

Attachment J:

Economic Assessment Report, August 2017

**UPDATE OF THE ASSESSMENT OF THE ECONOMIC EFFECTS OF THE HOBBITON MOVIE SET AT
MATAMATA**

Prepared for Rings Scenic Tours Limited

Brown, Copeland & Co Ltd

1 August, 2017

SUMMARY

- (i) The purpose of this report is to provide an assessment of the economic benefits of the Hobbiton Movie Set for the Matamata-Piako District.
- (ii) Visitor numbers to the Hobbiton Movie Set have grown from 33,770 in 2010/11 to 552,487 in 2016/17 – i.e. at an average increase of 55.0% per annum. With planned improvements to the Hobbiton Movie Set site, they are projected to further increase to 600,000 in 2018/19, 625,000 in 2019/20 and 650,000 per annum thereafter.
- (iii) Annual revenues for Rings Scenic Tours Limited have increased from \$2.3 million in 2010/11 to \$41.6 million (excluding GST) in 2016/17 –i.e. an average increase of 62.0% per annum.
- (iv) In 2016/17, Rings Scenic Tours Limited provided direct employment for 205 full-time equivalent staff (FTEs), up from 17 FTEs in 2010/11. Wages and salaries paid to these staff (including management fees) were \$8.0 million, up from \$0.6 million in 2010/11.
- (v) Having regard to the flow on economic impacts throughout the local economy, the Hobbiton Movie Set is estimated to result in:
 - a. Additional expenditure of \$78.0 million per annum in the Matamata-Piako District;
 - b. Additional employment of 393 FTE jobs; and
 - c. \$16.5 million per annum in additional wages and salaries for local Matamata-Piako residents.
- (vi) These economic impacts will increase in future as a consequence of expected increases in visitor numbers to the Hobbiton Movie Set site and construction activity associated with new facilities.
- (vii) The Hobbiton Movie Set and Farm Tours business provides greater diversity and balance to the local economy and a broader range of employment opportunities for local residents. It also brings increased vitality and vibrancy to the District and in particular the Matamata town centre.

INTRODUCTION

1. In August, 2011, Brown, Copeland & Company Ltd prepared a report¹ (the 2011 report) identifying the economic effects of the Hobbiton Movie Set for the Matamata-Piako District for the year ending 31 March 2011 (i.e. 2010/11) and the projected economic effects in the following four years (i.e. 2011/12 to 2014/15 inclusive) following the upgrading of the site for the filming of the Hobbit movies and the release of these movies.
2. In the 2010/11 report, visitor numbers were expected to grow from 30,000 in 2010/11, to 45,000 in 2011/12, 100,000 in 2012/13 and 150,000 in 2014/15. In fact visitor numbers grew from 33,770 in 2010/11 to 52,065 in 2011/12, 131,261 in 2012/13, 232,671 in 2013/14 and 365,178 in 2014/15. In 2015/16 and 2016/17 visitor numbers were 468,341 and 552,487 respectively. For 2017/18 visitor numbers were forecast to again be around the 550,000 level, although in the first two months of 2017/18 (i.e. April and May) visitor numbers were ahead of the forecasts for these two months by 38%. Over the 6 year period 2010/11 to 2016/17 visitor numbers have grown at an average rate of 55.0% per annum.
3. Revenue for Rings Scenic Tours has grown from \$2.3 million in 2010/11, to \$26.2 million in 2014/15, and to \$41.6 million in 2016/17 – i.e. at an average increase of 62.0% per annum over the 6 year period 2010/11 to 2016/17. The faster growth in revenues as compared to visitor numbers reflects not so much an increase in entrance ticket prices² but an increase in the range of services provided to visitors – e.g. an increase in the range of food and beverage services (including the introduction of evening banquet tours) and increased merchandising.
4. In the December 2014 a report updating the findings of the 2011 report was prepared, based on the actual data which was then available. The purpose of this report is to provide a further update of the economic benefits of the Hobbiton Movie Set on the Matamata-Piako District economy based upon data for the year ending 31 March, 2017 – i.e. the 2016/17 year.
5. The remainder of this report is in four parts:
 - a. A summary of the findings of the 2011 report;
 - b. An overview of the Matamata-Piako District economy;
 - c. The updated economic effects of the Hobbiton Movie Set for the local Matamata-Piako District economy; and
 - d. Some conclusions.

THE FINDINGS OF THE 2011 REPORT

¹ Assessment of Economic Effects of Proposed Improvements to Facilities for Visitors to the Hobbiton Movie Set; Mike Copeland, Brown, Copeland & Co Ltd; 4 August, 2011.

