

Proposed Mission Special Character Zone – Economic Benefit Assessment

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Executive Summary

1. This report provides a detailed external economic effects assessment for the Napier City and wider Hawkes Bay region, of a proposed major new residential and tourism development ('the development') by Mission Holdings Ltd (MHL) within its property portfolio in the Greenmeadows-Taradale area of Napier City. MHL is in the process of preparing a private plan change to the Napier City Council in relation to the development and has requested this report as part of a suite of background technical studies to be submitted to the Council in relation to the proposal.
2. The specific matters addressed in the report are as follows:
 - The anticipated economic effects of the development within the Napier City area.
 - Implications of the development in the context of future urban growth directions and requirements across the Napier-Hastings area, as per the Heretaunga Plains Urban Development Strategy (HPUDS).
 - The anticipated economic impacts flowing from the development.
 - Anticipated economic benefits and costs flowing from the development.
 - An assessment of the overall external economic effects of the development.
3. Section 2 of the report indicates a range of potential effects of the development both within its near vicinity and within the wider Napier City. The effects include:
 - Significantly increased population and visitor flows in the general location of the development.
 - Increased patronage of local recreation, retailing/business, community and visitor facilities in the area.
 - Possible construction period localised pressures such as transport and environmental (e.g. noise and dust) factors.
 - Consistency with expressed Napier City Council long-term development aspirations (e.g. high-quality residential living, increased tourism and cycling development in Napier).
 - Flow-on local economic benefits from further development of the overall Mission Estate enterprise.
 - Attraction of new residents and associated economic resources from outside Hawkes Bay.
 - Increased range of tourism accommodation and cycling facilities in Napier.
4. Section 3 of the report indicates how the proposed new residential development component is consistent in a number of important ways with the key Heretaunga Plains Urban Development Strategy HPUDS. These include:
 - The development will account for approximately 12-13% of additional total new household demand in Napier City over the next 30 years.
 - It will also account for 20-22% of total new 'greenfield' housing demand and 10-15% of additional rural-residential housing demand in the City.
 - The Poraiti Census Area Unit (which includes the Mission Estate and Parklands residential areas) is projected to account for 735 dwellings or 30% of total new 'greenfield' housing demand in Napier over the 2015-2045 period.

- Napier's total population is projected to increase by 6,010 or 10% over the next 30 years. The 65+ population of the wider Napier-Hastings area is projected to increase by in excess of 80%. Approximately a third of all new-build housing in the area is expected to comprise 'retirement dwellings', with half of these being within 'middle to upper end' retirement villages.
 - The Mission development proposes a variety of section sizes and housing formats, including smaller lots and dwellings suitable for 1-2 person households, which are anticipated to be in greater demand from the 65+ population category.
 - Overall average household occupancy (average number of persons per household) for Napier-Hastings is projected to fall from the present level of 2.55 down to 2.38 by year 2045.
 - Most of the demand for 'Greenfield' residential sites in Napier-Hastings exists within medium to upper medium price brackets and this situation is expected to continue into the future.
5. Section 4 of the report indicates the multiplied economic impact gains at the Hawkes Bay region level for the different components of the proposed development, over a 25-year period. It is emphasised that the economic impact results are indicative only as they are based on the current development concept for the area and associated construction cost and resident/visitor spending estimates. The key results from the economic impact modelling process undertaken in relation to the development are as follows:
- The construction of the proposed new residential and rural-residential housing, boutique hotel and visitor chalets, walking/cycling trails and new woodlot planting facilities, is anticipated to have an estimated annual Value Added/GRP impact during the period of approximately \$15 million, and \$376 million over a 25-year development period. The total FTE employment impact is an annualised 197 or 4,935 jobs/persons for the full period (i.e. 197 persons employed fulltime each year during the 25-year period).
 - The annual operation of the above facilities (excluding the new trails and woodlot planting), via new 'visitor'-resident household spending and visitor spending, is currently estimated to have an annual Value Added/GRP impact of approximately \$3 million and associated FTE employment impact of 50. These results translate into total impacts during the long-term period of Value Added/GRP \$72 million and FTE employment 1,200 (assuming that one year is allowed for the construction of all the new tourism accommodation facilities).
 - Potential 'downside' economic impacts to balance against the above gains include resource availability pressures arising within the local construction sector as a result of the proposed development, increased competition within the local visitor accommodation sector and lost rural production opportunities with the major new residential development. The annualised total Value Added/GRP impacts associated with these losses has been calculated at forestry \$70,000, sheep/beef farming \$140,000 and a combination of wine production/sheep-beef farming \$220,000. These compare with the Value Added/GRP figure of approximately \$3 million for the combined new 'visiting' resident/visitor accommodation annual operations.
6. Section 5 of the report indicates the main local and regional economic benefits anticipated to be generated by the proposed development. They include:
- Increased business for the construction and household servicing industries.
 - A stronger platform for attracting new residents to Napier/Hawkes Bay.
 - These residents may be able to contribute more economic assets to the region.

- Increased direct and flow-on tourism opportunities.
- Flow-on benefits for other industries in the region, including real estate, retailing and Local Government.

7. Overall Assessment- the MHL proposal provides for a comprehensive and large-scale residential, visitor accommodation and recreational development on the Company's major landholding in the Greenmeadows-Taradale area of Napier City. The development will add to the wide range of hospitality and visitor services currently provided at the location which already generate significant economic impact gains and other economic benefits for Napier and the wider Hawkes Bay region. Over the initial 25-year development period, most of the local and regional economic impact gain will arise from the actual construction activity currently estimated at a total direct expenditure figure of approximately \$484 million. This will be supplemented by the impact gains arising from the ongoing annual operation during the period of the various new dwellings and visitor facilities built as part of the development, with a total direct financial impact over the full period of approximately \$63 million. Both development categories will generate significant flow-on economic impact gains within the Hawkes Bay region, with the latter category (annual dwelling and facility operations) considerably outweighing 'downside' economic impacts associated with foregone rural production and potential reduced custom for other visitor accommodation outlets in Napier. The report also identifies a number of other potential flow-on economic benefits for the City and region flowing from the development. Overall then, it is anticipated that the development will have a major positive net economic effect for Napier and the wider region.

