

**BEFORE THE HEARINGS PANEL
FOR THE QUEENSTOWN LAKES PROPOSED DISTRICT PLAN**

IN THE MATTER of the Resource
Management Act 1991

AND

IN THE MATTER of Hearing Stream 09
- Resort Zones

**STATEMENT OF EVIDENCE OF TIMOTHY JAMES HEATH
ON BEHALF OF QUEENSTOWN LAKES DISTRICT COUNCIL**

RETAIL ECONOMIC MATTERS – JACKS POINT ZONE

17 January 2017

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1. INTRODUCTION

- 1.1 My full name is Timothy James Heath.
- 1.2 I am a Property Consultant, Retail Analyst and Urban Demographer for Property Economics Limited, based in Auckland. I hold a double degree from the University of Auckland:
- (a) Bachelor of Arts 1991 (Geography); and
 - (b) Bachelor of Planning 1993.
- 1.3 I am proprietor and founding director of Property Economics Limited, a consultancy providing property research services to both the private and public sectors throughout New Zealand. I have undertaken such work for 20 years, with the last 14 years of these as Managing Director of Property Economics Limited. I regularly appear before Council, Environment Court and Board of Inquiry hearings on retail economic matters.
- 1.4 I advise district and regional councils throughout New Zealand in relation to retail, industrial and business land use issues as well as strategic forward planning. I also provide consultancy services to a number of private sector clients in respect of a wide range of property issues, including retail economic impact assessments, commercial and industrial market assessments, and forecasting market growth and land requirements across all property sectors.
- 1.5 I am familiar with the Queenstown, Frankton Flats and wider Queenstown Lakes District (**District**) retail environment having undertaken detailed retail, commercial and industrial assessments across the District over the last 20 years. Much of this work involved assessing retail markets, distributional and economic effects of new development, and longer term strategic outlooks and implications for the purpose of forward land use planning. More recently, I provided retail economic evidence before the Environment Court in relation to the Plan Change 19 hearings (relating to Frankton Flats) in Queenstown.
- 1.6 Further to this, I have more recently assisted Christchurch City Council and Hamilton City Council in the successful development of appropriate policy settings within the Business Chapters of their 2nd Generation District Plans through hearing and Environment Court processes.

- 1.7** I have appeared before this Hearing Panel (**Panel**) once before as part of this Proposed District Plan (**PDP**) process in relation to the Business Chapters, specifically Hearing Stream 8 relating to the extent of retail and commercial office activity within the Local Shopping Centre Zone and Wanaka Airport.
- 1.8** Although this is a Council hearing, I confirm that I have read the Code of Conduct for Expert Witnesses contained in Environment Court Practice Note 2014 and that I agree to comply with it. I confirm that I have considered all the material facts that I am aware of that might alter or detract from the opinions that I express, and that this evidence is within my area of expertise, except where I state that I am relying on the evidence of another person.
- 1.9** I have now been engaged by the Queenstown Lakes District Council (**QLDC**) to provide evidence on retail economic matters specifically in relation to the Jacks Point Zone Chapter 41 of the PDP.
- 1.10** The key documents I have used, or referred to, in forming my view while preparing this brief of evidence are:
- (a) the Council's recommended position in its reply¹ on the Strategic Directions Chapter 3 of the PDP;
 - (b) Section 12 (the Resorts Zone chapter) of the Queenstown Lakes Operative District Plan (**ODP**); and
 - (c) notified Chapter 41 Jacks Point of the PDP, including the Structure Plan at Rule 41.7;
 - (d) the section 32 evaluation report for Chapter 41; and
 - (e) relevant definitions from Chapter 2 of the PDP.

2. EXECUTIVE SUMMARY

- 2.1** The key conclusions in my evidence are that:
- (a) in my view the ODP land provision of 15.07ha (for the Jacks Point Village) is more than sufficient to meet the 'at capacity' retail and commercial service requirements of the Jacks Point market;
 - (b) the Education Innovation Campus (**EIC**) precinct is better accommodated in the Jacks Point Village in order to improve the

¹ Reply of Matthew Paetz dated 7 April 2016 (Strategic Direction Chapter 3), Hearing Stream 1B

Village's vitality, amenity, vibrancy and viability with greater cross shopping propensity as a result of use of the Village by students and employees. The services and amenities provided by the Village would also be an important attribute in respect of business location criteria for EIC activities, and increasing the development potential of EIC activities in Jacks Point; and

- (c) although not raised in a submission, and therefore potentially not within scope as I understand, my recommended 2.2ha land requirement for retail and commercial service activity in Jacks Point Village includes a land allocation for a supermarket in the future. This is unlikely to be a pressing concern in the life of this District Plan, but in my view a supermarket will be able to be sustained by the Jacks Point market once 'at capacity' (or slightly beforehand), and therefore I have factored provision for such within my analysis. I also understand this store type would breach the 200m² individual tenancy cap for the zone, but my evidence focuses on the longer term implications and requirements of a fully developed Jacks Point.

