URBAN ECONOMICS

Property Council New Zealand

Economic Significance of the Property Industry to the New Zealand Economy

PREPARED FOR PROPERTY COUNCIL NEW ZEALAND

BY URBAN ECONOMICS

2016

ABOUT PROPERTY COUNCIL NEW ZEALAND

Property Council New Zealand

Property Council New Zealand is a member-led, not-for-profit organisation offering a collective voice for the commercial property industry. Working closely with local and central government, Property Council advocates for quality urban growth that supports strong national and local economies.

Our 730 member companies have an estimated $50 billion investment in commercial property, ranging from leading institutional investors, property trusts and financial organisations to private investors and developers.

Through extensive research, policy development, advocacy, education, and networking event programmes nationally and regionally, Property Council is enabling a vibrant commercial property market and wealth for all New Zealanders.

www.propertynz.co.nz.

ABOUT URBAN ECONOMICS

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AREAS OF EXPERTISE

Economic Analysis

Urban Economics' work aims to bridge the gap between land-use planning and urban economics with a focus on the interaction between land markets, land-use regulations and urban development. Urban Economics have developed a range of methodologies using a quantitative approach to analyse urban spatial structure and audit land-use regulations.

Property Research

Providing property and retail market research to assist with planning and marketing of new projects. This includes identification of new sites and new market areas, easements of market potential and positioning, and the evaluation of market-feasibility of specific projects.

Development Advisory

Providing development planning and costing advisory services to support small and large scale developments.

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Additional data provided by Valocity

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Published April 2017.

1. Key Points

Economic Contribution

The Property Industry had a 'direct impact' of

$29.8 Billion

on the New Zealand Economy in 2016

It also had 'flow-on impacts' of

$53.7 Billion

from increased supplier activity and employee spending

Superannuation & Property

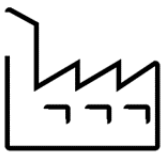
There are currently **1.8 million** Kiwisaver members with funds invested in property

26,600 New Zealanders withdrew **$495 Million** from Kiwisaver for first home purchases in the year to June 2016

Value of New Zealand's Buildings

NZ's stock of residential buildings is valued at

$394 Billion



The stock of commercial buildings is valued at

$94 Billion

Income and Employment

The Property Industry employs

160,800 People

The average income in the Property Industry is **$60,200 p.a.**

2. Economic Contribution

Urban Economics has used a multiplier analysis to examine the economic contribution of the Property Industry to the New Zealand Economy.

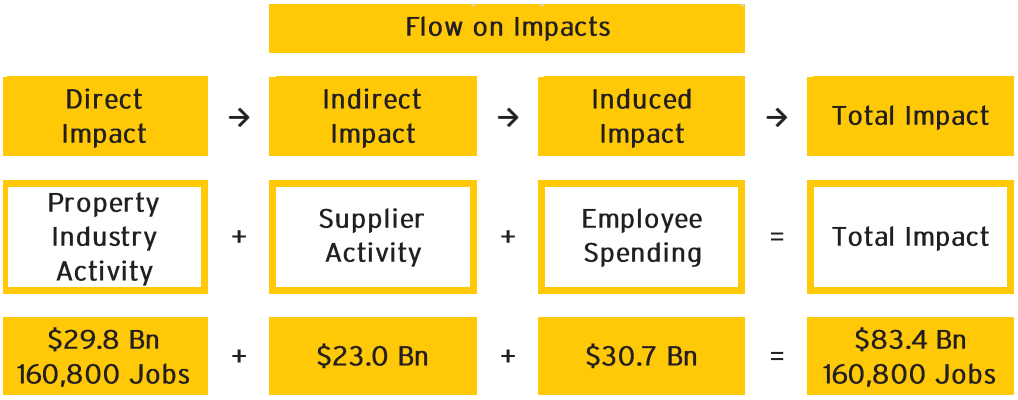
This analysis first examines the 'direct impact' of the industry through the contribution to New Zealand Gross Domestic Product (GDP)[1] of the various sub-sectors (outlined in Appendix 1).

The operation of the Property Industry also has a wider economic impact through two types of 'flow-on impacts'. The first type are 'indirect impacts' which result from the Property Industry purchasing goods and services from other industries (e.g. building materials suppliers). The second type are 'induced impacts' which result from employees of the Property Industry and supplier industries spending their wages or salaries on goods and services.

