

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

IN THE MATTER of the Resource
Management Act 1991

AND

IN THE MATTER Hearing Stream 12 –
Upper Clutha Mapping
Annotations and
Rezoning Requests

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

**RETAIL / ECONOMIC MATTERS RELATING TO
CARDRONA VALLEY ROAD LSCZ**

17 March 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 also a member of The Property Council of New Zealand and 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 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 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 hearing and Environment Court processes.

- 1.7** I have appeared before this Hearing Panel (**Panel**) three times before as part of this Proposed District Plan (**PDP**) process. Twice for QLDC, specifically Hearing Stream 8 relating to the extent of retail and commercial office activity within the Local Shopping Centre Zone and Wanaka Airport, and Hearing Stream 9 relating to Resort Zones (specifically Jacks Point Village), and 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 the Queenstown Lakes District Council (**QLDC**) to provide evidence on retail economic matters specifically in relation to determining the appropriate extent (appropriate land area) of the proposed Cardrona Valley Road Local Shopping Centre Zone (**LSCZ**) for retail and commercial activities.
- 1.10** References to **[CB]** are to the Council's bundle of documents. The key documents that 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 Right of Reply for the Strategic Directions chapter 3 of the PDP **[CB39]**;
 - (b) notified Chapter 15 Local Shopping Centre Zone, and recommended chapter in the s42A report **[CB60]**;
 - (c) the s42A **[CB60]** and Right of Reply for Local Shopping Centre Zone Chapter 15 dated 13 December 2016 **[CB61]**;
 - (d) Reply Chapter 15 dated 13 December 2016 **[CB12]**;
 - (e) my previous statement of evidence for Hearing Stream 8 Business Zones (relevant to Local Shopping Centre Chapter 15) dated 2 November 2016 **[CB66]**; and

- (f) the section 32 Evaluation Report by McDermott Consultants dated March 2014 for the LSCZ chapter.¹

1.11 When I refer to PDP provisions, I am referring to the Council's right of reply version of the PDP, as included in the Council's Bundle (unless stated otherwise).

2. EXECUTIVE SUMMARY

2.1 The key findings from my evidence in relation to the Cardrona Valley Road LSCZ are:

- (a) I consider a maximum convenience retail and commercial service activity provision of 3,000m² gross floor area (**GFA**) is appropriate;
- (b) in terms of an appropriate land provision, the sustainable GFA of 3,000m² translates into a land requirement of around 0.7ha efficiently developed land within the Cardrona Valley Road LSCZ. This excludes any provision for other land uses such as community facilities, recreational areas, reserves, playgrounds, etc. with any land allocation for these uses additional to the 0.7ha; and
- (c) Willowridge Developments Limited (249), in Attachment 2 to their submission, seek relief to reduce the size of the Cardrona Valley Road LSCZ from an original 2.7ha to an unidentified scale. I agree that the extent of the Cardrona Valley Road LSCZ should be reduced in size, and assess the reduction in land area to 0.7ha as appropriate.

3. BACKGROUND AND RELEVANT SUBMISSIONS

3.1 I provided evidence in the Business zone hearing stream on discrete issues relating to the Local Shopping Centre Zone (**LSCZ**). I believe in response to my evidence it became evident that there were issues with the notified extent of the LCSZ and the lack of controls within it. It became apparent that the submissions relating to the LSCZ at Cardrona

¹ Peter Gordon Development Retail Assessment, Cardrona Valley Road, Wanaka, McDermott Consultants, s32
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Valley Road were intrinsically related to the size of the zone itself, and the Council sought for those submitters to be given an opportunity to be heard in the mapping hearing stream.²

- 3.2** Consequently the submissions of the Pinfolds and Satomi (622), Susan Meyer (274) and further submissions Aspiring Lifestyle Retirement Village (FS1101) and Wanaka Lakes Health Centre (1212) were transferred to this hearing stream so that they could be heard alongside the submission points of Willowridge Development Ltd (249) and Mr Ledgerwood (507), which seek to reduce the extent of the Cardrona Valley Road LSCZ.³

John Polkinghorne – for Gordon Family Trust (FS1193)

