PROPERTY ECONOMICS

KAPITI COAST DISTRICT ECONOMIC VALUE OF CENTRES

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SCHEDULE

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TABLE OF CONTENTS

1. INTRODUCTION

Based on previous Property Economics analysis undertaken for the Kapiti Coast District Council over recent years[1], the District is expected to experience a steady but unremarkable level of growth in the order of a net 6,300 people and 3,900 households by 2033. In percentage terms this level of growth in equates to around 12%, higher than the wider regional average of 9%, but lower than growth in the capital city over the same period (14%). This growth is expected to increase employment activity by up to 55% by 2033, proportionately increasing commercial activity by over 59%.

The need to accommodate the resultant growth and dependent business growth in appropriate locations is fundamental in developing a sustainable and competitive economic environment that provides for the community's economic well-being.

A key component within an efficient economic environment is the recognition of business centres that provide for improved levels of business agglomeration benefits, infrastructure efficiencies and social value. While the development of these centres has historically been market lead and focussed, changes to market dynamics have meant that a significant degree of these benefits have been lost in the pursuit for individual gains.

2. JUSTIFIED INTERVENTION

The need for exogenous intervention into a market is necessitated by the fundamental intent of seeking to maximise community wellbeing either through improvements in equity or an improvement in economic efficiency. Seeking to improve economic efficiency within the district's business environment consequently enhances community wellbeing.

In simple terms, the fact that the market will not seek to maximise community wellbeing but pursue individual party (private sector) interests is key in understanding whether the market requires a balancing mechanism in order to redress the potential imbalance between community interests and individual interests. It is important to note that this is not simply an academic exercise, the result of an individual party or parties gaining an additional proportion in profits (or simply a decrease in costs) could result in the loss of a tangible resource for the community hundreds of times more valuable.

There is a distinct thread running through the Resource Management Act 1991 (RMA) that deals with community wellbeing in terms of efficiency. A primary guiding principle of the RMA is the

[1] Kapiti Coast Retail Analysis – October 2015
Evidence in Chief of Timothy James Heath, PC72A Before the Environmental Court – June 2013
Kapiti Employment Areas Study – July 2012

efficient (and sustainable) utilisation of scarce resources within a community. There has been recognition from the Environment Court that efficiency, as it pertains to the RMA, relates to economic efficiency and there is a need for this to instruct policy governing the utilisation of these resources. This implies that the decisions by which these resources are consumed are derived in an economically efficient manner.

The market is indeed a powerful mechanism for the efficient allocation of resources and all too often unnecessary intervention causes markets to operate inefficiently with potential benefits lost to the community in order to protect private concerns. However, the essential proviso here is providing that society's resources are priced according to their real value to society as a whole rather than individuals. This is the basis for Council's economic argument, that left to its own devices the commercial market will not operate efficiently given the fact that the market fails to consider total community well-being. In order to justify intervention, it is fundamental to show that the market outcome will produce a less than optimal, or efficient, result for the community.

3. ECONOMIC EFFICIENCY

For the purposes of this outline there are three forms of economic efficiency - productive, allocative and dynamic.

Productive efficiency - relates to the efficient use of resources to maximise the '*bundle*' of outputs (goods and services) an economy can produce.

Allocative efficiency - has to do with the value of what is produced to the community as a whole. This implies that community welfare is maximised based on a particular allocation of resources. Although this is often seen as Pareto Efficiency, where it is not possible to make a member of the community better off without making someone else worse off, in public economics this has been more commonly referred to in terms of the community as a whole. In some cases, where possible, this requires compensating affected parties. In order to pursue allocative efficiency, it is fundamental that all key consumer values and preferences are identified and considered. This point is pivotal with regard to maximising community wellbeing from scarce resources and is therefore fundamental in understanding economic efficiency.

Dynamic efficiency - deals with the differing timeframes often occurring between options. This efficiency seeks to compare outcomes in terms of a 'net present value' or 'NPV'. This generally requires the use of a discount rate for the comparison of costs and benefits.