3. ENABLING ADDITIONAL COMMERCIAL AND NON-RESIDENTIAL USE AT JACKS POINT

Notified Education and Innovation Campus (EIC) Activity Area

- 3.1** Under the PDP the use of the EIC is restricted as follows:

41.4.9.5 Education Innovation Campus (EIC) – The use of this area is restricted to technology based activities including commercial and medical research, laboratories, training, educational facilities, specialist health care and associated administrative, office, accommodation, retailing and recreation facilities.

- 3.2** This represents a broad range of land use activities that in my view go well beyond education and innovation, encompassing associated accommodation, retail, commercial and recreation facilities, i.e. activities that would compete directly with, and with equal comfort could be accommodated within the Jacks Point Village creating greater agglomeration benefits.

- 3.3** With regard to the retail economic issues of the EIC area, I have significant concerns over the lack of controls regarding retail provision within this activity area. As I understand the PDP, there is currently no maximum floor area for retail provision within this 13.23ha site but it does limit the size of the individual retail tenancies to 200m², and include a 10m height limit and up to 15m for commercial buildings. This EIC area has similar controls to the Jacks Point Village area whereby the only retail provision control is on the size of the individual tenancies, limiting them to 200m². With such loose rules regarding retail provision the EIC area could potentially be developed with retail activity nearly 90% of the size of the Jacks Point Village area itself.
- 3.4** The EIC land area combined with the proposed Jacks Point Village land area of 18.7ha total (as notified in the PDP), means that the total land area with no retail activity cap (just an individual tenancy cap) is nearly 32ha (13.23ha + 18.7ha). This is nearly twice the land area of the Queenstown Town Centre which clearly illustrates the extent of the retail potential within Jacks Point.
- 3.5** Omitting the allowance for retailing, the EIC precinct in my opinion would be more efficiently located within and/or adjacent to Jacks Point Village. This would allow a more integrated and synergetic relationship between land uses as students and employees could utilise and help sustain the village centre, while also increasing the amenities available to the student population of the EIC. It would also enable a more efficient development of land within Jacks Point, and of the associated Jacks Point Village and EIC activities. This is considered important given the extensive 18.7ha land area of the Jacks Point Village as notified.
- 3.6** Based on my reading of the EIC in the PDP, there is a broad range of activities that can be established and nothing really limiting an outcome contrary to the precinct's purpose given the wide range of non-education and innovation land uses that could be established. Such an outcome would in my view be contrary to the PDP higher order strategic objectives, which if developed as such would have the potential to cause significant adverse economic and retail effects on the existing commercial network of the District, particularly around the Queenstown / Frankton area and the Jacks Point Village itself.
- 3.7** As such, I do not support the EIC provision as notified in the PDP, and consider retail restrictions on the total quantum should be introduced to ensure

the existing centre network, and in particular Jacks Point Village, which is designed to service the same market, is not undermined and will remain the key retail and commercial focal point for the area.

- 3.8** I also understand that Education Area (E) is to provide education services in various locations within the Structure Plan as opposed to providing such activity within the existing Jacks Point Village area, in order to add vibrancy and success to the identified Education areas. Additionally, schools (except private schools) can seek resource consent or outline plan approval through the designation process within residential areas. Whilst not the focus of this evidence, the 'health' aspect of the Education Area is of concern to me with no limits and also 'health' activities are considered better located in and around centres (and often form important components of them).
- 3.9** Jacks Point Residential No.2 Limited (762) seeks that the Education Area be more flexible to enable healthcare facilities, and utilises 'vibrancy' and success' as justification for its proposed inclusion. However, this could come at the expense of Jacks Point Village. The Zone Purpose (41.1) envisages sustainable village areas, having longevity in their quality and built form. Any loss of this sustainability and longevity due to development elsewhere in Jacks Point represents an undermining of the Village, its development potential, and the potential economic and social wellbeing the village could afford the community.
- 3.10** Healthcare is a growing sector of the market as 'baby boomers' move into and through their retirement years. This sector and activity type is increasingly becoming an important component of local community facilities and services, and an integrated component of more localised centres. Siting these activities in centres is increasingly important for the centre and the consumer given cross-shopping opportunities and the social amenity it provides the older age cohorts. Essential services such as 'health' services can more efficiently and effectively be provided in one location rather than dispersed in multiple locales.

Woolshed Road Village

- 3.11** In addition to Jacks Point Village and the proposed EIC, Vivo Capital (789) has sought enablement for another new retail destination called Woolshed Road Village at the far northern end of the zone adjacent to the EIC. There was no

detail provided on the size of the proposed village area or the rules that would apply to the village, making it problematic to assess both its merit and potential retail economic effects. Additionally, there was no economic analysis provided in the submission to support the village, but given my view on the EIC in the preceding section, there appears no retail economic justification for enabling an additional Woolshed Road Village at this point in the PDP process. Without the requisite information, the submission lacks reasoning and justification.