- 3.3** In Hearing Stream 8 Mr John Polkinghorne provided economic evidence seeking to retain the zone extent as notified and to provide for 2 larger sites/tenancies within the zone, retail activities of 400m² GFA (rather than the notified 300m² GFA) and either no limit on the GFA of office activities or a limit of 400m² (rather than the notified 200m²).
- 3.4** As the question of appropriate provisions for the Cardrona Valley Road LCSZ have been transferred to this hearing from Hearing Stream 8, I briefly respond to Mr Polkinghorne's evidence here (although I appreciate he has an opportunity to provide evidence through this hearings process as well).
- 3.5** Mr John Polkinghorne considers 400m² GFA is a more appropriate tenancy size maximum in the LSCZ and considers this is more consistent with the PDP. I disagree with 'scale' being an important focus of the zone as it is the convenience natures of the retail services that are anticipated within the LSCZ. The 400m² GFA threshold is well above the average convenience store size and is likely to require a significant proportion of a store's sales to be derived from customers who reside beyond the local area to remain viable.

Report (March 2014).

2 Minute directing that certain submissions be transferred to mapping hearings dated 2 December 2016.

3 Minute directing that certain submissions be transferred to mapping hearings dated 2 December 2016, at paragraph 8.

- 3.6** Mr Polkinghorne in his evidence also considers fashion store activities should be able to go into LSCZ to satisfy tourist demand. That rationale is flawed in my view as local residents are just as likely (if not more likely) to shop at a local fashion store as well. Using tourists as validation for his opinion in my opinion masks the real potential effects that would affect the district and duplicates one of the core functions of higher order centres in the network such as Wanaka, Queenstown and Arrowtown. This proposal also needs to be considered with Mr Polkinghorne's 400m² maximum GFA threshold in the LSCZ, which means large fashion would be able to establish in the LSCZ. This would require such stores having to attract custom from extensive areas to remain viable, creating a strong tension with the intent of the zone.
- 3.7** Furthermore, Mr Polkinghorne promotes mobile phone stores and homeware store types as appropriate for the LSCZ. These store types do not sell convenience / frequently required goods, or day-to-day requirements, and as such I do not consider these types of stores as convenience retailers nor are they appropriate for the LSCZ. They are store types that are important to the function and amenity of larger town centre.
- 3.8** In relation to the Cadrona Valley LSCZ, Mr Polkinghorne promotes a 1,500m² supermarket and another large store of up to 750m² GFA as appropriate. No detailed analysis is provided to justify his position. I disagree these store sizes are appropriate given their scale and the close proximity of the Cadrona Valley LSCZ site to the Wanaka and Three Parks centres, which also have a convenience role in the market. They also service the same market as the Cadrona Valley LSCZ. This proposition by Mr Polkinghorne would represent duplication of resources within the same market, and undermine the Wanaka and Three Parks centre function.
- 3.9** Mr Polkinghorne also promotes a 400m² GFA office provision in the LSCZ (a business of this size could accommodate up to 20 employees). He then goes further for the Cadrona Valley LSCZ by stating no office cap at all is required. He provides no relevant evidence to support his view, and no economic evidence on the implications of such a policy setting. In my view office activity of this scale goes well beyond the

intent and purpose of the LSCZ, and potentially could end up with an outcome that looks nothing like a local convenience centre.

- 3.10** Overall, Mr Polkinghorne appears to be promoting a range of activities in the LSCZ that better represents a wider centre zone than a reworked LSCZ, particularly at the Cardona Valley LSCZ. He has also failed in my view to consider the appropriate policy context and has not considered the wider economic implications of his proposed policy settings when assessed against the entire LSCZ across the district. Mr Polkinghorne promotes large fashion stores, homeware stores, banks, cellphone stores, 1500m² supermarket, and large offices (with no limit in Cardona Valley). This in my view sounds more like a town centre, not a LSCZ centre as intended by the PDP policy framework. The LSCZ provisions are very clear about wanting 'small scale' and 400m² is not that, in my view.

