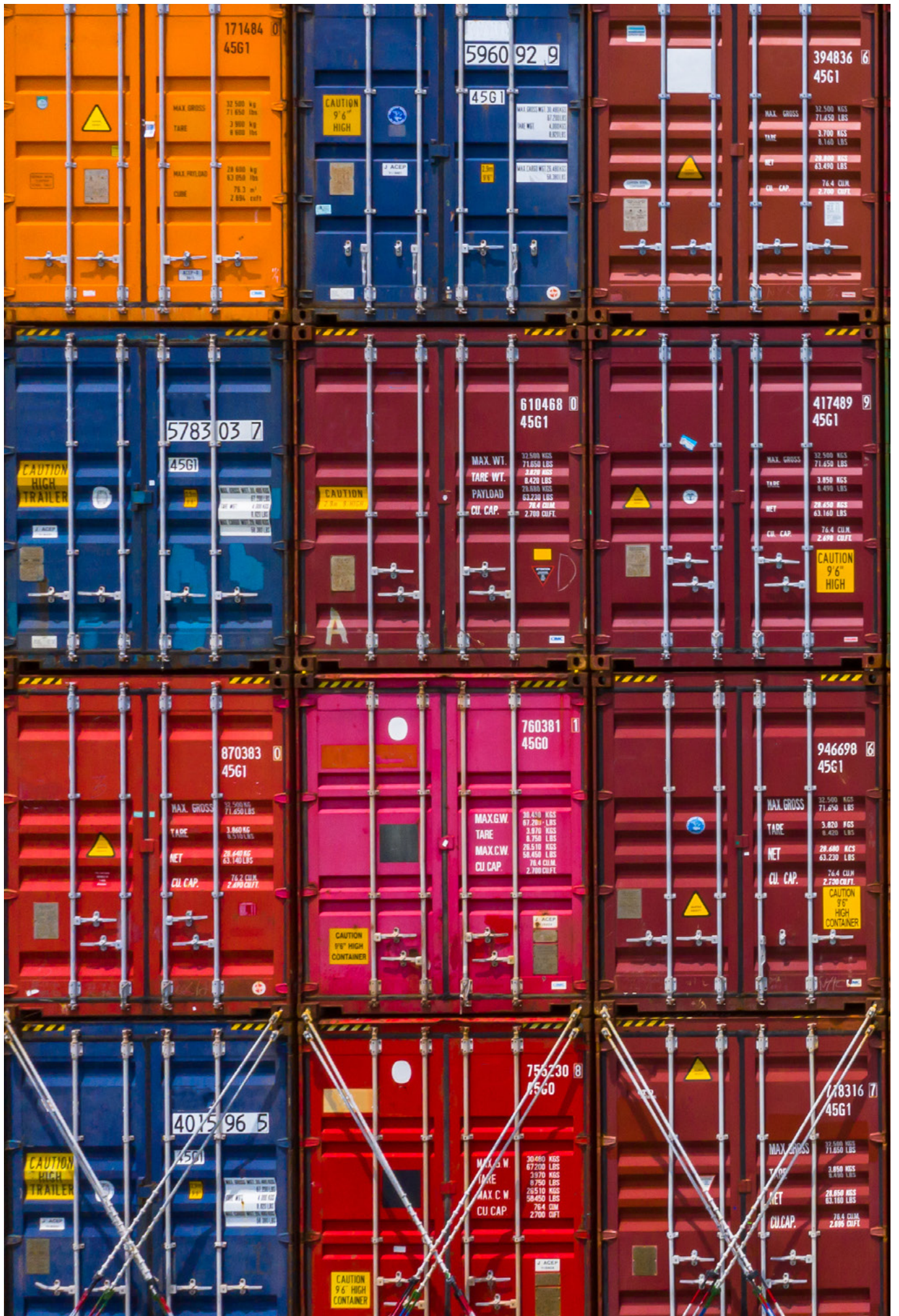


TE RĀNGAI TŪNUKU HAUTAONGA I TE ROHE O MANAWATŪ

MANAWATŪ REGION LOGISTICS SECTOR PROFILE

2022



Contents

Executive Summary	4
Introduction	6
Logistics and supply chain management	7
Key business categories	7
Logistics sector workforce	8
Manawatū Region logistics and supply chain sector	11
Distribution (wholesale trade) sector	11
Transport, postal and warehousing	13
The Central NZ Distribution Hub	15
Advantages for distribution centre location in the Manawatū Region	18
Central location in New Zealand	18
Ease of business for logistics operations	18
Affordability	19
Labour force	19
Lack of significant traffic congestion	20

Executive Summary

Overview

The purpose of these economic sector profiles for the Manawātū region is to describe the contribution of key sectors to the economic wellbeing of the region. Seven sectors are expected to contribute to a significant share of future growth in the number of jobs and incomes in the region over the next 25 years. They are healthcare, public administration (including defence), logistics, construction, tourism, professional, scientific and technical services, and manufacturing.

The logistics and supply chain sector comprises wholesale trade, and transport, postal, and warehousing activities. Logistics is a significant employer in the Manawātū region, accounting for 6,638 jobs, 10.2% of the total workforce in the region in 2020. The 58% growth in workforce numbers between 2000 and 2020 was significantly higher than the 29% increase in total employment in the region. The region's workforce growth is even more remarkable when compared with national workforce growth in the logistics and distribution sector, which grew by just 29% between February 2000 and February 2020.

Infometrics' projections for workforce growth in the sector suggest the total logistics workforce will reach 7,411 by 2033, an increase of 12% from 2020, with an additional 773 people working in the sector. The overall workforce in the region is projected to increase by 19% over this time. These projections are based on assumptions of significant productivity change in the logistics sector and do not take into account the possibility of additional logistics companies relocating to Palmerston North in response to the investment in the new KiwiRail freight hub, which is expected to begin operations in 2031.

Annual earnings (salaries, wages and self-employment income) were \$440 million in the year to March 2020, accounting for 11.1% of earnings in the region. Earnings growth was 211% between 2000 and 2020, with only

Timaru and Tauranga achieving higher rates of growth in the logistics sector. National earnings growth in the logistics sector was 141%. The sector's share of earnings in the region is higher than its share of the region's workforce because it has a higher share of people employed on a full-time basis than the average for the region.

There were 819 businesses in the logistics sector in 2021, a decline of 7% (66 fewer businesses) since 2000. Businesses with 50 or more employees accounted for 47% of total jobs in the sector in 2021. There were 369 business with no employees, accounting for 45% of businesses in the sector.

The contribution to GDP by the logistics sector is estimated to have been \$704 million in the region in the year to March 2020, increasing by 92% from 2000, with an average annual growth rate of 3.3%. The sector accounts for 10.7% of regional GDP.