4. PROPOSED JACKS POINT DEVELOPMENT AND RELEVANT CHANGES SOUGHT

- 4.1** In order to assess the merit and potential of the Jacks Point Village to be expanded from the 15.07ha in the Operative District Plan (**ODP**) to 18.7ha in the PDP (a net addition of around 3.63ha), it is first important to determine the level of convenience retail and commercial service demand 'at capacity' or based on a fully developed Jacks Point.
- 4.2** There appears to be general scope in the submissions from the Jacks Point Landowners,² Clive Geddes (540) and Tim and Paula Williams (601) who all seek the reinstatement of the ODP rules to not extend the village in the manner proposed in the PDP if there are good reasons for not doing so.
- 4.3** The following section of my evidence quantifies this demand for Jacks Point, which by default also assists in contextualising the retail potential of other areas in and around Jacks Point.
- 4.4** It is my understanding that the notified Jacks Point Residential development has an estimated residential development capacity of around 4,400 households within a total residential and visitor accommodation capacity estimated at 5,277.³ I have utilised the 4,400 residential 'at capacity' total for the purposes of my analysis given the different retail spending profiles (and retail demand generated) between usually resident households and visitor accommodation units. Therefore, utilising the 4,400 'at capacity' residential base is considered a more appropriate approach given my retail model includes visitor spending, and therefore avoids any double counting of visitor

2 Submitters 131, 246, 259, 284, 316, 547, 576, 582, 645, 647, 735, 802 and 787. This group of submitters is identified in section 9 of the s42A report by Vicki Jones for Chapter 41 Jacks Point dated 17 January 2017, as having lodged the same or similar submissions and sought identical relief.

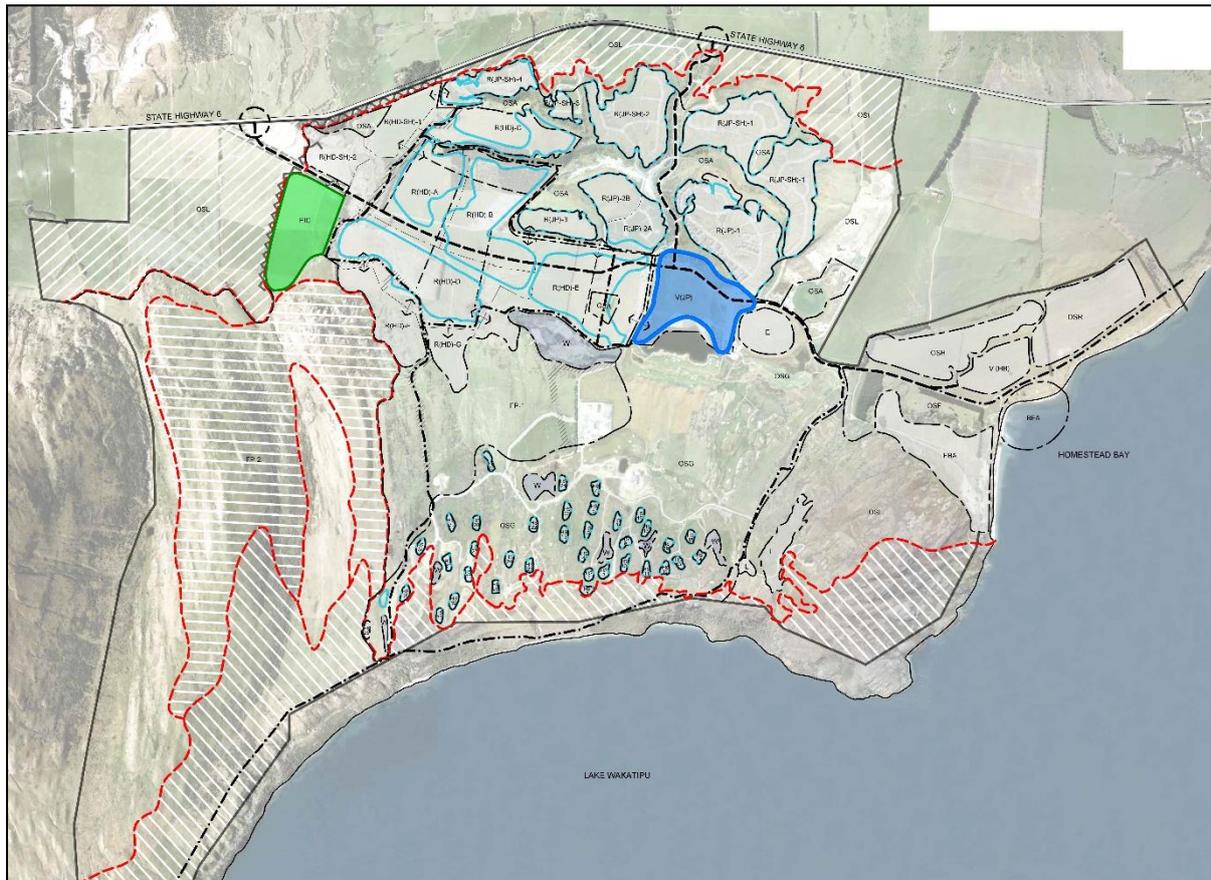
3 Refer to Appendix 6 of the s42A report by Vicki Jones for Chapter 41 Jacks Point dated 17 January 2017, noting that approximately 4,400 of the 5,277 units is estimated to be usually resident housing.

spending that would occur if the 5,277 figure was adopted for my analysis. This approach also apportions in the order of 17% (or nearly 880 units) of total Structure Plan capacity to visitor accommodation.

