

BEFORE THE KĀPITI COAST DISTRICT COUNCIL

IN THE MATTER of the Resource Management Act 1991 ('the Act')

AND

IN THE MATTER of the proposed Kāpiti Coast District Plan

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

Dated: 2 SEPTEMBER 2016

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 20 years' commercial experience, the last 16 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 Since 2012, I have provided regular analysis and advice to assist the growth and development of Kāpiti Landing, and therefore have a strong working knowledge of the district economy and 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.
- 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 The purpose of my evidence is fourfold, namely to:
 - assess the current health of the district's retail market;
 - consider the rationale for additional retail land over and above PC72;
 - analyse the differing roles and functions of the Pararaparaumu Town Centre and Kāpiti Landing; and
 - briefly consider the potential economic effects of two specific aspects of the relief sought by Kapiti Landing.

EXECUTIVE SUMMARY

- 11 Using detailed electronic transaction data, I first compare the rates of retail expenditure leakage in and out of Kāpiti to a handful of similar districts across NZ. This simple exercise shows that, contrary to common belief, Kāpiti's leakage situation is actually quite favourable. For example, not only was Kāpiti's outwards leakage lower than all its peers, but its overall net position was strong.
- 12 Next, I reviewed the district's current retail vacancy rate – another key indicator of health – and found that it had halved since 2011 to now be around only 3%. Coupled with the fact that new retail space is being developed at three sites across the district, this confirms that the local retail market is healthy and vital.
- 13 Having established that the district's retail sector is in good health, I then consider the need for additional retail-zoned land (over and above that achieved via PC72A). According to the Kāpiti Coast District Council (Council) and its advisors, there is no need for anything further, partly because they believe there is a current oversupply.
- 14 I work through that logic and show that it is likely to be unreliable. Further, I show that, regardless of the current situation, greater competition in the land market is more likely to deliver desired outcomes than a highly-regulated approach, as has been pursued to date.
- 15 I also note that no evidence has been provided to show that the likely retail floorspace yield from PC72A will be sufficient or developed in a timely manner, hence my concerns about relying solely on PC72A to meet future retail needs.
- 16 Next, I compare the roles and functions of the town centre and Kāpiti Landing against several criteria, such as co-location with non-retail activities, types of anchor tenants, overall retail mix, provision of amenities, built form, levels of accessibility, and so on.
- 17 I show that, not only is Kāpiti Landing already the second largest retail node in the district, but that it 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. To reinforce this critical point, I also list a dozen other examples where town centres and 'mega centres' successfully operate within 2km of each other.
- 18 Given these differing roles and functions, I conclude that there is no need to restrict the growth of Kāpiti Landing to protect the health and vitality of the town

centre. Instead a more enabling approach will provide enduring benefits to all district ratepayers by increasing choice and promoting economic efficiency.

- 19 Finally, I briefly consider two key aspects of the relief sought. The first was to make one department store a discretionary activity (with more than one department store a non-complying activity), and the second was to increase the caps on small-scale convenience retail and small-scale commercial services.
- 20 In short, I do not consider either aspect to challenge the role and function of the town centre, nor to comprise the health and vitality of other centres in the district. Conversely, both will help improve district self-sufficiency and increase the range of goods and services available to locals. Accordingly, both are supported on economic grounds.

CURRENT HEALTH OF THE DISTRICT RETAIL MARKET

- 21 Over the last five years, the Council has received ongoing advice from Property Economics (PE) on a range of issues related to the district's retail network. A recurring theme throughout is PE's view that there is a "higher than normal level of leakage out" of the district¹, and that this is a key indicator of a poorly-performing retail network requiring the protection of retail space in certain locations
- 22 For example, PE has interpreted outwards leakage as evidence "that the retail needs of Kapiti Coast residents are not being met by the existing retail offer/centres in Kapiti"² and that "this does not paint a great picture currently."³
- 23 While I acknowledge that retail expenditure does leak out of the district, this alone does not provide a complete picture of local retailing issues. Indeed, I am not aware of any district in New Zealand that fully provides for all the retail needs of its residents, not even Auckland. Hence, solely relying on only one factor (such as leakage) to determine market health – without due consideration of other factors – may lead to skewed planning responses and inefficient market outcomes.
- 24 The reality is that, for the purpose of retail markets, district boundaries have no real meaning and are thus little more than lines on a map. Accordingly, there is no *a priori* reason to expect retail expenditure to be neatly confined to each