Economic efficiency is essential when providing for sustainable resource use, this efficient employment is key with regard to economic well-being. As stated and consistent with the RMA 1991, this efficiency should not be a rationalisation for the protection of individual businesses or business locations through simple trade competition. However, what is essential is the identification of any distributional effects from the market's operation.

These distributional effects are costs or benefits that are not considered by the market and yet are critical to enhancing the community's economic and social well-being. In relation to proposed changes to a District Plan these are not simply the potential decreases in trade or business in any given area, but the additional real benefits to the community of having these activities in these specific locations.

4. EXTERNALITIES

There is an important distinction to be made in terms of the types of externalities that must be considered. Externalities typically take two forms - pecuniary and true.

Pecuniary externalities - equate simply to market effects which are not, and should not be, assessed under the RMA. These are simple price effects and are not considered in cost benefit analysis.

True or technical externalities – have a real impact on the efficiency level of a market thereby affecting community well-being. They are effects of a market decision on the resource use of a third party.

The impact of externalities, their need for inclusion and market efficiencies are explained further in Appendix 1.

Externalities occur when one party's actions affect another party's well-being and the relevant costs and benefits are not reflected in the market. The RMA makes a clear distinction between market effects and true externalities. The sustainable and efficient management of resources under the RMA is based on the inclusion of these effects.

In part the justification for intervention in locating business activity is similar to that given for residential. Councils restrict the spread of residential development to more intensive zones because the cost of allowing dispersal are significant and are not considered by the market, such as increased infrastructure costs, reduced transport efficiencies, inefficient land use, as well as reduced community amenity.

These are factors that an individual participant in the market does not always consider, not just the impact of these costs on themselves but the cost of their decision on others. The opposing costs of not allowing residential to spread are potentially increased residential prices and reduced development. These are costs that in commercial business are likely to be less than in residential and yet the net benefits of restricting residential expansion are clear. The continued expansion of residential would not only incur increasing social costs but has the potential to stifle innovation and produce a dispersed community. Planning is about informed value judgements and potentially restricting individual choice for the benefit of the entire community's well-being.

A fundamental factor in operating competitive vibrant business centres is the level of amenity offered; key to this is the level and choice of retail activity within a given area. To remain competitive and fulfil its role and function in the community, it is crucial that a primary business centre provides an appropriate level of both retail and commercial (office) activity. This is a symbiotic relationship where one relies on the level of activity produced by the other. This relationship primarily between commercial and retail activities creates more vibrant community centres which translates to greater community wellbeing.

It is important to note that this appropriate level of activity is proportionate to the competitive size of the district and economy in general. It is not appropriate to assume that the level of centralised activity, in the primary centre, within a larger economy is the same as in a small district. Larger economies typically have a greater number of business centres that represent a smaller proportion of the total activity while still creating economies of scale and efficient resource use. The recent global economic decline has however elevated the importance to the Kapiti economy of centralising activity to improve efficiency and competitiveness. As businesses seek to improve efficiency and productivity it is vital that the District offer a competitive regional centre (PTC in this instance) to the wider economy.

5. BUSINESS DECISIONS

As outlined previously, market decisions are primarily made based on private costs and benefits, typically costs or benefits borne by the community that are not recognised by the participants and therefore lead to an inefficient allocation of resources. Businesses choose locations based on a series of criteria that are balanced against their own costs and benefits and therefore produce the highest net gain for themselves. These criteria generally include but are not limited to; suitable profile / exposure, accessibility for customers and suppliers, feasible costs, appropriate parking provision and appropriately shaped sites.

The benefits of the market led approach are the clear market signals which are necessary to produce equilibrium in the market where the amount of business land supplied is in balance with demand in any given location. Traditionally retail and office, along with other activities, have clustered into 'centres' due to observable benefits to both the consumer and producer. These benefits of agglomeration have, in part, been recognised by the market and are inherent in business location decisions.