4. LOCATION AND EXTENT OF CARDRONA VALLEY ROAD LSCZ

- 4.1** The location of the land subject to the notified Cardrona Valley Road LSCZ in the context of the Wanaka market is shown in **Appendix 1**. The land is situated 3-4 minutes' drive, and around 2km from the Wanaka Town Centre. It is also within similar proximity to the zoned but yet to be developed Three Parks Centre as well. This means any retail and commercial service activity developed within the Cardrona Valley Road LSCZ will compete with, and falls within the Wanaka and Three Parks centre catchments, given its close proximity (i.e. they are in effect all competing in the same market).

5. LOCAL SHOPPING CENTRE ZONE

- 5.1** To guide my evaluation, I first have given consideration to the relevant LSCZ **[CB12]** objectives and policies of the PDP, and the intended purpose of the LSCZ. These are as follows (relevant extracts only and may not be representative of the entire purpose, objective or policy).
- 5.2** The LSCZ purpose states:

*The **Local Shopping Centre Zone** enables small scale commercial and business activities in discrete pockets of land that are accessible to residential areas and people in transit.*

The zone seeks to reduce the necessity for people to travel longer distances to town centres to purchase convenience goods and access services. Due to the nature of the Zone's locations in predominantly residential environments, Zone standards limit the potential adverse effects on residential amenity and discourage the establishment of inappropriate activities. Visitor accommodation and residential activities are provided for in the Zone, adding to the vibrancy and viability of the Zone, whilst contributing to the diversity of the housing options enabled by the District Plan.

5.3 In essence, I understand that the zone seeks the enablement of people to purchase convenience goods and services without the requirements to travel (potentially) greater distances to larger (town) centres.

5.4 The Zone Purpose clearly distinguishes small scale commercial and business activities from other commercial activities. Larger commercial activities are not identified in the Zone Purpose as being encouraged or enabled. This reinforces to me that the LSCZ is focused on providing for small scale commercial activities.

5.5 Objective 15.2.1 states:

***Objective** - Local Shopping Centres provide a focal point for a range of activities that meet the day to day needs of the community and **are of a limited scale** that supplements the function of town centres. (my emphasis added in bold)*

5.6 This objective is supported by Policies 15.2.1.1, 15.2.1.2 and 15.2.1.4, which state:

Policy 15.2.1.1 - Provide for a diverse range of activities that meet the needs of the local community, enable local employment opportunities and assist with enabling the economic viability of local shopping centres.

Policy 15.2.1.2 – Ensure that local shopping centres remain at a small scale that does not undermine the role and function of town centres.

Policy 15.2.1.4 – Avoid individual retail activities exceeding 300m² gross floor area and individual office activities exceeding 200m² gross floor area that would adversely affect the:

- a. retention and establishment of a mix of activities within the local shopping centre;*
- b. role and function of town centres and commercial zones that provide for large scale retailing; and*
- c. safe and efficient operation of the transport network.*

5.7 Objective 15.2.2 states:

Objective – Buildings respond to the existing character, quality and amenity values of their neighbourhood setting.

5.8 Policy 15.2.2.1 states:

*Policy 15.2.2.1 - Control the height, **scale**, appearance and location of buildings in order to achieve **a built form that complements the existing patterns of development and is consistent with established amenity values** (my emphasis added in **bold**).*

5.9 These objectives and policies demonstrate that small scale buildings and activities are anticipated within the LSCZ. This is reinforced, as Objective 15.2.2 and Policy 15.2.2.1 acknowledge the currently established amenity values in the LSCZ. In other words, the objectives and policies seek to recognise the role and function of the local shopping centres, but do not provide for the centres to be developed in a manner that is inconsistent with the zone purpose. The LSCZ is designed to complement higher order town centre activity (i.e. within the Town Centre zones and commercial zones that provide for large scale

retailing), not undermine or compete with those centres to any material degree by drawing consequential volumes of retail sales away.

