

**BEFORE THE HEARINGS PANEL
FOR THE PROPOSED QUEENSTOWN LAKES 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

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

COMMERCIAL LAND REQUIREMENTS

24 May 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 two degrees from the University of Auckland:
- (a) Bachelor of Arts 1991 (Geography); and
 - (b) Bachelor of Planning 1993.
- 1.3 I am the 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 15 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 and forward land use planning matters.
- 1.4 I advise district and regional councils throughout New Zealand in relation to retail, industrial and business sector issues as well as strategic land use 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**) commercial environments having undertaken detailed retail, commercial and industrial market assessments across the District over the last 20 years. Much of this work involved assessing commercial markets, distributional and economic effects of new development, and longer term strategic outlooks and implications for the purpose of forward land use planning and policy development. 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 recently assisted Christchurch City Council and Hamilton City Council in the successful development of appropriate

policy settings within the Business Chapters of their second Generation District Plans through independent hearing and Environment Court processes.

- 1.7** I have appeared before this Hearing Panel (**Panel**) four times before as part of this Proposed District Plan (**PDP**) process, three times for Queenstown Lakes District Council (**QLDC**), specifically Hearing Stream 8 relating to the extent of retail and commercial office activity within the Local Shopping Centre Zone and Wanaka Airport, Hearing Stream 9 relating to Resort Zones (specifically Jacks Point Village), and Hearing Stream 12 relating to retail and economic matters in the Cardrona Valley Road Local Shopping Centre Zone. I have also appeared once for Bunnings Limited in relation to Chapter 2 (Definitions).
- 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 QLDC to provide evidence on retail economic and commercial activities (being professional services and offices), specifically in relation to future long term (30 year or 2048) land requirements factoring in National Policy Statement on Urban Development Capacity (**NPS UDC**) long term buffer directive of 15%.
- 1.10** All references to PDP provision numbers, are to the Council's Reply version of those provisions (unless otherwise stated).

2. SCOPE

2.1 In this evidence I set out the key findings from my analysis on commercial land (retail, service and office activities) needs of Queenstown, the Wakatipu Basin, and Wanaka (together, the **District**), that are relevant to Queenstown.

2.2 This process involved:

- (a) reviewing the existing business / commercial zones and the current supply of business zoned land (in the PDP where notified in Stage 1, and otherwise under the Operative District Plan) in the Queenstown, Wakatipu, and Wanaka areas of the District (i.e. land where retail, service and office activities are permitted to be established);
- (b) estimating vacant commercially zoned land 'available' to meet future demand (including enabled capacity under the PDP including the land supplied at Frankton Flats);
- (c) comparing projected demand for commercially zoned land over the 2017-2048 period, using population / household, business and tourism spending, and adopting the office land requirements determined by Mr Osborne to determine a total land requirement for commercial activities in the District; and
- (d) interpreting the results of this analysis.

3. EXECUTIVE SUMMARY

3.1 Key findings from my evidence are that:

- (a) the District has a total commercial land provision estimated at 135.5ha, of which 69% (93.5ha) is situated within the Wakatipu Ward;
- (b) in respect of vacant commercial land (i.e. vacant capacity), the District has a total of 71.7ha, split 4.9ha in Wakatipu Ward and 25.1ha in Wanaka; and
- (c) estimated additional commercial land demand out to 2048 for retail, non-retail commercial services and office activities,

is estimated at 89ha, with 63ha in Wakatipu Ward and 26ha in Wanaka; and

- (d) the District commercial land demand / supply differential indicates no additional commercial land is required to be zoned in Wanaka to meet commercial growth requirements to 2048, while the Wakatipu Ward has an estimated commercial land shortfall of 16.1ha by 2048. However, the analysis indicates there is sufficient commercial land provision in the Wakatipu Ward to meet projected commercial land demand requirements over the next 20 years, and it is not until the longer term 20-30 year timeframe before additional commercial land might be required in this ward.

