

BEFORE THE HEARINGS PANEL

IN THE MATTER of the Proposed Kapiti
Coast District Council Plan
Review 2012

AND Submissions by **Coastlands
Shoppingtown Limited**

**Submitter No. 218 and
Further Submitter No. 55**

**BRIEF OF EVIDENCE OF JOHN PHILIP SMALL
(ECONOMICS/RETAIL EXPERT)
ON BEHALF OF COASTLANDS SHOPPINGTOWN LIMITED (SUBMITTER 218) ON
CHAPTER 6 – OF THE KCDC PDP WORKING ENVIRONMENT**

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**BRIEF OF EVIDENCE OF JOHN PHILIP SMALL ON BEHALF OF COASTLANDS
SHOPPINGTOWN LIMITED**

1. INTRODUCTION

Qualifications

1.1. I have a PhD in economics from the University of Canterbury and worked as an academic economist for eleven years, mainly at the University of Auckland where I served as Head of Economics and helped to found two research centres (network economics and energy economics). I have held visiting academic positions at Monash University (Melbourne), the Universities of Florida and Victoria (British Columbia) and the London Business School. My academic specialities were in the fields of industrial organisation and econometrics. In the late 1990s I was a director of an Australian based economics consultancy and in 2001 I founded Covec in collaboration with two former students. I have been appointed three times to five-year terms as a lay member of the High Court of New Zealand pursuant to s77 of the Commerce Act 1986. My CV is attached.

Experience

1.2. My professional economics practice is focussed on competition and regulatory economics and commercial disputes. Since 1991, I have worked for regulators and government policy agencies in New Zealand, Australia, and the Asia-Pacific region, and for private firms in these places. I have also supplied expert evidence and been questioned under oath before courts, tribunals and/or commissions in each of these locations. Regarding local government issues in New Zealand, I have appeared before independent commissioners in Wellington, Auckland, Tauranga, Hastings and Whangarei and before the Environment Court in Auckland, Christchurch, Taupo and Hastings. These matters mostly concerned the retail industry but I have also given evidence regarding heritage protection, natural landscapes and genetically modified organisms.

Background

- 1.3. I have no previous involvement in matters leading up the Kapiti District Council's proposed District Plan (PDP). I was recently retained by counsel acting for Coastlands and this is the first evidence I am submitting on these issues. Prior to my engagement Mr Miller provided retail evidence on behalf of Coastlands. I confirm that I have read Mr Millers evidence in respect of the objectives of the PDP (Chapter 2) and I confirm that I agree with Mr Millers comments in his evidence.
- 1.4. I am familiar with the Kapiti district as a semi-regular road user between Wellington and Auckland. For the purpose of examining the issues at hand more closely, I have recently visited the Paraparaumu district and inspected the natural features and built structures that are relevant to these matters. In informing my evidence I have undertaken my own modelling of the demographic profile of Kapiti and the Paraparaumu area, the associated retail spending, and its implications for the demand for retail space.

2. CODE OF CONDUCT

- 2.1. Although not necessary in respect of council hearings, I confirm I have read the Expert Witness Code of Conduct set out in the Environment Court's Practice Note 2014. I have complied with the Code of Conduct in preparing this evidence and I agree to comply with it while giving oral evidence before the hearing committee. Except where I state that I am relying on the evidence of another person, this written evidence is within my area of expertise. I have not omitted to consider material facts known to me that might alter or detract from the opinions expressed in this evidence.

3. EXECUTIVE SUMMARY

- 3.1. This evidence is in response to the s42A report prepared by Sherilyn Hinton concerning Chapter 6 (Working Environment) of the Kapiti Coast District's proposed District Plan (PDP) and the submission points raised by submitters that are seeking amendments to the PDP. It was

prepared at the request of Coastlands which has interests in the Paraparaumu Town Centre (PTC) and represents the independent expert views of the author.

