.

5.0 OUTCOMES

5.1 PROJECTIONS

5.1.1 Base Projections

Having regard to the data sought and its integrity, we consider the most relevant data for future projections to be based upon the past uptake of industrial land within the Hastings District Area. In projecting forward, we have had regard to;

- The influence of new technologies on the primary industries and added value processing
- The changing structure of onshore logistics and its demands for transportation and storage
- The increased efficiencies of processing
- The reduced availability of debt funding (in the short term)
- The reduced chances of attracting substantive new industry to Hawke's Bay
- The proposed reduction in Main Industrial zoned land in Napier City with Plan Modification 1
- The proposed Business Park contained within Napier's Plan Modification 2
- The emergence of Awatoto land for industrial activity.

Table A illustrates our projections and the historical uptake and comparison to previous projections.

DEMAND FOR INDUSTRIAL LAND			
Year	**Actual Total Demand**	**Projected Demand (Ha)**	**Impact of Unmatched Napier Demand (Ha)**
1970s	2.8		
1980s	3.5		
1990s	2.9		
2000	5.3		
2001	3.9	2002 Projections	
2003	2.1	6.4	
2004	3.6	5.4	
2005	4.2	5.2	
2006	6.0	4.6	
2007	6.6	4.3	
2008		3.8	0
2009		3.8	0
2010		3.8	0
2011		4.3	0.2
2012		4.5	0.5
2013		6.3	1
2014		5.2	1
2015		3.9	1
2016		2.5	1
2017		3.3	1
2018		4.5	1
Aggregate Projected Growth		45.7	6.7
Percentage Increase over existing use		13.0%	
Ideal Portion of Vacant Industrial Land		30%	
Therefore Total Zoning Requirement		**566.13**	**hectares**
Area of land to be rezoned		**77.28**	**hectares**

TABLE A

5.1.2 Impact of Major Industry

We do not see the likelihood of a new major industry selecting Hawke's Bay as above, as was considered in 2002. Should it occur then it will generate increased demand.

5.1.3 Influence of Napier's Industrial Demand

Napier City has experienced strong industrial growth over the past seven years, with much of that demand being driven by organic growth across most activities and those activities servicing the construction, retail, tourism and transport sectors. Processing has reduced and with little productive processing activity initiated. Industry associated with the forest harvest is likely to be a driver in Napier.

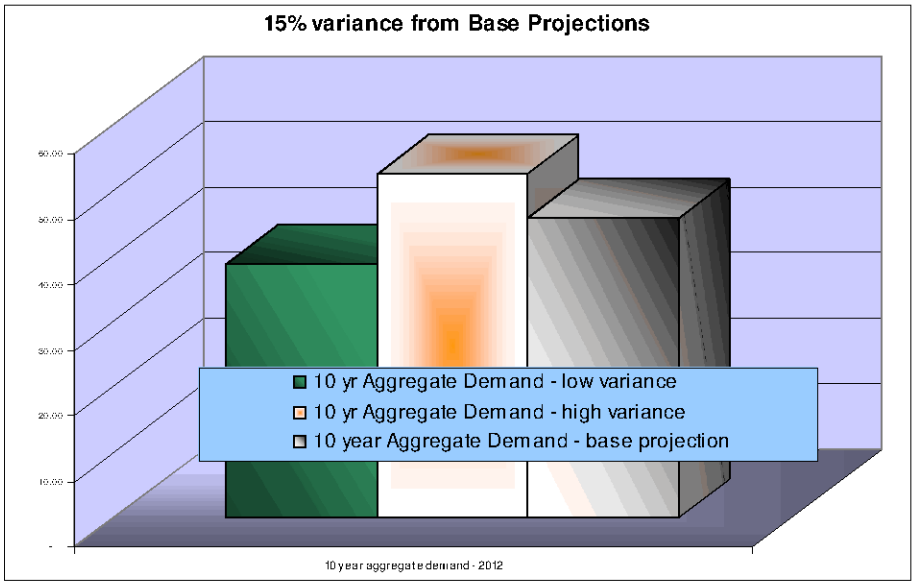
Napier has limited opportunity for further industrial land and while Plan Modification 2 relates to a substantial "Business Park", that is some time away. Plan modification 1 reduces industrial land. Meanwhile, Awatoto expansion is now unimpeded, in a zoning sense, however significant infrastructural constraints exist and will either take sometime to overcome or will be a high cost for a developer.