- 4.5** I also understand there is no density or hectare limit for residential activity in the village, which may elevate the 'at capacity' residential household total slightly, but unlikely to a level that would materially alter my conclusions.
- 4.6** Additionally, for the purpose of analysis a 74% residential dwelling occupancy rate has been assumed given the high propensity of holiday homes and short term rental properties that exist within the District.⁴ This leaves a full time usually occupied residential dwelling base of approximately 3,250 households (rounded) once Jacks Point is developed.
- 4.7** **Figure 1** illustrates the notified Structure Plan in 41.7, with the ODP Structure Plan area for the Jacks Point Village highlighted in solid blue and the PDP EIC area (referred to earlier) highlighted in solid green. Light blue lines indicate the boundaries of the ODP residential activity areas, while red lines indicate the boundaries of the PDP landscape protection overlay.

4 This is the usually occupied homes as a proportion of total homes in Queenstown (i.e. 26% usually vacant) as determined by Mr Osborne in his earlier economic evidence dated 14 September 2016 for the Residential Hearing Stream 6.

FIGURE 1: COMPARISON OF JACKS POINT STRUCTURE PLAN UNDER ODP AND PDP



Source: Property Economics, QLDC

5. APPROPRIATE LIMITS ON COMMERCIAL AND NON-RESIDENTIAL USE

- 5.1 Retail expenditure forecasts have been based on the aforementioned household capacity and occupancy rates for Jacks Point, and have been prepared using the Property Economics Retail Expenditure Model. A more detailed breakdown of the model and its inputs can be seen in **Appendix 1**.
- 5.2 For the purpose of analysis, retail expenditure and floorspace analysis has focused solely on the sectors of convenience and Supermarket retailing. These sectors represent a subset of the total retail market considered to be relevant to Jacks Point, given the limited population base and relatively isolated nature of the area. Property Economics considered it highly unlikely that any retail offer in Jacks Point would be able to play a higher order comparison role (e.g. like Remarkables Park or Five Mile) with an 'at capacity' residential household base of less than 4,500 households, meaning that at its fully developed scale it would only be able to support a medium sized supermarket and convenience retail and commercial service activities. In retail

economic terms, a 4,500 household base (or thereabouts) is not considered a large retail market.

- 5.3** To assess retail demand, Property Economics uses a sustainable footprint approach and forecasts the level of retail sector expenditure that is generated by the 'at capacity' residential market with consideration for outflows in local spending and inflows in tourism spending.
- 5.4** Typically, around 50% of convenience spending generated by a market is spent outside of the catchment area at other convenience and higher order centres and stores, though this proportion would be higher for the catchment at present given its lack of current provision. This occurs as shoppers will not only shop within their local catchment but across a range of locations most convenient to them or based on personal preference, accessibility and place of employment.
- 5.5** However, given that the proposed Jacks Point commercial centre is likely to be a tourism destination as well, it has been assumed that the outflow of convenience retail expenditure from local residents will be offset by the inflow of tourism dollars being spent within the proposed Jacks Point Village centre. Realistically, the level of tourism inflow is difficult to ascertain at this juncture, given it is dependent on a variety of unknown factors at this point including the size, brands, scale, scope, type and quality of provision to be developed within the village.
- 5.6** Convenience retailing can be generally defined as stores used for quick stop and frequently required shopping, used primarily due to their close proximity and easy accessibility for the customer. These stores are not exclusive to any one retail category with examples of such stores including dairies, bakeries, fruit and vegetable stores, cafes and restaurants. In order to provide a more detailed understanding of convenience retailing and the activities this encompasses, a more comprehensive list of convenience store types is provided in **Appendix 2**.
- 5.7** The figures below exclude the retail activities, as categorised under the ANZSIC⁵ classification system, of:

- (a) accommodation (hotels, motels, backpackers, etc);
- (b) vehicle and marine sales and services (petrol stations, car yards, boat shops, caravan sales, and stores such as Repco, Super Cheap Autos, tyre stores, panel beating, auto electrical and mechanical repairs); and
- (c) hardware, home improvement, building and garden supplies retailing (e.g. Mitre 10, Hammer Hardware, Bunnings, PlaceMakers, ITM, Kings Plant Barn, Palmers Garden Centres).

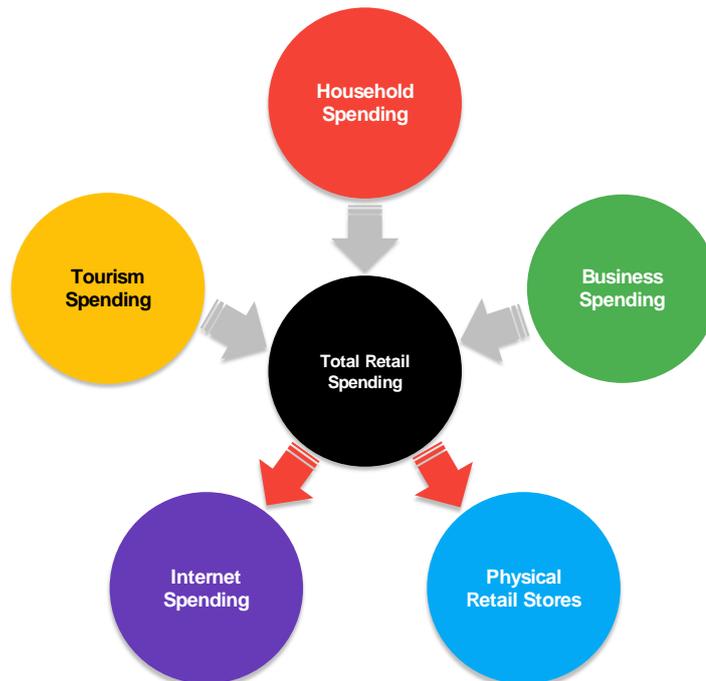
5.8 The above activities are not considered to be core retail expenditure, nor fundamental retail centre activities in terms of visibility, location, viability or functionality. The latter two bullet points contain activity types that generally have great difficulty establishing new stores in centres for land economic and site constraint reasons. The commercial reality is that for most of these activity types it would be unviable to establish new stores in centres, given their modern store footprint requirements, and untenable to remain located within them for an extended period of time (beyond an initial lease term) in successful centres due to property economic considerations such as rent, operating expenses, land value, and site sizes, for example.

