

**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 13 –
Queenstown Mapping
Annotations and Rezoning
Requests

**REBUTTAL STATEMENT OF EVIDENCE OF PHILIP OSBORNE
ON BEHALF OF QUEENSTOWN LAKE DISTRICT COUNCIL**

COMMERCIAL OFFICE AND INDUSTRIAL LAND

7 July 2017

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1. INTRODUCTION

1.1 My name is Philip Mark Osborne. I am an Economic Consultant for the company Property Economics Ltd, based in Auckland.

1.2 My qualifications and experience are set out in paragraphs 1.2 to 1.4 of my evidence in chief.

1.3 I confirm that I have read the Code of Conduct for Expert Witnesses contained in the Environment Court Practice Note and that I agree to comply with it. I confirm that I have considered all 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.

2. SCOPE OF EVIDENCE

2.1 In this statement of rebuttal evidence, I will respond to the evidence of:

- (a) Mr Michael Copeland for Grant Hylton Hensman, Sharyn Hensman & Bruce Herbert Robertson, Scope Resources Ltd, Grant Hylton Hensman & Noel Thomas van Wichen and Trojan Holdings Ltd (361); and
- (b) Mr Christopher Ferguson for Hansen Family Partnership, Universal Developments, FII Holdings, Jandel Trust and Arnott (751, 847, 399, 717, 177).

2.2 In responding to the above evidence I have given particular consideration to the potential economic impacts of the submitters' positions.

2.3 The fact that this rebuttal statement does not specifically respond to every matter raised in the evidence of submitter witnesses within my area of expertise should not be taken as acceptance of the matters raised.

3. EVIDENCE OF MR MICHAEL COPELAND

- 3.1 The evidence of Mr Copeland is provided in support of a proposed Coneburn industrial zone of some 19.46ha located near the base of the Remarkables.
- 3.2 The evidence of Mr Copeland outlines the need for additional industrial land capacity within the District. I agree with his high level assertions. However, I do not agree with the provisions within the proposed zone that allow for office activity as a restricted discretionary activity, and further believe that ancillary office activity should be limited in its proportional quantum.
- 3.3 Matters on which I agree with Mr Copeland's evidence include:
- (a) the concept of economic efficiency in resource allocation and its application under the Resource Management Act 1991 (**RMA**);
 - (b) it is appropriate to consider the economic well-being of the Queenstown Lakes District (**District**) when assessing a potential rezoning of this magnitude (additionally therefore it is important that this is considered in the context of the Council's strategic direction);
 - (c) there is economic justification for 'land use controls', or regulations due to the externalities present in the market. Some of these impacts, not considered by the market, are outlined in my evidence in chief at paragraphs 5.18 and 5.19;
 - (d) the District has seen growth in both resident population and employment (in most sectors) that has exceeded national rates and is expected to continue to grow at an 'above average' rate, being recognised in the National Policy Statement on Urban Development Capacity 2016 (**NPS-UDC**) as a high-growth urban area; and
 - (e) based on the projections and current capacity estimates in my evidence in chief, it is possible that the District will face a shortfall of industrially zoned land by 2030.

- 3.4** In his evidence Mr Copeland references several sources of industrial projections and capacity, including scenarios developed in a report by McDermott Miller.¹ Each of these assessments (including my own) indicate that industrial growth would exceed industrial land capacity within the next 20 years. Mr Copeland then proceeds to describe factors that may accelerate this shortfall, including the shifting of activities onto industrial land such as trade based activities. It is important to note that in the assessment undertaken by Property Economics a pragmatic approach is adopted where these trade activities are considered in the forecast demand calculations. Additionally, as part of the assessment of 'latent' demand in my evidence in chief those activities that are not currently located on industrial land but would typically be included.
- 3.5** Mr Copeland raises several other factors in his paragraphs 4.14 to 4.22 that he identifies as potential benefits of the rezoning of the Coneburn site. While I would agree with the principle behind these factors, they are factors that could apply to any proposed rezoning at any level. While these factors, such as competition, are important it is also important to consider the environment in which these factors exist. If competition were independent of the wider environment and economic costs, then economies would simply continue to supply land in the hope that this would make them more competitive. However, it is important to understand that while competition is an important factor in the efficient operation of a market, inappropriate levels of competition and supply can undermine the competitiveness of a market completely.
- 3.6** Similarly, Mr Copeland's discussion on property value effects indicate a 'netting out' for the community (that is, the overall effect on the community is neutral). I agree that consideration of property value effects includes the impact on amenity, and so should not be counted again in this loss. However, whether this impact is 'realised' or not through the ultimate sale of a property, it does still remain an economic loss to the community, whether in intangible value or in terms of net wealth (and ability to finance etc).