However, in the presence of externalities (impacts not considered by the market) these signals can fail resulting in either an over or under production of business activity in the wrong locations. Without regulation business locational decisions in Kapiti will continue to be based on private cost benefit decisions. Given the opportunity operators and developers will continue to locate based on their own investment returns and will not have regard for what is best for the community.

Individual businesses within Kapiti are sometimes motivated by private benefits that carry with them costs to community that far outweigh these individual gains. Although many of the criteria outlined above are represented within centres the weighting of these is crucial. For example, '*destination*' retailers prioritise land costs given that they do not require the critical mass created within established areas. This is often justified by the potential savings they offer to consumers while reducing their own costs.

It is argued that these private benefits are often outweighed by the costs to the community of this locational strategy; this cost is further exacerbated by the exodus of smaller stores following the larger profile retailers. This 'pulling power' is evident in the retail market as it operates currently. When consolidated retail landlords such as malls negotiate lease terms with larger anchor tenants they factor in the large patronage they will generate for smaller retailers and leverage the rents accordingly.

It is important when considering the dispersal of business activity within the Kapiti Coast District to consider the difference between the marginal impacts of a business operating inefficiently and isolated impacts. This is an important point especially with regards to centres. For example, the loss of shoppers, or workers, in a centre will have a marginal impact on vitality. This change is extremely difficult to assess comparatively however, for example shoppers would need to be asked what impact on the vitality value a 10% decrease in shoppers would have on a centre. Therefore, when making a decision on the likely impacts consideration must be had for the total value (cost and benefits) and the likely proportional (incremental) impact on the variables affecting these (e.g. the number of shoppers visiting a centre). Often however a value judgement must be made by public decision makers as to the comparative values of these costs and benefits.

In the Kapiti market the marginal impacts on the central business area are relatively obvious. The Paraparaumu Town Centre (PTC) accounts for less than 25% of total employment while less than 50% of all commercial activities are located in centres.

Spatially it is important to note that decentralisation also refers to the sprawl of centres, as opposed to the growth of centres, where capacity exists within the identified centre but activity often takes the path of least individual resistance and spreads throughout the periphery. This in effect undermines the potential efficiencies of intensified land use. The argument that some businesses require these locations to operate effectively simply reflects an individual position and does not consider the net impacts on the economy as a whole. This consideration is fundamental in providing for the long-term wellbeing of the community.

The fundamental issues underlined here are simple to outline but somewhat more difficult to assess. They involve the principle that centres are community assets in themselves and therefore assessment must be considered for:

- What are the potential benefits of locating business activity in 'centres';
- Does the market (either supplier or consumer) give appropriate recognition to these benefits and the potential community value;
- Are these true externalities and what is the potential extent of these benefits to the community;
- What are the likely costs of restricting the potential locations for business in Kapiti to higher density areas;
- What level of priority should the PTC hold over other potential business locations.

Given that there are potential costs associated with regulation, not least of which is the muting of market indicators, there needs to be a clear understanding of the level of potential effects associated with the market failure. These assessments are not intended to quantify the direct impact of proportional decentralisation but to indicate the potential social and economic values that are jeopardised.

In terms of a hierarchy there is clear recognition of the economic significance of the PTC (or central city) to the Kapiti economy. The PTC plays a crucial role in the identification of the District as a whole, but also provides essential profile enabling the District to compete for business from the wider market. The PTC represents a significant community investment that has the potential to provide net economic returns that are unlikely to result anywhere else in the District. As such there is a need for the recognition of the primacy of the PTC in the hierarchy of centres within the District. There are very real economic benefits attributable to activity that specifically locates in centre and in particular the PTC.

6. EFFICIENCIES OF INTENSIFIED BUSINESS ACTIVITY & THE PARAPARAUMU TOWN CENTRE

The economic argument for intervention is based on the fact that the market fails to consider significant community benefits achieved through the consolidated location of business activity. These failures conceal the 'true' value of centres and if unchecked are likely to result in an inefficient use of resources.