The Port of Napier is unlikely to obtain future resource consents for further reclamation and there are few options available close to the Port. Two larger parcels of land in Pandora appear likely to be subdivided. The Port continues to grow its volume of throughout and it is likely that additional land, possibly in the Hastings District will be needed.

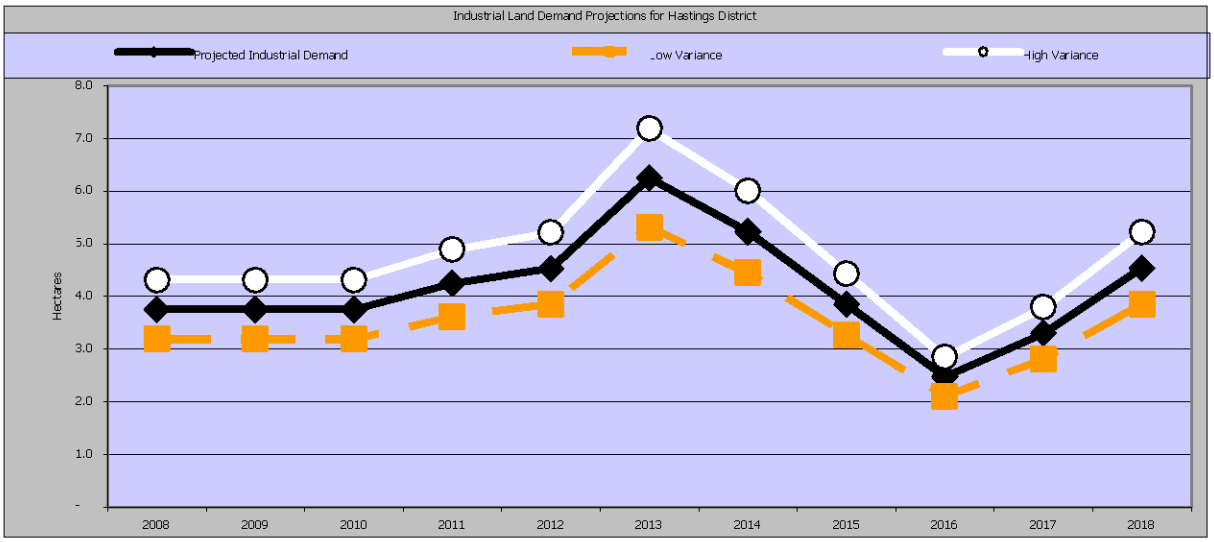
5.1.4 Sensitivity

Graphs D and E illustrate the impact of a 15% variance from our base projections on both the take up of industrial land throughout the ten year period and the aggregate demand over the ten years.

Given the current economic outlook we do not believe it likely that the strong growth of 2006 and 2007 will occur again in the next ten years.



GRAPH C


Industrial Land Demand Projections for Hastings District
Projected Industrial Demand
ow Variance
igh Variance
Hectares
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
-
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018

GRAPH D

6.0 CONCLUSIONS

On balance, the prognosis for the region's economy for the coming ten year period remains positive, albeit that we expect very slow activity until 2012.

In projecting future demand for industrial land, we have researched the industrial take up in the region over the past forty years, relating actual figures to the economic performance of the region.

By 2018 new demand for industrial land in the order of 46 hectares will have occurred, or 13.0% more than that currently used.

It is necessary for up to 30% of the zoned industrial land to be available for development. This encourages industry and assists with price stability.

Therefore, the total industrial land zoning requirement will be 566 hectares or 77.3 hectares more than that currently zoned.

2008		2018		Additional Land to be Zoned (hectares)
Used	Zoned	Used	Required Zoning	
351	456	396	566	77.3

TABLE B

7.0 TABLE & GRAPH INDEX

7.1 Tables

Table A	Page 3
Table B	Page 4
Table C	Page 4
Table D	Page 5
Table E	Page 12
Table F	Page 15
Table A (repeated)	Page 18
Table B (repeated)	Page 21

