
Why Set Up Business in Tauranga?

Development of a Regional Attractiveness Indicator

April 2009

EXECUTIVE SUMMARY

Priority One, the economic development agency covering the Western Bay of Plenty sub-region, partnered with Colliers International and Element IMF and commissioned a quantitative study on the cost of doing business in Tauranga versus Auckland. The purpose of the study was to further develop a value proposition for new business establishments or businesses that are considering relocating to the Bay from outside the region.

A number of variables were selected to cover the likely range of factors that businesses would consider when deciding where to locate their business. These were: property costs, labour costs, availability of skilled labour, road capacity and intensity, accessibility to an airport and a port, housing affordability, lifestyle and quality of early childhood and secondary education. A model was developed that weighted the variables in three categories according to presumed importance and scored each city on a scale of 1 to 5 for each variable.

On the basis of the two monetary variables (property costs and costs of labour), the Tauranga region is clearly cheaper than the Auckland region. Average office rental is 40% cheaper and average warehouse space 15% cheaper in Tauranga than in Auckland. The difference was even more significant in the cost of hiring labour, with employers paying an average of 21% less in Tauranga than in Auckland.

For the set of default weights, as applied to all variables (both monetary and non-monetary), Tauranga secures a mean score of 3.6 out of a maximum score of 5, compared to 2.1 for Auckland. Some of the key factors driving this are the differences in property costs, in the cost of labour, and in road use intensity. Tauranga's roads are 63% less congested than those in Auckland.

INTRODUCTION

Priority One is the economic development agency (EDA) covering Tauranga City and the Western Bay of Plenty District (the Western Bay of Plenty sub-region). It was established in 2001 by the business community to underpin the sub-region's economic sustainability beyond that of just population growth. It is also part funded by Tauranga City Council and Western Bay of Plenty District Council.

Priority One's primary aim is to build the region's competitive and comparative advantages so that we retain highly productive businesses and attract inward investment. In particular, our focus is on attracting businesses to the region that are innovative, export focused, have a disproportionate ability to grow, and demand highly talented and skilled people.

In order to develop a value proposition for new business establishments or businesses that are considering relocating from outside the region, Priority One partnered with Colliers International and Element IMF and commissioned a quantitative study on the cost of doing business in Tauranga versus Auckland. The study was undertaken by recognised economic analysis and forecasting firm, Infometrics. This paper outlines the outcomes from that study.

PARAMETERS OF THE STUDY

The list of eleven variables were selected to incorporate the likely range of factors that businesses would consider in deciding where to establish or relocate their business.

1. Property costs
2. Availability of skilled labour
3. Cost of labour
4. Road capacity
5. Road use intensity
6. Port accessibility
7. Airport accessibility
8. Housing affordability
9. Quality of lifestyle
10. Quality of secondary education
11. Quality of early childhood education.

Each variable was given a weighting from 3 (considered very important) to 1 (considered less important) in terms of the presumed importance to a company in their decision making process when considering where to locate a business:

- Those variables considered very important (3) were property costs, skilled labour supply and cost of labour.
- Those variables considered of medium importance (2) were road use intensity, airport accessibility, housing affordability and lifestyle.
- Those variables considered the least important (1) were road capacity, port accessibility and both secondary and early childhood education.

It is recognised that different types of businesses will emphasise different factors as more or less important. For this reason the weights on the variables can be increased or decreased within the model. This report is based on a default set of weights based on the presumption that property costs and the availability of skilled labour are generally the most important factors in determining locational attractiveness, with factors such as lifestyle and education having less weight as they are seen as acting primarily on the attractiveness of locations to (potential) employees.

Following analysis of information to measure the cost to a business of the various components, scores were entered into the economic model. These range from 5 for an excellent score down to 1 for a poor score. A minimum and maximum level was calculated for most variables at either a national, regional or local authority level to more accurately calculate the scores for Auckland and Tauranga. Some results were inverted (ie property costs, cost of labour, road user intensity and housing affordability) to reflect instances where a low score is a more favourable outcome.

TABULATED SUMMARY OF RESULTS

Priority One Costs of Doing Business					
Dimension	Weight	Score		Description	Worksheet
		Tauranga	Auckland		
	high: 3 low: 1	excellent: 5 poor: 1			
1 Warehouse rents		91	107	Rent is \$/m ² /year	Property
2 Office rents*		128	213	Rent is \$/m ² /year	Property
1 Property costs	3	4.1	1.8	Scored form of (1) and (2)	Property
2 Skilled labour supply	3	2.3	3.1	Proportion of popn with Level 5 qualification or above	Labour
3 Cost of labour	3	4.6	1.1	Cost in relation to NZ average (inverted)	Labour
4 Road capacity	1	1.6	1.0	Lane kilometres per capita	Roads
5 Road use intensity	2	3.8	1.0	VKT per km (inverted)	Roads
6 Port accessibility	1	3.5	2.9	% of businesses in 10km radius of port	Ports
7 Airport accessibility	2	3.3	1.3	% of businesses in 10km radius of airport	Ports
8 Housing affordability	2	3.2	2.4	Affordability in relation to NZ average (inverted)	House
9 Lifestyle	2	5.0	3.1	Self reported perception of overall quality of life	Life
10 Education - secondary	1	2.7	3.4	Literacy and numeracy at Level 1	Educ
11 Education - ECE	1	4.4	2.7	Participation in ECE	Educ
Weighted mean score out of 5		3.6	2.1		