The Central New Zealand Distribution Hub is located in the Bunnythorpe area and encompasses the North East Industrial Zone (NEIZ), Palmerston North Airport and the planned KiwiRail freight hub, with connections into the future regional freight ring road. Once the KiwiRail facility is developed, the Central NZ Distribution Hub will be the only location in New Zealand with rail, road and air connectivity provided in one precinct.



KiwiRail freight hub

The KiwiRail freight hub is a major economic development opportunity for the Manawātū-Whanganui region. It forms part of a broader regional strategy to develop a highly efficient, multi-modal freight and distribution precinct in the North East Industrial Zone

(NEIZ) area, adjacent to the Airport. The objective is to strengthen the Manawātū's role as a major distribution centre within the national freight network, leading to investment and employment growth in the sector.

Components of the logistics sector

Wholesale trade

The largest component of the logistics sector in the Manawātū region is wholesale trade, which covers businesses mainly engaged in the purchase and on-selling of goods to businesses, rather than to the public. Some companies are primarily involved in distributing goods to sites within the same business. For example, the Countdown distribution centre distributes product to Countdown and SuperValue stores in the local area. Other companies distribute goods to other businesses, such as Toyota, which distributes vehicle parts to mechanics and Toyota-franchised car retail businesses throughout New Zealand.

In February 2020 there were 4,146 people employed in wholesale trade, with an increase of 1,541 jobs from 2000. The 59% increase in workforce in the region was more than twice the national increase of 25%. Earnings in wholesale trade were \$283 million in the year ended February 2020, increasing by 210% from 2000.

There were 435 businesses in wholesale trade in 2021, a decline of 9% since 2000. Businesses with 50 or more employees accounted for 50% of total jobs in the sector in 2021. There were 162 business with no employees, accounting for 37% of businesses in the sector.

Transport, postal and warehousing

In February 2020 there were 2,492 people employed in the region in transport, postal and warehousing, with an increase of 879 jobs from 2000. The 54% increase in jobs in the region was much stronger than the national increase of 35%. Earnings in transport, postal and warehousing were \$157 million in the year ended February 2020, increasing by 214% from 2000.

There were 384 businesses in the region in transport, postal and warehousing in 2021, a decline of 5.9% since 2000. Businesses with 50 or more employees accounted for 43% of total jobs in the sector in 2021. There were 207 business with no employees, accounting for 54% of businesses in the sector.

WORKFORCE



6,638

10.2% of
total employment

EARNINGS



\$440M

11.1% of
total earnings

BUSINESSES / ORGANISATIONS



819

6.8% share of
businesses

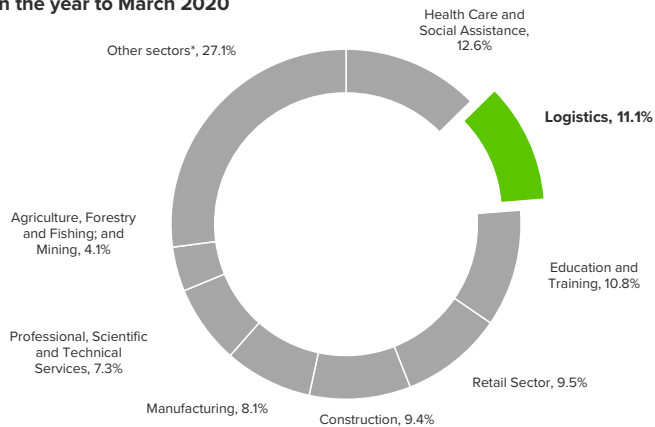
GDP



\$704M

10.7% of
total GDP

Share of annual earnings in the year to March 2020



* Other sectors includes: Public administration and safety services; Electricity, gas, water and waste services; Information media and telecommunications; Financial and insurance services; Rental, hiring and real estate services; Administrative and support services; Arts and recreation services; Other services





Introduction

The development of logistics and supply chain activities has been occurring since human settlements began trading outside their local community and moving beyond individual stores of key supplies. The goods that people wanted were not always produced where they wanted to consume them so means of transport and storage methods began to develop.

Seasonal production of agricultural products meant that people had the choice of consuming goods when they were harvested or moving the produce to a preferred site and storing it for later use. The development of communal stores for produce is an early example of the developing logistics and distribution sector.

As transport networks increased and the technology for preserving goods for later consumption increased, the distance between consumers and producers began to widen. Regions were able to specialise in those commodities which could be produced more efficiently than other regions and were able to supply commodities out of season to consumers located in another hemisphere.

Increasing global wealth levels have also significantly contributed to the range of commodities now expected by consumers, while increased competition between

producers on a global scale means typical grocery stores now offer a vast range of products compared with what was available even 50 and 20 years ago. The increasing cost competitiveness of air transport compared with other forms of transportation has significantly increased the range of perishable products available for consumers. This, however, has added much greater complexity to the infrastructure required to manage the transportation and distribution of these products.

Increased use of air transport has also allowed distributors to move to just-in time supply of products to customers. While air transport is still more expensive than transport by sea, the financial benefits from the opportunity to minimise stock levels and to allow for faster responses to changes in demand can more than outweigh the additional transport costs involved.

Logistics and supply chain management

The elements of logistics and supply chain management have always been fundamental to the manufacturing, storage and movement of goods and products to customers. However, more recently distribution and logistics have come to be recognised as vital elements in the business environment. Concepts such as trade-off analysis, value chains, and systems theory play a major part in the success of individual businesses. In an environment where global business competition has intensified, the opportunity to make small changes in the cost of supplying products to customers or advances in the level of service provided can play an important role in long-term business profitability and growth.

Rapid progress in the development of information management and communications technologies has enabled logistics companies to improve their competitive advantage through differing strategies involving improved levels of service and/or improved cost or productivity advantages. Strategies for improved levels of service include:

- Tailored service
- Improved reliability – guaranteed service “in full and on time”
- Increased responsiveness to customer needs
- Improved information – such as real-time information on the progress of goods in transit
- Ensuring the right goods are picked for delivery

Strategies for reducing costs and/or improving productivity include:

- Improved capacity utilisation
- Increased stock turnover
- Reduced inventory levels
- Increased automation

Key business categories

Distribution centres and transport operators are essential elements of the supply network between farmers, manufacturers and importers, and the final customer. A large retailer such as a supermarket may stock thousands of different products from more than a thousand different producers and it is not feasible for each supplier to ship product to each individual supermarket in New Zealand. To manage the flow of goods from the producer to the customer some producers operate their own distribution networks to manage the supply of products to individual customers. Some retailers own and run their own distribution centres to consolidate shipments of product from thousands of suppliers while other distribution operations are run independently of either the producer or the supplier.

