



HARBORD BEACH HOTEL ECONOMIC IMPACT ASSESSMENT

REPORT
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Prepared for
Harbord Hotel Holdings

Independent
insight.



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SGS Economics and Planning Pty Ltd
ACN 007 437 729
www.sgsep.com.au

Offices in Canberra, Hobart, Melbourne, and Sydney, on Ngunnawal, Muwinina, Wurundjeri, and Gadigal Country

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EXECUTIVE SUMMARY

Harbord Beach Hotel

The Harbord Beach Hotel is a heritage listed tourism and accommodation facility located 100 metres off Freshwater Beach in the Northern Beaches LGA. Built in 1928, the hotel is well known for hosting events, providing short term accommodation for visitors to the area and catering with food and drinks on premises.

Under new ownership, there are now plans afoot to refurbish the facility and enhance the already significant role that it plays as part of the tourism and visitation offer in the area. This \$15 million project is expected to include the refurbishment of the existing heritage listed Harbord Beach Hotel building as well as the construction of a short-term accommodation building, café and double basement carpark.

Strategic Need

The Northern Beaches Economic Development and Tourism Strategy identifies a range of goals relevant to the Harbord Beach Hotel project, including:

- Goal 3: Recognise and promote the region's economic strengths and assets.
- Goal 15 d. Enhance and extend opportunities for a sustainable tourist economy throughout the area.

More specifically, limitations in local tourism accommodation and facilities is a major weakness which needs to be addressed as a means to attract higher yielding visitors to the area.

The Harbord Beach Hotel project would assist in achieving these goals by:

- Helping to activate Freshwater Village and surrounding centres and help to encourage local business growth.
- Increasing the provision of short-term accommodation facilities, relieving the local area's reliance on AirBnB's for this important component of the local tourism offer.
- Stimulate the local economy both through the construction phase of the project and the expanded operations of the facility thereafter.

Economic Impact

In this report, SGS Economics and Planning has undertaken an Economic Impact Analysis (EIA) of the proposed refurbishment project. The results of the analysis highlight that;

During the construction phase of the project, the Hotel will:

- Directly support approximately 28 full-time equivalent jobs in the Northern Beaches economy.
- When flow-on effects are incorporated the development will support approximately 64 jobs in the Northern Beaches economy, and the local region will gain \$12.0 million in value-added (e.g. wages and profits) from this construction activity.

Ongoing operation of the expanded Hotel facility will:

- Directly support approximately 76 full-time equivalent jobs in the Northern Beaches local economy by attracting new tourists to the LGA.
- When flow-on effects are incorporated the development will support approximately 94 jobs in the local Northern Beaches economy, and the local region will gain \$9.5 million in value-added per annum from accommodation, food and retail services.

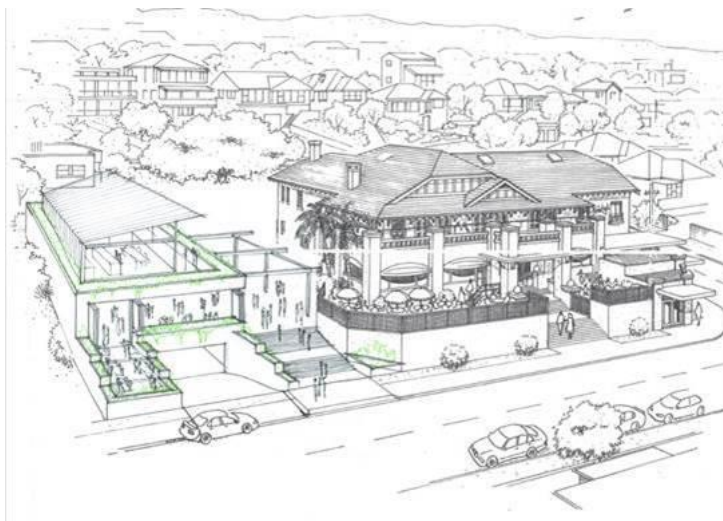
1. INTRODUCTION

1.1 Project background

Enhancement of the local tourist economy is a strategic priority for the Northern Beaches LGA. Whilst the local economy features vibrant villages and town centres, natural attractions and strong local industry and businesses, Council has identified limitations in local tourism accommodation and facilities as a major weakness which needs to be addressed as a means to attract higher yielding visitors.