5.9 Also excluded are trade based activities such as kitchen showrooms, plumbing stores, electrical stores, and paint stores, for similar reasons.

5.10 This is not to imply that these activity types are not situated in centres, as in many instances some of these land uses remain operating in centres as a historical overhang. However, moving forward it is increasingly difficult from a retail economic perspective to see these store types establishing stores in centres (new or redeveloped), albeit they likely have equal planning opportunity to do so.

5.11 The following flow chart in **Figure 2** provides a simple graphic representation of the Property Economics Retail Expenditure Model to assist in better understanding the methodology and key inputs utilised.

FIGURE 2: RETAIL EXPENDITURE MODEL PROCESS



Source: Property Economics

- 5.12** Growth in real retail spend has also been incorporated at a rate of 1% per annum over the forecast period. The 1% rate is an estimate based on the level of debt retail spending, interest rates and changes in disposable income levels, and is the average inflation adjusted increase in spend per household over the assessed period.
- 5.13** While the PDP outlines a maximum tenancy size for retail and commercial provision within Jacks Point Village at 200m² GFA, and a maximum tenancy size for retail only at 200m² in the proposed EIC, it is my professional opinion that given the scale of the residential development proposed 'at capacity', a large format food retailer (Supermarket) is appropriate to provide capacity for within Jacks Point Village. A general rule of thumb is that 5,000 households is enough to sustain a single modern full department supermarket. Jacks Point within a residential 'at capacity' base of around 4,400 (and 3,250 usually resident) is just below this level, but the wider surrounding market would push this household base slightly higher.
- 5.14** **Table 1** illustrates the total convenience and supermarket retail expenditure generated in the identified catchment (in 2016 dollars) and the resulting level of sustainable gross floor area (GFA) under the 'at capacity' development

scenario of around 3,250 usually resident households over 2016 – 2038, allowing for real retail growth over the forecast period.

TABLE 1: JACKS POINT RETAIL EXPENDITURE AND SUSTAINABLE GFA FORECAST

Retail Expenditure (\$m)	2016	2018	2023	2028	2033	2038
Convenience Retailing	\$16	\$16	\$16	\$17	\$17	\$18
Supermarket Retailing	\$26	\$26	\$27	\$28	\$28	\$29
Total	\$42	\$42	\$44	\$44	\$45	\$47

Sustainable GFA (sqm)	2016	2018	2023	2028	2033	2038
Convenience Retailing	1,800	1,800	1,800	1,900	1,900	2,000
Supermarket Retailing	3,000	3,000	3,100	3,200	3,200	3,400
Total	4,800	4,800	4,900	5,000	5,100	5,300

Source: Property Economics

5.15 **Table 1** shows that the current level of convenience retail expenditure generated by Jacks Point, if fully developed or 'at capacity' in 2016, would be around \$42m per annum, translating to sustainable GFA of around 4,800m², comprised of 1,800m² convenience and 3,000m² supermarket retailing.

5.16 By 2038, sustainable GFA is estimated to increase to 5,300m², due to growth in real retail and tourism expenditure (according to national trends).

5.17 It is important to note that the retail expenditure generated by the catchment does not necessarily equate to the sales of any retail stores within the market. Residents can freely travel in and out of the area, and they will typically choose centres with their preferred range of stores, products, brands, proximity, accessibility and price points.

5.18 Additionally, Commercial Service activity (this would include activity such as drycleaners, estate agencies, doctors, accountants, physiotherapists, etc – refer **Appendix 2**) has been excluded from **Table 1** (which relates to sustainable retail GFA only). **Table 2** below estimates the subsequent level of

land requirement from the aforementioned sustainable GFA levels, with additional provision for Commercial Service activity which has been estimated by an adopted 1:1 ratio of convenience retail to commercial service GFA. This ratio is typical for a centre of the size, role and function to that sustainable at Jacks Point (i.e. approximately half the centre is retail provision, and the other half commercial services). For the purposes of converting the estimated GFA provision into a land requirement, I have adopted a 50% ratio. This provides for an efficiently developed at grade provision allowing for carparking, landscaping and road berms.