² The adult entrance ticket price over the 6 years 2010/11 to 2016/17 increased from \$75 to \$79 – i.e. an increase of only 5.3% or an average rate of increase of 0.9% per annum. The corresponding revenue increases have averaged 62.0% per annum, compared to visitor increases averaging 55.0% per annum.

6. The key findings of the 2011 report can be summarised as follows:

- a. The Matamata-Piako District's population in June 2010 was 31,800 and was expected to increase to 32,300 by 2021 (i.e. an average annual increase of 0.1% per annum) but then fall back to 31,600 by 2031;
- b. Farming and agricultural product processing are the key drivers of the Matamata-Piako District and Matamata economies.
- c. The 2010/11 economic impacts of the Hobbiton Movie Set on the local Matamata-Piako District economy were estimated to be additional expenditure of \$4.5 million per annum, additional employment of 47 FTE jobs and additional wages and salaries of \$1.5 million per annum. Most of this additional economic activity was centred on Matamata;
- d. The Hobbiton Movie Set and Farm Tours business provided the basis for a small but significant tourism industry in the District and for Matamata in particular. This provided greater diversity and balance to the local economy and made it more resilient to agricultural commodity price cycles and provided a broader range of employment opportunities for local residents;
- e. On the basis that visitor numbers to the Hobbiton Movie Set in four years time (i.e. by 2014/15) would increase fivefold (i.e. from 30,000 per annum to 150,000 per annum), the economic impacts of the Hobbiton Movie Set for the local Matamata-Piako economy would grow to additional expenditure of \$18.9 million per annum, 132 additional FTE jobs and additional wages and salaries of \$4.2 million per annum;
- f. This increase in expenditure, employment and incomes from increased visitor spending would further diversify the local Matamata economy and provide a broader range of employment opportunities for local residents; and
- g. Although the increase in visitor numbers may put pressure on Council provided facilities such as public toilets and parking in the Matamata town centre, any such additional costs would be significantly outweighed by the widespread economic benefits to local businesses and residents.

OVERVIEW OF THE MATAMATA-PIAKO DISTRICT ECONOMY

7. Statistics New Zealand's latest population estimates for the Matamata-Piako District have revised the June 2010 estimate up from 31,800 to 32,200 and since then there has been further growth to 34,100 in June 2016 – i.e. an increase of 5.9%. Over this same six year period, the Waikato region's population has increased by 8.9% and New Zealand's population by 7.7%. The latest Statistics New Zealand population projections have the Matamata-Piako District's population growing to 34,500 by 2043 – i.e. an annual growth rate of 0.04% per annum over the period 2016-43. Over the same period, the Waikato region's population is projected to growth by 0.5% per annum and for New Zealand by 0.7% per annum.
8. The key driver of the Matamata-Piako District's economy remains agriculture. Statistics New Zealand 2016 data show 15.5% of the workforce is engaged in the agricultural sector³,

³ Including agriculture support services.

compared to 5.3% nationally. This is principally in dairy farming, which engages 10.4% of the workforce. Whilst 27.6% of the District's workforce is engaged in the manufacturing sector, this is principally in meat and meat products manufacturing (12.2% of the District's workforce) and dairy product manufacturing (8.0% of the District's workforce).

9. Other significant sectors are retail trade (9.4% of the District's workforce), construction (7.3% of the District's workforce), education and training (6.2% of the District's workforce), professional, scientific and technical services (4.6% of the District's workforce) and health care and social assistance (4.4% of the District's workforce).
10. The Hobbiton Movie Set has continued to provide diversity to the Matamata-Piako District economy making it less reliant on the fortunes of the agricultural sector.

UPDATED ECONOMIC EFFECTS OF THE HOBBITON MOVIE SET

11. Revenue for Rings Scenic Tours Limited in 2016/17 was \$41.6 million. This includes revenue from entrance fees, merchandising, food and beverage and accommodation. In 2016/17, Rings Scenic Tours Limited provided direct employment for 205⁴ full time equivalent staff (FTEs)⁵, up from 17 in 2010/11 and 150 in 2014/15. Wages and salaries paid to these staff (including management fees) in 2016/17 were \$8.0⁶ million, up from \$4.5 million in 2014/15 and \$0.6 million in 2010/11.
12. The Matamata Public Relations Association provides a ticket agency service from its i-SITE office in the Matamata town centre and this now gives fulltime employment to 1 staff member in winter and 2 in summer – i.e. 1.75 FTE positions. Wages and salaries to these staff are \$178,200 per annum and the additional income earned by the i-SITE on ticket commissions and merchandise margins is estimated at \$218,000 per annum.
13. Surveys of visitors to the Hobbiton Movie Set have identified that an estimated 84% are overseas visitors and 16% domestic visitors. Because of Matamata's proximity to the major tourist accommodation centres of Auckland (approximately 2 hours travelling time), Rotorua (approximately 40 minutes travelling time) and Taupo (approximately 1 hour 30 minutes travelling time), only a small proportion of visitors to the Hobbiton Movie Set stay overnight in Matamata. Surveys have indicated only around 8% of visitors stay either the night before or the night after in Matamata, as compared to 33% in Rotorua, 21% in Auckland and 8% in Taupo. Using data on the average expenditure per visitor night for the Waikato Regional Tourism Organisation area (\$164)⁷, deducting the \$58 average revenue per visitor from the