1 Review of District Plan Business Zones Capacity and Development of Zoning Hierarchy; McDermott Miller Strategies Limited in association with Allan Planning and Research, 2013.

- 3.7** Some of the potential costs have been addressed by Mr Copeland in his paragraph 6.13, in considering the risks associated with potential oversupply in paragraph 6.19 of my evidence in chief. In assessing these potential risk factors of oversupply, Mr Copeland assumes that additional industrial land is required, therefore, as can be seen in his paragraph 6.13 each of the potential oversupply risks are mitigated. I agree that if, as it appears through my evidence beyond 2030 is the case, this site is required to meet future industrial land requirements that the general risk factors indicated in my evidence are unlikely to transpire.
- 3.8** More specifically, it is also important to consider the provisions sought under the proposed rezoning. These are outlined in part in Mr Copeland's discussion of the Section 42A report in his paragraphs 6.1 to 6.5. Paragraph 6.4 of Mr Copeland's evidence addresses three issues in the section 42A report regarding the provisions around gym and childcare facilities (on which I agree with Mr Copeland's views), office activity, and trade retailers. The provision of community facilities, such as those indicated here, as non-complying is unlikely to result in material economic costs.

Office activity as a restricted discretionary activity

- 3.9** The provisions under which office activity can be developed within the proposed Coneburn zone are important, as this could result in inappropriate types and levels of activity that could impact upon the remaining efficiencies of the planned network. The provision of ancillary office activity within an industrial zone is routine and necessary for the effective operation of businesses within the zone. However, this provision must be managed to avoid the market developing unanticipated and inappropriate activities. As indicated in my evidence in chief, as the price and activity within commercial zones has increased, the market has expressed greater levels of pressure on other zones to develop commercial operations. It would therefore be necessary to restrict the level of ancillary office associated with the primary industrial operation. This alleviates such issues as larger corporate offices (e.g. national headquarters) developing next to smaller industrial activities.

- 3.10** It is therefore important to limit the size of any ancillary office to the level of industrial activity it operates in conjunction with. Nationally, this level typically ranges from 10 to 25%.
- 3.11** The provision for offices as restricted discretionary activities in the proposed Coneburn industrial zone, based on its reliance on foot traffic, represents an economic risk to existing commercial zones and centres. Commercial office activity within existing centres is not predicated on foot traffic and relies on medium and large commercial operations to achieve vitality, vibrancy and agglomeration benefits. A key issue with industrial land provision within the District is competition from inappropriate activities. The activities proposed to be restricted discretionary are wholly inappropriate and will only seek to reinforce inappropriate industrial and prices and an inefficient market. The restricted discretionary criteria provide no safeguard on the economic costs associated with this activity.

Trade suppliers

- 3.12** While it is inappropriate for general retail activity to locate and compete for industrially zoned land, trade suppliers do not offer the same amenity value of general retailers that is necessary to support the vibrancy and vitality of centres within the District. As such, the provision for trade suppliers within this industrial zone is unlikely to result in any economic costs or risks to the economic well-being of the community. Alternatively, cafes and food and beverage services do create amenity and are fundamental components of most centres. These services also provide for convenience and locationally driven demand and so a smaller proportion of these activities are necessary to service local populations of either residents, visitors or workers. The latter is the source of demand within industrial areas and it is efficient to provide such activities here. However, it is also prudent that these activities be restricted so as to only meet the demand from the intended source. It is often prudent to restrict the quantum of overall space provided for such activities.

3.13 My own evidence in chief illustrates a potential industrial land shortage in the Queenstown Lakes District beyond 2030. It is appropriate to provide for this shortfall in a timely manner. The evidence of Mr Copeland accepts this need. However, while agreeing with the need for industrial land I do not agree with the provision of office activity within this zone as a restricted discretionary activity, as it will potentially undermine existing centres and perpetuate the disequilibrium currently experienced in the District's industrial market.

4. EVIDENCE OF MR CHRISTOPHER FERGUSON

4.1 The planning evidence of Mr Ferguson supports the proposed rezoning to Business Mixed Use (**BMU**) sought by Hansen Family Partnership, Universal Developments, FII Holdings, Jandel Trust and Arnott at Hansen Road / Frankton-Ladies Mile Highway.