- 3.2. The objectives of the PDP are based on the strategic work undertaken by KCDC since 2003, including the McDermott Miller Retail Strategy 2006, the updated assessments for the Airport PC73, PC72A and (as detailed in Mr Miller's earlier evidence) note that these were confirmed by the Environment Court in the St Helier's Appeal. Through this work, the KCDC has adopted the view that planning of retail centres can generate positive public benefits. I support that view, and consider it implies an obligation to consider the effect of details within the PDP on the Paraparaumu Town Centre (PTC).
- 3.3. This obligation is all the stronger for the criticism levelled at the quality of retail offered at the PTC in Council documents and reports by the Council's consultants Property Economics. I agree that there is significant potential to revitalise the PTC and that doing so would generate real, though unpriced, public benefits. If that is the agreed objective, then the PDP needs to firmly curtail out-of-centre retail development in the Paraparaumu area.
- 3.4. I have reviewed the retail market analyses undertaken by Property Economics, on which the s42A report relies, and have identified several serious concerns. One is that Property Economics' retail supply data does not appear to have been updated since 2011, despite the agreement of experts including Mr Heath on figures some 24% higher during the 2013 Environment hearing of the appeal on PC72A. A second is that Mr Heath's assumptions about the revenue required to sustain retail capacity are internally inconsistent.
- 3.5. Correcting the second of these errors suggests that, far from needing extra capacity, the Kapiti district is oversupplied with retail space throughout the forecast period which runs to 2033. Correcting just the existing supply error by adjusting it to reflect the existing supply agreed

at the PC72A hearing has a similar effect, though less severe. Under this approach the district is over-supplied for the next decade.

- 3.6. This evidence strengthens the need for the PDP to strictly control out-of-centre development that would draw activity from the PTC and thereby undermine the economic public benefits associated with the PTC at a time when there is general agreement that enhancement (rather than detracting) is required.
- 3.7. My review of the s42A report and associated submissions showed that St Heliers and Kapiti Coast Airport Holdings (KCAHL) both see commercial benefits to themselves from out-of-centre retail development. This is apparent in their arguments over the wording of policies, rules and definitions, all of which are aimed at enabling more out-of-centre retailing.
- 3.8. Unfortunately, neither the KCDC nor its consultants Property Economics have described a cogent and consistent planning strategy to give effect to the PDP's centres-based objectives with economic public benefits. On the contrary, Property Economics blames Coastlands for retail leakage, though Kapiti's leakage is lower than most other districts in the Wellington Region and similar to Wellington itself. A similar bias is evident in the s42A report, where some of the suggested edits to policies and rules would directly undermine the economic public benefits of the centres-based objectives of the PDP.
- 3.9. None of the work I have reviewed has factored in the effect of major transport infrastructure projects, including the McKays to Peka Peka Expressway and Transmission Gully, which will materially cut the road travel time between Wellington and Kapiti. The PC72A appeal was focused on the local traffic network in terms of placement of a main street. In my opinion, these projects will trigger a complex recursive interaction between the location of firms and the movement of labour, the outcomes of which are impossible to reliably predict in advance.

- 3.10. Faced with the knowledge of a realignment of jobs and workers between Kapiti and Wellington, but uncertainty as to the net effects, there is a strong economic case for the KCDC to avoid making irreversible commitments to the enablement of out-of-centre retailing. Better informed decisions will be possible after these projects are completed.
- 3.11. In summary, while I strongly support the centres-based objectives in the PDP that intend to achieve economic public benefits, I believe that in several places the recommended changes to proposed policies, rules and definitions included in the s42A report undermine those objectives. This tension might arise from a desire for a “carrot and stick” approach to promoting amenity upgrades at the PTC. If so, I consider that the “stick” components need to be reconsidered. My assessment is that the outcomes sought by the KCDC and wider community for the PTC that have been identified through public processes over the past two decades will not be achieved in economic terms if the recommendations of the s42A Report are adopted.

4. SCOPE AND STRUCTURE OF EVIDENCE

- 4.1. I have structured my evidence as follows:
- 4.1.1. The background and context for this analysis is discussed in section 5;
- 4.1.2. Relevant economic concepts are presented in section 6, including external public benefits arising from centres, opportunity cost, the way planning decisions affect land-based competition between retailers and decision-making under uncertainty.
- 4.1.3. The concept of retail leakage and its implications for the matter at hand are considered in section 7;

4.1.4. In section 8 I discuss the supply of and demand for retail goods and the associated space requirements of retailers, particularly in the Paraparaumu area, as it pertains to the assessment of the PDP.