It is important to note that the loss of these potential benefits are not confined to the impacts on existing business activity but must also be considered in terms of the potential future efficiencies that could be achieved. In these terms a lost social benefit is tantamount to a social cost. The potential loss to the community of 'decentralised' business activity is coined in this section in terms of the benefits of 'in-centre' activity. The benefits (or alternatively dis-benefits) discussed here include the decline in centre function and amenity along with adverse effects on the roading network, public transport provision, resource productivities, land efficiencies, community facilities, productivity and centre infrastructure. Each is also assessed in terms of whether they should be regarded as 'true' externalities and to what level the market may (or should) be considered to have regard for them.

6.1. DECLINE IN AMENITY OF CENTRES

The amenity of a centre is directly related to its vitality and vibrancy, which in turn has a strong correlation with the level and potential level of people within a centre. A loss of patronage to a centre is not only likely to result in decreased infrastructure efficiencies and a fall in other activities but is very likely to reduce the value residents place on the vibrancy and sense of community achieved there.

These functions are notoriously difficult to assess in terms of their use and value to the community. In June 2007 and February 2009 Property Economics undertook a 'social survey' of several cities throughout New Zealand. The purpose of this survey was to gain insight into what residents valued in a major activity centre. A contingent valuation methodology was used here because it is one of the only ways to assign dollars amounts to non-use values for an environment, values that do not involve market purchases and may not involve direct participation or can be assessed through proxies.

This survey was designed to assess the value that residents placed on business centre attributes and compare these values between compact and more dispersed commercial markets. Residents were asked why they visited a centre business area, how often, what they considered most important about it and then attempted to place a value on having access to retail in this centre as opposed to more dispersed locations. The purpose of this survey was to illustrate the magnitude of value that is being jeopardised. The value assessed is inherent in all community centres but exists at a higher level given the strategic importance of a centre within an area. PTC is the community focal point for the whole district and as such would exhibit values proportional to those found in the study.

In considering the costs and benefits of a centres based planning strategy it is important not just to have regard for the current situation that exists in Kapiti, but the benefits that are likely to be attributable due to adopting a consolidation approach. These benefits can then be weighed against a more liberal dispersal stance. The hypothesis here is that Kapiti has already suffered from significant levels of dispersed development that has potentially reduced the social value of the PTC as well as its regional competitiveness. It is also important to note that as activity intensifies in this centre the social value associated with it is likely to rise still further (there are spatial limits to this in larger areas that can 'crowd out' or reduce this increase.

Although, as previously pointed out, marginal changes in community values would be ideal, the use of total value figures give clear indications of the potential value and therefore the loss to community well-being. Given the relative value differences between a consolidated value for a regional or town centre, such as PTC in Kapiti, and a value attributable to a more dispersed structure the potential proportional loss in social value for the residents of the District in terms of the PTC is likely to be between $1.2m - $1.8m per annum.

This figure is based on the population of Kapiti District as well as potential internal competition within the district. As previously stated this value does not imply all future business investment should take place in the town centre as issues of convenience, choice, sustainable infrastructure utilisation and local identity become increasingly important for different forms of commercial activity.

As commented earlier the comparison here is not the current situation compared with continued decentralisation (or the 'with' or 'without' scenario), it is consolidation of business activity in the PTC versus this dispersal scenario. Value to the community of these retail / community centres is not just what is currently valued by the community but what could be achieved. This value is an indication of the potential loss to the community that is unlikely to be replicated elsewhere.

It can be argued that this activity and vibrancy act as a competitive advantage for the PTC and thereby work as trade competition. However, the value of the PTC to patrons is not just determined by their own decisions but those of other participants who do not consider this loss in their decision making, resulting in a direct resource effect on a third party. By dispersing business activity, the value of a vibrant centre is reduced, there is little doubt that, allowing for congestion, there is a direct relationship between the level of activity in a centre and the average amenity value achieved from it.