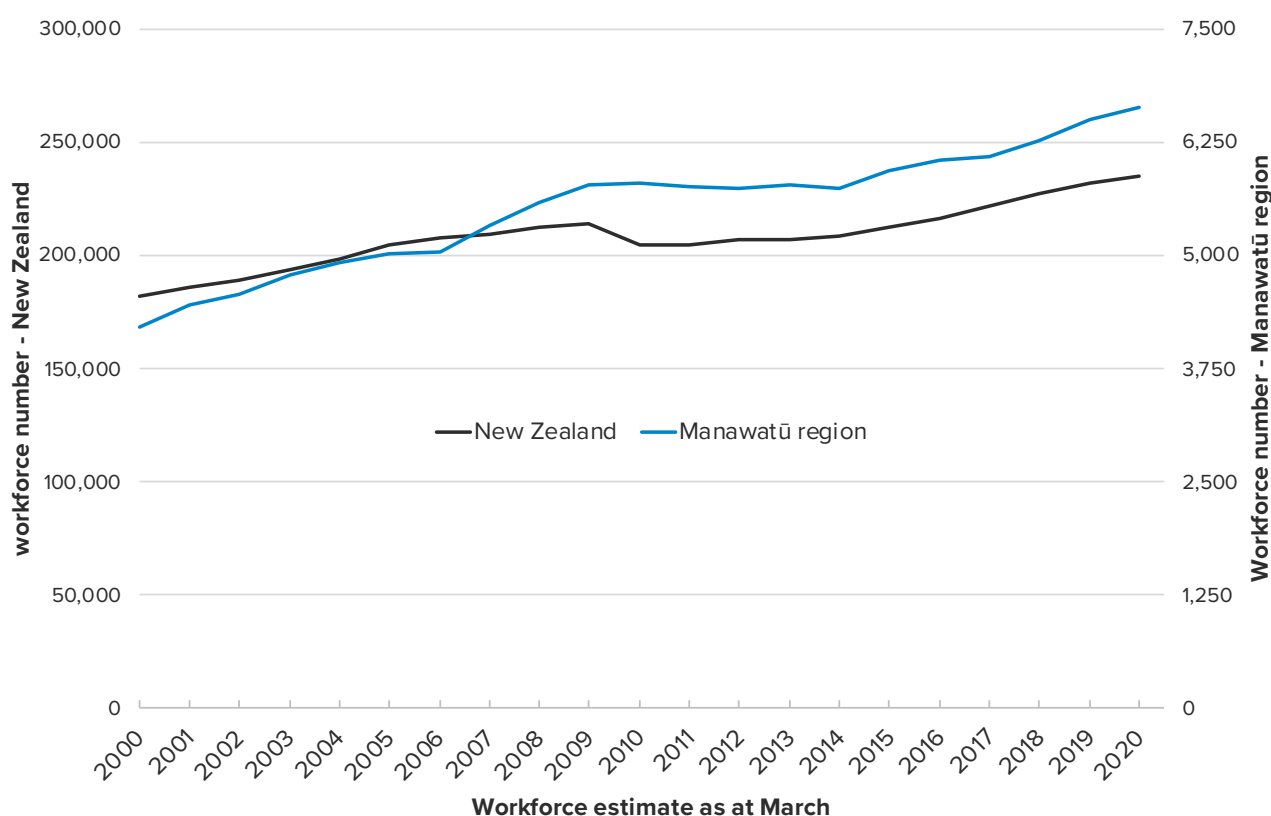
The development of distribution and warehousing facilities allows manufacturers to increase their efficiency through larger production runs of a single item. They supply products on a quick response basis by storing surplus product while other items are being produced. Warehousing and improved storage technology has also been important for the steady supply of seasonal products to customers throughout the year. Increased automation of product handling in distribution centres is leading to the development of larger facilities to justify the increased investment required. Automation technology is increasingly used to select products which have been previously brought into the distribution centre and to pack shipments for distribution to the final customer.

Logistics sector workforce

In February 2020 the logistics sector workforce in the Manawātū region was 6,638 people, 2.8% of the New Zealand logistics workforce (235,100 people). Palmerston North had 85% of the logistics sector workforce in 2020, but Manawātū district has experienced a higher rate of growth in workforce numbers between 2000 and 2020. Logistics employment in the region increased by 59% between 2000 and 2020 while New Zealand logistics employment increased by 29% over this time period. The national logistics sector contributed 9.1% of total New Zealand employment in 2020 while 10.2% of total Manawātū employment was contributed by the logistics sector.

Infometrics employment projections prepared in March 2020 suggest there will be 7,411 jobs in the region's logistics sector by 2043, an increase of 19%, or 773 jobs. This is lower than the 21% increase in the region's total workforce between 2018 and 2043 because Infometrics is projecting a high rate of productivity improvement in the sector.

Figure 1: Logistics employment for the Manawātū region and New Zealand (2000 to 2020)



Ethnicity

The logistics workforce in the region in 2018 was predominantly European New Zealanders. However, compared to the total New Zealand logistics workforce, there were higher percentages of European and Māori ethnicity in the region and lower proportions of Pacific and Asian people. Compared with other sectors in the Manawātū region, logistics has higher proportions of Māori and Pacific peoples.

Qualifications

Data for the highest qualification gained by logistics employees shows more workers with no qualifications and fewer workers with university degrees than the average for all industries in the region. In 2018 the logistics sector had 20% of employees with no qualification, 67.9% with a school or post-school qualification (such as a trade course) and 12.1% with university degrees or higher qualification. The average

for all industries was 12.5% with no qualifications, 60.9% with a post school qualification and 26.6% with degrees or higher (2018 Census).

Gender

Logistics has a greater proportion of males, accounting for 72.5% of the workforce in 2018 compared with 52% for the total Manawātū region workforce. The male share has been very stable as employment in the sector has grown.

Employment status

Logistics employees are more likely to be in full time employment, with 86.5% employed full-time in 2018 compared with 77.2% for the overall Manawātū region workforce. Self-employment is lower in the sector, accounting for 6.6% of the total logistics workforce in 2018. The share for self-employment for all sectors in the region was 7.8%.

Earnings

Logistics sector earnings (salaries, wages and self-employment income) in the region were \$440 million in the year ended March 2020, contributing 11.1% of Manawātū region earnings. The sector contributed 9.9% of national earnings. Manawātū region earnings in the sector increased by 211% between 2000 and 2020, while national growth in logistics earnings was 141%. The only territorial authorities with stronger rates of growth in logistics earnings over the past twenty years were Timaru and Tauranga. Tauranga had a 29% share of New Zealand's imports and exports by value in the year to June 2020. Its share of imports increased from 2% in 1989 to 16% by 2020, while its share of exports increased from 14% in 1989 to 41% in 2020.