4.1.5. Drawing on the above analysis and the available evidence, section 9 then addresses detailed components of the s42A report in light of the relief sought by Coastlands.

5. BACKGROUND AND CONTEXT

5.1. It is clear that the Kapiti Coast District Council (KCDC) has endorsed a centres-based planning philosophy under which the form and function of existing (and potentially new) retail centres is maintained and enhanced. This philosophy arose from the strategic work undertaken since 20003 and has been validated through community consultation. It is apparent in Objectives 2.3 (development management), 2.16 (economic vitality) and 2.17 (centres), where the PDP endorses a centres-based planning approach with the PTC as the primary local element, alongside its regional importance as recognised in the Wellington RPS.

5.2. The s42A report echoes these objectives in several places. For example, it notes that the proposed district plan (PDP) includes an explicit centres-based philosophy at paragraph 264:

"The PDP introduces a centres-focused approach which seeks to recognise and reinforce the importance of the District's centres to the District's and the community's economic and social well-being."

5.3. Indeed, at paragraph 265, the s42A report says that the PDP

"seeks to set out a stronger and more directive centres-based strategic policy approach".

5.4. There are two economic motivations for this general approach: it enhances certainty which stimulates private sector investment; and it

promotes the positive spill-over effects (externalities) that occur in vibrant centres containing a mix of private and public goods and services. These concepts are discussed further below.

- 5.5. These overall objectives act as touchstones for the more detailed aspects of the plan as discussed in the s42A report on Chapter 6. However, while there is much to commend in that report, it also contains some recommendations that would undermine the objectives. Of major concern is that the s42A report refuses in several places to identify the airport zone as a 'business centre' or 'centre' but it nevertheless proposes allowing activities that would have the effect of creating a centre in this zone.

6. RELEVANT ECONOMIC CONCEPTS

- 6.1. As background for what follows, this section briefly outlines several economic principles and explains how they apply to the matters at issue here.

External Public Benefits of Centres

- 6.2. There is an extensive economics literature that examines how urban centres form and grow and the interaction between the number of people patronising a centre and the amenities offered in it. Most of this work concerns market activity for which measurable data are available. An important empirical fact underlying this literature is that productivity and wages are higher in urban centres than elsewhere, and have remained so despite major reductions in the cost of transport and communications.¹
- 6.3. The causal factors generating this correlation are still unclear however (and indeed may vary from centre to centre). For example, do attractive urban centres cause inward migration of skilled workers with high productivity, or do centres become attractive as a result of such

¹ Edward L. Glaeser (ed) *Agglomeration Economies*, University of Chicago Press, 2010, page 3.

clustering? Recent work by Storper and Scott (2009)² argues that deeper explanations

“must relate urban growth directly to the economic geography of production and must explicitly deal with the complex recursive interactions between the location of firms and the movements of labor.” (emphasis added)

- 6.4. I will refer to these “complex recursive interactions” further below. While these above comments derive from a literature focussing on the market-oriented and measurable benefits of centres, such as agglomeration economies, they apply equally to non-market and frequently un-priced amenities that also arise in popular urban centres. Such things as an attractively laid-out and landscaped town centre, combined with civic facilities such as libraries, parks and council offices are valued by residents and visitors. The same complex interactions exist as for market-based activities, and it can similarly be difficult to clearly identify which came first: the public amenities or the people enjoying them.
- 6.5. From the perspective of the policy and plan writers, the “*complex recursive interactions between the location of firms and the movements of labour*” need not be understood in great detail. It is instead sufficient to recognise that there are two opposing forces at work:³
- 6.5.1. Economies of scale (including agglomeration economies) are centripetal forces in the sense that they drive co-location in centres; but
- 6.5.2. Resources, including land and people, are spread more evenly and as they attract economic activity from centres, they act as a centrifugal force.

² Michael Storper and Allen J. Scott, 2009, Rethinking human capital, creativity and urban growth, Journal of Economic Geography, 9, pp. 147–167.

³ These ideas lie at the core of modern economic geography. See for example, Masahisa Fujita, Paul Krugman and Anthony J. Venables, 1999, The Spatial Economy, The MIT Press.