Based on Urban Economics' multiplier analysis a $1.00 contribution by the Property Industry to New Zealand GDP results in an additional $1.80 of flow-on economic impacts.

In the year to March 2016 the Property Industry contributed $83.4 billion to the New Zealand Economy. This includes a direct impact of $29.8 billion and flow-on (indirect and induced) impacts of $53.7 billion. **It is important to note that this does not include capital gains from the appreciation of land and property values.** In addition, 160,800 employees were directly employed in the Property Industry in March 2016, accounting for 8% of total employment in New Zealand.

Figure 1: Total Economic Contribution of the Property Industry Year Ended March 2016

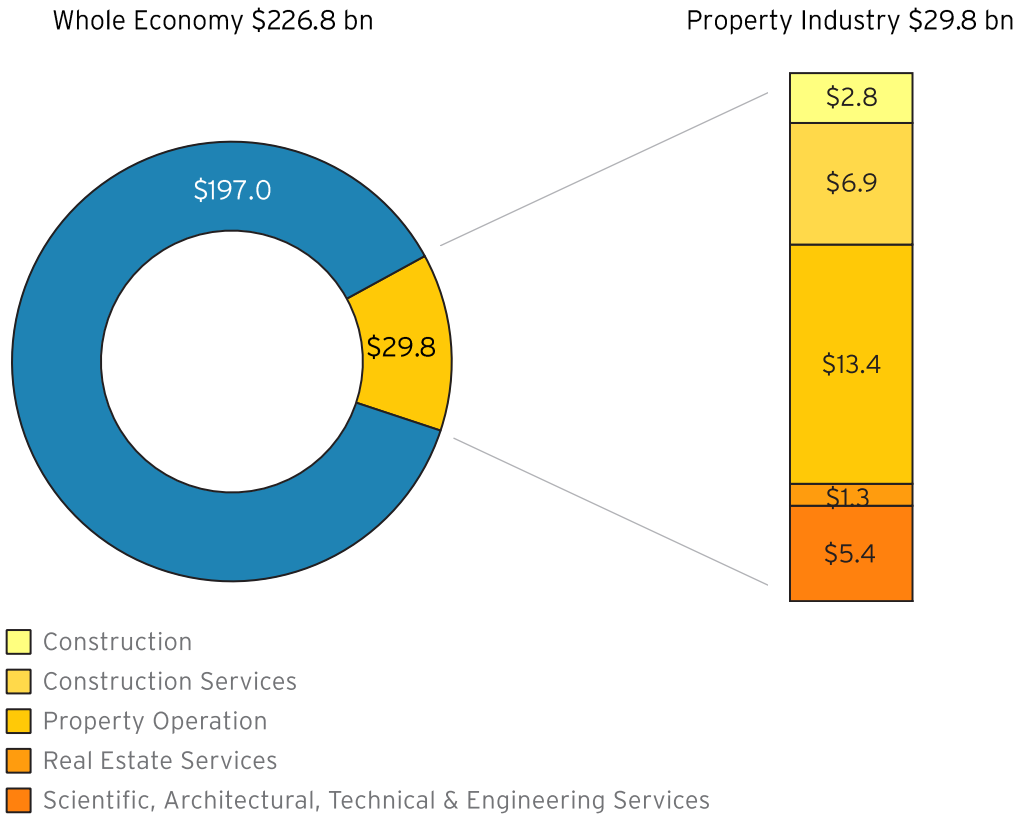


Source: Urban Economics

[1] For the purposes of this report GDP is measured in 'basic prices' which is price minus taxes but including subsidies.

The following figure shows the direct economic contribution of the Property Industry to the New Zealand economy. This is the difference between the value of inputs (labour, materials, etc.) and the value of outputs (dwellings, real estate services etc.). In other words, it is the value added to the economy by the Property Industry.

Figure 2: Property Industry Economic Contribution (2016)



3. Relative Size of the Property Industry

3.1. Economic Contribution by Industry

The following table shows the direct contribution to GDP by industry for the year to March 2007 and the year to March 2016. The Property Industry is currently the largest industry in New Zealand with a direct contribution to GDP of $29.8 billion or 13% of total GDP[2].