7.2 Graphs

Graph A	Page 4
Graph B	Page 16
Graph C	Page 19
Graph D	Page 20

Appendix A

Industrial Land Value Update

Location	Parcel Size (sq.m.)	Current Land Values			Recent Transactions						Cost of 'Plains Zone' Land for Roading - (excl compensation)	Estimated Land Value - (post rezoning)	
		Current Value Rate			As Industrial		As Plains but identified for industrial		As Plains				
		Industrial	Plains*	Plains - unaffected by Industrial Expansion	Parcel Size (sq.m.)	Price ($/p.s.m.)	Parcel Size (sq.m.)	Price ($/p.s.m.)	Parcel Size (sq.m.)	Price ($/p.s.m.)		Unserviced	Serviced
Omahu	0 - 2,000	$110 - $160	$110 - $150	$60 - $120	1630	230.0	2307	119.2	2,447	82.00	$150	$80 -$120	$100 - $150
	2,001 - 5,000	$100 - $150	$100 - $130	$50 - $90	1680	119.0	3284	152.3			$130	$70 - $115	$90 - $140
	5,001 - 20,000	$90 - $120	$50 - $90	$15 - $55	3626	85.5	7500	46.7	6,231	38.00	$110	$60 - $95	$80 - $110
	20,000 - 50,000	$80 - $100	$40 - $80	$8 - $25	3950	74.5	9000	63.5	26,000	18.00	$70	$50 - $65	$70 - $90
	over 50,000	$70 - $90	$30 - $60	$4.5 - $12	7200	134.7	14040	52.7	54,900	10.00	$60	$40 - $60	$60 - $80
Irongate	0 - 5,000	$60 - $100	$50 - $70	$35 - $60							$80	$30 - $60	$50 - $90
	5,001 - 20,000	$45 - $80	$40 - $60	$12 - $50					14,500	22.00	$70	$25 - $45	$35 - $70
	20,000 - 50,000	$30 - $60	$30 - $40	$7 - $20			20000	36.8	49,917	9.00	$55	$20 - $35	$25 - $50
	over 50,000	$25 - $50	$20 - $30	$3.5 - $10					60,000	6	$35	$15 - $30	$20 - $45
Tomoana	0 - 2,000	$90 -$130	$60 - $100	$60 - $120	3500	70.0	20216	51.9			$140	$60 - $90	$80 -$120
	2,001 - 5,000	$75 - $100	$50 - $80	$45 - $100	3500	65.0	20234	79.1	2522	70	$120	$50 - $80	$65 - $90
	5,001 - 20,000	$60 - $80	$20 - $60	$15 - $50	3950	74.5	36738	27.6	10117	40	$100	$35 - $55	$50 - $70
	20,000 - 50,000	$50 - $75	$20 - $30	$8 - $25	4529	72.0	42330	20.7	42000	10	$65	$30 - $45	$45 - $65
	over 50,000	$28 - $55	$18 - $28	$4.5 - $14	74900	30	168485	20.8	110000	6	$55	$25 - $35	$20 - $45

APPENDIX B

LAND VALUE COMPARISONS

Land Value Range($/M2)		Napier		Hastings		Dunedin		Nelson		Rotorua	
		Low	High	Low	High	Low	High	Low	High	Low	High
1996											
Service Industrial	0.1000	40	70	40	70	60	100	80	100	30	80
	0.2000	35	60	35	60	50	100	60	75	25	75
Main Industrial	0.2000	20	35	20	35	40	65	105	120	25	75
	0.5000	15	30	15	30	35	55	81	92	17	45
	1.0000	12	22	12	22	25	50	70	80	10	40
	3.0000	10	18	10	18	20	45	67	76	7	25
	5.0000	5	15	5	15	15	40	63	72	3	30
Greenfields	2.0000	4	6	4	6	5	10	10	15	8	40
	5.0000	3	7	3	7	2	5			2.5	15
2001											
Service Industrial	0.1000	70	120	70	120	60	100	110	130	45	115
	0.2000	50	100	50	100	50	100	83	98	35	95
Main Industrial	0.2000	35	70	35	60	55	85	128	143	35	95
	0.5000	30	60	30	50	50	75	98	109	25	65
	1.0000	25	45	25	42	40	70	85	95	20	55
	3.0000	20	32	20	32	35	65	81	90	12	40
	5.0000	15	23	15	23	30	60	77	86	7	30
Greenfields	2.0000	6	13	6	12	5	10	15	20	8	40
	5.0000	5	8	5	10	2	5			4	22
2002											
Service Industrial	0.1000	70	140	70	140	60	100	120	140	50	120
	0.2000	50	120	50	120	50	100	90	105	40	100
Main Industrial	0.2000	35	80	35	65	55	85	135	150	40	100
	0.5000	30	80	30	55	50	75	104	115	30	70
	1.0000	25	80	25	45	40	70	90	100	25	60
	3.0000	20	50	20	35	35	65	86	95	15	45
	5.0000	15	25	15	25	30	60	81	90	10	35
Greenfields	2.0000	6	15	8	20	5	10	20	25	10	45
	5.0000	5	12	7	15	2	5			5	25
2008											
Service Industrial	0.1000	130	250	150	300						
	0.2000	110	180	150	250						
Main Industrial	0.2000	120	200	120	180						
	0.5000	110	180	100	170						
	1.0000	70	120	50	120						
	3.0000	60	90	40	90						
	5.0000	50	105	40	80						
Greenfields	2.0000	12	25	12	30						
	5.0000	10	25	12	25						