- 6.6. In summary, notwithstanding the centrifugal forces arising from dispersed resources, it is widely acknowledged that, in addition to agglomeration economies, there are also significant non-market benefits, also known as spill-overs or externalities, arising from the co-location of commercial, cultural and public service activities in centres. This view underpins the proposed district plan (PDP) recently notified by Kapiti Coast District Council (KCDC) which as noted in ¶15.3 above, seeks *“ a stronger and more directive centres-based strategic policy approach ”*.
- 6.7. The s42A report references (at ¶1268 – 270) background research and particular aspects of the Wellington Regional Policy Statement which support a centres-based approach. This approach is broadly consistent with the economics literature, though of course there are important details to consider.
- 6.8. For these reasons, in the balance of this evidence I will proceed on the basis that a centres-based planning strategy is broadly agreed, though I note (s42A report at ¶1256) that Kapiti Coast Airport Holdings Ltd (KCAHL) *also* want unhindered growth outside the town centre and St Heliers want liberalisation in Precinct C which is removed from the main PTC in Precinct A. Most of my attention in this statement will focus on how the agreed economic public benefits are best achieved, giving effect to the PDP’s centre’s based objectives.

Opportunity Cost

- 6.9. When resources are scarce, people and communities need to make choices, which involve *not* having or doing certain things, in favour of other things.
- 6.10. For example, the KCDC wants to promote the overall wellbeing of its community and considers that a strong and vibrant PTC is essential to that objective. Allowing retail, including yard-based retail, to locate in other places in the Paraparaumu region undermines this objective because the resulting retail supply attracts people away from the PTC.

- 6.11. The KCDC needs to decide how best to promote the PTC through its PDP. Inevitably, these decisions will forego some benefits for some people in some places. The *opportunity cost* of any decision is the value of the next best alternative that is foregone, or “cut off”.⁴ This concept is important to understanding what follows.

Retail Competition and Planning Rules

- 6.12. Local governments have statutory obligations to plan for the location of retail activity, which necessarily restricts the locational choices available to retailers (and other businesses). One economic motivation for planning is that many activities are un-priced, including the use of roads. Another is that there are spill-over benefits arising from a concentration of activities in a centre.
- 6.13. Retailers compete with each other by offering multi-dimensional bundles of goods and services. The goods are plainly on view to customers, as are some of the services such as ambience, layout, and helpful staff. Less obvious in the bundle, but economically relevant, is the distribution service: delivery of a selection of goods to conveniently locations.⁵ The fact that retailers distribute goods to their stores is the reason that controls on the location of retailing are particularly *effective* in creating and maintaining the broader amenity benefits of centres.
- 6.14. Entrepreneurs often want extra retailing zoned outside established centres, especially if this would increase the value of the land and the earning power of buildings placed on it. Typically, centre development relies on the presence of one or more anchor tenants, around which other retailers will want to cluster. Supermarkets and department stores are particularly effective anchor tenants.
- 6.15. Faced with these requests for out-of-centre retail capacity, planners need to consider several factors, including the overall objectives of

⁴ The Latin root of “decide” is “decidere”, literally: “to cut off” <http://www.merriam-webster.com/dictionary/decide>

⁵ Roger R. Betancourt, *The Economics of Retailing and Distribution*, Edward Elgar, 2005.

the plan. Of particular importance is strength of the existing centre. If there is already an attractive and well-patronised town centre, the planners task is to maintain these benefits and it might be possible to achieve that objective while also enabling some out-of-centre retailing. For example, if expected growth in demand was sufficient to support a quantity of extra out-of-centre retail, then that quantity could be enabled without detracting from the public benefits of the centre.

- 6.16. My understanding is that PTC is not yet at the point where planners consider it sufficiently attractive and well-patronised. In this case, therefore, the planners' task is to find a combination of rules and definitions that are likely to build up the centre. Adding out-of-centre retailing will tend to undermine that objective rather than support it.