For Kapiti District this is crucial as less intensive commercial, or commercial activities based in other areas, argue that they provide a unique attractive area for business. In economies the size of Kapiti such areas are unlikely to result in 'additional' business activity within the district and simply detract from the potential efficiencies of this activity being consolidated. In simple terms, once again although there may be some benefit to the individual businesses in locating in less intense areas the loss to the economy as a whole will inevitably outweigh this.

Kapiti currently exhibits signs of 'commercial sprawl' with businesses being attracted to fringe locations outside of the PTC and in fact any centres. As previously stated although this may be beneficial to these individual businesses, within the current Kapiti economic environment, these locational decisions will, and have, impact upon Kapiti Coast's overall all efficiency, productivity and employment retention rates.

Further to this dispersing commercial activity, and the resulting reduction in vitality and vibrancy, will reduce the marketability or competitive nature of the remaining PTC in turn shifting the balance for other businesses who are likely to reassess their locational choices away from the PTC.

A more liberal view may also illustrate the problem of reducing the choice of some people for the benefit of others. The issue here pertains to welfare economics; it is the wider community well-being that should concern policy makers. This is the purpose for intervention impacting upon what the market would produce so that it creates a social equilibrium. In making a private decision a patron may weigh up a price saving of say $50 per annum (in an out-of-centre location) with their social value of an existing centre, $40, and make the decision based on the perceived $10 gain. However, the fact that they no longer use the centre may have a cumulative effect on everyone else of $100 per annum. Thus the community well-being is enhanced by having that patronage in the centre.

In terms of benefits to the wider economy, vibrancy and local amenity are often key factors in the housing and employment decisions made by skilled labours. This environment is more likely to lead to increases in value added goods and productivity gains for the local economy. The current framework under which businesses locate in Kapiti is likely to exacerbate the dispersal of this activity reducing Kapiti's overall competitiveness not only for business in general but in terms of its appeal as a visitor destination and residence.

6.2. AGGLOMERATION AND PRODUCTIVITY GAINS

The arguments for agglomeration pertain mainly to specific productive activities within an economy. The basis for these arguments is that increased densities lead to synergies, improved flow of information, ideas and innovation, economies of scale and utilisation of resources. The presence of agglomeration effects within the New Zealand market is somewhat contentious, however the supporting academic and empirical evidence identifying the economic benefits are particularly strong and widely accepted.

Work undertaken in 2007 by Ascari Partners and Richard Paling Consulting (Williamson, Paling & Waite, 2007) has shown a doubling of employment densities accompanied by accessibility will result in productivity gains of around 6%. While work undertaken in Britain (Dan Graham 2006) found that the doubling of the effective density rate (in a given area) resulted in average productivity gains of 12.5% and service sector gains of 22.1%. It is important to note here that these productivity gains would need to already exist in a market for them to be considered by individual firms and are therefore less likely to occur without other incentives for them to locate here. Therefore, this is unlikely to currently be a motivating factor within Kapiti given the market that exists.

Agglomeration benefits are generally based around the ability for a centre to provide the following:

- increased specialisation – there may be enough business to support a general accountant or lawyer in a small town but in a large city there is enough to support business advisers who specialise in very narrow fields of work thereby improving efficiency and expertise;

- knowledge spill overs, both between firms in the same sector and across sectors, leading to increased innovation;

- competition – the presence of lots of firms offering similar products spurs on competition, innovation and efficiency and there are lots of buyers to compete for;

- larger labour markets offer wide choices for employers and the opportunity to recruit staff with specialist skills;

- economies of scale are created by serving larger markets.

There are varying levels of these benefits given the overall size and role of a centre within an economy. The PTC represents a unique opportunity for the Kapiti District to provide these benefits at a level that will create a more productive economy, increasing the well-being of the entire community and resulting in greater levels of competitiveness for the Region as a whole.