Earning growth in logistics was significantly stronger than the 159% growth in total earnings in the Manawātū region between 2000 and 2020. The Manawātū region logistics sector accounted for 2.0% of national logistics employee earnings in 2000 and 2.6% in 2020.

Gross domestic product (GDP)

The contribution to GDP by the logistics sector is estimated to have been \$704 million in the region in the year to March 2020 (10.7% of regional GDP). GDP in the sector increased by 92% between 2000 and 2020, an average annual growth rate of 3.3%.

Table 2: Logistics sector earnings
(wholesale trade + transport, postal and warehousing)
(year to March 2020)

	\$ million	2000 - 2020 change
Timaru District	185	288%
Tauranga City	539	225%
Palmerston North City	377	214%
Manawātū District	63	198%
Marlborough District	109	191%
New Plymouth District	245	178%
Hastings District	193	168%
Hamilton City	488	159%
Invercargill City	167	158%
Whanganui District	78	158%
Auckland City	8,274	142%
Whangarei District	197	142%
New Zealand	16,725	141%
Dunedin City	314	139%
Christchurch City	1,698	135%
Gisborne District	97	126%
Nelson City	174	108%
Porirua City	64	98%
Napier City	174	92%
Rotorua District	173	92%
Wellington City	801	73%
Lower Hutt City	302	39%

Source: Statistics New Zealand LEED

Table 1: Ethnicity of workforce in 2018¹

	European	Māori	Pacific peoples	Asian
New Zealand - all industries	71.6%	13.5%	6.5%	15.0%
New Zealand - logistics	69.8%	13.4%	9.1%	14.1%
Manawātū region - all industries	80.8%	15.1%	3.4%	8.5%
Manawātū region - logistics	82.0%	15.9%	3.7%	6.2%

Source: Statistics New Zealand

¹ Note: percentages for ethnicity add up to more than 100% because people can identify with more than one ethnic group.

Manawatū Region logistics and supply chain sector

The logistics and supply chain sector comprises wholesale trade, and transport, postal, warehousing activities. It is a significant employer in the Manawatū region, accounting for 6,638 jobs (10.2% of total employment in the region in 2020) and an 11.1% share of total earnings (salaries, wages and self-employment income).

The logistics and distribution sector in the Manawatū region grew strongly over the 20 years, with the 58% growth in workforce in the region (employees and self-employed) significantly higher than the 29% increase in total employment in the region. The 2,429 jobs created in the sector between 2000 and 2020 account for nearly 17% of the total employment increase in the region during this period. The region's employment growth is even more remarkable when compared with national employment growth in the logistics and distribution sector, which grew

by 29% between February 2000 and February 2020.

The growth of large distribution centres in the region has been mostly occurring in Kelvin Grove and the North-East Industrial Zone in Palmerston North, but there has also been strong growth in smaller distribution centres and warehousing and storage services employment in other parts of the region. There was a 79% increase in Manawatū District logistics and distribution employment between 2000 and 2020 as an outcome from this growth.

Table 3: Logistics workforce by sector

	2020 workforce	2000 - 2020 increase	
	Number	Number	% growth
Wholesale trade			
Basic Material wholesaling	669	249	59%
Machinery and equipment wholesaling	916	299	48%
Motor vehicle and motor vehicle parts wholesaling	653	295	82%
Grocery, liquor and tobacco product wholesaling	1,438	723	101%
Other Goods Wholesaling	368	0	0%
Commission Based Wholesaling	102	-25	-20%
Total wholesale trade employment	4,146	1,541	59%
Transport, postal and warehousing			
Road transport	1,420	748	111%
Rail transport	163	106	186%
Water transport	0	0	0%
Air and Space Transport	51	4	9%
Other Transport	13	2	18%
Postal and courier pick-up and delivery services	441	-67	-13%
Transport support services	227	69	44%
Warehousing and storage services	177	17	11%
Total transport employment	2,492	879	54%
Total logistics employment	6,638	2,420	57%
Total Manawatū region employment	65,385	14,612	29%

Source: Infometrics

Distribution (wholesale trade) sector

The distribution sector in the Manawātū region has experienced significant growth over the last 20 years. This is reflected in the 59% growth in employment in distribution sector employment in the region between February 2000 and February 2020. National employment in the sector increased by 29% over this period.

In February 2020 there were 4,146 people employed in wholesale trade, with an increase of 1,541 jobs from 2000. The 59% increase in workforce in the region was more than twice the national increase of 25%. Earnings in wholesale trade were \$283 million in the year ended February 2020, increasing by 210% from 2000.

There were 435 businesses in wholesale trade in 2021, a decline of 9% since 2000. Businesses with 50 or more employees accounted for 50% of total jobs in the sector in 2021. There were 162 business with no employees, accounting for 37% of businesses in the sector.

The main subdivisions for wholesale trade activity are:

Grocery, liquor and tobacco product wholesaling, which had a workforce of 1,438 people in the region in 2020. Workforce numbers increased by 111% from 2000. Major businesses which dominate employment in this sector in the region are the large distribution centres for Foodstuffs (for example supplying Pak N'Save, New World, 4 Square, Shoprite and Liquorland stores) and Countdown (supplying Countdown and SuperValue stores). The Foodstuffs distribution operations in the city include the dry goods store in Roberts Line, the cool store in Makomako Road and Gilmours Wholesale in Jasper Place. Other major distributors are also based in the region. Coca-Cola operates a 5000 square metre warehouse in Palmerston North, DKSH is an importer and distributor of international grocery and confectionery brands, while Bidfood and Provida Foods are foodservice/hospitality wholesalers based in the region.

Machinery and equipment wholesaling, which had a workforce of 916 people in the region in 2020. Workforce numbers increased by 48% from 2000. Agricultural and construction machinery wholesaling is the largest source of employment in this sub-sector. One of the key firms operating locally in this sector is C B Norwood Distributors, a leading tractor and machinery distribution group based in Palmerston North, with sales outlets throughout New Zealand.

Basic material wholesaling, which had a workforce of 669 people in the region in 2020. Workforce numbers increased by 59% from 2000. This sector includes agricultural products, petroleum, as well as plumbing supplies and other hardware products.

Motor vehicle and motor vehicle parts wholesaling, which had a workforce of 653 people in the region in 2020. Workforce numbers increased by 89% from 2000. The motor vehicle and vehicle parts sector accounts for 10% of Manawātū region distribution sector employment. Its importance in the region is largely due to the presence of the Toyota head office and distribution centre in Palmerston North. Toyota is the dominant vehicle brand in New Zealand. Toyota stock parts for cars they supply new to the New Zealand market as well as parts for all imported second-hand cars. Its location in Palmerston North is a key aspect in the company's ability to maintain an overnight service rate of 95%.