To that end, Harbord Hotel Holdings are currently exploring the potential to refurbish an existing heritage listed facility – the Harbord Beach Hotel. The project is expected to include the refurbishment of the existing heritage listed Harbord Beach Hotel building as well as the construction of a short-term accommodation building, café and double basement carpark. Figure 1 below presents an artist's impression of the facility.

FIGURE 1 ARTIST'S IMPRESSION OF HARBORD BEACH HOTEL (EXCL. ACCOMMODATION BUILDING)



Source: Harbord Hotel Holdings

1.2 Development rationale

The Harbord Beach Hotel would help to achieve some of the goals of the Northern Beaches Economic Development and Tourism Strategy. The Strategy outlines a range of goals relevant to the Harbord Beach Hotel project, including:

- Goal 3: Recognise and promote the region's economic strengths and assets.
- Goal 15 d. Enhance and extend opportunities for a sustainable tourist economy throughout the area.

The Harbord Beach Hotel project would assist in achieving these goals by helping to activate Freshwater Village and surrounding centres and help to encourage local business growth. The project would help to address the limited tourism accommodation¹ on the Northern Beaches and tourist facilities to attract new (e.g. those who would not have come to the Northern Beaches without this new hotel) higher spending visitors. SGS analysis into AirBnB

¹ A lack of tourist accommodation is noted in the Northern Beaches Economic Development Strategy. <https://www.northernbeaches.nsw.gov.au/sites/default/files/economicdevelopmentandtourismstrategicreferencegroupdirectionspaper-july2017.pdf>

accommodation in Greater Sydney² found that the Northern Beaches LGA has a significant cluster of AirBnB dwellings that help to substitute for the LGA's short supply of more formal short-term accommodation facilities. This is not a reliable means of securing short-term accommodation for visitors particularly as continued uncertainty surrounding the COVID-19 pandemic is likely to significantly reduce the volume of AirBnB dwellings available to market.

Further, the Harbord Beach Hotel project would present an opportunity to attract niche tourism sectors which would bring in higher spending tourism. It would also help to activate Freshwater Village both throughout the working week and on weekends.

Finally, there would also be an economic benefit from the \$15 million construction phase (\$12 million for the accommodation, café and double basement and the refurbishment \$3 million) of the project. This investment will be especially important given the weakness in the construction sector due to the impact of the COVID-19 on the broader construction sector.

1.3 Economic Impact Assessment

The Economic Impact Assessment (EIA) approach is routinely used to evaluate the merits of projects and better understand the effects of a project on the wider economy. EIAs therefore take on a society-wide perspective, transcending beyond the initial impacts that are borne by the project proponent(s). Where possible, the impacts are also quantified and monetised (expressed in dollar terms), showing the extent to which the community benefits from a project.

In this report, SGS estimates:

- The direct number of jobs (e.g. construction jobs) and indirect jobs (e.g. suppliers of material and flow on spending) the construction spending will support.
- The jobs supported by the injection of tourism spending to Freshwater Village and the wider Northern Beaches local region. We will base this around the occupancy rate, length of the average night stay for the 43-room hotel and average spending by guests.

A sensitivity test is also provided for key inputs to generate higher, moderate and conservative scenarios.

² <https://www.sgsep.com.au/assets/main/SGS-Economics-and-Planning-Airbnb-digital-report.pdf>

2. ESTIMATION OF IMPACTS

2.1 Approach

An Economic Impact Assessment (EIA) measures the total economic impact of a project on a region, by combining the direct impacts of the project with the **indirect impacts**.

These indirect impacts are triggered by the direct impact and relate to the multiple rounds of buyer-supplier transactions that ensue in the region after the initial impact has occurred.

Economic impacts are measured in terms of output (\$ millions), value added (\$ millions) and additional full time equivalent (FTE) jobs.

A definition of each of these impacts is provided below:

Output is a measure of spending in the economy. **Direct output** is the initial spending related to the delivery of the project (capital outlay and additional operating costs in this case). Output multipliers are applied to the direct output to calculate the **indirect output** (subsequent spending) that is generated. The sum of direct output and indirect output is referred to as **total output** and is measured in \$ millions.

Value added is a measure of the returns yielded from output. It includes the wages paid to employees and the profits earned by businesses. The sum of direct value added and indirect value added is referred to as **total value added** and is measured in \$ million.

Employment positions are created during the value adding process and are measured in terms of Full Time Equivalent (FTE) jobs created over the course of the project (hotel construction and operation in this case).

