

BEFORE THE KĀPITI COAST DISTRICT COUNCIL

IN THE MATTER of the Resource Management Act 1991 ("**the Act**")

AND

IN THE MATTER of Private Plan Change 84 to the Operative Kāpiti Coast
District Plan

**EVIDENCE OF FRASER JAMES COLEGRAVE ON BEHALF OF
KAPITI COAST AIRPORT HOLDINGS LIMITED**

Dated: 27 January 2017

INTRODUCTION

- 1 My full name is Fraser James Colegrave.
- 2 I hold a first-class honours degree in economics from the University of Auckland.
- 3 I have over 20 years' commercial experience, the last 17 of which I have worked as an economics consultant.
- 4 I am the managing director of Insight Economics Limited - an economics consultancy based in Auckland. Prior to that, I was the founding director of another consultancy – Covec Limited – for 12 years.
- 5 I have successfully led and completed over 300 consulting projects. My main field of expertise is land-use and retail economics. I have worked extensively in this area for many of the largest property developers in New Zealand, and also a number of local authorities.
- 6 Over the last five years, I have provided regular analysis and advice to assist the ongoing growth and development of Kāpiti Landing. As a result, I have a strong working knowledge of the district economy and the local retail market.
- 7 I have read the Environment Court's Code of Conduct and agree to comply with it. My qualifications as an expert are set out above. I confirm that the issues addressed in this statement of evidence are within my area of expertise, except where I state otherwise.
- 8 The data, information, facts and assumptions I have considered in forming my opinions are set out in the part of the evidence in which I express my opinions.
- 9 I have not omitted to consider material facts known to me that might alter or detract from the opinions I have expressed.

SCOPE OF EVIDENCE

- 10 My evidence:
 - (A) briefly summarises recent, relevant work that I have completed;
 - (B) identifies and analyses outstanding areas of disagreement;
 - (C) responds to key points raised by submitters; and
 - (D) Briefly responds to two economic reports commissioned by the Kāpiti Coast District Council ("**Council**").

SUMMARY OF RECENT, RELEVANT WORK

Initial Letter of Support for PC84

- 11 In May 2015, I wrote a letter in support of the retail relief sought via Private Plan Change 84 ("**PC84**"), namely the removal of prohibited activity status for supermarkets, one department store and grocery stores between 151-1,500m² (the "**retail relief**").
- 12 My letter noted that this would not create any potential for unfettered retail distribution effects because it did not allow anything to occur as of right. Instead, since resource consent (for a discretionary activity) would still be required, a full examination of potential adverse effects would be undertaken later.
- 13 Further, since department stores would be classified as non-complying, any consent for this retail activity would also need to pass the "gateway tests" under section 104D of the Act. Accordingly, the retail relief sought provides no scope for unfettered retail distribution effects to occur.
- 14 In addition, my letter noted that the retail relief would have various benefits, including:
 - (a) Enabling the district to have a more self-sufficient retail supply, which would help stem retail leakage and increase the overall size of the local retail market.
 - (b) Potentially attracting retailers that would not have otherwise established in the district, thereby increasing consumer retail choice, boosting retail competition, and improving district employment self-sufficiency.
 - (c) Facilitating more-timely master planning and integrated development of the Kapiti Coast Airport Holdings Limited ("**KCAHL**") land, which would support Objective 1.0 of the Airport Zone.

Detailed Response to FIR Request for PC84

- 15 In October 2015, I provided a detailed response to the Council's further information request ("**FIR**") under section 92 of the RMA. It included a detailed retail impact assessment, which modelled the likely impacts of the retail relief on other district centres, particularly the Paraparaumu Town Centre ("**Town Centre**").