¹ PE October 2015 report, p25

² PE April 2016 report, p9

³ *ibid*

district. Conversely, the flow of retail expenditure in and out of districts is perfectly natural and occurs all across the country, even in our biggest cities.

25 To illustrate this critical point, I collated various *BNZ Marketview* datasets that I have purchased over the last five years and used them to benchmark Kāpiti’s leakage patterns against other districts with broadly similar characteristics.

26 The results are tabulated below and show that, not only is leakage in and out of districts normal, but that the rates of leakage in and out of Kāpiti are quite favourable relative to other similar districts.

Table 1: District Retail Inwards and Outwards Leakage Flows in 2013

Districts	Retention %	Leakage Out %	Inflow %	Net position
Central Otago	60%	40%	34%	95%
Kāpiti Coast	71%	29%	17%	88%
Matamata	59%	41%	18%	78%
Selwyn	28%	72%	12%	40%
Waikato	16%	84%	8%	24%
Waimakariri	50%	50%	15%	65%
Waipa	56%	44%	29%	85%
Weighted Averages	50%	50%	21%	71%

27 For example, Table 1 shows that Kāpiti’s retention rate (of 71%) is significantly higher than any of the other districts, and well above the average. At the same time, it shows that Kāpiti’s inflow rate is only slightly lower than the average for its peers, and that its net position is second highest after Central Otago.

28 It is also interesting to note that leakage is not just a “small-town” occurrence either. For example, the *Marketview* data I have collated also showed that the rates of outward leakage for Queenstown and Hamilton were 27% and 21%, respectively, which is only slightly less than Kāpiti Coast’s 29%. Even Christchurch – whose retail market is 10 times bigger than Kāpiti’s – experiences outward leakage of 16%.

29 As a result, I strongly refute PE’s claims about the “abnormality” of Kāpiti’s retail inflows and outflows and disagree with PE’s interpretation of those flows with respect to the health (or otherwise) of its retail network.

30 Nevertheless, I understand the Council’s desire to retain and attract spending within Kāpiti as there are likely to be a number of benefits, including an increased rating base, higher visitor numbers, greater local community vibrancy, increased choice for residents, and so on.

- 31 From an economist’s perspective, the most appropriate way to facilitate the realisation of such benefits is to allow greater – rather than lesser – flexibility in what, where and how such opportunities can be provided.
- 32 In terms of gauging the health and vitality of a district’s retail network, in my view the simplest and most transparent way is to examine its vacancy rate, and the level of new investment in retail floorspace (if any). All other things being equal, the lower the vacancy rate and the higher the level of new investment, the healthier the retail network, and vice versa.
- 33 The various PE reports published over the last five years have also noted the importance of the vacancy rate as an indicator of retail network health. To that end, PE’s 2011 “employment areas” report included a detailed audit of every retail store in the district, which found a district-wide vacancy rate of only 6%.
- 34 According to that report – and subsequent iterations – this 6% vacancy rate “is not of concern at its current level, but any increase in vacancy trends would start being of concern.”⁴
- 35 I agree that a 6% vacancy rate is no cause for concern, and take the opportunity now to update PE’s 2011 estimate to the current day. This was done by identifying and compiling vacant retail tenancies listed across various real estate websites as at 25 August 2016.
- 36 The following table presents the results. In short, I found only 15 vacant premises currently available for lease with a total GFA of nearly 3,000m².