Method

In general terms, the key steps in undertaking an assessment of indirect impacts involves:

1. Isolating how the project stimulates the regional economy (direct impacts).
2. Generating region specific econometric models and subsequently deriving economic multipliers by major industry groups.
3. Applying these multipliers (by relevant industry group) to the direct impacts to estimate indirect regional impacts.
4. Calculating total regional impacts by combining direct and indirect impacts.

SGS takes the inter-industry relationships (buyer-supplier transaction) that are measured by the Australian Bureau of Statistics in the National Accounts, and scales these relationships down to a state level initially and subsequently a regional level, using available datasets and accepted mathematical techniques.

The results of this scaling process are a set of regional industry specific multipliers which estimate how spending in a specific regional industry, via the assessed direct impacts (stimuli), flows through to total output (or income for businesses); total regional value added (or contribution to GRP net of taxes), and total FTE jobs.

Employment, gross value added and output impacts have been measured compared to the base case and reflect the expected impact of additional spending, employment and output under the preferred option.

For the purpose of this analysis, the Northern Beaches Local Government Area is considered to be the local economic catchment.

2.2 Construction phase impacts

The construction phase of the project is expected to cost in the order of \$15 million. This is comprised of:

- Refurbishment of the existing heritage listed 'Harbord Beach Hotel' building - \$3 million.
- Construction of the additional components including: accommodation building, café and double basement carpark- \$12 million.

These construction works are expected to generate approximately 28 jobs on site (direct impact) and 36 jobs in the broader economy (wider impact) through the construction supply chains for a total of **64 jobs**.

Value added and regional output for the region was calculated from the projected capital expenditure during the construction phase of the project. The construction phase is thus expected to generate **\$12.0 million in total value added** (e.g. wages and profits) and **\$29.3 million in total output** (direct and indirect) during project construction.

This is summarised in the table below.

TABLE 1 SUMMARY OF ECONOMIC IMPACTS DURING THE CONSTRUCTION PHASE OF THE PROJECT

	Initial Spend (\$m)	Output Effect (\$m)	Employment Effect (Jobs)	Value Added Effect (\$m)
Construction Stimulus	15.00	29.28	64	11.96

Source: SGS, Harbord Hotel Holdings

2.3 Operating phase impacts

The operating phase of the project is expected to also generate employment, value added and output benefits for the local region. This is likely to emanate from the operations of a newly expanded offer at the Harbord Beach Hotel which is estimated to attract over 23,400³ overnight visitors per year that primarily comprises:

- Spending by visitors at the cafes, bars and retail outlets, which is assumed to directly impact the food, beverage and retail industries. This is expected to be in the order of \$5.3 million per annum for the local Northern Beaches economy (likely to be predominantly for businesses in the Freshwater Village) based on 65 per cent of these being new to Northern Beaches and an average spend per tourist night of \$350 (Table 3). Locally at Freshwater Village, the spend will be on food and beverage with some grocers, fashion (clothes and jewelry), hairdressers, dry cleaners, specialty homewares, chemists and the rest spent in the wider Northern Beaches LGA.
- Turnover from the accommodation facilities of an upgraded Harbord Beach Hotel. This is expected to be in the order of \$4.0 million per annum based on a 75 per cent occupancy rate and \$325 to \$450 per room (Table 2).

Based on these activities, SGS has estimated the economic impact to the local economy from the ongoing operations of the hotel. These impacts are based on the facility's expected operating metrics. Three scenarios (higher, moderate, conservative) have been modelled as there is likely to be some variation in the expected visitation and spend rates for the facility. The tables overleaf summarise these metrics.

³ Number of tourist nights per year assuming 75% room occupancy under a moderate scenario

TABLE 2 KEY METRICS – HOTEL ACCOMMODATION

	Scenario		
	Higher	Moderate	Conservative
# of double rooms	38	38	38
# of quad rooms	5	5	5
Avg # of people per double room	1.8	1.75	1.7
Avg # of people per quad room	3.9	3.8	3.7
# of double room visitors	68.4	66.5	64.6
# of quad rooms visitors	19.5	19.0	18.5
Nights available	365	365	365
Occupancy rate	80%	75%	70%
Room nights	12,556	11,771	10,987
Room rate – double rooms	\$325	\$325	\$325
Room rate – quad rooms	\$450	\$450	\$450
Total turnover of accommodation facilities (per annum)	\$4,263,200	\$3,996,750	\$3,730,300

Source: SGS, Harbord Hotel Holdings

TABLE 3 KEY METRICS – RETAIL AND FOOD EXPENDITURE

	Scenario		
	Higher	Moderate	Conservative
Room nights	12,556	11,771	10,987
Avg people per room	2.04	1.99	1.93
# of tourist nights	25,667	23,406	21,232
Average spend per tourist night ⁴	\$450	\$350	\$300
% new to Northern Beaches	75%	65%	60%
Total retail and food spending (per annum)	\$8,662,545	\$5,324,780	\$3,821,769
Accommodation & Food Services (50%)	\$4,331,273	\$2,662,390	\$1,910,885
Retail Trade (50%)	\$4,331,273	\$2,662,390	\$1,910,885

Source: SGS, Harbord Hotel Holdings

⁴ Assumed values of spending on food and retail in the local region per visitor night at Harbord Hotel.