⁴ Includes an estimate of 8 FTE staff involved in ongoing construction projects for which expenditure has ranged between \$3.2 to \$4.5 million over the past 4 years.

⁵ At the peak of the season 220 full-time staff, 22 part-time staff and 23 contractors are engaged. At non-peak times 147 full time staff, 12 part time staff and 14 contractors are engaged. It is assumed each part-time staff member is equivalent to 0.5 FTEs. The peak of the season is assumed for 4 months a year.

⁶ Includes wages and salaries of the estimated 8 staff involved in construction projects and assumes an average construction worker salary of \$75,000 per annum.

⁷ The figure for 2010/11 was \$151 per night and this has been inflated by the CPI (8.8%) to give an amount of \$164 per night in 2016/17. This estimate is likely to be conservative given the high proportion (84%) of

Hobbiton Movie Set and Farm Tour (since this is part of the \$164 expenditure per visitor night), and assuming a one night stay⁸ for these visitors, gives an estimate for total expenditure in Matamata of \$4.7 million per annum.⁹

14. For those visitors not staying overnight an average spend in the Matamata town centre of \$10 per visitor has been assumed.¹⁰ This estimate is based on discussions with Matamata café, restaurant and retail shop owners. The estimated expenditure for these visitors in 2016/17 is \$5.5 million.¹¹
15. In addition the Hobbiton Movie Set attracts visitors to Matamata who do not visit the Hobbiton Movie Set. Discussions with Matamata business owners and the i-SITE staff confirmed that many visitors to Matamata are drawn by its relationship with the Hobbiton Movie Set but do not visit it. Despite this, in being drawn to Matamata, these persons still spend in the town. No allowance has been made for this additional expenditure, because of the difficulty in estimating how many persons are in this category and what their additional spend in the District would be.
16. Summing the additional expenditure on local accommodation, food and beverage and other expenditure with local businesses by the overnight and day visitors to the District gives a total of \$10.2 million of additional expenditure for 2016/17. Using data on the ratio of turnover to employment and average salary levels for tourism related industries¹² gives an estimate of associated additional employment of 55 full time equivalent (FTE) jobs and additional wages and salaries of \$2.8 million per annum.
17. Combining the economic impacts with those of the Hobbiton Movie set business itself (including those relating to the i-site) gives total additional expenditure of \$52.0 million in 2016/17,¹³ additional employment of 262 FTE jobs and additional incomes of \$11.0 million.

international visitors to Hobbiton and Ministry of Business, Innovation and Employment figures for average spend per night for all visitors (\$183), business visitors (\$221) and holiday visitors (\$244). (See Table 1, page 8 of Convention Delegate Survey Report – Year to December 2016; Ministry of Business, Innovation and Employment; March, 2017).

⁸ This is conservative to the extent some persons staying in Matamata will stay for more than one night.

⁹ $0.08 \times 552,487 \times (\$164 - \$58)$. The \$58 average spend is estimated by dividing total revenues by total visitor numbers and has already been included in the estimated annual expenditure with Rings Scenic Tours Ltd. For future years, this estimate is conservative to the extent that the number of visitors exceeds the 2016/17 figure – for example for 2017/18 the forecast of 550,000 seems likely to be exceeded by a considerable margin on the basis of the figures for the first 2 months of the year.

¹⁰ For some visitors the additional expenditure in the District may be zero. However for others it will be very much greater than \$10 per visitor.

¹¹ $0.92 \times 552,487 \times \10×1.088 (CPI adjustment of 8.8% over period 2010/11 to 2016/17).

¹² Sales per employee of \$184,436 and average salary of \$50,780. Source: Based on data from Statistics New Zealand's Tourism Satellite Account 2016.