Table 2: Vacant Retail Premises in Kapiti Coast District (as at 25 August 2016)

Location	Address	GFA
Kāpiti Landing	1D2 Kāpiti Landing	167
Kāpiti Road	119 Kāpiti Road	258
	144 Kāpiti Road	322
Otaki	206 Main Highway	190
	210 Main Highway	220
	235 Main Highway	380
	3/4 Arthur Street	111
	4/4 Arthur Street	153
Paraparaumu Beach	345 Kapiti Road	70
	44 Seaview Road	100
Paraparaumu Town Centre	1 Coastlands parade ⁵	200
	110 Rimu Road	190
	908A Coastlands Shopping Town	97
	Shop 17 Coastlands Shopping Town	445
	Shop 1 Coastlands Shopping Town	95
Total		2,998

⁴ PE October 2015 report, p19

⁵ There was no GFA provided for this listing, so an estimate was made based on the photos provided.

37 By comparison, the 2011 survey by PE found 37 vacancies with a total GFA of just over 5,500m². Clearly, then, the rate of vacancy has fallen considerably since PE's 2011 report, which shows that the district's retail network is in even better health than it was in 2011.

38 This is reinforced by the fact that new investment in retail floorspace is also occurring in several parts of the district. Specifically, new retail premises are currently being developed (or about to start) in the Paraparaumu town centre, Paraparaumu Beach, and also at Kāpiti Landing.

39 Coupled with the very low vacancy rate identified above, this new investment in retail floorspace proves that the district's retail network is both healthy and vital which, in turn, gives rise to new opportunity.

THE NEED FOR ADDITIONAL RETAIL-ZONED LAND

40 Not only does PE see leakage in and out of the district as evidence of a problem, but it also takes the view that there is no need for additional retail-zoned land (over and above that which was achieved as a result of PC72A).

41 While I agree that the PC72A land has the potential to make a valuable contribution to future retail land supply, I disagree that there is no need for additional retail-zoned land elsewhere in the district. At the very least, from an economic perspective, the greater the degree of competition within any market the greater the likelihood of meeting the needs of participants in that market (in this instance, retailers currently not present in Kāpiti, District residents who choose to spend their dollar outside of the District, and residents outside of the District who chose not to come to the District for retail purposes).

42 There are several issues that require consideration in this regard. First, PE's position appears to reflect its underlying belief that there is a current oversupply of retail floorspace. However, that belief is at-odds with both the very low vacancy rate established above, and the fact that new supply is being provided in three existing areas.

43 Indeed, if the market truly was over-supplied, the vacancy rate would not have halved since 2011 and new supply would not be proceeding at multiple sites.

44 In my opinion, claims of an oversupply reflect little more than the results of a theoretical reconciliation of supply and demand, the results of which are highly sensitive to the assumptions made. As a result, it is difficult to place much, if any, weight on the conclusions reached in this regard.

- 45 Another issue with sole reliance on the PC72A land for future retail development is the failure by PE to confirm that the likely yield (in terms of retail floorspace) will be sufficient to meet future needs during the life of the Proposed Plan.
- 46 Indeed, while I understand that the PC72A land covers quite a large area, I also understand that its development is likely to be constrained by a range of factors, such as the sand dunes and flood plain issues, and that no definitive timeframe for development has been promoted. Such factors contribute to what could be considered a potentially-classic opportunity for land banking. Accordingly, in order to rely on this for capacity purposes, it is important to demonstrate that the PC72A land would indeed be sufficient and likely to be developed within the next 10-15 years. I am not aware of any such evidence being provided to date.
- 47 Accordingly, it is important to consider not only the quantum of land available for future retail development, but also its ownership patterns. All other things being equal, the greater the diversity of land ownership, the more efficient the outcome. This is why I have significant reservations about relying solely on the PC72A land to meet future retail supply needs.