- 16 The retail impact assessment utilised the Wellington Region version of the *Integrated Retail Model*, which has been used to test the likely impacts of various retail developments across New Zealand.
- 17 The analysis first identified the types of retail activity enabled by the operative District Plan, and used those to estimate the potential effects of the status quo. Then, it repeated the exercise including the relief sought to estimate both its incremental and cumulative effects.
- 18 The results showed that trade impacts would be spread across the district and not cause any stores to close, even in the Town Centre. Accordingly, any flow-on effects would be minor and short-lived (particularly relative to the additional retail enabled by the status quo).
- 19 My response to the FIR also drew on these modelling results to quantify the likely change in district self-sufficiency, which equated to an increase in district retail turnover of 7% (relative to today).
- 20 Next, I addressed the likelihood of attracting stores that might not otherwise come to the district. I noted that this was a strong possibility because there may be stores for whom Kāpiti Landing was the only site that met their specific location criteria, but who were precluded from going there by the current rules.
- 21 For example, I noted that a store like Kmart might want to enter the district but not be in the Town Centre due to the existing presence of two competing stores there – Farmers and the Warehouse. I also noted that such stores may also be deterred from the Town Centre due to its relatively high land prices, which could undermine the business case for establishing a local store.
- 22 Finally, I provided a brief discussion of likely competition benefits associated with PC84. I noted that the most effective way to improve district retail competition was by fostering a credible competitor to the most dominant node – the Town Centre.
- 23 Conversely, making the Town Centre bigger while constraining the growth of other potential retail nodes would only increase its dominance, with obvious effects on district-wide retail competition.
- 24 Thus, not only would the retail relief increase consumer choice and the size of the local retail market, but it would also provide a range of other competition-related benefits.

Evidence Presented to the Proposed District Plan Working Environment Hearing

25 In September last year, I presented evidence to the Proposed District Plan Working Environment chapter hearing. The key conclusions of that evidence were:

- (a) Contrary to common belief, Kāpiti's leakage situation was actually quite favourable. For example, not only was Kāpiti's rate of leakage out lower than all its peers, but its overall net position was strong.
- (b) The district's retail vacancy rate had halved from 2011 to only about 3%. Coupled with the fact that new retail development was occurring at three sites in the district, this confirmed the good health and vitality of the local retail market.
- (c) The Council's views regarding additional retail-zoned land above and beyond that achieved via Plan Change 72A were based on unreliable logic (and were not supported by evidence), and in any event, greater competition in the land market was more likely to deliver better outcomes.
- (d) The retail node at Kāpiti Landing performs a very different role and function to the Town Centre. Thus, despite high spatial overlaps, the two areas have minimal *functional* overlaps, which is why they have successfully co-existed in close proximity and why there is no need to restrict the growth of Kāpiti Landing to protect the health and vitality of the Town Centre.

OUTSTANDING AREAS OF DISAGREEMENT: IDENTIFICATION AND ANALYSIS

26 I now identify and analyse outstanding areas of disagreement with respect to the retail relief sought under PC84. To that end, the following table summarises the respective positions of various parties in relation to these proceedings.

Table 1: Respective Positions of Parties on Retail Relief Sought via PC84

Parties/Positions	Department Stores		Supermarkets		Grocery & Non-Specified Food	
	First store	Other stores	First store	Other stores	First store	Other stores
Relief Sought	Non-Complying	Prohibited	Discretionary	Non-Complying	Already developed as a New World store	Discretionary
Insight Economics				Prohibited		Non-Complying
s42A Report						
Property Economics						Non-Complying