- 5.10** Read cumulatively, Objectives 15.2.1 and 15.2.2, and Policies 15.2.1.1, 15.2.1.2, 15.2.1.4 and 15.2.2.1 clearly identify the anticipated retail status and function of the LSCZ in the commercial network of the District. Additional vibrancy through non-commercial activity such as residential and visitor accommodation is enabled, which by itself would not elevate the commercial role of LSCZ centres, instead adding vibrancy and vitality to the LSCZ centres themselves given their focus on servicing local residential markets.
- 5.11** Convenience goods and services are typically those goods and services that are frequently required / purchased by consumers. They typically involve 'quick stop' or short stay visits and typically involve 'top up' purchases or 'purchases on the run' tapping into the drive-by market. Stores offering these types of goods and services tend to have a strong food and beverage bias if a retail store, and small office tenancy or store tenancy if a commercial or professional service.
- 5.12** In my view, at a general level, the LSCZ purpose, objectives and policies are appropriately pitched to accommodate and facilitate the development of appropriate activity and tenancy types.
- 5.13** The key findings from my previous Stream 8 hearing evidence **[CB66]** were:
- (a) in relation to the LSCZ, I considered a maximum of 300m² GFA for an individual retail tenancy was required within the zone to better meet the zone's purpose, objectives and policies;
 - (b) in addition to a retail tenancy maximum, I considered non-convenience retail store types should be excluded from being able to establish within the LSCZ due to their reliance on drawing significant custom from beyond the local area of any LSCZ; and

(c) in regard to commercial office space, I considered a maximum individual tenancy cap of 200m² GFA was appropriate given the zone's purpose, objectives and policies.

5.14 Having had regard to the Council's Right of Reply for the LSCZ chapter 15 **[CB61]**, I confirm I still hold my earlier findings (in my Business Hearing Stream evidence) summarised at paragraph 4.13 above as appropriate for the LSCZ, and consider them important to implement to meet the purpose, objectives and policies of the zone.

6. APPROPRIATE SCALE OF RETAIL AND COMMERCIAL SERVICE ACTIVITY AT THE CARDRONA VALLEY ROAD LSCZ

6.1 Projected population growth, based on estimated residential yield, for the Cardrona Valley Road LSCZ localised catchment (refer red catchment identified in **Appendix 1**) will increase under the PDP provisions relative to the ODP. Whilst the exact details of the dwelling capacity model are still to be determined through the PDP process, applying Low Density Residential and Large Lot Residential densities to the proposed zoned areas that fall within Cardrona Valley Road's localised catchment indicates at a broad level the localised catchment will have the potential to grow to an estimated size of 2,500 dwellings over the long term to 2038 (i.e. from a current localised catchment population base of 570 people to an estimated 6,700 people).

6.2 These estimates are based on applying the estimated land areas within the Cardrona Valley Road LSCZ catchment by the residential yields within the different PDP zones within the localised catchment, and factors out 30% of land area to account for roads, reserves, footpaths, landscaping, etc. Given these numbers are dynamic, my calculation represents a best estimate based on the yield density and zones at this point in time.

6.3 For the purposes of this analysis, and estimating an 'at capacity' PDP enabled demand, the retail expenditure forecasting for the localised Cardrona Valley Road catchment has utilised a population base of 6,700 people and a household base of 2,500. I have applied this population base to the Property Economics Retail Expenditure Model.

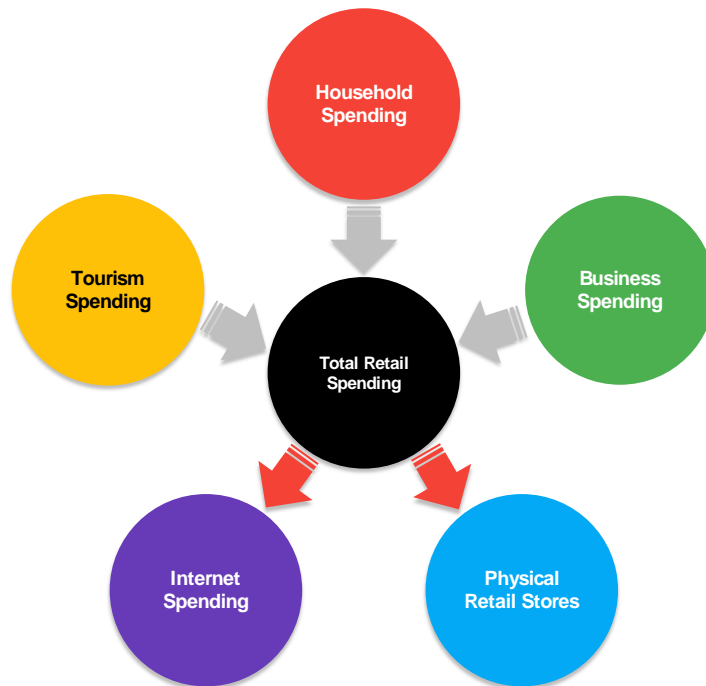
A more detailed breakdown of the model and its inputs can be seen in **Appendix 2**.