* Offices in industrial buildings

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ANALYSIS BY CATEGORY

Property Costs

(Weighting 3)

The scores for property costs were calculated by combining two measures:

1. Annual rents for warehouse space; and
2. Annual rents for office space within industrial buildings;

for the following geographic areas:

- **Auckland** (Penrose/Onehunga, Mount Wellington, East Tamaki, Manukau, Airport Oaks/Mangare)
- **Tauranga** (Mount Maunganui, Tauranga Central, Greerton, Judea, Papamoa, Tauriko)
- **Wellington** (regional average).

Findings

Auckland:	Average office	\$213 m ²	Score (inverted) out of 5: 1.79
	Average warehouse	\$107 m ²	
Tauranga:	Average office	\$128 m ²	Score (inverted) out of 5: 4.14
	Average warehouse	\$91 m ²	

In percentage terms, average office rental within industrial buildings in Tauranga is 40% cheaper than Auckland. For average warehouse space, rentals in Tauranga are 15% lower than in Auckland.

Skilled Labour Supply

(Weighting 3)

Using information from Statistics NZ Census 2006, the availability of a skilled labour supply was calculated by the percentage of the population that has an educational qualification of Level 5 (diploma) or higher.

Findings

Auckland:	26% with Level 5 qualification or higher	Score out of 5: 3.13
Tauranga:	19% with Level 5 qualification or higher	Score out of 5: 2.29

Cost of Labour

(Weighting 2)

Using information from Statistics NZ's LEED data table, the cost of labour was calculated using quarterly earnings of continuing jobs at a regional level.

Findings

Auckland:	Average earnings per quarter \$12,717	Score (inverted) out of 5: 1.10
Bay of Plenty:	Average earnings per quarter \$10,097	Score (inverted) out of 5: 4.60

In percentage terms, average earnings per quarter are 21% lower in Tauranga than in Auckland.

Road Capacity

(Weighting 1)

Road capacity (amount of roading available per head of population) was calculated by lane kilometres per capita, using information derived from Land Transport Network and Statistics NZ Census 2006 data. The study treated a four lane road of 10 km the same as a two lane road of 20 km.

Findings

Auckland:	Lane km per population 0.013	Score out of 5: 1.00
Bay of Plenty:	Lane km per population 0.036	Score out of 5: 1.60

Road Use Intensity

(Weighting 2)

Road use intensity (level of congestion) was calculated by vehicle kilometres travelled per kilometre of roading using information derived from a study by Allen Consulting and Infometrics "Benefits of Investing in NZ's Road Infrastructure" undertaken in August 2004.

Findings

Auckland:	Vehicle kms travelled per km roading 1,316	Score (inverted) out of 5: 1.00
Bay of Plenty:	Vehicle kms travelled per km roading 485	Score (inverted) out of 5: 3.81

In percentage terms, roads in Tauranga are 63% less congested than those in Auckland.

Port Accessibility Airport Accessibility

(Weighting 1)

(Weighting 2)

Accessibility to both the port and the airport were calculated by the percentage of business units within a 10 km radius of Ports of Auckland, Auckland Airport, Port of Tauranga and Tauranga Airport. This information was derived using Census Area Units and breaking these down into separate business units on a pro rata basis.

Findings

47.5% of business units within 10km radius Ports of Auckland	Score out of 5: 2.90
8.4% of business units within 10km radius Auckland Airport	Score out of 5: 1.34
61.5% of business units within 10km radius Port of Tauranga	Score out of 5: 3.46
57.1% of business units within 10km radius Tauranga Airport	Score out of 5: 3.28

Housing Affordability

(Weighting 2)

Housing affordability was calculated using the quarterly *Home Affordability* report (September 2008, Vol. 18, No. 3) produced by Massey University. A summary index is calculated for each region comparing average weekly earnings (Statistics NZ) with median dwelling prices (Real Estate Institute of NZ) and mortgage

interest rates (Reserve Bank). The lower the index, the more affordable the housing.