THE DIFFERING ROLES AND FUNCTIONS OF THE TOWN CENTRE AND KAPITI LANDING

- 48 One of the most perplexing aspects of the Proposed District Plan process has been the Council’s refusal to recognise Kāpiti Landing as a retail node. For example, the centres hierarchy makes no mention of it despite submissions seeking its inclusion (one way or another).
- 49 While I am unsure of the Council’s rationale for this, its significance as a retail node is difficult to ignore. In fact, with 17,400m² of retail activity established, Kāpiti Landing is already the second largest retail node in the district after the town centre. To elaborate, Table 3 shows the various tenants that comprise the retail precinct.

Table 3: Current Status of Kapiti Landing Retail Precinct

Status	Building & Tenants	GFA m ²
Completed	Building 1A – Mitre 10	8,450
	Building 1B – New World, Smiths City, Kitchen Things & Repco	6,400
	Building 1D – Liquor King, Burger Fuel & vacant	530
	Building 2H - HMC Holden	1,090
	Building 2K - A Grade & vacant	890
Under Construction	Building 2M/P - Placemakers	2,850
	Site 2J - Service Station	220
Total		20,430

- 50 While Kāpiti Landing has clearly evolved into a significant retail node of its own, its role and function differs from the town centre, so that the two areas support and complement – rather than cannibalise – one another.
- 51 These differing roles and functions are illustrated in the table below, which compares the two areas across various key attributes. Clearly, the role and function of the town centre is much broader than Kāpiti Landing, particularly in terms of entertainment, amenities, co-location with other services, and the focus on fashion/health/beauty.

Table 4: Comparison of Roles and Functions

Co-Location with Non-Retail Activities	Town Centre	Kāpiti Landing
Civic/community facilities	Council, Library, WINZ	x
Schools	Kapiti Primary School	x
Tourist facilities	i-site	x
Provision of Amenities		
First Aid	✓	x
Baby Stroller Hire	✓	x
Wheelchairs and Mobility Scooter Hire	✓	x
Lost and Found	✓	x
Gift Cards	✓	x
Customer service desk	✓	x
Lotto store	✓	x
Entertainment Features		
Cinemas	✓	x
Foodcourt	✓	x
Anchor Tenants		
# of anchor tenants	6	2
Focus of anchor stores	Food/fashion/appliances	Food/hardware/building
Fashion/Health/Beauty		
# of clothing/footwear retailers	15	x
# of jewellery retailers	3	x
# of hair/beauty/nail salons	7	x
# of dental/medical/optical services	6	x
Built Form and Urban Design		
Building configuration	Mall and main street	Mega centre layout
Urban design character	mixed	minimal
Accessibility & Movement		
PT Integration	bus and rail	none
Vehicle-reliance	medium	high
Walkability	good	limited
Overall Role & Function	Town Centre	Mega Centre

- 52 Table 4 above shows that Kāpiti Landing has evolved into a different type of retail location than the town centre, with limited non-retail functions.⁶ Given the low vacancy rate established earlier, and the fact that the town centre is expanding, it should be clear that Kāpiti Landing’s evolution has not affected the health and vitality of the town centre. Again, this is because they serve different roles and functions.
- 53 It should therefore be no surprise that there are many other examples across New Zealand of ‘mega centres’ and town centres successfully co-existing without any issue. For example, the following table lists 12 examples (including Kāpiti Landing) where a mega centre is successfully located within 2km of a regional/town centre.

Table 5: Examples of Mega Centre and Town Centre Co-Location

Mega/Bulk Retail Centre	Main/District Centre	Distance km
St Lukes Mega Centre	Westfield St Lukes	0.4
Albany Mega Centre	Westfield Albany/Albany Metropolitan Centre	0.5
Waitakere Mega Centre	Henderson Town Centre	0.5
Manukau Supa Centa	Westfield Manukau/Manukau Town Centre	0.9
Porirua Mega Centre	North City shopping centre	1.0
Homebase	Shirley/The Palms	1.4
Kapiti Landing	Paraparaumu Town Centre	1.4
Bay Central	Tauranga CBD	1.5
Tower Junction Mega Centre	Westfield Riccarton	1.8
Harvey Norman Centre	Sylvia Park metropolitan Centre	1.9
Pukekohe Mega Centre	Pukekohe Town Centre	2.0
Southgate Shopping Centre	Papakura Town Centre	2.3