¹³ As a cross-check, the Ministry of Business Innovation and Employment (MBIE) estimated international tourism expenditure in the Matamata-Piako District has grown from \$11 million in the year ending 31 March 2009, to \$37 million in the year ending 31 March 2014 and \$61 million in the year ended 31 March 2017. In November, 2014 MBIE attribute this growth in international tourism expenditure in the District to the Hobbit related attractions in the area (see "Hobbit Movies Triple Tourist Spend"; www.stuff.co.nz; 28 November, 2014).

18. However in addition to these direct economic impacts there are indirect or “multiplier” impacts arising from the demand for goods and services from local suppliers by these businesses and their employees. This is a combination of
- a. The effects on local suppliers of goods and services to these businesses benefitting from the additional visitor expenditure (i.e. the “forward and backward linkage” effects). For example, significant suppliers to the Hobbiton Movie Set and Farm Tours business are local providers of groceries, fruit and vegetables, meat, liquor, vehicle servicing and fuel. Businesses in the retail, accommodation and bar and restaurant industry groups who benefit from increased visitor numbers to the town will also make purchases from local businesses; and
 - b. The supply of goods and services to employees of the businesses benefitting from the additional visitor expenditure (i.e. the “induced” effects). For example, there will be additional expenditure, jobs and incomes as a result of employees and their dependants spending at supermarkets, restaurants and bars and other retail stores in Matamata.
19. District multipliers can be estimated to gauge the size of these indirect effects. The size of the multipliers is a function of the extent to which a district economy is self-sufficient in the provision of a full range of goods and services and the district’s proximity to alternative sources of supply. District multipliers typically fall in the range of 1.5 to 2.0 and taking the low point of 1.5, given the Matamata-Piako District’s close proximity to major centres such as Auckland, Rotorua and Tauranga, implies total impacts (i.e. direct plus indirect impacts) for 2016/17 of:
- Additional expenditure of \$78.0 million per annum in the Matamata-Piako District;
 - Additional employment of 393 FTE jobs; and
 - \$16.5 million per annum in additional wages and salaries for local Matamata-Piako residents.
20. These economic impacts will increase in future years as a consequence of (i) expected increases in visitor numbers – Rings Scenic Tours Limited are forecasting visitor numbers to increase to 600,000 in 2018/19, 625,000 in 2019/20 and 650,000 per annum thereafter; and (ii) the construction of new facilities (including a new office complex, the proposed Greenscreen Photography building, the Bag Shot Row cave experience and possibly accommodation chalets on the Hobbiton Movie Set site).

Increased Diversity for Local Economy

21. As noted previously, the local Matamata-Piako economy is dominated by the agricultural sector. The Hobbiton Movie Set and Farm Tours business provides the basis for a tourism industry in the District and Matamata in particular. This provides greater diversity and balance to the local economy and makes it more resilient to agricultural commodity price cycles and provides a broader range of employment opportunities for local residents.

Other Economic Benefits

22. The Hobbiton Movie Set brings benefits in the form of increased vitality and vibrancy that the additional economic activity and influx of visitors have brought to the District and in particular the Matamata town centre. There is also the "feel-good" factor for Matamata residents who appreciate the town being a tourist destination and not just a rural town through which motorists pass.

CONCLUSIONS

23. Actual visitor numbers to the Hobbiton Movie Set have greatly exceeded forecasts made in 2011. Whereas in 2011 visitor numbers were expected to have increased five-fold, from around 30,000 to 150,000 in 2014/15, they in fact increased by more than 12-fold from around 30,000 to over 365,000. In 2016/17 they had increased to more than 552,000 and show signs of increasing still further in 2017/18.
24. Commensurate with this out performance in visitor numbers, the economic impacts of Rings Scenic Tours Limited operations for the Matamata-Piako District economy have also greatly exceeded the 2011 report's expectations. For 2016/17 the economic impacts were:
- a. Rings Scenic Tours Limited total revenue increasing to \$41.6 million per annum, employment increasing to 205 FTE staff, and wages and salaries increasing to \$8.0million per annum;
 - b. Total expenditure within the District (i.e. including i-SITE additional revenues, expenditure by Hobbiton Movie Set visitors at local businesses and both the direct and indirect or "multiplier" effects) of \$78.0 million per annum, total employment within the District of 393 FTE jobs and total wages and salaries within the District of \$16.5 million per annum.
25. Consistent with these figures the Ministry of Business, Innovation and Employment has estimated total international tourism spending in the District has increased from \$11 million in 2008/09 to \$61 million in 2016/17 and the Ministry has attributed most of this increase to the District's Hobbit related attractions.
26. The Hobbiton Movie Set has continued to broaden the economic base of the local economy making it less reliant on agricultural and agricultural product processing.