It is important to note that agglomeration is not restricted to large cities but is the result (at differing levels) of diversity and the ability for an area to attract more productive sectors into the economy that would otherwise service Kapiti Coast from outside the area. These sectors will typically only locate in accessible areas that exhibit synergise (spatially) with the local market. The consolidation of activity, within specifically the existing PTC, is the only way by which Kapiti will attain any degree of these agglomeration benefits and improve its economic competitiveness.

The agglomeration of commercial activity has two effects which are important to distinguish between, the first is the increased profile created by a critical mass of activity. There are obvious 'flow-on' benefits to suppliers of locating within a vibrant and active centre along with the potential for some economies of scale. These benefits however are for the most part considered by the market in its locational decisions. Based on these benefits alone there would be no requirement for intervention as the market would operate efficiently.

However, the second impact of agglomeration has to do with the environment that is created through this critical mass. Centralised business activity creates both amenity and diversity with the local area. The agglomeration of commerce into centres provides an environment that will facilitate that agglomeration of other commercial activities and allow for the productivity gains identified above. International research has shown a clear link between vibrancy and local amenity and skilled employment and business locational decisions.

The ability of commercial and retail activities to provide this environment, and thereby improve community wellbeing, is not considered in individual business decisions and are therefore distributional impacts with regards to this resource.

The potential level of these agglomeration benefits, in productivity terms for the District, are significant. Table 1 below illustrates the Employment activity distribution within the PTC proportional to the Kapiti District. It shows the dispersed nature of specially the commercial and retail employment activity within the District. With over 50% of employment activity outside of the identified centres the potential economic benefits of consolidated activity are significantly diluted within the District. In productivity terms a 10% increase in the consolidation of appropriate activities within centres could result in an increase in GDP of over $3m per annum.

The potential migration of business activity from the PTC and appropriate centres will continue to undermine Kapiti's GDP and overall competitiveness. It is considered that such a movement is inconsistent with providing for the economic wellbeing of the community and directly detracts from the potential efficiencies of this activity being consolidated within the PTC.

TABLE 1: KAPITI TC PROPORTIONAL EMPLOYMENT (2014 ECS)

Node / Area	Industrial	Retail	Commercial	Other	Total
Kapiti Road	355	145	91	136	727
Otaki Outlet Centre	30	223	17	12	281
Otaki South	127	17	17	32	193
Otaki TC	42	147	40	34	262
Pakakariki TC	33	27	12	3	75
Paraparaumu Airport	18	75	0	9	102
Paraparaumu Beach	27	159	78	41	305
Paraparaumu East	43	18	12	12	85
Paraparaumu TC	196	1,070	653	666	2,585
Raumati Beach	0	30	41	177	247
Waikanae East	120	40	30	49	240
Waikanae TC	145	300	134	132	711
Out of centre	1,204	920	1,222	2,622	5,969
Total	**2,342**	**3,170**	**2,346**	**3,924**	**11,782**

Source: Statistics NZ, Property Economics

6.3. ADVERSE EFFECTS ON COMMUNITY INFRASTRUCTURE

The provision of community facilities and infrastructure is a social investment. The justification for this investment is the social value that these services and facilities provide to the community. This is considered to be significant enough that they are publicly funded and supplied. The reason they are publicly supplied is because given their social value the free market would not supply enough of them given a patron's individual value (price).

This level of social investment is evident in the fact that over the next 15 years it is expected that the Council will spend nearly $45m on town centres and major connectors.

In Kapiti town centres these facilities include libraries, civic and administrative functions, community centres, public meeting areas, police stations, transport nodes, etc. These are generally provided in centres with high activity so as to coincide with retail and other uses.

The scale of these facilities also coincides with the scale of activity located within the centre, e.g. the primary library in Kapiti is in PTC. This in, and of itself, is reason to suggest that there is a direct relationship between use of community facilities and other activity such as retail and commercial activity. Simply put the greater the level of activity and accessibility in a centre the greater the utilisation of such public assets. Not only is profile important for these types of facilities but they are located to make good use of multi-use trips.