In addition, the Property Industry grew by $11.7 billion over the 2007-2016 period. This accounts for 16% of the growth in GDP over that period, more than double the growth of any other industry.

Table 1: Direct Contribution of the Property Industry to GDP (Year to March 2007 and Year to March 2016)

	2007		2016		2007-2016 Growth	
Industry	**$Billion**	**%**	**$Billion**	**%**	**$Billion**	**%**
Property Industry	$18.1	12%	$29.8	13%	$11.7	16%
Manufacturing	$20.9	14%	$25.2	11%	$4.3	6%
Owner-Occupied Property Operation	$11.0	7%	$16.9	7%	$5.9	8%
Health Care and Social Assistance	$9.3	6%	$15.2	7%	$5.8	8%
Agriculture, Forestry and Fishing	$8.4	5%	$14.1	6%	$5.7	8%
Professional Services	$8.5	6%	$13.8	6%	$5.3	7%
Financial and Insurance Services	$10.0	7%	$12.6	6%	$2.6	4%
Wholesale Trade	$8.4	6%	$12.2	5%	$3.8	5%
Education and Training	$7.1	5%	$11.8	5%	$4.7	6%
Retail Trade	$8.3	5%	$10.8	5%	$2.5	3%
Transport, Postal and Warehousing	$6.8	4%	$10.6	5%	$3.8	5%
Public Administration and Safety	$6.8	4%	$10.6	5%	$3.8	5%
Electricity, Gas, Water and Waste Services	$4.7	3%	$8.1	4%	$3.4	5%
Information Media and Telecommunications	$5.4	4%	$7.1	3%	$1.6	2%
Administrative and Support Services	$3.5	2%	$4.9	2%	$1.4	2%
Accommodation and Food Services	$3.3	2%	$4.7	2%	$1.4	2%
Other Services	$3.2	2%	$4.6	2%	$1.4	2%
Mining	$1.9	1%	$4.3	2%	$2.4	3%
Heavy and Civil Engineering Construction	$2.5	2%	$3.6	2%	$1.1	2%
Arts and Recreation Services	$2.4	2%	$3.3	1%	$1.0	1%
Rental and Hiring Services	$2.0	1%	$2.7	1%	$0.7	1%
Total	**$152.5**	**100%**	**$226.8**	**100%**	**$74.4**	**100%**

Source: Statistics NZ

[2] The proportion of GDP contribution of each industry in 2016 is derived from the Statistics New Zealand National Accounts Input-Output Tables 2013.

3.2. Number of Employees

The Property Industry is currently New Zealand's fourth largest employer. 160,800[3] people were directly employed in the Property Industry in March 2016, which is 8% of all employees.[4] In other words, one in 12 people are employed in the Property Industry. Over the 2007 - 2016 period 14% of the growth in employment (26,800 employees) occurred in the Property Industry, second only to the Health Care and Social Assistance sector which had growth of 40,000 employees.

Table 2: Employment by Industry March 2016

	2007		2016		2007-2016 Growth	
Industry	**Emloyment**	**%**	**Emloyment**	**%**	**Emloyment**	**%**
Health Care and Social Assistance	174,300	10%	214,300	11%	40,000	21%
Manufacturing	229,900	13%	211,800	11%	-18,100	-10%
Retail Trade	185,600	11%	192,400	10%	6,800	4%
Property Industry	134,000	8%	160,800	8%	26,800	14%
Education and Training	138,600	8%	156,100	8%	17,500	9%
Accommodation and Food Services	117,500	7%	133,800	7%	16,300	9%
Scientific and Professional Services	110,100	6%	131,200	7%	21,100	11%
Public Administration and Safety	87,200	5%	108,600	6%	21,400	11%
Wholesale Trade	99,600	6%	103,400	5%	3,800	2%
Agriculture, Forestry and Fishing	85,900	5%	100,800	5%	14,900	8%
Administrative and Support Services	87,600	5%	93,100	5%	5,500	3%
Transport, Postal and Warehousing	77,800	4%	83,800	4%	6,000	3%
Other Services	62,300	4%	66,500	3%	4,200	2%
Financial and Insurance Services	48,400	3%	58,000	3%	9,600	5%
Arts and Recreation Services	31,700	2%	35,600	2%	3,900	2%
Heavy and Civil Engineering Construction	25,700	1%	33,200	2%	7,500	4%
Information Media and Telecommunications	36,900	2%	32,900	2%	-4,000	-2%
Electricity, Gas, Water and Waste Services	10,600	1%	14,500	1%	3,900	2%
Rental and Hiring Services	11,600	1%	11,400	1%	-200	0%
Mining	4,700	0%	5,800	0%	1,100	1%
Other	1,900	0%	3,300	0%	1,400	1%
Total	**1,761,900**	**100%**	**1,951,300**	**100%**	**189,400**	**100%**