4. QUEENSTOWN LAKES DISTRICT POPULATION AND OCCUPIED DWELLING GROWTH

- 4.1** The population and occupied dwelling projections utilised for the retail and commercial growth modelling in this analysis are the growth projections completed by Rationale for the QLDC, February 2017 updated version. These projection series have been relied upon by Council and their experts in other chapters of the PDP as they represent growth projections specific to the District factoring in the unique growth drivers of the district.
- 4.2** The economic catchment utilised for analysis is the Queenstown Lakes District territorial authority area. This is the area which the PDP and QLDC has jurisdiction over, and which the PDP policy framework relates to.
- 4.3** **Table 1** provides a consolidated snapshot of the District population and occupied dwelling growth projections as determined by Rationale covering the period 2018-2048.

TABLE 1: QUEENSTOWN LAKES DISTRICT GROWTH PROJECTIONS

Population	2018	2028	2038	2048	Net Growth # (2018 - 2048)	Net Growth % (2018 - 2048)
Wakatipu Ward	25,557	32,627	38,330	43,846	18,289	72%
Wanaka Ward	12,491	16,650	19,736	22,509	10,018	80%
Queenstown Lakes District	38,048	49,277	58,066	66,355	28,307	74%

Occupied Dwellings	2018	2028	2038	2048	Net Growth # (2018 - 2048)	Net Growth % (2018 - 2048)
Wakatipu Ward	9,825	12,575	14,903	17,250	7,424	76%
Wanaka Ward	5,181	6,949	8,289	9,517	4,336	84%
Queenstown Lakes District	15,006	19,524	23,192	26,767	11,760	78%

Source: Rationale, QLDC

- 4.4** For the purpose of this analysis, year 2018 is classified as current (colour coded blue), year 2028 is classified as medium term (coded green), years 2038 - 2048 are classified as longer term (colour coded red), and net growth over the assessment period (nominal and percentage net growth) is colour coded black.
- 4.5** Nominally, the population in the District is projected to increase to nearly 66,400 people (rounded) by 2048. In 2018, the District is estimated to have a usually resident population base of around 38,000 people, with this figure forecast to experience net growth of around 28,300 people by 2048. This represents a level of net growth equivalent to a nearly 75% base population increase over the assessed period.
- 4.6** In terms of composition, the Wakatipu Ward accommodates just over two thirds of the District population base at present, with this portion projected to fall marginally over the forecast period due to Wanaka's

population base projected to grow at a slightly faster proportional rate (albeit from a lower base).

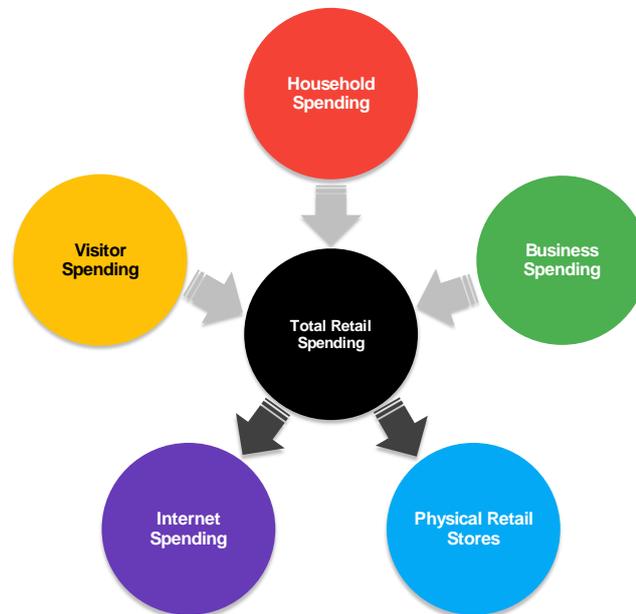
- 4.7** By 2048, over three in every five people residing in the District will be based in the Wakatipu Ward (approximately double Wanaka Ward's 2048 population base). This indicates the Wakatipu Ward will remain the largest and most dominant commercial market within the District for at least the first half of this century, and is likely to remain the focal point of the District's commercial offering and land provision.
- 4.8** Occupied dwellings within the District are projected to experience an increase of around 11,800 over the forecast period to around 26,800 by 2048. This is equivalent to growth in the District occupied dwelling base over the period of around 78% net, and equates to an average rate of growth of 390 occupied dwellings per year over the assessed period (split 250 per annum in Wakatipu Ward and 140 per annum in Wanaka Ward rounded).
- 4.9** The phenomenon of the number of occupied dwellings is increasing at a faster rate than the population due to a projected fall in the person per dwelling ratio over the forecast period. This is not isolated to the study area, but a trend projected to occur across the whole country due to an aging population, smaller families and a higher proportion of 'split' or single parent households.