- 54 The reason these centre pairs successfully co-exist is that, despite significant spatial overlaps, they have minimal *functional* overlaps. Accordingly, the degree of competition between them is much less than proximity alone might suggest. This is an important point that cannot be overstated.
- 55 Indeed, one of the key purposes of establishing a centres hierarchy (as applies to many of the areas above) is to recognise the differing roles and functions of centres in different parts of the hierarchy irrespective of their locations.
- 56 Looking forward, the best way for the Council to ensure the ongoing success of the town centre is to focus on making it as attractive as possible, not by hampering the orderly growth of other district retail areas, like Kāpiti Landing.

⁶ For convenience and consistency with prior terminology, I have referred to Kāpiti Landing as a mega centre. However, despite that, this term no longer relates to current retailing practice.

- 57 This seems particularly relevant given that the town centre received the lowest amenity score of all district centres in the PE's comprehensive 2011 "employment areas" report. Further, it aligns with the Council's recently-announced 14-year transformation project for the town centre.
- 58 In summary: Kāpiti Landing performs, and will continue to perform, a different role and function to the town centre. Accordingly, there is no need to constrain one through what appears to be a quasi-retail licensing scheme to enable the ongoing health and vitality of the other.
- 59 A far more appropriate response – should the Council still wish to manipulate the market through planning provisions – would be to focus on improving the quality of the local retail offer, rather than focussing purely on the quantum of floorspace.
- 60 Through providing greater choice of retail location, the District creates its best chance of attracting and retaining retailers that have yet to locate in the existing town centre, and who are unlikely to do so in future. By adopting a more enabling approach like this, the Council can help grow the overall size of the retail market for the greater good of all ratepayers.

BRIEF COMMENTS ON KEY ASPECTS OF THE RELIEF SOUGHT

- 61 Finally, I briefly comment on two key aspects of the relief sought:
- (a) making one department store a discretionary activity (with more than one department store a non-complying activity); and
 - (b) increasing the caps on small-scale convenience retail and small-scale commercial services.
- 62 I have considered the potential impacts of these changes on the role and function of Kāpiti Landing, and how that relates to the role and function of the town centre. My assessment concluded that neither of the changes sought would fundamentally alter the role and function of Kāpiti Landing, nor would they challenge the role and function of the town centre.
- 63 For the department store aspect, this is because:
- (a) The development of a department store pursuant to this relief would still be subject to a full assessment process, at which point potential effects can be considered in detail. As a result, there is no scope for unfettered adverse flow-on effects to occur.

- (b) Furthermore, it is common for 'mega centres' like Kāpiti Landing to include a department store anyway. For example, of the 12 mega centres listed in Table 5, 10 contain at least one department store.
- (c) At present, over 40% of department store spending that originates in the District leaks out, so enabling a department store to establish at Kāpiti Landing will help to address this. Accordingly, the relief sought will help increase the size of the local retail pie and improve overall self-sufficiency.
- (d) The inclusion of a department store at Kāpiti Landing will not dramatically alter its core role and function, as this has already been largely determined by the existing retail mix, and also the other key attributes listed in table 4 (most of which are now largely pre-determined).

64 For the increase in small-scale convenience and small-scale commercial services, I also believe that the relief sought will not significantly alter the role and function of either the town centre, nor Kāpiti Landing. This is because the former is largely a "comparison shopping" destination, not convenience, with any convenience function played by the town centre being only secondary.

65 As a result, any competitive effects of increased smaller sale convenience retailers and commercial service providers at Kāpiti Landing will be spread widely across all other centres in the district, so that effects are both diffuse and relatively minor.

66 Accordingly, neither aspect of the relief sought will compromise the health and vitality of the town centre, and hence both are supported on economic grounds.

Fraser James Colegrave



2 September 2016