Other goods wholesaling - is the second largest of the product groups nationally within the distribution sector, accounting for 20% of national employment but only 9% of Manawātū region distribution sector employment. The sector includes textile products, clothing, footwear, pharmaceutical and toiletry goods, furniture, floor coverings, jewellery and watches, kitchen and dining ware, toys, sporting goods, books and magazines, and paper products and packaging.

Overview of the flow of goods

The complexities of the logistics and distribution sector means it is difficult to provide one simple definition of the flow of goods managed by the sector, but key categories are listed below:

Manufacturer direct to retail store

An example of distribution direct to retail stores is a perishable product like bread, which is distributed directly from the bakery to each supermarket, using the baker's own vehicle fleet. Staff employed by the baker are often responsible for the restocking of bread displays in the supermarket.



Manufacturer/importer via manufacturer's distribution operation to retail store/customer

The Toyota distribution centre in Roberts Line is the largest local example of a manufacturer's distribution operation in the region. The Roberts Line distribution centre stocks parts for all Toyota cars imported new and used into New Zealand. Individual parts are shipped daily, and in the case of the lower North Island, every few hours, in response to orders received from customers.

Manufacturer/importer via distribution centre to retail store

The Countdown Logistics distribution centre in the city supplies the Countdown and SuperValue supermarkets in the lower North Island. The retailer-owned distribution centre acts as a consolidation point, as goods from the various manufacturers and suppliers are brought into the distribution centre, unpacked and then repacked for distribution to individual supermarkets. Full vehicle loads of all of the different manufacturer's products are distributed to the Countdown and SuperValue own stores in response to orders received daily from each store.

The two Foodstuffs distribution centres in the city supply grocery products to Foodstuffs affiliated shops (such as Pak N'Save, New World, Write Price and Four Square) throughout the southern half of the North Island.

This physical distribution channel has altered in recent years with the development and growth of wholesale organisations or voluntary chains (Mitre 10 and 100% Electrical are well-known examples of chains of independent retailers using a common brand). These

voluntary chains were generally begun on the basis of securing a price advantage by buying in bulk from manufacturers or suppliers and have led to the development of major distribution centres.

Manufacturer/importer to national distribution centre to retail shop/customer

A major example of this flow of product is Ezibuy, which purchases clothing from overseas and local manufacturers. All clothing is shipped to the distribution centre in Palmerston North and is then shipped out to individual customers in response to phone and internet orders or distributed for sale through one of their retail outlets. The Statistics New Zealand industrial classification classifies non-store retail activities, such as Ezibuy, in the retail classification, so it is not classified as a wholesale trade activity.

Transport, postal and warehousing

Wholesale trade and warehousing operations are important aspects in managing the flow of goods between manufacturers and importers and the final customers. However, the transport sector also plays an important role in the physical transportation of goods from the manufacturer or port (for imported goods) to the final customer. Strong growth in transport sector employment in the Manawātū region is therefore not surprising, given the growth which has been occurring in distribution centres in the region. There is significant movement of bulk product, especially by road into the region and then the subsequent re-shipment of smaller quantities out of the region to customers.

Factors contributing to growth in transport capacity and infrastructure

Rules limiting driver hours have been an important factor in the growth of distribution centres in the region. This is because the region is a central servicing point for the Taranaki, Manawātū-Whanganui, Hawkes Bay, Wairarapa and Wellington regions, an area with a combined population of 1.1 million people in 2020. Delivery trips are able to be made from the Manawātū region to this wider region which allow the driver to deliver goods to a range of destinations and yet still return to the local transport depot within the limit for driver hours. Similar restrictions on driver hours are also relevant to the role of Palmerston North as a key hub for domestic rail freight in the lower North Island. The Manawātū region is well placed nationally in terms of its ability to supply products within 24 to 48 hours of the placement of orders. Rail can service most parts of New Zealand within 48 hours from Palmerston North.

Employment in road transport businesses in the city more than doubled during the period from 2000 to 2020, increasing from an estimated workforce of 672 people in 2000 to 1,420 by 2020. National road transport employment growth was only 23% over this period. Two other sectors which recorded strong growth in regional employment while national employment declined were postal, courier pick-up and delivery services, and rail services. Earnings in transport, postal and warehousing were \$157 million in the year ended February 2020, increasing by 214% from 2000.

Sub-groups within the transport, postal and warehousing sector are:

Road transport is the largest part of the transport, postal and warehousing sector, with a workforce of 1,420 people in February 2020 in the region, an increase of 748 jobs (111% increase) from 2000. There were 1,095 employees in road freight and 325 employees in bus and taxi services. Urban bus employment grew strongly between 2000 and 2020, with improvements to urban bus services requiring more drivers to service the growth in passenger numbers and improvements in service frequency. Road freight employment increased by 92% between 2000 and 2020, supported by the expansion of the major grocery distribution centres in the region.

Rail transport employment in the region increased by 186% between 2000 and 2020 (national rail employment increased by 8% over this period) and by 2020 the region accounted for 8% of national rail transport employment. The rail hub in Palmerston North offers exporters access to the east through to the Port of Napier and to Eastport (Gisborne). The line to the west connects with Westgate (Port Taranaki), the line to the south connects with CentrePort (Wellington), while the line to the north offers connections to both Tauranga and Auckland. Rail is used to bring some products in to Palmerston North for distribution through the range of distribution centres based in the region, although the majority of product comes into the region by road.

Postal and courier pick-up and delivery services are also a significant source of employment in the region, with 441 employees in this sector in 2020. The New Zealand Post mail processing centre in Palmerston North plays an important role in providing employment directly in the city as well as supporting air freight services from Palmerston North Airport. While employment in the region declined by 13% between 2000 and 2020, national employment in the sector declined by 59% over this period. Many distribution centres work on a 24 or 48-hour delivery timescale to the customer, so within New Zealand airfreight and couriers are commonly used in the distribution of high value products. Increased purchases of goods online by consumers has contributed to strong growth in parcel deliveries.

Air transport employment increased by 9% between 2000 and 2020. The 51 people employed in the sector in 2020 represent a very small share of national employment in this sector. Palmerston North Airport is fortunate to be well-located in terms of its central location in the North Island and New Zealand. This is reflected in the services provided by Air New Zealand to the city, offering multiple daily services to Auckland and Christchurch, while Originair services Nelson and Hamilton.