Source: Statistics NZ

[3] Property Industry employment figures are calculated using an alternative definition to that used for the economic contribution. See Appendix 1 for a full explanation.

[4] Employment does not include contractors or other self-employed people.

4. Value of Property Compared to Other Assets

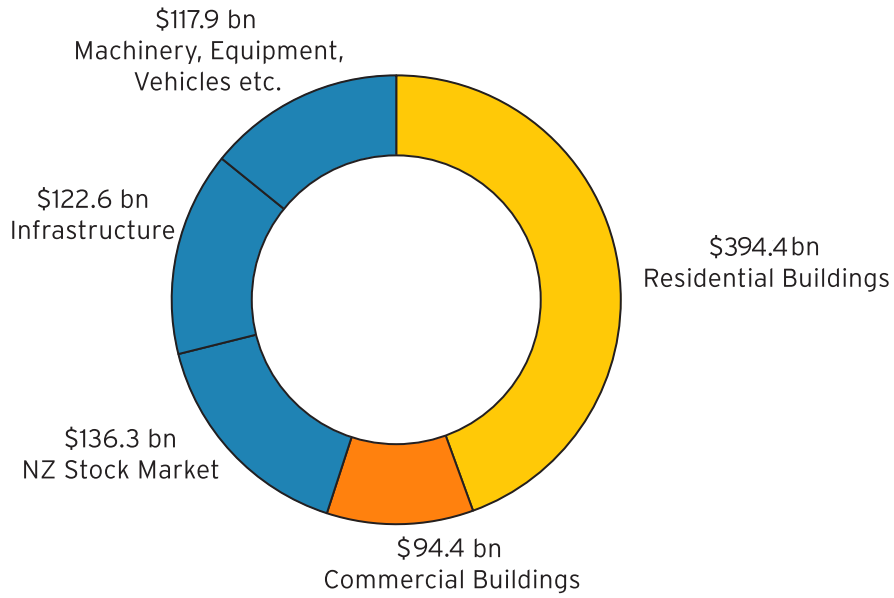
The following figure shows the value of residential and commercial buildings in New Zealand compared to other assets.[5]

New Zealand's stock of residential buildings is currently worth approximately $394 billion, more than double the value of shares and bonds on the NZ Stock Market ($136 billion).

Commercial buildings are currently worth $94 billion, just under quarter of the value of residential buildings.

The combined value of residential and commercial property in New Zealand is $489 billion which is approximately $112 billion greater than the combined value of other fixed assets.

Figure 3: Value of New Zealand Assets (2016)



Source: Statistics NZ, NZX, Valocity

[5] Value is taken from latest Council valuation data, dates differ for each Council. See Appendix 3 for total Council valuation of property stock by sub sector (including total land value and total improvement value).

5. Property Investment and Superannuation

5.1. Property Investment Through Kiwisaver

There are 33 Kiwisaver Schemes in New Zealand with a combined value of $36.0 billion invested as at September 2016. Across all fund types there is $1.8 billion or on average 5.1% invested in property. There are approximately 2.6 million Kiwisaver members, 1.8 million of them with investment in property.

The percentage of each fund invested in property varies by fund type. This ranges from conservative funds which have on average 1.7% invested in property, through to growth portfolios which have on average 8.2% invested in property.