Based on those metrics, the ongoing annual stimulus of the Hotel to the local economy once fully operational is estimated to generate a total of \$9.5 million in value add and support 94 full time equivalent jobs in the Accommodation and Food Services and Retail Trade industries under a moderate scenario. These scenarios are shown below in Table 4 in terms of output, employment and value added.

TABLE 4 SUMMARY OF ECONOMIC IMPACTS DURING THE OPERATING PHASE OF THE PROJECT (PER ANNUM)

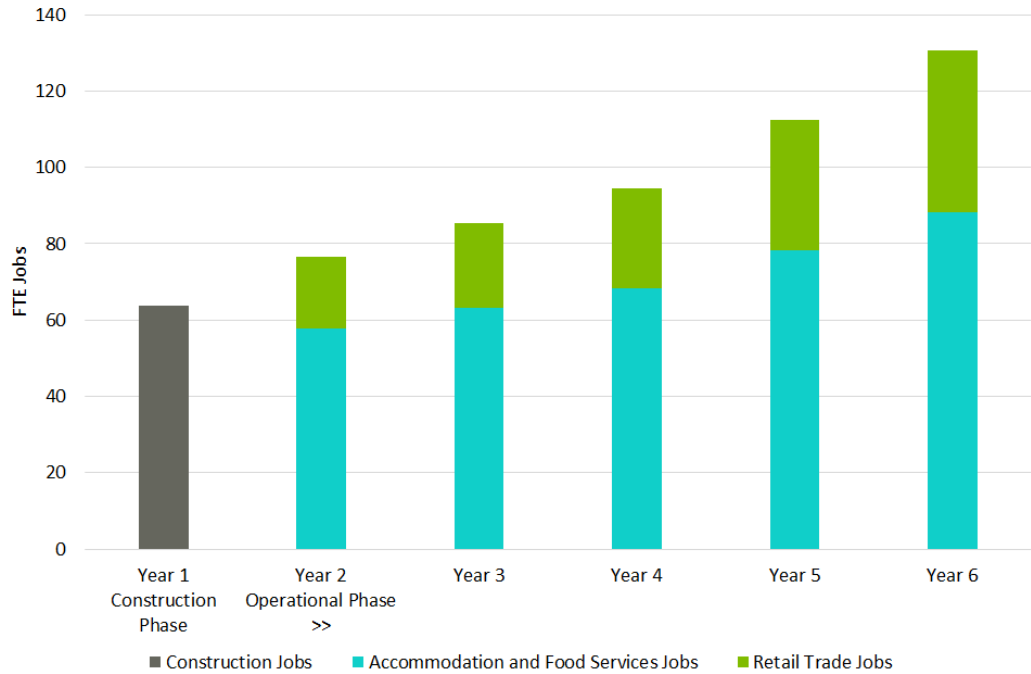
Scenario	Initial Spend (\$m)	Output Effect (\$m)	Employment Effect (Jobs)	Value Added Effect (\$m)
High	12.93	21.99	131	13.29
Moderate	9.32	15.85	94	9.53
Conservative	7.55	12.83	77	7.69

Source: SGS

Based on experience elsewhere, it is expected that expenditures, and therefore the economic impacts to the Northern Beaches local economy may initially be lower (approximate to the conservative scenario) and reach the higher levels estimated over time once the Hotel's market for its expanded facilities has matured. This maturation is likely to be rapid though, given the project is for an established facility, and the prevalent undersupply of formal short-term accommodation in the local region.

A possible growth trajectory of annual FTE jobs over one year of construction and a five year operating period is shown below in Figure 2.