Appendix C

Deferred Zoning Techniques

One of the possibilities is for HDC to rezone some of the land intended for Industrial activity to Deferred Industrial. This would mean that the market is sent a clear signal of the intended use for the land and Council's support of that use. The deferred zoning means that servicing need not occur until the deferred status is removed, with its removal being dependent upon pre-determined conditions.

The financial impact of Council's rezoning of land for Industrial activity is related to the capital investment in infrastructure and the time it may take to recover that capital and for the infrastructure to be financially self sufficient. In a slow growth and cyclical economy such as Hawke's Bay, the rate of up take can be slow and so good planning and land provision can result in a liability to ratepayers.

We believe the market should have a major influence in the location and speed of development subject to Council's role in representing the public good and the general efficiency and sustainability of land uses.

Deferred Zoning of land in an isolated sense can cause financial issues where Council's deferred tag is due to the difficulties and costs of servicing. In such a case, the market may well initiate an application for activities and Council's financial position may have no bearing on the outcome. Such circumstances may well mean that Council's infrastructural investment in other locations may take longer to be self funding due to a reduced take up, because of the market's push towards the deferred zone.

Thus the application of deferred zoning requires care and pre-conditions for the removal of the deferred status should be implemented. In addition to servicing issues, pre-conditions should include the take up of existing industrial development, particularly where Deferred Industrial land adjoins or is in close proximity to Industrial land. The market needs to be permitted to choose locations for development, within the accepted regional development framework, but within specific locations, industry can be steered to occupy land that makes most efficient use of existing services before developing land that provides no better occupational advantage to the user.

With reference to the Irongate proposal then, application of a Deferred Industrial zone to part of the land intended for industrial activity permits a better financial result for Council. This is because the likely development of the entire area will take a number of years and infrastructural investment is an up front cost. Being able to defer some of the upfront cost until recovery of part has occurred makes a more viable investment option.

Thus the Deferred Industrial proposal at Irongate could be subject to a level (say 70%) of uptake before the Deferred status is removed. This should encourage development of the Industrial land first.

In theory, the Deferred Industrial land will have a value level that is equivalent to the net present value of the land based upon the adjoining Industrial land value. We emphasise that

the market has different value drivers and so investors, speculators and others may well derive a value that is different from the theoretical mathematical level.

The Deferred Industrial zoning will provide an opportunity for a large footprint industry and will notify the market of the proposed areas for further development.

Site selection for industrial development is an economic decision that involves timing, land cost and locational considerations. Any development in the Deferred Industrial land will be at the expense of new development in the industrial core.

For industry that can be accommodated in existing Industrial Zones, the decision to choose between those zones and a Deferred Industrial zone will be one of economics. While in theory the values will equate on a net preset value basis, our analysis of the market has shown that the base value of raw land likely to be used for industrial activity, tends to be greater than the net present value equation.

Thus the market tends to drive industry to the ready zoned land from a value sense. Generally timing is critical and so "ready to go" land is a first priority for industry.

Industry will likely be attracted to land zoned Industrial in preference to land zoned Deferred Industrial due to:

- Surety of consents.
- Timing and land availability.
- Relative pricing.
- General preference for developed location.
- Existing servicing.

These market expects should assist, but not guarantee, that new industry selects Industrial zoned land in preference to Deferred Industrial, all other characteristics (eg location) being equal.

It seems that the Irongate Deferred Industrial zone proposal is a prudent measure.