5. QUEENSTOWN LAKES DISTRICT RETAIL MARKET

Retail Expenditure

- 5.1** This section assesses the current and future retail market within the District. Annualised retail expenditure forecasts have been based on the population and occupied dwellings growth projections outlined above in **Table 1** and are in 2018 New Zealand dollars. These retail expenditure forecasts have been prepared using the Property Economics Retail Expenditure Model. A more detailed description of the model methodology and its inputs can be seen in **Appendix 1**.

5.2 The following flow chart provides a graphical representation of Property Economics' Retail Model, to assist in better understanding the methodology and key inputs utilised.



5.3 Growth in real retail spend has also been incorporated at a rate of 1% per annum over the forecast period in the Property Economics Retail Expenditure Modelling. 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 inflation adjusted increase in spend per household over the assessed period.

5.4 Tourism retail expenditure growth has been estimated at a long term national rate of 3% of annum with a notable proportion of this attributed to the District based on historic trends sourced from the Ministry of Business, Innovation and Employment.¹ This is particularly the case in Queenstown Lakes District where the influence of tourism spend is marked, and currently is estimated to equate to around 66% of total retail spend in the district.

Layered Catchments

5.5 It is important to note that the retail expenditure generated in the identified market does not necessarily equate to the level of sales

¹ <http://www.mbie.govt.nz/info-services/sectors-industries/tourism/tourism-research-data/tourism-satellite-account>

within the market. Residents can freely travel in and out of their local area, and they will typically choose the centres with their preferred range of stores, products, brands, proximity, accessibility and price points. Accordingly, a good quality centre will attract customers from beyond its core market, whereas a low quality centre will experience retail expenditure leakage out of its core market.

5.6 For that reason, it is appropriate for modern retail markets to be assessed on the basis of 'layered catchments'. This is where consumers spread their retail spending across a wider spectrum of centres, with the majority of their 'higher order' spend going to 'higher order' centres (predominantly large scale regional or main metropolitan shopping centres). Meanwhile, convenience spend remains more localised, triggering a layering of centre catchments across the district. In other words, a consumer could be in the primary catchment of numerous centres, not just one.

5.7 Therefore, the retail expenditure generated in the Queenstown Lakes District represents the sales that centres or retail stores within the District could potentially achieve and the key influence on what the market can potentially sustain. This should not be interpreted as a negative for Queenstown, it simply represents normal commercial market mechanisms, and is a consideration that needs to be appropriately accounted for in any retail analysis regarding the District's future, given the existing planning and commercial framework. It should be noted that given the District's tourism focus it has a high degree of retail inflow from both international and domestic visitors outside of the District, which has been accounted for within the forecasts.

Excluded Activities

5.8 The retail expenditure figures in **Table 2** are in 2018 New Zealand dollars and *exclude* the following retail activities, as categorised under the Australia New Zealand Standard Industrial Classification (**ANZSIC**) categorisation system:

- (a) accommodation (e.g. hotels, motels, backpackers);

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

5.9 The above retail sectors have been excluded because they are not generally considered to be core retail centre expenditure, nor fundamental retail centre activities in terms of visibility, location, viability or functionality. Modern retail centres do not rely on these types of stores to be viable or retain their role and function in the market as such stores have the potential to generate only non-consequential trade competition effects rather than flow-on retail distribution effects. Therefore, the retail centre network's economic wellbeing and social amenity cannot be unduly compromised.

5.10 Trade oriented activities such as kitchen showrooms, plumbing stores, electrical stores and paint stores are also excluded from the model for similar reasons. This is not to imply that these activity types are not situated in centres, as in many instances some of these store types remain operating in centres as an historical overhang.

5.11 However, in future, it is increasingly difficult from a retail economic perspective to see these store types establishing in centres (new or redeveloped), albeit they likely have equal planning opportunity to do so. Some of these trade stores may also contain a subservient proportion of retail sales to the general public. This is considered unlikely to change in the foreseeable future and therefore they remain trade stores rather than classified as a retail store. As such demand for these store types is additional to the retail demand assessed in this analysis.