5.19 This ratio excludes any additional activities such as from the EIC precinct, any recreational or urban parks, playground or community facilities e.g. library or community hall. I also realise that a large component of the village is likely to comprise visitor accommodation and high density residential,⁶ which are specifically provided for in this activity area. Any land allocation to these activities are additional to the land requirements identified below.

TABLE 2: LAND REQUIREMENTS

Land Requirement (sqm)	2016	2018	2023	2028	2033	2038
Convenience Retailing	3,500	3,500	3,600	3,700	3,800	3,900
Supermarket Retailing	6,100	6,000	6,200	6,300	6,500	6,700
Commercial Services	9,600	9,600	9,800	10,000	10,300	10,600
Total	19,200	19,100	19,600	20,000	20,600	21,200

Source: Property Economics

5.20 **Table 2** indicates that the 'at capacity' total land requirement for Retail and Commercial Service activities within the Jacks Point catchment equates to around 2.2ha if all the provision was developed at ground level. This is well below the 15.07ha area currently earmarked for the Jacks Point Village under the ODP, and 18.7 within the PDP. Furthermore, the 2.2ha provision could be reduced if a portion of the commercial services (generally office based services rather than store based services) were developed as part of a multi-

⁶ I understand that within the Village, residential and visitor accommodation is enables to an unlimited density – Rule 41.4.9.3.

contextualised by the Queenstown Town Centre. This additional area encompasses the rest of the Queenstown Town Centre geographically, highlighting my concern over the extent of commercial enablement within Jacks Point Village.

6. EFFICIENT DISTRIBUTION OF CENTRES AND NON-RESIDENTIAL USE

- 6.1** In terms of assessing potential effects under the Resource Management Act 1991 (**RMA**) there is first a need to differentiate between trade competition effects and flow-on retail distribution effects. Trade competition effects are the direct effects generated on one particular store and are typically generated by almost any new retail development to varying degrees.
- 6.2** By themselves trade competition effects do not provide the relevant justification for declining a retail application under the RMA, unless they are of a level that generates significant adverse flow-on retail distribution effects on the existing centre network of the area that materially affects any centre(s) function, role, amenity and vitality. It is within this broader context that the relative merits of any proposal, in terms of retail impacts, needs to be considered under the RMA.
- 6.3** Based on the retail analysis outlined in this evidence, the 'at capacity' population base of Jacks Point can comfortably sustain around 2.2ha of convenience retail and commercial service activity within its village. Developing a larger provision to this (i.e. larger than what the 'at capacity' market can sustainably support) would dilute the Jacks Point Village provision and performance, lowering the quality of the village offering and community amenity.
- 6.4** It is important to note that centres of different roles and functions often work complementary to one another, increasing efficiency through separation of retailing types (i.e. higher order 'comparison' retailing in the Queenstown Town Centre, Remarkables Park and Five Mile). Conversely, centres of similar roles and function directly compete against each other and should be located an appropriate distance from one another to maintain market efficiency and avoid unnecessary resource duplication, while complementary centres can be more closely located and operate within the same catchment.

6.5 For the notified Jacks Point Village, providing a supermarket and convenience activities complements the wider market network. Playing a supermarket based convenience role and function will enable the Jacks Point Village to better service its localised and visitor market in an efficient manner without adversely affecting higher order centres such as Remarkables Park and Five Mile, the most proximate centres within 5-minutes' drive. Enabling the development of a village that is larger than sustainable by its localised and visitor market (which by default will require diversion of a large volume of shoppers from other centres in the district) to play a broader role and function is likely to generate adverse retail distributional effects on Remarkables Park and Five Mile, and on Queenstown's market efficiency.

7. SUMMARY

7.1 On the basis that the Jacks Point Village already has more than sufficient allocation of developable land for the purposes of retail and commercial activity within the ODP, the proposal to increase the area from 15.07ha to 18.70ha in my opinion has no economic basis without any relevant retail or commercial caps in place. Any increase in the allocated area will increase the capacity for the notified Jacks Point Village to develop a retail and commercial provision of a scale and scope that would create tension with the PDP strategic directions objectives and would result in a level of enablement in the policy settings that seems unlikely to have been envisaged.

7.2 In my professional opinion, given the 15.07ha land allocation is already in the ODP, my recommendation would be to install retail and commercial activity caps to ensure the enablement of such activity is appropriately managed in the context of the PDP. The balance of the Jacks Point Village land (which is the vast majority of about 12.8ha under the ODP) can be utilised by other land uses that facilitates and supports both its development and ongoing vitality and amenity to the community such as high density residential, medical facilities, community facilities and EIC activities. This would provide a cluster of synergistic activities that would enable positive economic agglomeration benefits to be generated for the good of both the community and the village development itself.

7.3 In respect of commercial office potential within Jacks Point Village, as in my Local Shopping Centre Zone evidence dated 2 November 2016 (Business

Hearing Stream 8), I would recommend an individual tenancy cap of 200m2 for both consistency and surety of development outcomes.