1- Introduction

- 1.1 Marist Holdings (Greenmeadows) Ltd (MHL) has formulated an initial comprehensive designed residential and hospitality/ tourism/ recreational concept for the future use of its major landholding in the Western (Taradale) Hills area of Napier City and is now seeking to progress implementation of the concept via a private plan change to the City of Napier District Plan.
- 1.2 In broad terms, the main elements of the proposed development (hereafter referred to in this report as ‘the development’) comprise a major new residential subdivision and provision for a number of rural-residential/ ‘lifestyle’ housing developments, new visitor-tourism amenities (boutique hotel and visitor chalets), physical-environmental enhancements (such as the proposed new vegetation cover on the eastern face of the property) and new recreational amenities (for example, walking and cycling trails).
- 1.3 Section 32-(2)-(a) of the Resource Management Act 1991 requires that the anticipated external economic (along with environmental, social and cultural) effects of the development be identified and taken into consideration in Napier City Council decision-making on the proposed plan change. Economic Solutions Ltd (ESL) has been requested by MHL to undertake this assessment of potential economic effects of the development.
- 1.4 Section 32 specifies that an Economic Benefits Statement in relation to the proposed Plan Change is required to identify, quantify where possible and assess the anticipated economic benefits and costs of the development, including the opportunities for economic and employment growth. The Statement is also required to indicate any anticipated local/neighbourhood and wider area economic effects of the development.
- 1.5 In light of the comments in sections 1.3 and 1.4 above, the specific matters addressed in the report are therefore as follows:
- The anticipated economic effects of the development within the Napier City area.
 - Implications of the development in the context of future urban growth directions and requirements across the Napier-Hastings area (as per the Heretaunga Plains Development Strategy HPUDS).
 - The anticipated economic impacts flowing from the development.
 - Anticipated economic benefits and costs generated by the development.
 - An assessment of the overall external economic effects of the development.
- 1.6 The key information sources for the report include:
- Relevant base financial and other information concerning existing Mission Estate operations and the proposed development, provided by MHL and Mitchell Daysh Consultants (working on behalf of MHL) in response to a specific request from ESL.
 - Relevant strategy documentation and information sourced from the Napier City Council and the Hawke’s Bay Regional Council.
 - Other relevant documentation, for example, Statistics New Zealand data results and rural sector industry updates.

- Economic impact modelling results provided on a sub-contracted basis to ESL by Dr Warren Hughes, specialist economic impact modelling consultant of Auckland. The detailed modelling results are contained in **Appendix 1** to the report, with **Appendix 2** providing a brief resume of the academic and economic consultancy work experience of Dr Hughes.

1.7 It is emphasised that the analysis of anticipated economic effects of the development relates to the current iteration only of the development concept, as advised by MHL and Mitchell Daysh.

2- Napier City Economic Effects

2.1 This section comments on the anticipated local neighbourhood and wider Napier City area economic effects of the MHL development.

2.2 From a residential growth perspective, the Plan Change concept as it currently stands includes provision for major new housing development in the western part of Napier City, in the order of 500 to 550 new dwellings (assumed to be built over a 25-year time horizon, for the purposes of this report's analysis). At the estimated current level (2.4 persons) of average household occupancy across the City, this implies an additional approximately 1200-1300 people ultimately residing in this part of the City. New rural-residential housing growth within the development concept area will add to this number. The provision of an addition to the existing walking/ cycling network in Napier will add to the numbers of people moving both within and around the locality of the development. Further, the upgrading and development of new tourism facilities (visitor accommodation) within the Mission Estate Winery complex should significantly increase visitor flows in the general area of the proposed development.

2.3 The positive flow-on effects of these developments within the local area are considered to include increased local housing options; infrastructural and services upgrades in the near vicinity of the development location; increased use of existing recreational, sporting and leisure amenities such as the Park Island Complex and possibly the development over time of some new amenities; increased use of local retailing/business centres (Tamatea, Greenmeadows and Taradale); business growth opportunities for other enterprises based in these localities; increased use of local public and community facilities in the Greenmeadows-Taradale area generally and the potential for increased localised visitor servicing (e.g. hospitality and accommodation options).

2.4 Potential economic pressures arising from the development for the local area include effects arising during the construction periods for the new housing (such as the movement of heavy construction vehicles on the main roading network leading to the project area and site development effects-for example, dust and noise issues- on neighbouring properties), adverse impacts on property values in the near vicinity of the development area with a perceived loss of rural/ lifestyle ambience, significantly increased traffic flows along the local roading network over the medium to long-term with the comprehensive development of the residential site and any pressures arising from the development in relation to the local infrastructural and services network. However, appropriate staging of the proposed

development, effective traffic management approaches, minimisation of external site construction effects, implementation of an overall residential settlement pattern which is sensitive to the rural and/or lifestyle values of nearby properties and allowance for any necessary upgrades resulting from the new residential development in relation to local infrastructural and services use and provision, should help to minimise these potential issues.

2.5 From a wider Napier City perspective, the proposed MHL development is consistent with a number of the Napier City Council's long-term economic growth and development aspirations for the City, as expressed in the Council's current Long Term Plan 2015-2025. These aspirations include:

- Ensuring that Napier retains its status as a high-quality area for residential living, raising families, enjoying a safe and satisfying life, and accessing employment opportunities.
- Further City growth and development, strengthening of Napier's overall vibrancy and embracing new opportunities.
- Maintenance of a strong, prosperous and thriving economy.
- Further development of the City's tourism sector and cycling network.

The existing Mission Estate complex has and continues to provide a significant contribution to overall economic activity in Napier City and the ongoing performance of the Napier tourism sector via its various rural production and hospitality/ tourism activities. This contribution will be significantly enhanced by the proposed new residential, visitor and recreational developments which also align closely with the above development aspirations for Napier.