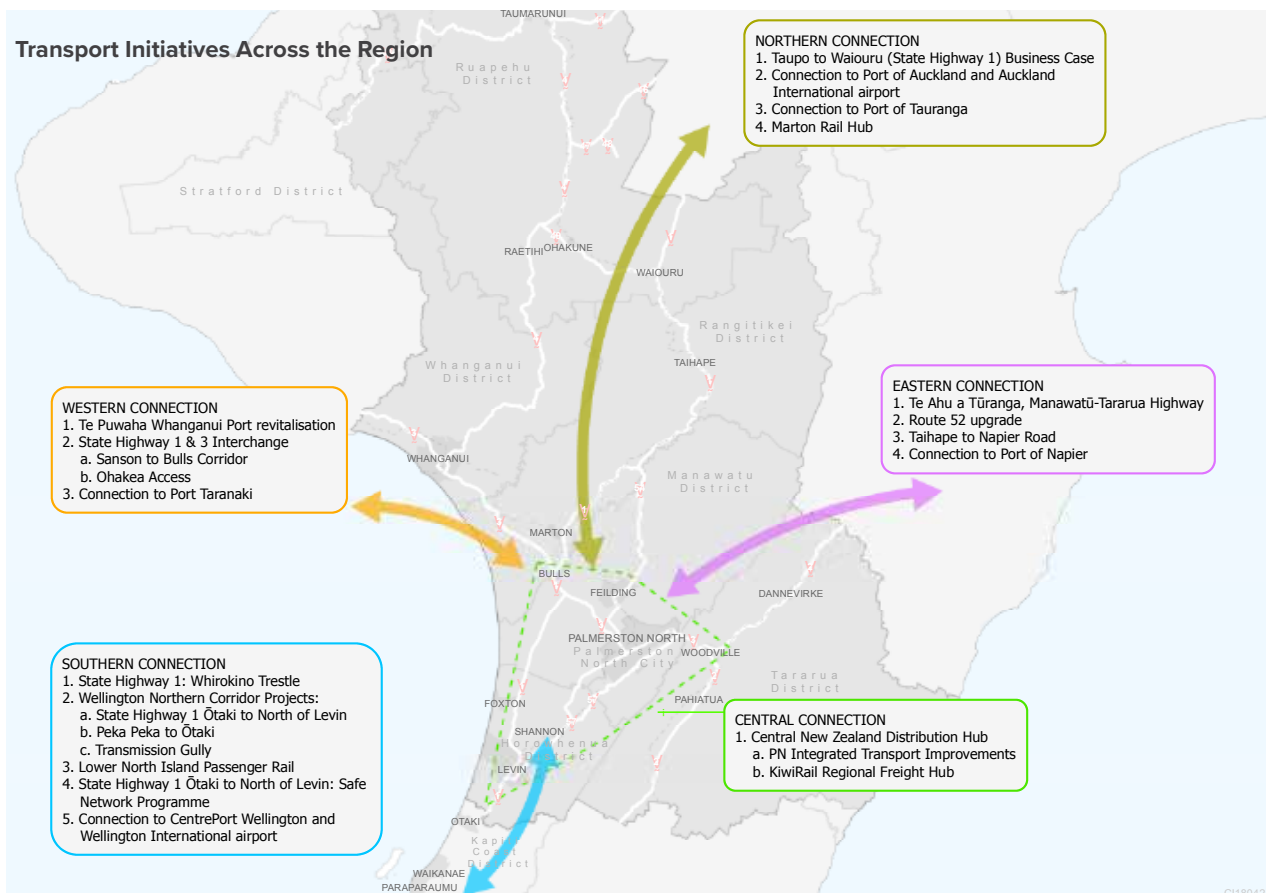
The airport is also well placed in terms of proximity to the State Highway system, the NEIZ, and proposed KiwiRail freight hub. The airport is already a key hub for domestic air freight. The airport also has significant advantages over Wellington Airport, where geographic location at the bottom of the North Island, scarcity of land and an airport curfew operating from midnight to 6 am restrict the opportunities for freight services.

Palmerston North Airport is the third busiest freight-handling airport in New Zealand behind Auckland and Christchurch. Freightways and NZ Post both have significant operations at the airport. The airport intends to develop around 30ha of its non-aeronautical land to accommodate freight and logistics, light industrial, commercial, and retail activities. The development opportunity spans three sites, all of which have the potential to accommodate significant freight and logistics operations.



The Central NZ Distribution Hub

The Central NZ Distribution Hub is located in the Bunnythorpe area and encompasses the North East Industrial Zone (NEIZ), Palmerston North Airport and KiwiRail's planned road-rail Regional Freight Hub, with connections into Waka Kotahi's future regional roading improvements to accommodate freight growth. Once the KiwiRail facility is developed, the Central NZ Distribution Hub will be the only location in New Zealand with rail, road and air connectivity provided in one precinct.



Palmerston North is one of the few locations in New Zealand which has rail freight coming from north, south, east and west. It consists of domestic freight coming into Palmerston North from Auckland, logs from Palmerston North to Napier and Wellington ports, and a range of products transiting Palmerston North (dairy, bulk milk, pulp and sawn timber, north and southbound domestic freight). However, rail is currently a relatively small component of the total freight volumes coming into and out of the Manawātū-Whanganui region.

KiwiRail is in the process of designating 178 hectares of land between Palmerston North Airport and Bunnythorpe for the new Regional Freight Hub. The hub will be around four times the size of KiwiRail's existing rail yard on Tremaine Ave and will be capable of handling containerised and non-containerised freight, including from longer, high-capacity trains that KiwiRail expects to come online in the future. Operations at the freight hub are expected to begin around 2031 and, as demand increases, the hub footprint is expected to grow to its full

size around 2051. Initial estimates suggest a construction cost of \$1 billion to build the freight hub. This doesn't include the cost of building the facilities for the additional logistics business KiwiRail is seeking to attract to the rail hub.

The freight hub will consist of a centralised hub incorporating tracks, marshalling yards, maintenance and service facilities, a train control and operation centre, freight handling and storage facilities (including for logs and bulk liquids), provision of access, including road and intersection upgrades where required, and specific mitigation works including noise walls/bunds, stormwater management devices and landscaping. In addition, the North Island Main Trunk rail line will be relocated to sit within the new designation area and directly adjacent to the Regional Freight Hub. The activities that take place at KiwiRail's Tremaine Avenue freight yard (apart from the passenger terminal and the network signals and communications centre) will be relocated to the new site to form part of the new Regional Freight Hub.

The main economic drivers for KiwiRail's Regional Freight Hub are increased container capacity and the ability to handle longer trains, neither of which are possible at the existing rail yard in Palmerston North. KiwiRail asserts that these capabilities will give rise to the following benefits:

- a. transport cost reductions: encouraging modal shift through reduced freight transport costs for freight hub users. This results from the ability to move expected growth in freight demand by rail instead of by road, and the use of longer, more efficient trains; and

- b. mode shift benefits: improved environmental, safety and congestion outcomes for wider New Zealand resulting from an increase in the mode share of rail for moving freight inter-regionally.