- 7.4** The extension of Jacks Point Village proposed under the PDP to 18.7ha would only have merit in my view on the basis the EIC precinct was incorporated into the village area, and retail and commercial caps were incorporated into the Chapter 41 Jacks Point Resort Zone of the PDP. However, serious doubts remain in my mind about the veracity of the EIC concept being realised and demand for such activity to the extent envisaged, given the large land area involved.
- 7.5** No other material retail or commercial service offerings are required in either Jacks Point or Hanley Downs. Only the potential for a very small (few localised shops) within Hanley Downs is considered appropriate as in effect this market would be serviced by the Jacks Point Village convenience offer given its close proximity.



Timothy James Heath
17 January 2017

APPENDIX 1: PROPERTY ECONOMICS RETAIL EXPENDITURE MODEL

This overview outlines the methodology that has been used to estimate retail spend generated at Census Area Unit (CAU) level for the identified catchment out to 2033.

CAU 2013 Boundaries

All analysis has been based on Census Area Unit 2013 boundaries, the most recent available.

Permanent Private Households (PPH) 2013

These are the total Occupied Households as determined by the Census 2013. PPHs are the primary basis of retail spend generation and account for approximately 71% of all retail sales. PPHs have regard for (exclude) the proportion of dwellings that are vacant at any one time in a locality, which can vary significantly, and in this respect account for the movement of some domestic tourists.

Permanent Private Household Forecasts 2006-2033

These are based on Statistics NZ Census Area Unit (CAU) Medium Series Population Growth Projections and have been adjusted to account for residential building consent activity occurring between 2006 and 2015, with this extrapolated to the year of concern. This accounts for recent building activity, particularly important for the 5-10 year forecasts, and effectively updates Statistics NZ projections to reflect recent trends.

International Tourist Spend

The total international tourism retail spend has been derived from the Ministry of Economic Development Tourism Strategy Group (MEDTSG) estimates nationally. This has been distributed regionally on a 'spend per employee' basis, using regional spend estimates prepared by the MEDTSG. Domestic and business based tourism spend is incorporated in the employee and PPH estimates. Employees are the preferred basis for distributing regional spend geo-spatially as tourists tend to gravitate toward areas of commercial activity, however they are very mobile.

Total Tourist Spend Forecast

Growth is conservatively forecast in the model at 2% per annum for the 2015-2033 period.

2016-2033 PPH Average Household Retail Spend

This has been determined by analysing the national relationship between PPH average household income (by income bracket) as determined by the 2013 Census, and the average PPH expenditure of retail goods (by income bracket) as determined by the Household Economic Survey (HES) prepared by Statistics NZ.

While there are variables other than household income that will affect retail spending levels, such as wealth, access to retail, population age, household types and cultural preferences, the effects of these are not able to be assessed given data limitations, and have been excluded from these estimates.

Real Retail Spend Growth (excl. trade based retailing)

Real retail spend growth has been factored in at 1% per annum. This accounts for the increasing wealth of the population and the subsequent increase in retail spend. The following explanation has been provided.

Retail Spend is an important factor in determining the level of retail activity and hence the 'sustainable amount' of retail floorspace for a given catchment. For the purposes of this outline 'retail' is defined by the following categories:

- Food Retailing
- Footwear
- Clothing and Softgoods
- Furniture and Floor coverings
- Appliance Retailing
- Chemist
- Department Stores
- Recreational Goods
- Cafes, Restaurants and Takeaways
- Personal and Household Services
- Other Stores.

These are the retail categories as currently defined by the ANZSIC codes (Australia New Zealand Standard Industry Classification).

Assessing the level and growth of retail spend is fundamental in planning for retail networking and land use within a regional network.

Internet Retail Spend Growth

Internet retailing within New Zealand has seen significant growth over the last few decades. This growth has led to an increasing variety of business structures and retailing methods including; internet auctions, just-in-time retailing, online ordering, virtual stores etc.

As some of internet spend is being made to on-the-ground stores, a proportion of internet expenditure is being represented in the Statistics NZ Retail Trade Survey (RTS) while a large majority remains unrecorded. At the same time this expenditure is being recorded under the Household Economic Survey (HES) as a part of household retail spending, making the two datasets incompatible. For this reason, Property Economics has assumed a flat 5% adjustment percentage on HES retail expenditure, representing internet retailing that was never recorded within the RTS.

Additionally, growth of internet retailing for virtual stores, auctions and overseas stores is leading to a decrease in on-the-ground spend and floor space demand. In order to account for this, a non-linear percentage decrease of 2.5% in 2016 growing to 9% by 2031 has been applied to retail expenditure encompassing all retail categories in our retail model. These losses represent the retail diversion from on-the-ground stores to internet based retailing that will no longer contribute to retail floor space demand.

Retail Spend Determinants

Retail Spend for a given area is determined by: the population, number of households, size and composition of households, income levels, available retail offer and real retail growth. Changes in any of these factors can have a significant impact on the available amount of retail spend generated by the area. The coefficient that determines the level of 'retail spend' that eventuates from these factors is the MPC (Marginal Propensity to Consume). This is how much people will spend of their income on retail items. The MPC is influenced by the amount of disposable and discretionary income people are able to access.

Retail Spend Economic Variables

Income levels and household MPC are directly influenced by several macroeconomic variables that will alter the amount of spend. Real retail growth does not rely on the base determinants changing but a change in the financial and economic environment under which these determinants operate. These variables include:

Interest Rates: Changing interest rates has a direct impact upon households' discretionary income as a greater proportion of income is needed to finance debt and typically lowers general domestic business activity. Higher interest rates typically lower real retail growth.