FIGURE 2 EXPECTED ANNUAL FTE GROWTH TRAJECTORY FROM HARBORD BEACH PROJECT



Source: SGS

2.4 Caveats

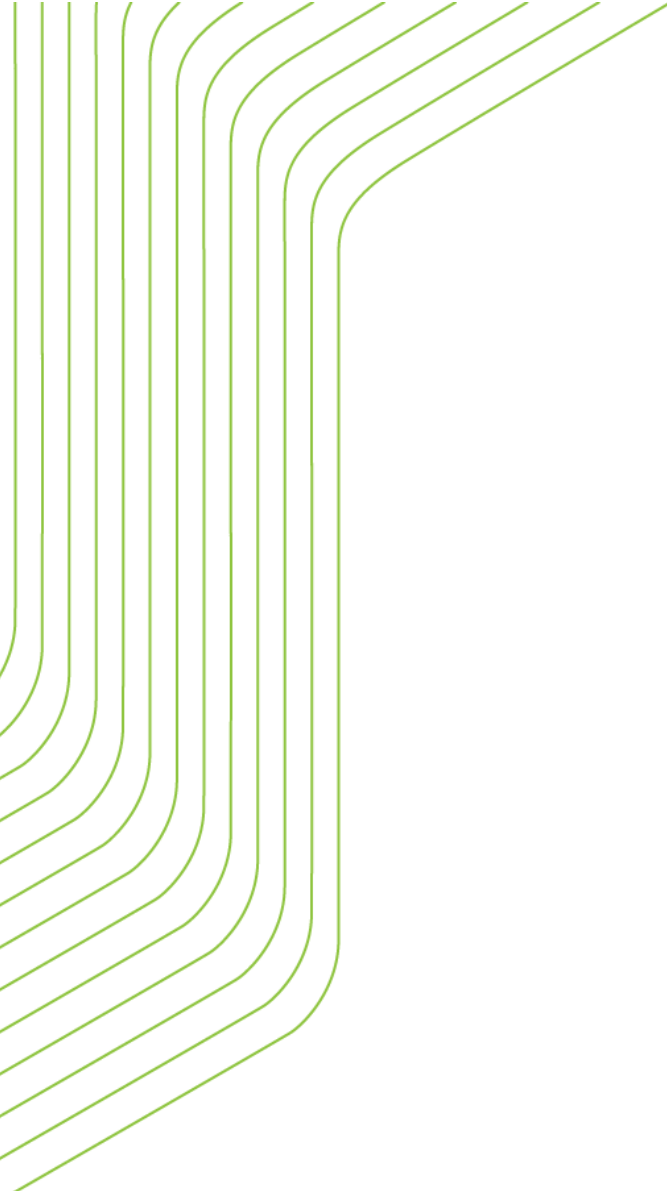
Though a cost-effective and widely used technique for economic impact analysis, I-O modelling has some limitations, as follows.

- The model assumes relationships between industries are static over the forecast period. That is, **productivity improvements are not factored in** and historic relationships are assumed to hold;
- The input output model derives relationships between industries using total production estimates. Consequently, the relationships are 'average', whereas the stimulus used as an input is 'marginal'. Such an approach **does not account for any 'underutilised capacity'** at the industry level or additional economies of scale that might ensue, as production expands from its existing base;
- The model assumes that there are **no supply constraints**. A drawback is that the model does not take into account the 'crowding out' of other sectors. This is recognition of the fact that there are scarce resources in an economy. Especially in the case of large construction projects there may be impacts in terms of availability of labour.

A feasible alternative to using I-O modelling for economic impact assessments is to utilise partial or general equilibrium econometric models. Having said this, general equilibrium models require an annual stimulus of >\$100 million before the impacts start to be measurable across the economy.

2.5 Conclusions

The Economic Impact Assessment (EIA) in this report has demonstrated that the proposed \$15 million investment into the refurbishment of the Harbord Beach Hotel facility is likely to generate significant benefits to the local Northern Beaches economy through its construction works, the ongoing stimulus of operating a short-term accommodation facility and the food and retail spending that is generated from the visitors of the hotel. This results in more jobs and greater levels of value added and output in the economy.



Contact us

CANBERRA

Level 2, 28-36 Ainslie Place
Canberra ACT 2601
+61 2 6257 4525
sgsact@sgsep.com.au

HOBART

PO Box 123
Franklin TAS 7113
+61 421 372 940
sgstas@sgsep.com.au

MELBOURNE

Level 14, 222 Exhibition St
Melbourne VIC 3000
+61 3 8616 0331
sgsvic@sgsep.com.au

SYDNEY

209/50 Holt St
Surry Hills NSW 2010
+61 2 8307 0121
sgsnsw@sgsep.com.au