KiwiRail estimates that the freight hub will give rise to total transport cost reduction and mode shift benefits of around \$1.3b in absolute terms over a 60-year evaluation period, or \$420m in present value terms². KiwiRail expects approximately 20% of these benefits to accrue to rail-users based in Palmerston North, 40% to rail users outside the region, and 20% to the wider country. These benefits do not take into account any measures by the Government or other agencies to encourage the use of rail further to help meet wider environmental and social objectives, such as addressing climate change. Of these, the direct benefits to Palmerston North traffic would amount to about 20% and the benefits to the wider community from reduced environmental, crash and congestion costs would amount to about 40% of the total.

KiwiRail's freight demand estimates indicate that containerised freight volumes are expected to increase by around 35% over the period between 2020 and 2062. This is mainly driven by expected growth in inbound manufactured and retail goods destined for the region's distribution centres.

Estimated containerised rail freight volumes into Palmerston North

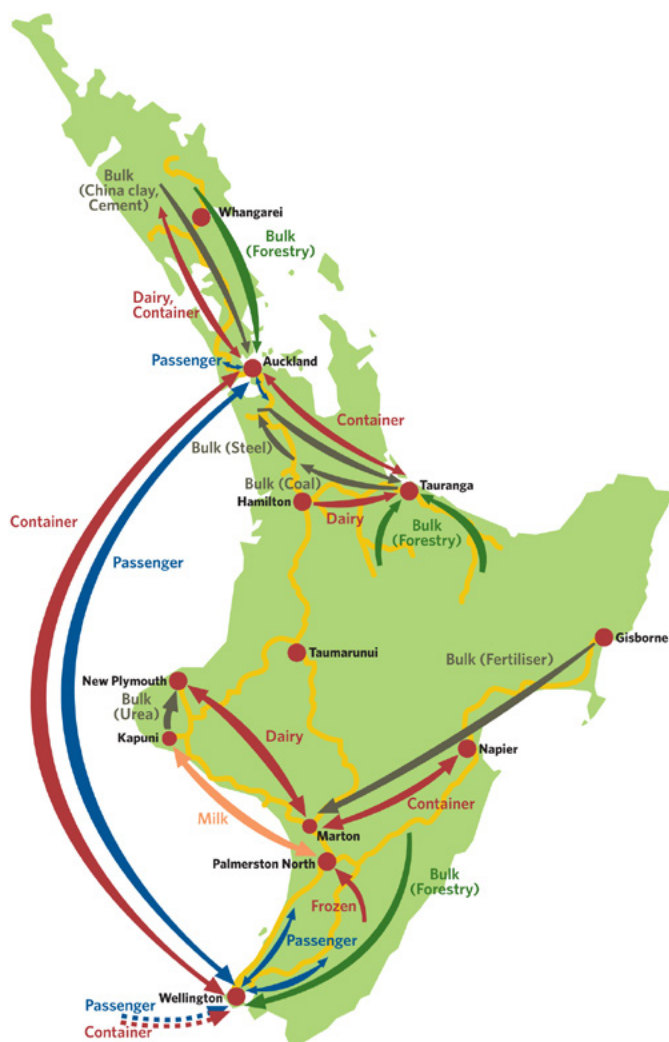
Table 1: Total estimates and forecasts of demand for manufactured freight traffic by rail into Palmerston North (m tonnes pa)

	2017 (Est)	2020 (Est)	2022	2030	2032	2042	2052	2062
Total demand for containerised traffic (m tonnes pa)	0.28	0.26	0.28	0.30	0.31	0.33	0.34	0.35

Source: KiwiRail Regional Freight Hub Section 92 Response, Economic Development Impact February 2021³

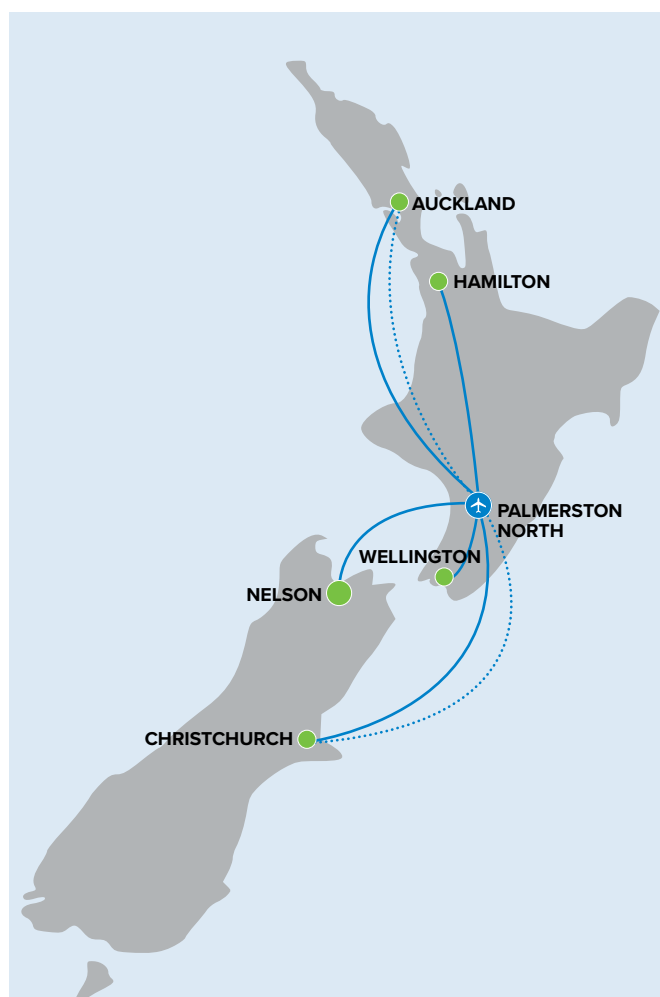
² Statement of Evidence of Richard Paling on behalf of KiwiRail Holdings Limited, Economic, p22, 712, 9 July 2021. <https://www.pncc.govt.nz/media/3134107/economics-evidence-richard-paling.pdf>

³ first page of Appendix A. <https://www.pncc.govt.nz/media/3133658/attachment-8a-s92-response-economic.pdf>



The NEIZ encompasses approximately 212 ha of land immediately south of Bunnythorpe that has been zoned for large-format transport, warehousing and logistics operations. The NEIZ land is well-suited to such activities as it is flat, relatively free from surrounding residential and commercial activities that could constrain its operations and growth, and adjacent to the future ring road route, the main trunk railway line and freight hub, and the airport.