Findings

Auckland:	<i>Housing affordability index of 121.4</i>	<i>Score (inverted) out of 5: 2.44</i>
Tauranga:*	<i>Housing affordability index of 104.1</i>	<i>Score (inverted) out of 5: 3.17</i>

* Note: The Tauranga index is Bay of Plenty and Waikato combined

Lifestyle

(Weighting 2)

The lifestyle assessment was calculated from the 2007 Quality of Life survey, which rates 12 cities in New Zealand over 68 key quality of life indicators encompassing 186 individual measures of wellbeing, work-life balance and social deprivation. These include people; knowledge & skills, health, safety, housing, social connectedness, civil and political rights, economic standard of living, economic development, the natural environment and the built environment.

Findings

Auckland:	<i>89.2% of residents rate quality of life as extremely good or good</i>	<i>Score out of 5: 3.09</i>
Tauranga:	<i>93%** of residents rate quality of life as extremely good or good</i>	<i>Score out of 5: 5.00</i>

** Highest score of the 12 cities surveyed

Secondary Education:

(Weighting 1)

Information on the percentage of school leavers with no NCEA Level 1 literacy or numeracy credits was taken from the 2007 Quality of Life survey. The study rates 12 cities in New Zealand over 68 key quality of life indicators encompassing 186 individual measures of wellbeing, work-life balance and social deprivation.

In addition, a comparison was undertaken of the actual Level 1 numeracy and literacy achievement rates obtained by schools in Tauranga and Auckland with their statistically expected achievement rates, given their school socio-economic decile rating.

Findings

Auckland:	<i>20.2% of school leavers have no NCEA Level 1 literacy or numeracy credits</i>	<i>Score (inverted) out of 5: 3.41</i>
Tauranga:	<i>24.2% of school leavers have no NCEA Level 1 literacy or numeracy credits</i>	<i>Score (inverted) out of 5: 2.66</i>

Early Childhood Education

(Weighting 1)

Information on the percentage of children aged five years and under receiving early childhood education was taken from the 2007 Quality of Life survey. The study rates 12 cities in New Zealand over 68 key quality of life indicators encompassing 186 individual measures of wellbeing, work-life balance and social deprivation.

Findings

<i>Auckland:</i>	<i>91.98% of children 5 yrs and under receiving early childhood education</i>	<i>Score out of 5: 2.73</i>
<i>Tauranga:</i>	<i>97.1% % of children 5 yrs and under receiving early childhood education</i>	<i>Score out of 5: 4.40</i>

RESULTS

The results have been grouped into three sub-sections:

1. Financial considerations
2. Ease of doing business
3. Desirability of a location in the attraction of staff

Financial Considerations

On the basis of the two monetary variables (property costs and costs of labour), the Tauranga region is considerably cheaper than the Auckland region from which to do business. Tauranga scored a strong 4.14 out of 5 for property costs, with Auckland scoring 1.79. Average office rental is 40% cheaper and average warehouse space 15% cheaper in Tauranga than in Auckland. The difference was even more significant in the cost of hiring labour, with Tauranga scoring 4.58 and Auckland 1.07. In percentage terms, average earnings per quarter are 21% lower in Tauranga than in Auckland.

Ease of Doing Business

Five variables were included in the study to measure the ease of doing business from a particular location. These were skilled labour supply, road capacity, road use intensity and accessibility to air and shipping services. Findings showed:

- Auckland had slightly easier access to skilled labour, scoring 3.13 against Tauranga's 2.29 out of 5.
- Tauranga scored better than Auckland in terms of roading capacity (amount of roading available per head of population), at 1.60 vs 1.00 from a possible 5 points.
- Auckland's roads are significantly more congested than Tauranga's, with Auckland scoring just 1.00 to Tauranga's 3.81 out of 5 for road use intensity. In percentage terms, Tauranga's roads are 63% less congested than Auckland's.
- Tauranga had easier access to national and international markets than Auckland, scoring 3.28 to Auckland's 1.34 for airport accessibility and 3.46 to Auckland's 2.90 for port accessibility.

Desirability of Location for Staff

Four variables were included in the study to measure the desirability of a location for staff. These were housing affordability, lifestyle, early childhood education and secondary education. Findings showed:

- Tauranga was more affordable in terms of housing, scoring 3.17 out of 5 compared to 2.44 for Auckland.
- Tauranga scored the top mark out of 12 New Zealand cities for quality of life, resulting in a score of 5 for the measure in this study. Auckland scored 3.09 points for lifestyle.
- Tauranga also topped Auckland for the proportion of children in early childhood education (4.40 vs 2.73), however was slightly behind Auckland in the measure on literacy and numeracy for secondary school leavers (2.66 vs 3.41).

In summary, for the set of default weights, as applied to all eleven variables (both monetary and non-monetary), Tauranga secures a mean score of 3.6 out of a maximum score of 5, compared to 2.1 for Auckland. Some of the key factors driving this are the differences in property costs, in the cost of labour, and in road use intensity.