2.6 From the City-wide perspective, the range of specific economic benefits anticipated to result for Napier from the development include as listed below. These are in addition to other benefits indicated in the next two main sections of the report:

- Strengthening of the overall business and tourism profile of the Mission Estate operation itself, with flow-on benefits for the local economy. The current operation in Greenmeadows includes the winery/grape-growing enterprise, visitor/wine-tasting/cellar door/gift shop, restaurant/hospitality facility, conference/ meeting venue, wedding/other social activities venue, annual Mission Concert, farmhouse accommodation and rural production (pastoral farming, forestry and horticulture) activities.
- The proposed major new residential complex providing for both premium and other housing should strengthen the City's ability to attract new residents from outside the Hawke's Bay region including from the rest of New Zealand and overseas. These residents may also be able to offer higher income, skilled labour, investment or new business establishment advantages for the City. The relocation into the complex of residents from other parts of the City and the wider Napier-Hastings area will in turn free up housing in the area for other local citizens seeking alternative residential accommodation.
- The proposed new visitor accommodation (boutique hotel and visitor chalets) will add to the range of quality accommodation available for visitors to Napier and be of

particular benefit to the City during periods of growing tourism to the area and peak accommodation demand. The new accommodation may attract visitors to the City in its own right in addition to being available for the accommodation needs of people visiting the area for other reasons.

- Possible new walking/cycling trails through the development area will add to the existing trail network in Napier and the wider Napier-Hastings area. This amenity is used not only by local residents but also increasingly by visitors to the City. To the extent that the trails are a key motivation for visitation to the area, they generate their own positive visitor spending and flow-on economic impacts.
- The proposed new vegetation cover on parts of the development area, including woodlot plantings on its eastern face, should increase the physical attractiveness of the area and add to the overall 'quality of life' and tourism appeal of Napier.

3- Local and Regional Housing Growth

3.1 This section assesses the proposed MHL development in light of the projected direction and scale of future urban growth in the Napier-Hastings area over the long-term. The base information for this are the various reports prepared earlier this year as part of the first five-yearly review of the HPUDS (Heretaunga Plains Urban Development Study) housing strategy. The initial Strategy was finalised in 2011. The review is being coordinated by the Hawke's Bay Regional Council.

3.2 The relevant key points to note from the final review technical reports are as follows:

- A projected additional total demand for new households/ dwellings across the Napier-Hastings (Heretaunga Plains) area between 2015 and 2045 (which includes the 25-year planning period for the new MHL development) of 10,610. This projection assumes a medium to high total household demand growth scenario;
- New 'Greenfields' housing is expected to comprise 41% (4,415 households) of the projected additional demand, rural-residential 8% (approximately 800 households) and housing intensification the balance of 51% or 5,395 households);
- The Napier City share of the projected total household demand growth across the Napier-Hastings area over 2015-2045 is currently projected at 4,100 or approximately 40%.
- Almost 60% of this Napier City total comprises new 'Greenfield' housing demand and the balance rural-residential and housing intensification.
- The Poraiti CAU (Census Area Unit) area of Napier, which includes the proposed MHL new residential development area (and the Parklands residential development already well underway), is projected to account for a total of 735 dwellings or 30% of the projected total new 'Greenfields' housing demand in Napier, over the projection period.

- vi) It is further noted that the Napier City component of the Heretaunga Plains area is projected to account for 57% of the projected total ‘Greenfield’ new housing demand in the area over 2015-2045;
- vii) Napier City’s total population is projected to increase by 6,010 or 10% over this period. The 65+ age-group population of the combined Napier-Hastings area is projected to increase by in excess of 80% over the next 30 years or so. Approximately a third of all new-build housing in the area is expected to comprise ‘retirement dwellings’ with half of these being within ‘middle to upper end’ retirement villages; and
- viii) Overall average household occupancy (average number of persons per household) for Napier-Hastings is projected to fall from the present level of 2.55 down to 2.38 by year 2045.

3.3 It is considered that the MHL residential development proposal is consistent with all the above factors. In addition, the development represents 12-13% of additional total new housing demand in Napier over the projection period, 20-22% of additional ‘Greenfield’ demand and about 10-15% of the projected additional rural-residential requirement in the City. It is noted that the Telfer Young Hawke’s Bay Ltd Valuation Consultancy market demand report prepared for this year’s review of the HPUDS Strategy indicates (Executive Summary of the report) that most of the demand for ‘Greenfield’ residential sites in Napier-Hastings exists within medium to upper medium price brackets and this situation is expected to continue into the future. There appears to be general resistance to lower-priced housing formats and localities. Higher quality and value new housing is generally expected to be located in the Havelock North area and potentially in the Poraiti/Western Hills area of Napier City. The most popular form of new residential development in Napier-Hastings is standard housing within ‘Greenfield’ areas.

3.4 It is further noted that the Mission development proposes a variety of section sizes and housing formats, including smaller lots and dwellings suitable for 1-2 person households, which are anticipated to be in greater demand from the 65+ population category.

4- Economic Impacts of Proposed Development

4.1 This section indicates the potential economic impact gains of the proposed development at the Hawke’s Bay region level.

Nature of Economic Impact Assessment

4.2 Economic Impact Assessment (EIA) quantifies the total multiplied economic impacts for a specific geographical area (local/regional/national) of a significant existing or new revenue/expenditure operation, development or activity in the area.

4.3 Total economic impacts comprise the initiating direct expenditure or revenue/turnover impact associated with the activity and the flow-on or ‘multiplied’ economic impacts. The flow-on impacts incorporate both production and consumption impacts. The production

impacts comprise the flow-on gains for businesses supplying goods and services to the initial expenditure or revenue activity, whilst the consumption impacts comprise the additional household spending of employees working directly in the activity and also in the businesses supplying inputs to the activity.

- 4.4 Economic impacts are traditionally measured using four different variables, these being Total Revenue/Gross Output (the total value of the economic impact including the value of any imported items), Net (Disposable) Household Income (income after removing taxation, savings, superannuation, etc.), Total FTE (fulltime equivalent) Employment (measured in terms of persons/jobs) and Total Value Added/Gross Domestic Product GDP (or Gross Regional Product GRP for sub-national areas).
- 4.5 The GRP impact is considered to best measure the true multiplied gain in total economic activity in an area as a result of an initial expenditure or revenue project/change, as it excludes the value of imported items required for the project (payments for which flow out of the region to externally based suppliers of goods and services).
- 4.6 An economic impact or input-output table/model for a particular region or district is required in order to calculate multiplied economic impacts for the area. As noted earlier in the report, **Appendix 1** contains the detailed results of the economic impact modelling work undertaken for ESL by Dr Hughes. The economic impact results presented in this report are based on the latest available (year ended March 2013) Hawke's Bay multiplier results for relevant sectors within an 88-sector economic impact model of the regional economy. It is noted that the Napier City share of the regional economic impacts calculated for the project will depend on the extent to which local labour, businesses and other resources are used in both the construction and ongoing servicing of the different development components. It is further noted that the various multiplier results presented in the report reflect Type II multipliers which include both production and consumption flow-on economic impacts.