Figure 4: Risk Profile by Fund Type

	Asset Type				
Fund Type	**Property**	**Cash & Cash Equivalents**	**Equities**	**Fixed Interest**	**Other**
Cash	**0.0%**	100.0%	0.0%	0.0%	0.0%
Conservative	**1.7%**	25.6%	17.9%	53.8%	0.9%
Moderate	**4.2%**	16.7%	29.2%	50.0%	0.0%
Balanced	**5.7%**	13.6%	43.2%	35.2%	2.3%
Growth	**8.2%**	11.3%	63.9%	14.4%	2.1%
Aggressive	**7.7%**	7.7%	76.9%	0.0%	7.7%
Total	**5.1%**	19.9%	39.0%	34.0%	2.0%
Total ($bn)	**$1.8**	$7.1	$13.9	$12.1	$0.7

Source: FMA, Kiwisaver fund providers

5.2. Kiwisaver Withdrawals for First Home Purchases

Kiwisaver is an important source of funds for first home buyers. In the year to June 2016, there were 26,600 withdrawals from Kiwisaver totalling $495 million for the purchase of a first home.[6] This has increased from 16,200 withdrawals totalling $258 million in the year to June 2015, an increase of 92%. This increase is mostly due to changes to Kiwisaver which allow larger withdrawals.

[6] Kiwisaver Annual Statistics, www.kiwisaver.govt.nz.

6. Employment and Income in the Property Industry

Table 3 shows that the average earnings in the Property Industry are $60,200 per annum, 7% above the average across all industries of $56,300. Within the Property Industry the Architectural, Engineering and Technical Services sub-sector has the highest earnings, at $77,500 per annum.

Construction Services is the largest sub-sector of the Property Industry with 76,300 employees or 47% of all employment. The second largest sub-sector is Architectural, Engineering and Technical Services with 35,400 employees (22%), followed by Residential Building Construction with 22,800 employees (14%).

Table 3: Earnings and Employment by Property Industry Sub-Sector (March 2016)

	Average Earnings	Employment	Employment %
Residential Building Construction	$52,400	22,800	14%
Commercial Building Construction	$68,100	9,600	6%
Construction Services	$54,700	76,300	47%
Property Operators	$48,000	6,900	4%
Real Estate Services	$60,600	9,800	6%
Architectural, Engineering and Technical Services	$77,500	35,400	22%
Sub-Total Property Industry	*$60,200*	*160,800*	*8%*
Total All Industries	**$56,300**	**1,951,300**	**100%**

Source: Statistics NZ

Table 4 shows average earnings and employment by age. The Property Industry has higher average earnings across all age brackets than the New Zealand average. Earnings in the Property Industry peak at 45-49 years which is the same as the average across all industries. The Property Industry has a slightly younger workforce than average with 54% of employees aged under 40 compared to the average of 48%.

Table 4: Earnings and Employment by Age (March 2016)

	Property Industry		All Industries	
Age	Average Earnings	Percentage of Jobs	Average Earnings	Percentage of Jobs
15-24	$37,600	18%	$30,700	17%
25-29	$53,800	14%	$48,300	11%
30-34	$61,400	12%	$56,800	10%
35-39	$67,600	10%	$62,800	9%
40-44	$71,400	11%	$66,500	11%
45-49	$72,100	10%	$66,600	11%
50-54	$71,600	9%	$65,600	11%
55-59	$70,600	7%	$62,900	9%
60+	$60,700	9%	$53,600	11%

Source: Statistics NZ

Table 5 shows earnings and employment by gender. In the order of 24% of employees in the Property Industry are female compared with 51% across all industries. Earnings for females in the Property Industry are $45,800 which is slightly higher than the average for all industries.

Table 5: Earnings and Employment by Gender (March 2016)

	Property Industry		All Industries	
Gender	Average Earnings	Percentage of Jobs	Average Earnings	Percentage of Jobs
Female	$45,800	24%	$45,600	51%
Male	$69,200	76%	$66,100	49%

Source: Statistics NZ

7. Appendix 1: Definition of the Property Industry

7.1. Definition for Economic Contribution

The Property Industry has been defined to include the following sub-sectors for the economic contribution to GDP (Sections 2 & 3.1):

- Residential Building Construction
- Commercial Building Construction
- Construction Services
- Residential Property Operation
- Commercial Property Operation
- Real Estate Services
- Scientific, Architectural, Engineering and Technical Services

The Scientific, Architectural, Engineering and Technical Services sub-sector includes a small number of activities which are not related to the Property Industry. Therefore, including this sub-sector in the definition of the Property Industry slightly overestimates the size of the industry.