- 27 Table 1 shows that there is close alignment between the parties on the retail relief sought via PC84, except for the rules governing grocery and non-specified food retail stores between 151m² and 1,500m² GFA.
- 28 In short, while a New World store has already been developed as the first store of this type, there is disagreement over the activity status of subsequent stores.¹ Specifically, while the relief sought – and my underlying economic analysis – both support discretionary activity status, the s42A report and Council's economic advisors prefer non-complying activity status.
- 29 The s42A report explains its opposition to this aspect at paragraph 5.55, where it argues that such activities should require a comprehensive assessment and hence that non-complying activity status is preferred.
- 30 Notwithstanding my response to the FIR, which showed that any adverse economic effects would be minor and short-lived, it appears that the s42A report has misinterpreted the scope of activities falling under this store type definition.
- 31 Specifically, paragraph 5.44 of the s42A report argues that *"there would be a wide range of possible retailing activities that would be encompassed by the category of stores between 150m² and 1,500m² gross floor area that retails groceries or non-specified food lines."*
- 32 Unfortunately, there is no supporting discussion of this important assumption upon which to critique the position taken. However, my understanding is that only a very limited range of stores would fall under this definition.
- 33 For example, to me the term "non-specified food" means that any specialised food retailers would be excluded. This, in turn, automatically disqualifies a wide range of food retailers, including bakeries, butchers, cake stores, confectionary shops, fish shops, fruit and vegetable stores, liquor stores, and so on.
- 34 By contrast, the only stores that would appear to meet this definition are large dairies and superettes. Accordingly, I am not convinced that this store type definition does encompass the wide range envisaged by the s42A report. As a result, I have some concerns about the core assumption on which the s42A's opposition appears to be based.

¹ I note that Property Economics also disagreed with non-complying activity status for subsequent supermarkets, but that this position was not adopted by the s42A report. Accordingly, I have not addressed that point further and focussed instead on the remaining areas of disagreement between KCAHL and the reporting officer.

- 35 Even if my interpretation of this store type definition was wrong and it did cover the various specialised food retailers outlined above, I still do not agree with the position taken in the s42A report, at least not from an effects perspective.
- 36 This is because food retailing – other than supermarkets – represents only a small fraction of Town Centre commercial activity (which is the only centre that could possibly experience adverse effects due to the plan change).
- 37 In fact, the store directory published on Coastlands' website shows that there are only two stores that potentially meet this store type definition: Common Sense Organics and the Mediterranean Food Warehouse. Hence, there are only two stores in the Town Centre that would potentially compete directly with such stores if allowed at Kāpiti Landing.
- 38 Collectively, these stores account for only a tiny fraction of total retail GFA in the Town Centre, and neither performs an anchor function. Hence, even in the extremely unlikely event that one or more of them closed as a result of the relief sought, the impacts would be confined to pure trade competition with little (if any) scope for flow-on retail distribution effects to occur.
- 39 The Council's economic advisor (Mr Heath from Property Economics) disagrees with enabling grocery/food stores between 151m²-1,500m² because, in his view, there is ample zoned capacity in the Town Centre.
- 40 While I agree that there is likely to be capacity in the Town Centre, the rationale for PC84 was never predicated on the assumption otherwise.
- 41 Rather, the economic rationale for the plan change reflects the fact that it would have a range of benefits (including greater flexibility/diversity in retail supply) while not having any significant adverse effects on the Town Centre. Thus, given the enabling intent of the RMA, the plan change cannot be denied on the grounds of potential adverse effects on other centres.
- 42 Mr Heath's position appears to overlook the convenience nature of the retailing in question. Instead, he appears to assume that the store types covered by this aspect of the relief sought serve a comparison shopping function. This is not the case, however.
- 43 There is widespread acceptance amongst economists and retail analysts that convenience retail like that in question should be distributed widely – not confined to centres – because doing so increases consumer choice, promotes competition, and improves accessibility.

- 44 In other words, there would be clear social and economic benefits from allowing such retail activities to establish outside the Town Centre, and the operative District Plan even notes this itself (by requiring a consolidation of retail activities *except* those that provide a convenience function).² As such, the extension of grocery and non-specified food line stores to the Kāpiti Landing site is a more appropriate means to achieve that objective and policy (by ensuring that convenience retail is spread throughout the district, rather than being centralised in town centres).
- 45 As a result of the lack of conflict between those activities and those which occur (and are encouraged to occur) at the Town Centre, the proposed relief for grocery and non-specified food items is also a more appropriate means of achieving Objective 19.1 and Policy 19.1.2 (providing for commercial activities in the Airport Zone), whilst not undermining the role and function of the Town Centre, consistent with Objective 19.2 and Policy 19.2.2 of the operative District Plan.
- 46 Mr Heath appears to have missed this critical distinction. Accordingly, I continue to support the relief sought for this store type.