Economic Impact Results

- 4.7 The analysis below indicates the respective sets of economic impact results for the currently proposed new residential development including the rural-residential housing, the 'opportunity cost' of the new residential subdivision in terms of foregone or lost rural production, the new boutique hotel and visitor chalet features, and the walking/cycling trails and new woodlot cover.
- 4.8 It is again emphasised that the economic impacts calculated are based on the latest information available and provide estimates only of the potential total or gross impacts associated with the above activities. Some comment is made in the analysis about potential offsetting impacts which will reduce the overall net economic impacts generated by each of the above development activities.
- 4.9 **New Residential Subdivision** – the total construction cost estimate in 2016 dollars for the proposed level of new housing is in the range \$375-\$495 million, with a mid-point value of \$435 million. This assumes 50% of the new dwellings being located on high or premium value sections in the subdivision and the remaining 50% on the other sections in the subdivision. The average total land plus housing cost for properties on the premium value

sections is assumed to be in the range \$800,000-\$1,000,000 with the figure for the other sections being \$700,000-\$800,000. These figures are based on current pricing estimates provided by MHL for sections in the new development and consideration of current section and new build costs in some of the new housing development areas in Napier (as advised in the course of discussions with local developers and valuation/real estate companies) and incorporate a premium for the elevated (Western Hills) location of the MHL development site. The costs of infrastructure/ services, site preparation and developer margins are assumed to be fully built into the price of individual sections.

- 4.10 It is emphasised that the base total construction cost figure (\$435 million) used for calculation of the economic impact results below, should be regarded as indicative only, as it is based on current assumptions with regard to the broad pattern and timing of new housing development within the new subdivision and estimates of the value of sections and dwellings established in it. To the extent that these factors change, the overall construction cost for the development (and associated economic impacts indicated below) will also change. It is further emphasised that the other economic impact results indicated below in this report should also be regarded as indicative, based as they are on current development planning and cost/expenditure estimates.
- 4.11 It is further noted in relation to the above total construction cost figure that the estimated house construction portion of the value represents approximately 25% of the total value of new dwellings consented in Napier City over the past 25 years. It also represents approximately 30% of the estimated total value of new 'Greenfield' housing development forecast for the City over the next 30 years, assuming the current annual average construction value of new dwellings consented.
- 4.12 The economic impact results for the 25-year period are indicated in Tables 1 and 2 of the modelling analysis presented in **Appendix 1** and also in **Table 1** below. The total initiating development expenditure figure is the \$435 million figure mentioned in the previous point and this has been time-profiled as indicated in Table 1 of Appendix 1 in accordance with base information provided by MHL.

Table 1: Hawke's Bay Economic Impacts of New Housing Construction MHL Development for 25-Year Period

Economic Impact Components	Economic Impact Measures			
	Revenue (\$M)	Net Household Income (\$M)	FTE Employment (Persons)	Value Added/ GRP (\$M)
HB Based Construction Cost	435.0			
Total Direct Economic Impacts	435.0	61.3	1,621	95.8
Total Flow-on Economic Impacts	545.6	115.2	2,805	241.5
Total Direct Plus Flow-on Economic Impacts	980.6	176.5	4,426	337.3
Annual Impacts for Period	39.2	7.1	177	13.5

- 4.13 The key results to note from the table are as follows:

- i) Increased economic activity/GRP in the Hawke's Bay region in the order of \$337 million or an annual average \$13.5 million. This comprises a direct GRP impact of approximately \$96 million (annual \$4 million) and a total flow-on impact of \$242 million (annual \$10 million). The associated Hawke's Bay Value Added multiplier is 3.52;
- ii) A total FTE (Fulltime Equivalent) Employment impact for the period of 4,426, comprising a direct Employment impact of 1,621 and a total flow-on Employment impact of 2,805. The total employment impact result is equivalent to the housing construction work requiring 177 fulltime workers each year for the 25-year period. The overall Employment multiplier is 2.73; and
- ii) Additional total Net Household Income generated in Hawke's Bay of approximately \$176 million, comprising a direct Household Income impact of \$61 million and a flow-on Household Income impact of \$115 million, inferring an overall Net Household Income multiplier value of 2.88.

4.14 It is noted that the economic impacts flowing from the housing construction work are not ongoing and apply only to the period(s) in which the actual work is undertaken.

4.15 ***New Rural-Residential Properties*** – MHL has estimated a potential total of 50 new rural-residential properties also being catered for within the overall development area under the proposed Plan Change. Assuming that these are also developed within the 25-year time-frame and an average total property cost in the order of \$700,000-\$800,000, the total development cost involved is in the range \$35-40 million. The midpoint value figure for this range of \$37.5 million has been used for the purposes of economic impact analysis. Table 3 of the modelling analysis in **Appendix 1** indicates that the main total flow-on regional economic impacts of this initial total construction cost figure are Value Added/ GRP (Gross Regional Product) \$29.1 million, FTE Employment 381 and Net Household Income \$15.2 million. The approximate annualised economic impacts are Value Added/ GRP \$1.2 million, Employment 15 FTE persons (i.e. 15 persons employed on a fulltime basis each year for a total of 25 years) and Net Household Income \$0.6 million.

4.16 ***Annual Household Expenditure*** – this section indicates the potential economic impacts arising from the annual household expenditures for those new dwellings in the development occupied by people relocating into the Hawke's Bay region from other parts of New Zealand or directly from overseas. For the purposes of the analysis, the following parameters were used in calculating the base qualifying total household expenditure figure for the period- 10% of the properties in the High or premium value category are assumed to be occupied by residents new to Hawke's Bay and 5% for the remaining properties in the development (the latter proportion is based on developer/real estate company views in relation to existing 'Greenfield' subdivisions); households in both categories are regarded as 'local resident' households from year 2 of their presence in the development; and an average weekly total household expenditure figure of \$1,014.30 (based on Statistics NZ Household Economic Survey results for North Island households in 2013 and adjusted upwards for inflation since that time). The same ratios as above are also applied to the total stock of new rural-residential dwellings developed during the period.