The provision of these facilities are sometimes seen as 'sunk costs', dismissing their relevance and their potential underutilisation as costs to decentralised retail activity. Although this line of thinking is correct with regards to the fixed investment it fails to consider the return from the community investment that is lost if these assets are undermined. The utilisation of these assets has community value that must be considered when potentially reducing their usage. Property Economics consider what are seen, in this regard, as sunk costs are in fact community investments that must be considered in terms of their initial costs (and hence on-going opportunity cost) to society. Even if the investment is irrecoverable (hence not property, etc.) there is still a need to have regard for this investment, especially if not considering their value is likely to lead to a duplication of facilities.

There are two potential effects of reduced usage of community facilities within centres. The first is that the marginal cost per patron increases thereby reducing efficiency and reducing the social benefits through its provision, and the second is that the infrastructure has to be duplicated (even on a small scale) elsewhere causing significant inefficiencies of community resources. The costs involved in underutilisation of these resources or indeed their duplicate are relative obvious and must be considered when locating associated activities.

The provision of these facilities within centres may result in a slight competitive advantage for these retail locations as they draw primary users, however reduced activity densities will result in a lower potential utilisation. (Property Economics Social Survey showed 19% of personal visits to town centres were to utilise community facilities, 10% of these were the primary purpose for the visit)

The Kapiti Coast District Council provides these resources because they have significant social benefit to the community, to undermine their use, in any way, diminishes that benefit. The basic principle here is to try and maximise the net social benefit gained through provision of these goods, therefore the location of these is extremely important. To put a library in the middle of no-where and then to argue that people still have the choice to use it if it enhances their own well-being is absurd, it increases the private cost and reduces the social benefits associated with that facility. This co-location also has the potential to increase accessibility and efficiencies in terms of travel.

The argument pertains to whether the choice made by patrons is an informed one and whether the 'free' market will take into account the 'true' value of these resources to the community. Society is continually restricting consumer choice based on what is most beneficial to the community as a whole, cigarettes, drugs, pollution, etc., private choice is restricted for the betterment of society. Individual choices must be held accountable to the community.

6.4. TRANSPORTATION EFFICIENCY

The basis for this argument lies in the transport efficiencies achieved through the agglomeration of activities with one of the key generators or these travel patterns being retail patronage.

Transportation efficiencies are fundamental when considering the economic costs and benefits associated with this intervention. These values are inherently linked to the level of accessibility to activities and assets within these areas. In terms of costs, relating to the proposed District Plan, it is crucial that consideration is made for the capacity of this infrastructure as the benefits are likely to be tempered by a 'crowding out' effect.

In terms of transportation this is often referred to as congestion. The impact of this is to reduce the benefits attributable to these locations while increasing the costs in terms of reduced convenience and increased travel times. Given the conditions that exist in the Kapiti District it is highly unlikely that this will occur.

Efficient transportation networks provide obvious benefits to the community that are not considered in these decisions. These benefits include:

- Reduced public costs for roading and transport infrastructure (reducing the need for duplication)
- Reduced pollution
- Increased certainty around public and private sector infrastructure investment
- Reduced marginal cost (reducing the 'per trip' cost)

It is generally accepted that there are transport efficiencies associated with centralised activity. It is fundamental to note that not all these benefits are considered in individual decisions. Given that the level of investment into this form of infrastructure climbs into the millions of dollars it is critical that this be given some level of security as to its efficient utilisation and therefore effective return. Retail location is essential both directly and indirectly in these decisions due both to the level of activity generated by this market and the co-location of other activities due to amenity.

6.5. LAND USE EFFICIENCIES

A key purpose of planning is to produce the most efficient use of an economy's land resource. Planning regulations are designed to control private uses for this resource so as to produce a sustainable long-term outcome. Inherently there are two potential short-falls of the market in achieving this with regards to business location.