- 6.4** Given the investigation is for a LSCZ centre, retail expenditure and floorspace analysis has focused solely on the sectors of convenience retailing, and excludes supermarket retail activity given there is a second supermarket in Wanaka already enabled as I understand, within the Three Parks development.
- 6.5** The convenience sectors (stores considered to be appropriate for the Cardrona Valley Road LSCZ) represent a subset of the total retail market. I consider it highly unlikely (or desirable) that any retail offer in the Cardrona Valley Road LSCZ would be able to play a higher order comparison role (e.g. like Wanaka Town Centre).
- 6.6** To assess retail demand, I use a sustainable footprint approach. 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 ($\$/m^2$) based on net retail floorspace that allows retail stores in their respective sectors to trade profitably and provide a good quality retail environment, and thus economic well-being and amenity.
- 6.7** Many stores would trade comfortably above the sustainable level as many do, but the sustainable footprint approach is designed to provide an average lower level 'line in the sand' or minimum standard productivity level to enable stores to not only trade, but trade to a level that enables a reasonable level of quality (stores, performance and environment). Some stores trade below these levels, and in my experience they are lower quality stores comparatively in built form, fit out, performance and environment, which adversely affects the level of amenity, experience for shoppers and quality of the centre overall, and are often stores not viable for an extended period of time.
- 6.8** The retail demand analysis also forecasts the level of retail sector expenditure generated by the 'at capacity' residential catchment on an

annualised basis, with consideration for outflows in local spending and inflows in tourism spending.

- 6.9** 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 a wide variety of factors such as personal preference, store composition, accessibility, parking availability and place of employment.
- 6.10** However, given that the Cardrona Valley Road LSCZ is sited on a main arterial road into and out of Wanaka, it is likely to capture a portion of tourist expenditure 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 Cardrona Valley Road LSCZ 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 centre.
- 6.11** 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.
- 6.12** The following flow chart in **Figure 1** provides a simple graphic representation of the Property Economics Retail Expenditure Model to assist in better understanding the methodology, key inputs utilised, and interpretation of outputs.

FIGURE 1: RETAIL EXPENDITURE MODEL PROCESS



Source: Property Economics

6.13 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.

6.14 **Table 1** illustrates the total convenience (excluding supermarket retail expenditure) generated in the identified Cardrona Valley Road LSCZ catchment (in 2017 dollars) and the resulting level of sustainable gross floor area (**GFA**) under the 'at capacity' development scenario of around 2,500 dwellings, allowing for real retail growth over the forecast period.

TABLE 1: CARDRONA VALLEY ROAD LSCZ RETAIL EXPENDITURE AND SUSTAINABLE GFA FORECAST

Convenience Retailing	2017	2018	2023	2028	2033	2038
Retail Expenditure (\$m)	\$0.6	\$0.9	\$2.5	\$4.1	\$5.8	\$7.8
Retail GFA (sqm)	120	180	480	790	1,110	1,490

Source: Property Economics

6.15 By 2038, if fully developed or 'at capacity', the level of convenience retail expenditure generated by the Cardrona Valley Road LSCZ catchment would be around \$7.8m per annum. This translates into sustainable convenience GFA of an estimated 1,500m² (rounded). In practical terms this is enough expenditure and GFA to support around 10-12 convenience retail stores.

6.16 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.