- 4.17 The base total household expenditure figure calculated for the economic impact modelling analysis for the 25-year period is also a midpoint value of approximately \$2.3 million (annual average \$92,000). The total direct and flow-on regional economic impacts of this spending are Value Added/ GRP \$2 million (annual average \$0.08 million), FTE Employment 23 (i.e. one fulltime equivalent generated each year during the full period) and Net Household Income \$0.85 million (annual average \$0.34 million).
- 4.18 **Potential Foregone Rural Production** – the annualised gross return or revenue levels for relevant rural production activities that could possibly be alternatively undertaken on the 140 hectare area proposed to be used for the major new residential subdivision, are currently calculated from discussions with MHL and industry sources at sheep and beef farming approximately \$0.17 million, a mix of grape-growing \$0.10 million and sheep/beef farming \$0.17 million, and forestry \$0.08 million. The annual regional Value Added/ GRP economic impact for these respective activities have been calculated from the modelling process at \$0.14 million (pastoral farming), \$0.22 million (grape-growing and sheep/beef farming) and \$0.07 million (forestry). It is further noted that proposed new residential development area represents approximately 2% of the total rural land area of Napier City.
- 4.19 **Proposed New Visitor Facilities (Boutique Hotel and 10 Visitor Chalets)** – MHL has indicated initial construction cost estimates for these two projects at \$6 million and \$4 million respectively. On the basis of the results of other hotel economic impact and visitor spending evaluations undertaken in the Hawke’s Bay region by ESL, total annual hotel operation turnover is estimated at \$1.65 million (covering primarily the accommodation and food/beverage spending of hotel guests) and total annual visitor spend by chalet guests \$1.60 million (covering all the main categories of visitor spending).
- 4.20 The total construction expenditure related economic impacts at the Hawke’s Bay level for the two projects have been calculated at Value Added/ GRP \$7.8 million, FTE Employment 105 and Net Household Income \$4.1 million.
- 4.21 The annual total regional economic impacts of the combined hotel turnover and chalet visitor spending whilst in Hawke’s Bay are calculated via the regional economic impact model at Value Added/ GRP approximately \$3 million, FTE Employment 49 and Net Household Income \$1.3 million.
- 4.22 **Proposed Walking/Cycling Trail and New Vegetation Cover** – the combined establishment cost for these potential features of the new development is currently estimated at \$1.21 million, based on figures provided by MHL and Mitchell Daysh Consultants. The combined economic impacts generated for the Hawke’s Bay region from this level of spending are Value Added/ GRP \$0.9 million, FTE Employment 9 and Net Household Income \$0.4 million.
- 4.23 **Overall Summary of Total Economic Impact Gains**
- Table 2** below summarises the various total economic impact Value Added/ GRP and FTE Employment results quantified in sections 4.9 to 4.21 above, on an annualised basis for a 25-year period. All monetary values are in 2016 dollars.

For the purposes of the analysis, it is assumed that all the new physical features of the development are constructed and operating during the course of the first 25-year period.

Over the period, the total construction expenditure-generated annualised Value Added/GRP and FTE Employment economic impacts are estimated at approximately \$15 million and 197 respectively. For the full 25-year period, the respective construction activity economic impacts are \$376 million and 4,935 jobs/persons (197 persons employed fulltime each year during the 25-year period).

By the end of the 25-year period, the total Value Added/GRP impact of the annual household expenditure of those dwellings occupied by new Hawke's Bay residents is estimated at \$2 million (annual average for the period of \$0.08 million) along with an associated total FTE employment impact of 23 (annual average approximately one FTE person).

Assuming for the purposes of the analysis that the proposed new boutique hotel is fully operational from year 3 of the long-term period and the ten visitor chalets are successively built and in operation every 3 years of the long-term development period, the combined annual regional Value Added/GRP impact for the operation of these facilities is estimated at \$2.9 million, along with a total FTE employment impact of 49 persons. For the 25-year period, these economic impacts translate to Value Added/GRP \$55 million and FTE employment 911.

Whilst the economic impacts of the annual operation of the proposed new walking/cycling trail and vegetation cover, in relation to the maintenance of these features and visitor 'use' of them, have not been quantified in the report due to the lack of appropriate base expenditure information, nevertheless, it is noted that annual maintenance spending and visitor spending directly linked to the features will also generate valuable economic impact gains for the region.

Thus, during a 25-year period, the estimated total annual and full-period operating impacts for the development are Value Added/GRP approximately \$3 million and \$57 million, and FTE Employment 50 and 934.

Table 2: Summary of Indicative Annual Total Hawke's Bay Economic Impacts for Proposed MHL Development

MHL Development Component	Annualised Construction Economic Impacts		Annualised Operational Economic Impacts	
	Value Added/GRP \$M	FTE Employment	Value Added/GRP \$M	FTE Employment
<i>Major Residential Subdivision</i>	13.5	177.0	0.07	0.91
<i>Rural-Residential Dwellings</i>	1.20	15.0	0.01	0.09
<i>Boutique Hotel</i>	0.19	3.0	1.47	25
<i>Visitor Chalets</i>	0.12	2.0	1.43	24
<i>Walking/Cycling Trail & New Vegetation Cover</i>	0.03	0.4	na	na
TOTAL	15.04	197.40	2.98	50

4.24 It is important to note the potential economic impact ‘downsides’ associated with the development, against which the economic impact gains shown in the above table should be appropriately balanced. The ‘downsides’ include:

- a) Increased labour and other resource pressures within the local construction sector (due to, for example, the scale of the project and competing building projects elsewhere in the area) possibly resulting in building delays and other issues adversely affecting the sector’s economic performance. Appropriate staging of the different components of the development should help to address this issue;
- b) The regional economic impacts associated with the lost rural production opportunities due to the new residential development. On an annualised basis and as indicated earlier in the report, the total multiplied Value Added/GRP losses are potentially sheep/beef farming \$0.14 million, forestry \$0.07 million and grape-growing/sheep-beef farming \$0.22 million. **Table 7 of Appendix 1** indicates a range of annual net Value Added/ GRP gain (\$2.76m-\$2.91m) when comparing the above alternative rural production GRP impacts with the overall GRP gain figure of \$2.98m in Table 2 above; and
- c) Increased competition within the local visitor accommodation sector, particularly in relevant market segments, which may result in reduced custom for some outlets. However, to the extent that these visitor accommodation segments are growing in the region, the impact of this factor will be commensurately reduced.