Sustainable Retail Floorspace within the District

- 5.12** Finally, it is necessary to separate the Gross Floor Area (**GFA**) into:
- (a) net retail floorspace (**Sustainable Floorspace**); and
 - (b) back office floorspace that does not generate any retail spend (**Back Office Floorspace**).
- 5.13** This analysis uses a sustainable footprint approach to assess retail demand. Sustainable Floorspace in this context refers to the level of floor space proportionate to an area's retainable retail expenditure that is likely to result in an appropriate quality and offer in the retail environment. This does not necessarily represent the 'break even' point, but a level of sales productivity (\$/sqm) that allows retail stores to trade profitably and provide a good quality retail environment, and thus economic wellbeing and social amenity.
- 5.14** The net retail floor area of a store only includes the area that displays the goods and services sold, and represents the area to which the general public has access. By contrast, the Gross Floor Area typically represents the total area leased by the retailer.
- 5.15** Back Office Floorspace in a retail store is the area used for storage, warehousing, staff room, office, toilets and other 'back office' uses. These activities, on average, occupy around 25-30% of a retail store's Gross Floor Area. It is important to separate out such back office floorspace from Sustainable Floorspace because Back Office Floorspace does not generate any retail spend.
- 5.16** **Table 2** below sets out the District's (and Ward's) annualised retail expenditure and sustainable retail floorspace for the assessed period to 2048 at 10-yearly intervals.

TABLE 2: QUEENSTOWN LAKES DISTRICT RETAIL EXPENDITURE (\$M) AND SUSTAINABLE GFA (SQM) PROJECTIONS

Retail Expenditure	2018	2028	2038	2048	Net Growth # (2018 - 2048)	Net Growth % (2018 - 2048)
Wakatipu Ward	\$765	\$1,009	\$1,295	\$1,495	\$730	95%
Wanaka Ward	\$303	\$403	\$516	\$594	\$291	96%
Queenstown Lakes District	\$1,069	\$1,412	\$1,811	\$2,089	\$1,021	96%

Sustainable GFA (sqm)	2018	2028	2038	2048	Net Growth # (2018 - 2048)	Net Growth % (2018 - 2048)
Wakatipu Ward	134,547	177,363	227,497	262,826	128,280	95%
Wanaka Ward	53,377	71,047	90,728	104,572	51,195	96%
Queenstown Lakes District	187,924	248,409	318,225	367,399	179,475	96%

Source: Property Economics

- 5.17** Within the District's market, there is currently just under \$1.1b in annual retail expenditure generated by the market across all store types. This annual market expenditure is projected to increase to around \$2b annually by 2048, equating to growth of around 96%.
- 5.18** The Wakatipu Ward currently generates just over 70% of the District's estimated retail expenditure, with a total of \$765m per annum. Growth within this market of total annual retail expenditure is estimated to increase to nearly \$1.5b per annum by 2048. The Wanaka Ward generates the balance (just over \$300m in annual retail expenditure), with this level projected to increase to nearly \$600m annually by 2048.
- 5.19** The Wakatipu Ward generates annual retail expenditure levels around 150% more than Wanaka on an annualised basis.
- 5.20** The District currently generates enough retail expenditure to sustain around 188,000sqm of retail GFA. This is forecast to nearly double by 2048 to an estimated 367,000sqm.

5.21 As identified above, the Wakatipu Ward generates significantly more retail expenditure (demand) on an annualised basis than the Wanaka Ward, and as a result can sustain a higher level of retail GFA. The Wakatipu's retail market currently generates enough retail expenditure to sustain just under 135,000 sqm, with this forecast to nearly double over the next three decades to just under 263,000 sqm by 2048. The Wakatipu Ward is clearly the dominant commercial destination within the District and for efficiency reasons should have a commercial land provision commensurate with this demand.

5.22 The Wanaka Ward currently generates enough retail expenditure to sustain around 53,000 sqm of retail GFA, this is also forecast to increase to almost 105,000 sqm by 2048.

6. QUEENSTOWN LAKES DISTRICT RETAIL AND COMMERCIAL LAND SUPPLY

6.1 **Table 3** provides a breakdown of the current District commercial land provision by zone as provided by QLDC. These are based on the zoned land areas (in the PDP where notified in Stage 1, and otherwise under the Operative District Plan), ratings database (for determining vacancy levels) and known development pipelines for finer grain Special Zone areas where not all of the 'Special Zone' land area will be utilised for retail and commercial activities.