7.2. Definition for Employment and Income in the Property Industry

The definition of the Property Industry for employment and income figures (Sections 3.2 & 7) is the same as the above however it excludes the Scientific sub-sector. This is because employment and income data are available for a more detailed breakdown of industry sub-sectors.

8. Appendix 2: Multiplier Analysis Assumptions

The key assumptions and limitations of Input-Output Multiplier Analysis are as follows:

No Supply Side Constraints

- Extra output can be produced in one industry without taking resources away from other industries.

Fixed Input Structure

- Each industry has only one production process which uses one mix of inputs to produce each unit of output.

Constant Returns to Scale

- The same quantity of inputs is needed per unit of output, regardless of the level of production. I.e. if output increases by 10% input requirements will also increase by 10%;

Fixed Output Production

- All products of an industry are identical or are made in fixed proportions to each other;

Absence of Budget Constraints

- Household and government consumption is not subject to budget constraints.

Despite these assumptions, Input-Output Multiplier Analysis provides a solid basis for examining the direct impact of an industry and the inter-relationships of industries (indicated by the flow-on effects). This analysis differs from an economic impact assessment, which considers an impact of a "stimulus" to an industry, for example from a new policy or project. Due the limiting assumptions outlined above, in particular the lack of supply-side constraints, Multiplier Analysis may overestimate the economic impact of a "stimulus".

9. Appendix 3: Total Council Value of Property Stock

Figure 5: Total Council Value of Residential and Commercial Property Stock (2016)

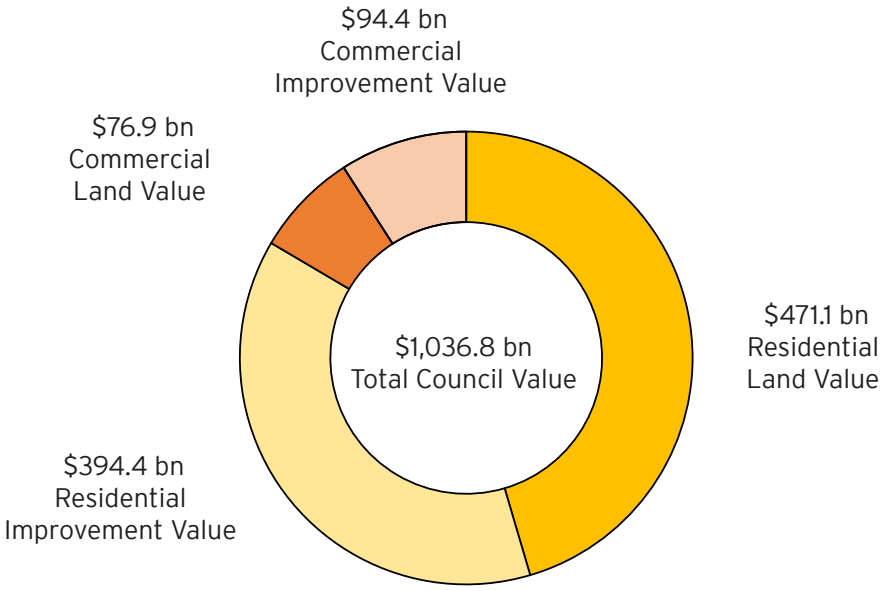


Table 5: Total Council Value of Property Stock by Sub-Sector (2016)

	Total Council Value ($Billion)	Total Land Value ($Billion)	Total Improvement Value ($Billion)
Commercial - Office	23.6	8.4	15.2
Commercial - Other	42	19.8	22.2
Commercial - Retail	31.2	12.7	18.5
Commercial - Hotel & Leisure	10.8	4.3	6.4
Industrial	63.7	31.7	32.1
Residential	865.5	471.1	394.4
Total	1036.8	548.0	488.8

Source: Valocity

*Council value (CV/LV/IV) taken from latest council valuation data – dates differ per region

*In order to get a full picture, where CV/LV/IV is unknown for a property, the value has been assumed to be the median for that region/sector

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