RESPONSE TO SUBMITTERS

- 47 Several parties have filed submissions in opposition of the plan change. The retail/economic issues raised include that the plan change:
- (a) is contrary to previous strategic planning between 2003 and 2005;
 - (b) fails to identify or address actual or potential adverse effects;
 - (c) could adversely affect the vitality and amenity of the Town Centre; and
 - (d) may forego agglomeration and amenity benefits, and result in higher public infrastructure costs and higher transport costs.
- 48 I respond to each of these points below.

² See, for example, Objective 3.2, and Policy 3.2.1 of the operative District Plan.

Plan change is contrary to previous strategic planning

- 49 Unfortunately, there has not been enough time for me to reconcile the relief sought with the strategic planning work that occurred between 2003 and 2005. However, as a general observation, I note that this earlier work is likely to be of limited relevance now given that it occurred more than a decade ago.
- 50 Since then, the global economy has undergone significant change, as has the New Zealand retail sector. At the same time, the shopping habits of New Zealand residents has also evolved considerably. For example, internet shopping is far more popular now than in the mid-2000s.
- 51 Put bluntly, I consider the strategic planning work undertaken between 2003 and 2005 to be of only very limited relevance to these plan change proceedings.

Failure to consider adverse effects

- 52 The next objection concerns a perceived lack of analysis of potential effects. I do not understand the nature of this objection, at least not from a retail/economic perspective, because my response to the FIR included a detailed retail impact assessment. Further, as PC84 merely seeks to remove prohibited activity status from a range of activities and (at a minimum) make those activities full discretionary, the adverse effects of those activities can and will be considered at the consent stage.

Potential adverse effects on vitality and amenity of Town Centre

- 53 A related concern is that PC84 could adversely affect the vitality and amenity of the Town Centre. As discussed in my retail impact assessment, and in my previous evidence for the Chapter 6 hearings of the Proposed District Plan, my analysis shows those concerns to be unfounded. Similarly, I do not understand the economic reports commissioned by the Council to take issue with that analysis. Accordingly, I reject this concern.

Impacts on agglomeration, infrastructure costs and transport costs

- 54 The final economic concern was that the plan change could reduce agglomeration benefits, while increasing infrastructure and transport costs. I respond to these points separately below, starting with agglomeration benefits.

Agglomeration benefits

- 55 Agglomeration benefits are said to occur when the co-location of economic activities creates synergies that benefit the wider community. Such benefits have been the subject of significant academic research overseas, at least in the context of specialised industries such as information technology (eg Silicon Valley).
- 56 However, retail-specific research on agglomeration is scarce because many sources of agglomeration benefits do not apply to retail stores. Indeed, agglomeration is largely about productivity spillover benefits that occur from co-location. However, since retailing is simply a distribution business where no value is actually added to the products prior to resale, the concepts of productivity and agglomeration are only of limited relevance.
- 57 Notwithstanding this important point, I also note that potential agglomeration benefits are not restricted to the largest centre in a retail network (such as the Town Centre). Rather, agglomeration benefits can theoretically accrue to any clustering of economic activity. Hence, while the plan change could potentially have some minor impacts on agglomeration benefits in the Town Centre, these would be largely offset by increased agglomeration benefits at Kāpiti Landing.
- 58 Further, it is critical to note that greater density of economic activity does not always create agglomeration benefits, and instead can lead to *reductions* in productivity. This is because most geographic areas face physical constraints, such as parking and roading capacity, which eventually bind and cause productivity to fall as density increases. Accordingly, there is no guarantee that greater density of activity (either at the Town Centre, or at Kāpiti Landing) will yield agglomeration benefits.

Public infrastructure and transport costs

- 59 Similarly, I disagree that the plan change could lead to higher public infrastructure costs and higher transport costs.
- 60 In terms of transport costs, while I am not a traffic expert, I consider it more likely that a greater dispersal of retail activity - as sought by the plan change - will decrease transport costs, not increase them, because it will improve the reach of the retail network. As the reach of the network expands, consumers will have shorter distances to travel to frequent their desired stores. Furthermore,

those that wish to continue frequenting their existing stores can do so with no impact on their travel times and costs.