5- Summary Of Economic Benefits and Costs

5.1 This section briefly summarises the main broad local and regional economic benefits anticipated to be generated over time as a result of the proposed MHL development as inferred by the comments in the preceding sections of this report, as follows:

- Significantly increased business opportunity for the Hawke’s Bay construction sector and for the various industries servicing the sector and the ongoing household operations of the new dwellings located in the new development.
- The development should contribute to a stronger basis for attracting more residents to the area from outside Napier thus increasing the population base of the City and the size of the local domestic market for City and wider region businesses.
- New residents particularly from outside Hawke’s Bay may be able to contribute other economic attributes to the City including labour skills, investment resources, technology and new business development.
- Potential for increased tourism to Napier/Hawke’s Bay via a number of different channels including outside visitors (family and friends) to residents in the new development, increased visitor accommodation offering with the boutique hotel and visitor chalets, flow-on conference and other event possibilities at the Mission, and the extension to the local and regional network of walking and cycle trails.
- Together with the proposed establishment of new vegetation cover within the development, the above tourism factors should collectively add to the overall visitor appeal of the MHL locality with positive flow-ons to the wider City

- Specific industry categories that are anticipated to benefit more directly from the overall development include in addition to the construction and household servicing sectors, real estate selling, retailing, Local Government/community services provision and tourism product/ visitor servicing providers.

5.2 A number of these benefits have already been factored into the regional economic impact assessment analysis presented in the previous section of the report, with an overall significant level of annual economic activity/ GRP and employment growth gain within the region being shown. The other benefits listed above also offer the potential for additional economic impact gains for the City and wider region, for example, new business establishment and investment activity by new residents living in the new residential complex.

5.3 The economic benefits noted above should be balanced against areas of potential economic cost arising from the development. These include:

- Resource/labour, traffic, environmental, etc pressures arising during the housing and tourism facility construction phase and adversely impacting business performance and
- Adverse economic impact flow-ons arising from reduced rural sector production.

6- Overall Economic Assessment

6.1 Overall Assessment- the MHL proposal provides for a comprehensive and large-scale residential, visitor accommodation and recreational development on the Company's major landholding in the Greenmeadows-Taradale area of Napier City. The development will add to the wide range of hospitality and visitor services currently provided at the location which already generate significant economic impact gains and other economic benefits for Napier and the wider Hawkes Bay region. Over the initial 25-year development period, most of the local and regional economic impact gain will arise from the actual construction activity currently estimated at a total direct expenditure figure of approximately \$484 million. This will be supplemented by the impact gains arising from the ongoing annual operation during the period of the various new dwellings and visitor facilities built as part of the development, with a total direct financial impact over the full period of approximately \$63 million. Both development categories will generate significant flow-on economic impact gains within the Hawkes Bay region, with the latter category (annual dwelling and facility operations) considerably outweighing 'downside' economic impacts associated with foregone rural production and potential reduced custom for other visitor accommodation outlets in Napier. The report also identifies a number of other potential flow-on economic benefits for the City and region flowing from the development. Overall then, it is anticipated that the development will have a major positive net economic effect for Napier and the wider region.

**ECONOMIC IMPACTS FOR THE HAWKE'S BAY REGION FROM
THE PROPOSED MISSION WINERY RESIDENTIAL AND TOURISM
DEVELOPMENT IN NAPIER**

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1. INTRODUCTION

A major new residential subdivision and visitor facilities development involving construction over an initial 25 year timeframe is proposed for land currently owned and used by the Mission Estate Winery in Napier for various agricultural, forestry, wine and hospitality/tourism activities. The development comprises residential sections for up to 550 homes, 50 rural-residential properties, a boutique hotel, 10 visitor chalets, walking/cycling trail and new vegetation cover.

Potential economic impacts from the proposed construction and associated facility annual operations are estimated below using a 106-sector economic model of the Hawke's Bay region for the year ended March 2013.

2. NEW HOUSING IMPACTS

Construction impacts for the region over the 25-year period are shown below for the residential urban homes and rural-residential properties (Tables 1 and 3). All monetary values are in 2016 dollars.

a) RESIDENTIAL SUBDIVISION

Table 1 below outlines the construction time-frame for the major residential subdivision home development. Note that actual home construction starts in year 4 but the preceding 3 years require roading, landscaping and other development essential for the project. These costs are included in the figures shown from year 4 onwards.

TABLE 1: CONSTRUCTION SCHEDULE & ECONOMIC IMPACTS FOR THE RESIDENTIAL DEVELOPMENT

Year	Construction Cost \$m	TOTAL ECONOMIC IMPACTS FOR THE HAWKE'S BAY REGION			
		Revenue \$m	Net Income \$m	Employment FTEs	Value Added \$m
1	0.00	0.00	0.00	0	0.00
2	0.00	0.00	0.00	0	0.00
3	0.00	0.00	0.00	0	0.00
4	20.64	46.52	8.37	210	16.00
5	20.64	46.52	8.37	210	16.00
6	20.64	46.52	8.37	210	16.00
7	20.64	45.52	8.37	210	16.00
8	0.00	0.00	0.00	0	0.00
9	23.11	52.10	9.37	235	17.92
10	23.11	52.10	9.37	235	17.92
11	0.00	0.00	0.00	0	0.00
12	0.00	0.00	0.00	0	0.00
13	0.00	0.00	0.00	0	0.00
14	33.84	76.29	13.73	344	26.24
15	33.84	76.29	13.73	344	26.24
16	0.00	0.00	0.00	0	0.00
17	0.00	0.00	0.00	0	0.00
18	0.00	0.00	0.00	0	0.00
19	57.78	130.26	23.44	588	44.80
20	57.78	130.26	23.44	588	44.80
21	0.00	0.00	0.00	0	0.00
22	0.00	0.00	0.00	0	0.00
23	41.27	93.04	16.74	420	32.00
24	41.27	93.04	16.74	420	32.00
25	40.45	91.18	16.41	412	31.36
TOTALS	435.01	980.64	176.45	4426	337.28

Table 1 shows a total construction cost of \$435 m spread over a 25-year period. The total impacts can be annualised by dividing by 25. Accordingly, the residential development can be considered as employing 4426/25 or 177 full-time workers every year for 25 years. This is an average and some years will see lower or higher employment depending on the intensity of construction in that year.