The first issue is associated with the potential lack of information available to private developers. This may take the form of making decisions without full knowledge of competitor investment plans. Inaccurate forecasts of future demand may affect the efficient allocation of this land resource. This potentially leads to an oversupply of commercial space within the market. The relevance to commercial locations is that there is a propensity of out-of-centre development to have a greater degree of viability (and lower risk) in the short-run thus resulting in the over-supply.

Secondly, potential efficiencies are lost where a resource is over allocated as the market has no necessity to utilise these efficiently. For example, without restrictions on residential land some efficiencies would be lost from higher density living. The efficient use of land is fundamental to community well-being. The provision of relatively cheap land in inappropriate locations provides the market with misleading signals which has the potential to reduce the productivities of land for the entire economy.

This position is only partly tempered by the need to provide adequate quantities of land in appropriate locations to meet the potential demand and provide a competitive environment. However, the negative impacts of an oversupply of land are most acutely felt in the commercial market and so are most crucial in terms of net effects. Within Kapiti Coast the provision of what is seen as competitively priced commercial land will inevitably result in reduced land efficiencies.

6.6. POTENTIAL COSTS OF CONSOLIDATED ACTIVITY

As stated the market is an efficient allocator of scarce resources. Market indicators such as price typically channel these resources based on demand and relative value. The recognition of social benefits over and above these, and any subsequent intervention, has the potential to influence these indicators and lead to inefficiencies.

Intervention into the 'free' operation of the market in the form of District Plan Changes may result in:

1. The retention or increase in the price of business land

2. Congestion leading to reduced accessibility and therefore a 'crowing out' benefits outlined

3. Potential exclusion of some development models

4. Reduced flexibility in centres that previously had more permissive standards

5. Increase in the cost of business operation

The provision of cheap land for business use has long been the basis for the decentralisation of activity. The priority of land costs in business location decisions is most commonly held by low profile businesses that do not rely on the presence of other business activity to support the viability of their business. However, as previously stated, these businesses themselves create a profile that inevitably changes the relative 'attractiveness' of locations for other businesses. This in turn has a significant impact on all the benefits previously identified.

The simple point here is the provision of cheap land can create a competitive advantage for a local area, however this is a short term benefit that is typically outweighed by the reduction in amenity achieved by other businesses and therefore a 'roll-on' decentralising effect. The market does not consider these dis-benefits and therefore the price of this land for these businesses is not a true representation of its cost, thus leading to inefficient resource use.

Accessibility is a key factor in the level and existence of the benefits attributable to business agglomeration. Without this these benefits will be significantly reduced. It is fundamental that capacity of the existing network is maintained. However, this is unlikely to be an issue for Kapiti as the congestion of activity (land, traffic, people) will not occur given its foreseeable future.

Over the past 15 years there has been a proliferation of development models fundamentally structured so as to compete by utilising their 'destination' status and therefore avail themselves of resources with reduced competition. Development of retail and office blocks out-of-centre are feasible where businesses do not require the benefits of existing centres and in fact thrive on the redirection of centre activity. These developments are at the forefront of community dis-enablement as they create greater costs than they generally provide. There is no reason to suggest that these development models will not operate successfully in competition with others, as they do currently throughout the Wellington Region.

The potential increase in business costs relate primarily to rents. This also occurs in a 'free' market where the agglomeration benefits outlined are recognised and realised by the market and considered in their locational decisions. These increases are general a market reaction to the increases in productivity achieved.

However, as previously discussed, these benefits are not always recognised and as such their value is reduced in the market leading to a spiralling fall. Without intervention into the market through the proposed changes there would be no corresponding increase in production to outweigh the potentially higher rent levels. Overall the potential to increase business costs is more than meet through the increased density while additional economic benefits accrue to the community as a whole.

Due to the fact that the potential losses to the community of allowing continued decentralisation are so great, in this environment, and the likely risks to the economy of proposed commercial changes are so limited, it is entirely prudent to assume a proactive stance on this issue. There is an important balance to be maintained between protecting community benefits and potentially stifling positive market growth.