4.2 In my view, the evidence of Mr Ferguson does not address economic issues pertaining to the rezoning. Nor does the evidence provide justification for the rezoning of additional commercial land, given the planned capacity and vacant land areas as well as the associated economic costs and risks.

4.3 In terms of economic issues Mr Ferguson's evidence identifies the requirement for the Council to provide sufficient commercial land capacity for the next 20 years (Policy 4.5.1(a)).

4.4 In his paragraph 6.3 he identifies that the Council is required to undertake an assessment of the business capacity requirements in the District and the ability for the District to efficiently meet this requirement. While this is, as identified, an ongoing process my evidence in chief has set out this process for commercial land demand and capacity. Table 12 of my evidence in chief outlines the demand estimates for commercial offices for the next 20 year period. Based on an average new commercial development of 2 storeys (the current average of all commercial office development is 1.7 storeys with the development of new space expected to be more intense), this equated to commercial office demand of 12 hectares by 2038.

- 4.5** The evidence in chief of Mr Heath for the Council in this hearing stream expanded on these projections, including the sectors for retail and commercial service demand. When considering a currently vacant level of commercially zoned business land of approximately 72 hectares, Mr Heath concludes in paragraph 7.5 of his evidence that there is sufficient existing capacity (while meeting NPS-UDS guidelines) to meet the expected demand.
- 4.6** Mr Ferguson has not established a need for the additional rezoning but contends that the proposed rezoning will facilitate this sufficiency. It is clear from the Council's evidence that there is currently sufficient capacity to enable an efficient market.
- 4.7** Paragraphs 5.18 and 5.19 of my evidence in chief outlined the potential economic costs and risks associated with the oversupply of business land. As outlined above, while the NPS-UDC directs Councils to provide sufficient business land, they do so for the efficient operation of the business market. While risks exist to efficiency through the under provision of business land, similarly the NPS does not suggest continued rezoning for business activities as this potential oversupply comes at a cost.
- 4.8** In the case of the BMU zone sought at Hansen Road / Frankton-Ladies Mile Highway, the potential costs are similar to those set out in Mr Ferguson's paragraphs 5.18 and 5.19. While the evidence of Mr Copeland addressed these in the context of his client's rezoning, the underlying premise for his position was the need for further industrial land capacity. This is not the same situation for commercial land. As outlined, the rezoning of commercial land comes at a cost. If the cost of rezoning additional commercial land is not balanced against benefits, that are unique to the rezoned land (i.e cannot be accrued elsewhere for land that is already zoned) then it has the potential to cause a net cost to the community, as well as representing additional risks.

4.9 For BMU these risks can include:

- (a) undermining of existing centre viability and amenity;
- (b) high marginal infrastructure maintenance costs;
- (c) failure to capture agglomeration benefits;
- (d) inappropriate land prices (these often led to underutilisation, inability to finance capital improvements and establishment of inappropriate competition);
- (e) investment uncertainty through low relative demand and price fluctuations;
- (f) reduced redevelopment (reduction in feasibility of building alterations, due to no impetus to reinvest and lower equity to capitalise);
- (g) low amenity at a District level through decreased densities; and
- (h) reduced public transport efficiencies (as a result of redirecting growth away from planned areas).

4.10 In my view, the evidence of Mr Ferguson does not address the economic considerations of the proposed change, and has not established the need for the additional BMU zone or the potential mitigation of the economic costs and risks associated with it.

5. PROFESSOR SIMON MILNE AND MR JOHN BALLINGALL FOR QUEENSTOWN PARK LTD (QPL, 806) AND REMARKABLES PARK LTD (RPL, 807)

5.1 I have undertaken a high level review of the economic evidence of Professor Simon Milne and Mr John Ballingall for QPL and RPL. At a general level I agree with the approach undertaken in assessing the potential benefits in terms of economic activity to the District's economy.

5.2 In assessing the economic impacts associated with the proposed gondola, both Professor Milne and Mr Ballingall have outlined the potential level of economic activity likely to result from the construction and operation of the gondola. However, as outlined in paragraph 3.1(a) of Professor Milne's evidence, there are inevitably

costs associated with this proposal. Professor Milne's paragraphs 5.13 and 5.14 also indicate the potential costs associated with construction and operation. It is prudent to understand the potential economic benefits (and in this case, quantify them).

5.3 However, in my view it is equally important, in an environment representing a high level of Outstanding Natural Features, to understand the level of economic risk associated with developing in these areas and the wider economic (primarily tourism based) value that is reliant on the quality and integrity of these natural assets.



Philip Osborne

7 July 2017