6.2 **Table 3** splits the current commercial land provision within the District by Ward and zone, and the level of occupied, vacant and total land provision within each zone. This builds a detailed picture of the supply of commercial land geospatially to better match current supply with future commercial land demand requirements as projected.

TABLE 3: QUEENSTOWN LAKES DISTRICT RETAIL AND COMMERCIAL ZONED LAND AREA

Zone Name	Wakatipu Ward			Wanaka Ward			Queenstown Lakes District		
	Occupied	Vacant	Total	Occupied	Vacant	Total	Occupied	Vacant	Total
QTC - Queenstown Town Centre	14.8	0.9	15.7				14.8	0.9	15.7
PC-50	0.5	13.6	14.1				0.5	13.6	14.1
Business Mixed Use Zone	12.8		12.8	6.0	2.3	8.3	18.8	2.3	21.1
WTC - Wanaka Town Centre				10.8	0.1	10.9	10.8	0.1	10.9
ATC - Arrowtown Town Centre	1.3		1.3				1.3		1.3
LSC - Fernhill		0.1	0.1					0.1	0.1
LSC - Sunshine Bay		0.2	0.2					0.2	0.2
LSC - Frankton		2.9	2.9					2.9	2.9
LSC - Hansen Rd		1.8	1.8					1.8	1.8
LSC - Cardrona Valley Rd					2.7	2.7		2.7	2.7
LSC - Albert Town				1.2		1.2			
LSC - Lake Hawea				0.5	0.3	0.8			
Glenorchy Township	1.0	1.0	2.0				1.0	1.0	2.0
Luggate Township				1.0	0.3	1.3	1.0	0.3	1.3
Subtotal	30.4	20.5	50.9	19.4	5.8	25.2	48.1	26.0	74.1
Special Zones	Occupied	Vacant	Total	Occupied	Vacant	Total	Occupied	Vacant	Total
Frankton Flats	5.0	7.4	12.4				5.0	7.4	12.4
Remarkables Park	10.1	12.6	22.7				10.1	12.6	22.7
Three Parks					15.0	15.0		15.0	15.0
Jacks Point Zone (Jacks Point Village)	0.6	1.5	2.1				0.6	1.5	2.1
Jacks Point Zone (Homestead Bay Village)		2.1	2.1					2.1	2.1
Millbrook Resort Zone	0.5	0.5	1.0					0.5	0.5
Kingston Village		2.0	2.0					2.0	2.0
Mt Cardrona					2.7	2.7		2.7	2.7
Shotover Country		0.3	0.3					0.3	0.3
Northlake					1.6	1.6		1.6	1.6
Subtotal	16.2	26.4	42.6		19.3	19.3	15.7	45.7	61.4
Total	46.5	46.9	93.5	19.4	25.1	44.5	63.8	71.7	135.5

Source: Property Economics, QLDC

6.1 Current zoned capacity for retail and commercial activity within the District is assessed at 135.5ha at present, of which an estimated

71.7ha (53%) is vacant or remains available to be utilised for commercial activities.

6.2 The Wakatipu Ward comprises 93.5ha of commercial land (69%) of the District total, of which an estimated 46.9ha (50%) is either vacant or remains to be utilised for commercial activities at present. Large contributors to vacant supply of commercial land in Wakatipu include Remarkables Park (estimated 12.6ha vacant) and the PC50 portion of the Queenstown Town Centre (estimated 13.6ha vacant / available for commercial use).

6.3 The Wanaka Ward comprises 44.5ha of commercial land with an estimated 25.1ha (56%) vacant. The largest contributor is Three Parks with an estimated 15ha vacant for commercial activities.

7. QUEENSTOWN LAKES DISTRICT RETAIL AND COMMERCIAL LAND DEMAND VS SUPPLY

7.1 **Table 4** shows the estimated commercial land requirements for the District by ward, for the forecast period 2048. The land requirements determined in this section includes areas such as car parks, outdoor amenities, landscaping, and walkways, and therefore is a gross land requirement. An average 45% GFA to land ratio has been assumed for this estimation.