Similarly, 337.28/25 or \$13.49 m is added to Hawke's Bay GDP every year over the 25-year construction period. Again some years will be higher or lower depending on the level of construction at the time. The additional \$13.49 m is the total of extra wages and profits earned by regional workers and businesses due to the residential project. This is the best measure of regional gain. Residential construction involves installation of equipment and appliances produced in other regions of NZ or overseas. This inflates the Revenue impact in Table 1 to \$981 m as shown but much of this value needs to be imported into the region. The Value Added or GDP impact in Table 1 shows the value attributable to Hawke's Bay workers and business units. The \$176 m shows the net income attributable to the project received by Hawke's Bay workers. This equates to an average gross annual salary (before tax) for the 4,426 workers of just under \$57,000.

TABLE 2: DIRECT & FLOW-ON IMPACTS ATTRIBUTABLE TO THE RESIDENTIAL PROJECT

Source of Impact	Revenue \$ millions	Net Household Income \$ millions	Employment FTEs	Value Added or GDP \$ millions
Direct Cost of Construction	435.01	61.25	1621	95.79
Flow-ons from related sectors	545.63	115.20	2805	241.49
TOTAL IMPACTS FOR THE HAWKE'S BAY	980.64	176.45	4426	337.28
Construction Multipliers	2.25	2.88	2.73	3.52

From **Table 2** above, we see that 1621/25 or 65 workers are directly involved each year on the construction sites. The Employment multiplier of 2.73 shows that each of these construction workers induces another 1.73 jobs in the regional economy. These jobs will be in sectors such as construction inputs like aggregates or in sectors servicing household expenditure such as retail trade. Construction multipliers are typically high as shown in Table 2. These multipliers are so-called type II multipliers and include all flow-ons from inputs (e.g. aggregates) into actual construction on-site (industrial flow-ons) as well as flow-ons from household expenditure by all workers connected with the project (consumption flow-ons).

b) RURAL-RESIDENTIAL PROPERTIES

Table 3 below shows the estimated direct construction cost of \$37.5 m for the 50 rural-residential properties proposed for the development. The industrial and consumption flow-ons from related sectors are shown on the line below leading to the total impacts for the Hawke's Bay region for all four impact measures.

TABLE 3: DIRECT & FLOW-ON IMPACTS ATTRIBUTABLE TO THE RURAL-RESIDENTIAL DWELLINGS

Source of Impact	Revenue \$ millions	Net Household Income \$ millions	Employment FTEs	Value Added or GDP \$ millions
Direct Cost of Construction	37.50	5.28	140	8.26
Flow-ons from related sectors	47.00	9.97	235	20.74
TOTAL IMPACTS FOR THE HAWKE'S BAY	84.50	15.25	375	29.00
Construction Multipliers	2.25	2.89	2.68	3.51

The annual contribution to Hawke’s Bay GDP from the rural-residential development can be calculated as \$29 m/25 or \$1.16 m per year. Again the type II multipliers are shown and are very similar to those for the residential subdivision in Table 2. Any slight differences are attributable to the *Non-Building Construction* segment for the subdivision which is excluded from the rural-residential development summarised in Table 3. That is, all roading, landscaping etc. for the subdivision is already included in the Table 2 summary. All construction costs for the rural-residential development summarised in Table 3 are allocated to the *Residential Building* sector in the economic model.

3. ECONOMIC IMPACTS FOR BOUTIQUE HOTEL AND VISITOR CHALET CONSTRUCTION

The economic impacts from construction of the Boutique Hotel and Visitor Chalets are summarised below in **Table 4**. All direct construction costs have been allocated to the *Residential Building* sector in the economic model.

TABLE 4: TOTAL ECONOMIC IMPACTS ATTRIBUTABLE TO THE HOTEL AND CHALET CONSTRUCTION

Source of Impact	Revenue \$ millions	Net Household Income \$ millions	Employment FTEs	Value Added or GDP \$ millions
Boutique Hotel at \$6 m direct cost	13.74	2.46	63	4.67
Visitor Chalets at \$4 m direct cost	9.16	1.64	42	3.11
Total Impacts for Hawke’s Bay region	22.90	4.10	105	7.78

4. TOTAL ECONOMIC IMPACTS FROM CONSTRUCTION FOR THE HAWKE’S BAY REGION

Total construction impacts from all developments are summarised in **Table 5**.

TABLE 5: ECONOMIC IMPACTS FOR THE HAWKE’S BAY REGION FROM ALL CONSTRUCTION

Source of Impact	Revenue \$ millions	Net Household Income \$ millions	Employment FTEs	Value Added or GDP \$ millions
Residential Development of 500-550 Homes	980.64	176.45	4426	337.28
Rural-Residential Dwellings of 50 Units	84.50	15.25	375	29.00
Boutique Hotel at \$6m Construction Cost	13.74	2.46	63	4.67
10 Visitor Chalets at \$4m Construction Cost	9.16	1.64	42	3.11
TOTAL ECONOMIC IMPACTS HAWKE’S BAY	1088.04	195.80	4906	374.06

Only the total regional economic impacts are shown for the Hotel and Visitor Chalet developments and these are proportional to the relative construction costs. That is, the 10 Visitor Chalet impacts are 1.5 times those for the Boutique Hotel in line with the relative construction costs.

The average annual contribution to Hawke’s Bay regional GDP over the 25-year construction time frame due to the development is determined as 374.06/25 or about \$15 m per year.

5. ANNUAL ECONOMIC IMPACTS FROM HOUSEHOLD & VISITOR SPENDING

The development could result in current out-of-region residents relocating to Hawke's Bay to take up residence in the new homes or the rural-residential properties being constructed. The normal household expenditure of these residents (assumed to be up to 10% of owners) will be a net gain for the Hawke's Bay region. In addition, visitor expenditures at the Boutique Hotel and those at the 10 Visitor Chalets will also add to regional GDP.