- 61 With respect to infrastructure costs, I am not aware of anything sought by the plan change that would lead to greater costs. Moreover, even if the plan change did incur greater infrastructure costs, the Council has a range of funding tools available that it could use to place those costs back onto KCAHL.
- 62 These include development contributions under the Local Government Act 2002, financial contributions under the Act, and targeted rates under the Local Government (Rating) Act. Together, these funding tools easily enable the Council to recover any plan change-specific infrastructure costs directly from the entity seeking the plan change – KCAHL. Ultimately, the Council also retains control over those matters through the ability to grant or decline resource consent.
- 63 In summary, I disagree with the retail/economic issues raised in submissions for the reasons set out above.

RESPONSE TO PROPERTY ECONOMICS REPORTS

- 64 The Council has commissioned two economic reports in relation to PC84, both of which were completed by Property Economics.
- 65 Overall, these reports appear to accept the relief sought. However, they express concern about the proposed changes to grocery and non-specified food stores. This concern, in turn, seems to reflect Property Economics' views about the:
- (a) General health of the retail market.
 - (b) Role and likely impact of the Expressway.
- 66 I now briefly comment on these matters.

General Health of the Retail Market

- 67 One of the Property Economics reports mentioned above includes a lengthy introduction about the health and vitality of the district's retail network. Amongst other things, it reproduces Marketview data on the rates of leakage out in 2011, which Property Economics interprets as evidence of an ailing retail market.
- 68 However, as per the summary of my Proposed District Plan evidence above, I consider Property Economics' interpretation of that data incorrect, because they failed to benchmark it against the rates of outward leakage in other districts.

- 69 The truth is that Kāpiti Coast district's retail leakage rate is one of the lowest amongst its peers and, if anything, the Marketview data only serves to prove the enduring resilience of its retail network.
- 70 As also noted earlier, the positive health of the district's retail market is confirmed by the low rate of retail vacancy, which has fallen considerably since Property Economics last quantified it in 2011. And, the fact that further investment is taking place in several retail locations further provides further confirmation.
- 71 Put rather bluntly, I consider Property Economics' concerns about the health of the retail network to represent an unfortunate misinterpretation of the Marketview data.

Imminent risks/impacts of the expressway.

- 72 Mr Heath from Property Economics has also raised concerns about the likely impacts of the new expressway. Evidently, he views this as more of a threat than an opportunity because he believes that it will exacerbate leakage out.
- 73 While that may be true to some extent, there is an important counterpoint that Mr Heath overlooks. Namely, that the expressway may also improve leakage *in* by making it easier for non-residents to frequent district stores.
- 74 Even more importantly, the expressway is likely to make Kāpiti Coast District a more attractive place for people to live and commute from, which in turn would bolster the resident population and hence also boost district retail spending. Mr Heath, however, appears to overlook this critical point too.
- 75 Interestingly, participants in the retail market also seem to disagree with Mr Heath's views about the likely impacts of the expressway. For example, the owners of Coastlands have openly stated that they consider the expressway a positive opportunity, and have taken steps to capitalise on it, such as the current development of Takiri House, which has been designed to capitalise on this opportunity.³

³ See, for example, <http://www.scoop.co.nz/stories/BU1608/S00036/coastlands-prepares-for-new-growth.htm>

SUMMARY AND CONCLUSION

76 This evidence has summarised my work to date in relation to the relief sought, which showed that it would have not significant adverse effects, but would deliver a range of benefits.

77 In addition, this evidence has identified and analysed outstanding areas of disagreement between KCAHL and the reporting officer, and shown that the reporting officer's position on those issues is likely to be unreliable.

78 Finally, this evidence has responded to issues raised by both submitters and the Council's own economic advisors, and shown that those concerns are either not well-founded or are largely immaterial.

79 Accordingly, I continue to support the relief sought on economic grounds.

Fraser James Colegrave



27 January 2017