6.17 Additionally, other non-retail convenience commercial activity (this would include activity such as hairdressers, drycleaners, estate agencies, doctors, accountants, lawyers, etc.) has been excluded from **Table 1** (which relates to sustainable retail GFA only). **Table 2** below estimates the subsequent level of other non-retail commercial activity and subsequent land requirement from the aforementioned sustainable GFA levels. Additional provision for non-retail commercial activity has been estimated by an adopted 1:1 ratio of convenience retail to commercial activity GFA. This ratio is typical for a centre of the size, role and function to that sustainable at the Cardrona Valley Road LSCZ (i.e. approximately half the centre is potentially retail provision, and the other half non-retail commercial activity). For the purposes of converting the estimated GFA provision into a land requirement, I have adopted a 45% ratio. This provides for an efficiently developed at grade provision allowing for carparking, landscaping, road berms, etc.

6.18 **Table 2** does not allocate any land to recreational or urban parks, or playground or community facilities e.g. library, church, community hall, or childcare facility. Any land allocation to these activities are additional to the land requirements identified below.

TABLE 2: CARDRONA VALLEY ROAD LSCZ LAND REQUIREMENTS

Convenience Retailing	2017	2018	2023	2028	2033	2038
Population	570	900	2,380	3,810	5,210	6,720
Households	210	320	860	1,410	1,950	2,500
Retail Expenditure (\$m)	\$0.6	\$0.9	\$2.5	\$4.1	\$5.8	\$7.8
Retail GFA (sqm)	120	180	480	790	1,110	1,490
Commercial Service GFA (sqm)	120	180	480	790	1,110	1,490
Total GFA (sqm)	240	360	960	1,580	2,220	2,980
Total Land Requirement (sqm)	530	800	2,130	3,510	4,930	6,620

Source: Property Economics

6.19 **Table 2** indicates that the 'at capacity' total land requirement for Retail and Commercial activities within the Cardrona Valley Road LSCZ catchment equates to around 6,600m² (0.7ha rounded) if all the provision was developed at ground level and all the land is developable.

6.20 The close proximity of the Wanaka and Three Parks centres to the Cardrona Valley Road LSCZ (around 2km), and the overlapping functions with the Wanaka and Three Parks centres that are also designed to provide a convenience function, means that if the Cardrona Valley Road LSCZ was developed beyond the identified scale for retail and commercial activity, the potential for such development to generate adverse effects (on the Wanaka and Three Parks centres) increases and the intent of the zone could be undermined.

7. SECTION 32 REPORT

7.1 I have also considered the s32 report that supported the notified extent of the LSCZ in light of my view that the area of LSCZ at Cardrona Valley Road should decrease to around 0.7ha, and specifically the McDermott

Consultants report titled 'Peter Gordon Development Retail Assessment Cardrona Valley Road, Wanaka' dated March 2014.

- 7.2** Whilst not quantifying an appropriate Cardrona Valley Road LSCZ land area specifically, it concluded that a neighbourhood centre primarily designed to service the neighbourhood catchment with a mix convenience retail and commercial activity was appropriate. This is summarised in the introduction of the report where it states *"it is anticipated that the commercial area will include around six retail stores in the form of a neighbourhood or small suburban shopping centre"*.⁴
- 7.3** These findings support my position that the 2.7ha in the notified PDP is too large for commercial enablement based on what the localised market can support, and reinforces my position that 0.7ha is a more appropriate extent for commercial development within the Cardrona Valley Road LSCZ.

8. SUMMARY

- 8.1** The Cardrona Valley Road LSCZ can sustain around 3,000m² of convenience retail and other commercial activity once its localised catchment is 'at capacity'. Any increase in this provision within the allocated LSCZ area will increase the capacity for the Cardrona Valley Road LSCZ to 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.
- 8.2** In my professional opinion, an appropriate land provision for the Cardrona Valley Road LSCZ is around 0.7ha of efficiently developed land. This land provision supports the relief sought by Willowridge Developments Limited (S249) to reduce the extent of the Cardrona Valley Road LSCZ, with my analysis quantifying what I consider an appropriate provision for retail and other convenience commercial activity within the Cardrona Valley Road LSCZ.

⁴ McDermott Consultants report March 2014, pg1.