TABLE 6: ANNUAL IMPACTS FROM NEW RESIDENT HOUSEHOLD SPENDING AND VISITOR SPENDING GAINS

Source of Impact Annually	Revenue \$ millions	Net Household Income \$ m	Employment FTEs	Value Added or GDP \$ millions
Gains				
New Hawke's Bay Residents in Suburb Gain At End of 25 Years \$2.34 m Total Direct Spend	0.15	0.03	1	0.08
Boutique Hotel Turnover at \$1.65m	2.93	0.65	25	1.47
Visitors to 10 Chalets at \$1.60 m spend	2.84	0.63	24	1.43
Total Annual Gains from Development	5.92	1.31	50	2.98

Note that the Revenue multiplier for additional spending can be derived as $5.92 / (0.09 + 1.65 + 1.60)$ or $5.92/3.34$ or 1.77 which is significantly less than the corresponding construction multipliers at 2.25 in Tables 2 and 3.

Note too that the allocation for household spending by Hawke's Bay residents is different from the higher spending of visitors in the region at the Hotel and Chalets leading to greater flow-ons and higher total impacts.

The annual addition to Hawke's Bay GDP from increased visitor spending and new resident household spending is approximately \$3 m per year.

6. SUMMARY OF NEW DEVELOPMENT OPERATIONAL IMPACTS

As detailed above in **Table 6**, additional household spending by new residents to the region as well as guest accommodation and restaurant expenditure by visitors to the hotel and chalets will add about \$3 m to Hawke's Bay annual GDP.

The new development will, however, curtail production in the primary sectors currently using the development site. The sectors involved are *Forestry & Logging*, *Sheep & Beef Farming* and a combination of *Horticulture (Wine) & Sheep/Beef Farming*. Annual production losses in these sectors due to the development have been estimated respectively at \$0.08 m, \$0.17 m and \$0.27 m. The resulting total and net economic impacts are shown below in **Table 7**.

TABLE 7: ANNUAL IMPACTS FROM HOUSEHOLD, VISITOR SPENDING GAINS & PRIMARY INDUSTRY LOSSES FROM DEVELOPMENT

Source of Impact Annually	Revenue \$ millions	Net Household Income \$ m	Employment FTEs	Value Added or GDP \$ millions
Gains				
New Hawke's Bay Residents in Suburb \$2.34 m	0.15	0.03	1	0.08
Boutique Hotel Turnover at \$1.65 m	2.93	0.65	25	1.47
Visitors to 10 Chalet Development \$1.60 m spend	2.84	0.63	24	1.43
Total Annual Gains from Development	5.92	1.31	50	2.98

Losses				
Forestry Annual Losses \$0.08 m	0.17	0.02	1	0.07
Sheep & Beef Farming Annual Losses \$0.17 m	0.31	0.05	2	0.14
Wine and Sheep/Beef Annual Losses \$0.27 m	0.50	0.09	3	0.22
Total Annual Loss Range from Development	0.17-0.50	0.02-0.09	1-3	0.07-0.22
Net Annual Gains for the Hawke's Bay Region	5.42-5.75	1.22-1.29	47-49	2.76-2.91

7. CONCLUSION

Annual increments to Hawke's Bay GDP from the proposed Mission Winery development have been estimated at \$15 m for the construction period and approximately \$2.8-2.9 m for ongoing visitor and new-resident spending (after allowance for primary production losses) or approximately \$18 m per year in total. This represents a significant addition to Hawke's Bay's regional GDP. Of course, the construction impact ends after 25 years but the annual visitor spending should continue over time following the new residential development (VFR tourism) and also due to the new visitor accommodation and recreational facilities and amenities put in place as part of the development.

Dr WARREN R HUGHES – AUTHOR PROFILE

The author is Cambridge, NZ born and a graduate of the University of Auckland and Indiana University in the USA, where he completed his doctorate in Business Economics and Public Policy in 1970.

Since that time, he has taught in the areas of econometrics, forecasting, financial economics and managerial strategy at The University of New South Wales in Sydney (1970 – 1978) and most recently at The University of Waikato (1978 – 2007). At various times, he has taught in MBA programmes at the University of Florida in Gainesville and in the Graduate School of Management at the University of California at Irvine. Dr Hughes retired from the University of Waikato in 2007 and was appointed an Honorary Fellow in Economics in 2008. At the present time, he works as an independent economic consultant based in Auckland.

The author has published extensively, mainly as single-authored articles in international journals such as *Decision Sciences*, *Theory and Decision*, *The Journal of Business*, *Mathematical & Computer Modelling*, *Environment & Planning*, *Australian Journal of Management*, *Forest Science*, *Australasian Journal of Regional Studies* and, most recently in April 2009, *OMEGA*, the international journal of management science and again in September 2010 in the *Chinese Business Review*. Other articles on theoretical and applied economics have been published by the author in *NZ Economic Papers* and *Australia's Economic Record*. He is a former member of the Advisory Board for the Wiley journal *Managerial and Decision Economics* and maintains a continuing interest in the latest developments in economic theory as it relates to management and business. The author has developed a particular expertise in the area of impact and regional analysis. He was the Editor/Manager of the *Regional Economic Bulletin*, which focused on topical issues relevant to the business and wider communities, mainly but not exclusively, in the Waikato and Bay of Plenty regions. The *Bulletin*, which was a complimentary publication of the University of Waikato, ceased publication in 2008.

The author has acted as a consulting economist for *Economic Solutions Limited*, *Environment Waikato*, *Carter Holt Harvey Limited*, *Contact Energy*, *Norske Skog Tasman Limited*, *Port of Tauranga Limited*, *Port of Napier*, *Feltex Carpets Limited*, *Man'O War Farm Limited*, *Refining NZ Limited*, *Zespri International*, *Waikato Innovation Park*, *Property Council of NZ*, *Creative Napier*, *Katolyst*, *Priority One BOP*, *Vision Manawatu*, *Enterprise Franklin*, *Venture Taranaki*, various District Councils in the Waikato, Bay of Plenty, Hawke's Bay and other regions and for events such as *Tauranga's Montana Jazz Festival*, *Hamilton's Balloons Over Waikato* and *Napier's Art Deco Weekend*.

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