The NEIZ has been rezoned in stages, beginning in 2004. The 126ha NEIZ Extension Area, which includes 60ha of the land subject to the KiwiRail notice of requirement, was rezoned in 2017. If the Freight Hub goes ahead, around 150ha of the 212 ha NEIZ will be developed or secured with the intention to develop. Current major occupants of the NEIZ include the Foodstuffs, Countdown and Ezibuy distribution centres.



PALMERSTON NORTH CONNECTED CITY

Monthly Air movements - passenger services & freight services

Passenger Movements

Passengers (and parcel freight) for July 2021.

	Aircraft movements	Seat capacity
Auckland	494	33,350
Christchurch	298	19,956
Nelson	80	1,256
Hamilton	66	1,101

Freight Movements

Dedicated Freighter services for July 2021.

	Aircraft movements
Auckland	46
Christchurch	44

Advantages for distribution centre location in the Manawātū Region

Central location in New Zealand

Palmerston North is a key central servicing point for the Taranaki, Manawātū-Whanganui, Hawkes Bay, Wairarapa and Wellington regions, an area with a combined population of 1.1 million people in 2020. With a further 1.2 million people in the South Island the city is a key midpoint in servicing New Zealand's 5.1 million population. The region is a key staging point for relatively high value import and domestic freight between Auckland and Wellington and between Auckland and the South Island.

Ease of business for logistics operations

Part of the success of the Manawātū region as a logistics hub is the ease of business for logistics operations in Palmerston North and Manawātū District – businesses are located close to the city airport which is rarely closed and is very efficient, trucks can get in and out of the region in any direction relatively quickly at any time of the day, and there is good railway access.

State Highways 1, 2 and 3 intersect in the region, offering connections to Wellington, the Wairarapa, Hawkes Bay and Taranaki regions. State Highway 1 is the key connection for the region to the Ports of Auckland, Tauranga and Auckland International Airport, which in the year to June 2020 accounted for 67% by value of all freight unloaded at New Zealand ports. The proportion of freight imported through Tauranga has increased significantly since the 1990s, reducing the proportion of sea freight imported through the Port of Auckland. The proportion of imported freight which arrives in New Zealand through the Port of Auckland and Auckland International Airport (by value through sea and airports) reached 73% in 1998 but had declined to 38% for the year ending June 2020. The share of freight imported through Tauranga was 29%

Rail offers a significant freight hub in Palmerston North with rail lines to the west and east connecting with the

North Island Main Trunk. The development of the new KiwiRail freight hub offers the potential for KiwiRail to improve productivity and increase its share of national freight volumes through the ability to offer faster delivery times for customers.

Palmerston North Airport is fortunate to be well located in terms of its central location in the North Island and New Zealand. It is one of three significant domestic freight hubs in New Zealand, offering easy road access for freight to and from the airport and a lack of any restrictions on hours of operation.

Affordability

Data is not readily available to compare the costs between regions of purchasing individual sites or leasing commercial buildings. However, a key regional indicator is home affordability, which shows lower land prices and building costs in the Manawātū compared with most other regions. Since the largest contributor to the difference in home affordability between regions is the difference in land value rather than in building costs, the home affordability indicator is a useful proxy for comparing the costs of operating a distribution centre in different regions.

The average house value in Palmerston North was \$705,000 and Manawātū District was \$600,000 in the three months to June 2021, with Palmerston North over \$200,000 below the national average of \$906,000.

Affordability is also an important factor in the ability of businesses to attract labour to a region and is a factor in constraining domestic migration within New Zealand, particularly to Auckland. There is a lack of any comprehensive database on logistics sector wage rates by region, but median earnings in the region for all sectors in the year to September 2020 were \$55,057, while median earnings for New Zealand were \$56,660.



Labour force

Major distribution centres based in the region have cited the presence of a university in the region (Massey University) as a key factor in the decision to locate their distribution centre in the region. There are several reasons for this interest in educational facilities in the region:

Massey University offers a range of study options in the area of logistics and supply chain management which include the part-time Graduate Diploma in Logistics and Supply Chain Management, Postgraduate Diploma and Master of Logistics and Supply Chain Management and PhD. This offers opportunities for ongoing education for employees in the region and also recruitment opportunities for local businesses.

The region is centre to The Logistics Training Group Ltd (LTG), a specialist logistics and supply chain management educator that has provided UK/EU registered bridging qualifications and short course management programmes in this area for over 25 years. LTG delivers the post-graduate level CILT UK Professional Diploma in Logistics & Transport and an associated undergraduate certificate programme, as well as various topical short courses. LTG has long established partnerships with Massey University in New Zealand and the University of New England in Australia, and has a wide off-shore delivery capability. LTG has its graduates working in all logistics areas and has had Top World Graduate for the UK Professional Diploma twice in the last four years.

Attracting staff to the region is helped if prospective employees view the educational opportunities offered in the region to be favourable. NCEA achievement levels⁴ for secondary schools in the region are higher than the national averages, while the local polytechnic (UCOL) and Massey University offer a wide range of post-school education opportunities in the region. The presence of a large student population assists with the supply of a flexible workforce in the region. The majority of university students work part-time while studying full-time at university and are often willing to accept options for shift work that are less attractive to older workers.

Lack of significant traffic congestion

The physical location of the region on a plain, with multiple road connections to the main state highways (State Highways 1, 2 and 3) means that traffic flows are not significantly affected by congestion, even during high commuter flows in the morning and evening. The new Te Ahu a Turanga highway will provide a faster and more reliable link to the east when it is completed by the end of 2024.

Connections to Wellington are improving with the Transmission Gully and Otaki Expressway projects nearing completion and \$1.5 billion committed to improving State Highway 1 from Otaki to north of Levin. Other road network improvements are proposed includes the completion of a high-speed rural ring road around Palmerston North, which will link with the KiwiRail freight hub. The road to the Port of Napier will be significantly improved when the Te Ahu a Turanga highway, replacing the need to use the Saddle Road over the southern part of the Ruahine Ranges.

⁴ Percentage of school leavers achieving NCEA Level-2 or higher.

Conclusion

The logistics sector will increase in importance in the Manawātū region economy, with investment in the Central NZ Distribution Hub over the next 30 years likely to result in significant growth in employment and earnings in the region. The new KiwiRail Freight Hub is not expected to be operating until 2031, but significant construction employment will be required to build the \$1 billion rail hub if the consent application is approved. The Freight Hub is expected to attract new wholesale trade

and transport businesses to the region over the next 30 years and also contribute to further growth for businesses already located in the region.

The region's central location within New Zealand, affordable land, available workforce and a lack of significant traffic congestion have all supported strong growth in employment in the sector over the past 20 years.