7.2 Based on experience of auditing hundreds of retail centres and markets across the country over the last 20 years, it is considered appropriate to assume that non-retail commercial services (such as hairdressers, drycleaners, therapists, medical practitioners, banks, estate agencies, tourism activities, etc.) comprise around half of a retail centres total floorspace, and only around half of these activities are estimated to operate 'at grade' / ground level. The other half of this floorspace is typically accommodated above the ground floor in multi-level buildings, likely with retail at grade. This in effect halves the at grade land requirement for these activities.

7.3 Projected demand for commercial office activity is additional to retail and non-retail commercial service demand and has been derived

from the analysis of Mr Osborne.² Like non-retail commercial service activity, the projected commercial office demand has also been assumed to be accommodated by both at-grade and multi-storey premises at a 1:1 ratio, i.e. for every 100sqm of commercial office activity located at-grade, 100sqm is assumed will be accommodated above the ground floor. This equates to a two storey commercial office average across the District.³

7.4 **Table 4** summarises the retail and commercial land requirements of the District based on forecasted demand. A 15% buffer has also been included as part of the NPS UDC long term planning requirements (in Policy PC1).

TABLE 4: QUEENSTOWN LAKES DISTRICT ADDITIONAL COMMERCIAL LAND REQUIREMENTS (2018 - 2048)*

Additional Land Requirements (ha)	Wakatipu Ward	Wanaka Ward	Queenstown Lakes District
Retail	28.5	11.4	39.9
Non-Retail Commercial Activities	14.3	5.7	20.0
Office Activity	12	5.5	17.5
Subtotal	54.8	22.6	77.4
NPS (15%)	8.2	3.4	11.6
Total Commercial Demand	63.0	26.0	89.0
Vacant Land Supply	46.9	25.1	71.7
Differential	-16.1	-0.9	-17.3

Source: Property Economics, QLDC

*Figures have been rounded

7.1 Projected demand for the three assessed commercial sector activity types to 2048 (retail, non-retail commercial activities and office) equates to additional net land requirements of 39.9ha retail, 20.0ha non-retail commercial activities and 17.5ha office, plus an additional 11.6ha for the NPS UDC long term buffer.

2 Mr Phil Osborne Evidence in Chief, Industrial and Commercial Office Projections for QLDC, Hearing Stream 13.

3 For context, recent office reviews in Christchurch and Wellington that Property Economics have been involved in, showed an average office provision of 1.8 levels and 2.3 storeys respectively.

- 7.2** Cumulatively, this equates to an estimated total forecast net commercial land requirement for the District of 89.0ha. This is split 63.0ha in the Wakatipu Ward and 26.0ha in the Wanaka Ward.
- 7.3** The Wanaka Ward has an estimated 25.1ha of vacant / available to be utilised commercial land provision, which when assessed against the Ward's commercial land demand profile of 26.0ha, indicates a negligible 0.9ha residual land shortfall. Such a small differential would not be realised until the end of the 30 year assessment period, and in practise represents a broad state of equilibrium with commercial land supply meeting projected commercial land demand (including the NPS UDC buffer).
- 7.4** A slightly different situation presents itself in the Wakatipu Ward with vacant commercial supply (46.9ha) not sufficient to accommodate estimated commercial land demand by 2048 (63.0ha), resulting in an estimated shortfall of 16.1ha. This represents 93% of the District's estimated commercial land shortfall and highlights (geospatially) that additional commercial land supply is likely to be required by 2048. This 16.1ha shortfall equates to 17% of current commercial land supply in Wakatipu Ward.
- 7.5** This analysis shows the District has sufficient commercial land capacity enabled within the PDP to meet estimated commercial land demand over the next 20 years, while the Wanaka Ward supply is sufficient for 30 years. It is only the Wakatipu Ward that is estimated to require additional commercial land provision over the long term (20-30 years' timeframe) including the NPS UDC buffer.



Timothy Heath
24 May 2017

APPENDIX 1: PROPERTY ECONOMICS RETAIL EXPENDITURE MODEL (REM)

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 Occupied Household Forecasts 2006-2048

These are based on Rationale Area Unit (CAU) Medium Series Population Growth Projections, with this extrapolated to the year of concern.

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 3% per annum for assessed period.

2016-2048 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 5% in 2016 growing to 15% by 2048 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 8 years this has now reversed with the worldwide GFC recession causing a significant adjustment in consumer behaviour. 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

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 2013-2048

Business spend has been forecasted at the same rate of growth estimated to be achieved by PPH retail sales in the absence 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.