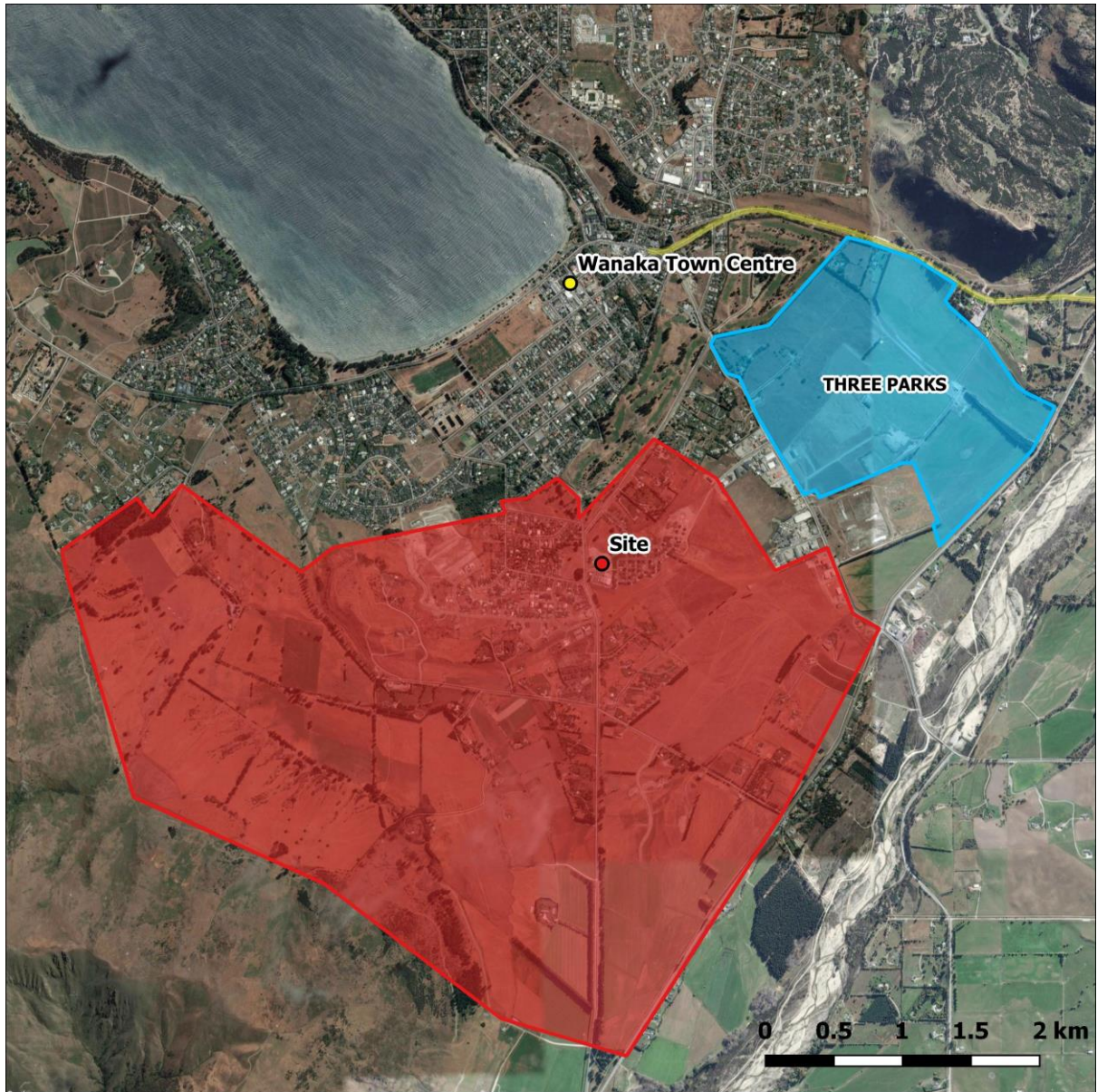
8.3 In respect of any professional office activity within Cardrona Valley Road LSCZ, as in my Local Shopping Centre Zone evidence **[CB66]**, I would again recommend an individual tenancy cap of 200sqm for both consistency and surety of development outcomes. I note this is reflected in Policy 15.2.1.4.



Timothy James Heath

17 March 2017

APPENDIX 1: CARDRONA VALLEY ROAD LSCZ LOCATION AND CATCHMENT



APPENDIX 2: 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 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.