Government Policy (Spending): Both Monetary and Fiscal Policy play a part in domestic retail spending. Fiscal policy, regarding government spending, has played a big part recently with government policy being blamed for inflationary spending. Higher government spending (targeting on consumer goods, direct and indirectly) typically increases the amount of nominal retail spend. Much of this spend does not, however, translate into floor space since it is inflationary and only serves to drive up prices.

Wealth/Equity/Debt: This in the early-mid 2000s had a dramatic impact on the level of retail spending nationally. The increase in property prices has increased home owners' unrealised equity in their properties. This has led to a significant increase in debt funded spending, with residents borrowing against this equity to fund consumable spending. This debt spending is a growth facet of New Zealand retail. In 1960 households saved 14.6% of their income, while households currently spend 14% more than their household income.

Inflation: As discussed above, this factor may increase the amount spent by consumers but typically does not dramatically influence the level of sustainable retail floor space. This is the reason that productivity levels are not adjusted but similarly inflation is factored out of retail spend assessments.

Exchange Rate: Apart from having a general influence over the national balance of payments accounts, the exchange rate directly influences retail spending. A change in the \$NZ influences the price of imports and therefore their quantity and the level of spend.

General consumer confidence: This indicator is important as consumers consider the future and the level of security/finances they will require over the coming year.

Economic/Income growth: Income growth has a similar impact to confidence. Although a large proportion of this growth may not impact upon households' MPC (rather just increasing the income determinant) it does impact upon households' discretionary spending and therefore likely retail spend.

Mandatory Expenses: The cost of goods and services that are necessary has an impact on the level of discretionary income that is available from a household's disposal income. Important factors include housing costs and oil prices. As these increase the level of household discretionary income drops reducing the likely real retail growth rate.

Current and Future Conditions

Retail spend has experienced a significant real increase in the early-mid 2000s. This was due in large part to the increasing housing market. Although retail growth is tempered or crowded out in some part by the increased cost of housing it showed significant gains as home owners, prematurely, access their potential equity gains. This resulted in strong growth in debt / equity spending as residents borrow against capital gains to fund retail spending on consumption goods. A seemingly strong economy also influenced these recent spending trends, with decreased employment and greater job security producing an environment where households were more willing to accept debt.

Over the last 7 years this has now reversed with the worldwide GFC recession taking a grip. As such, the economic environment has undergone rapid transformation. The national market is currently experiencing low interest rates (although expected to increase over this coming year) and a highly inflated \$NZ (increasing importing however disproportionately). Now emerging is a rebound in the property market and an increase in general business confidence as the economy starts to recover from the post-GFC hangover. These factors will continue to influence retail spending throughout the next 5 or so years. Given the previous years' (pre-2008) substantial growth and high levels of debt repayment likely to be experienced by New Zealand households it is expected that real retail growth rates will continue to be subdued for the short term.

Impacts of Changing Retail Spend

At this point in time a 1% real retail growth rate is being applied by Property Economics over the longer term 20-year period. This rate is highly volatile however and is likely to be in the order of 0.5% to 1% over the next 5 – 10 years rising to 1% - 2% over the more medium term as the economy stabilises and experiences cyclical growth. This would mean that it would be prudent in the shorter term to be conservative with regard to the level of sustainable retail floor space within given centres.

Business Spend 2013

This is the total retail spend generated by businesses. This has been determined by subtracting PPH retail spend and Tourist retail spend from the Total Retail Sales as determined by the Retail Trade Survey (RTS) which is prepared by Statistics NZ. All categories are included with the exception of accommodation and automotive related spend. In total, Business Spend accounts for 26% of all retail sales in NZ. Business spend is distributed based on the location of employees in each Census Area Unit and the national average retail spend per employee.

Business Spend Forecast 2013-2033

Business spend has been forecasted at the same rate of growth estimated to be achieved by PPH retail sales in the absence of reliable information on business retail spend trends. It is noted that while working age population may be decreasing as a proportion of total population, employees are likely to become more productive over time and therefore offset the relative decrease in the size of the total workforce.

APPENDIX 2: CONVENIENCE STORE TYPES

Note this is not intended to represent an exhaustive list of convenience store types

EXAMPLES OF CONVENIENCE RETAIL STORE TYPES

- Superette / Dairy / Mini-mart / supermarkets
- Fish shop
- Butcher
- Bakery
- Post Shop / Stationery
- Fruit & Vege Shop
- Delicatessen
- Cake Shop
- Ice Cream Parlour
- Liquor / Wine Shop
- Takeaways (Fish & Chips, Pizza, Chinese, Thai, Turkish, Indian, etc.)
- Cafés & Restaurants
- Newsagent
- Pub / Bar
- Florist
- Gift Shops
- Pharmacy

EXAMPLES OF CONVENIENCE COMMERCIAL / PROFESSIONAL SERVICE ACTIVITIES

- Optometrist
- Locksmith
- Hairdresser
- Drycleaners
- Doctors
- Accountants
- Physiotherapists
- Medical practitioners
- Dentists
- Child care facilities
- Gym
- Lawyers
- Estate agencies