Decision Making Under Uncertainty

- 6.17. The evidence shows that the PDP was prepared under considerable uncertainty as to the likely movement and behaviour of people in the near future. Within about three and a half years (i.e. by April 2020) the Transmission Gully route will be open⁶ and linked to the new expressway. This will materially reduce travel time between PTC and the Wellington CBD. By reducing travel time, the completion of these projects will also trigger a "complex recursive interaction" between the location of firms and the movement of people.
- 6.18. One plausible outcome of reduced travel time to Wellington is that the Paraparaumu area will become home to more commuters who work in Wellington. This could have the effects of increasing average incomes in Paraparaumu, decreasing the average age, increasing demand for café and restaurant food in Paraparaumu and increasing retail leakage.
- 6.19. Another plausible outcome is that more Wellington residents will visit the Paraparaumu area on weekends and holidays. This could have

⁶ <http://www.tg.co.nz/about-transmission-gully.html>

the effect of stimulating retail trade at such times and reducing net retail leakage.

- 6.20. A third plausible outcome is that some firms will relocate from Wellington to Paraparaumu to take advantage of lower land costs and allow their workers to live and work in the pleasant coastal environment. This could have the effect of stimulating local employment, increasing average incomes, decreasing the average age and reducing retail leakage.
- 6.21. These three plausible outcomes will probably all occur but we have no way of reliably predicting how strong each effect will be. Predictions based on extrapolating historic trends might end up being correct, but that would only occur if all of the anticipated changes end up cancelling each other out, which seems extremely unlikely. In my opinion the imminent completion of these two transport infrastructure projects creates major uncertainty in any forecasts of population, employment, household formation, the age profile and average incomes in the Paraparaumu area.
- 6.22. The economic literature on decision-making under uncertainty⁷ contains strong advice about how local authorities ought to behave in such a situation. This advice is regularly used by major corporates internationally,⁸ but it applies with equal force to decisions over the PDP because the relevant retail zoning decisions are *irreversible*. If the KCDC enables out-of-centre retailing at Paraparaumu, it cannot readily revoke those zonings later if the world evolves in a different way to prior expectations.⁹
- 6.23. The most fundamental advice from the economic literature is that one should often *defer* decisions that are irreversible until more information arrives. Notice that deferring a decision is very different to deciding against something. Instead, deferral recognises that the

⁷ Dixit, A.K and R.S. Pindyck, 1994, *Investment Under Uncertainty*, Princeton University Press.

⁸ For example, see Bulan, L., C. Mayer and C.T. Sommerville, 2009, Irreversible investment, real options, and competition: Evidence from real estate development, *Journal of Urban Economics*, 65, pp. 237 – 251.

⁹ Plan changes are always possible, but the PDP will set the default provisions for the next decade.

currently uncertainty will be resolved in time, and that a better-informed decision can then be made.

- 6.24. In what follows we will refer back to this advice and interpret its implications for decisions on aspects of the PDP.

7. RETAIL LEAKAGE

- 7.1. The PDP and supporting reports place considerable emphasis on retail leakage, which occurs when KCDC residents spend money outside the district. For example, the s42A report describes retail leakage as “a key issue for the district” (¶828) and a 2011 report by Property Economics claims that “*Kapiti Coast District has a significantly higher than ‘normal’ level of leakage (approximately double)*”.¹⁰ The evidence for this claim is said to reside in an earlier report by the same company¹¹ but I have been unable to locate any such evidence in that earlier report.
- 7.2. Retail leakage is natural and inevitable. As shown below, leakage affects very strong and vibrant localities such as Wellington and it also affects every district within the Wellington Region. In my opinion, it would be dangerous to infer from retail leakage that there is insufficient retail capacity in a district or that the quality of retailing does not meet local needs. The main reason for this opinion is that retailing is largely place-specific, bundling together a selection of goods and placing them in locations near potential customers (see ¶6.13 above). People (i.e. potential customers) travel regularly within and between regions however, and often patronise retailers on these journeys.
- 7.3. Because of this free movement of people, it would obviously be unsafe, and unsuccessful, to devise planning rules in pursuit of zero retail leakage from a district. That would lead to a massive expansion in retail capacity, much of which would be unprofitable, and it would

¹⁰ Property Economics, Kapiti Coast Retail Leakage Analysis, October 2011.

¹¹ Property Economics, Kapiti Employment Areas Study, October 2011.

still not stop commuters buying goods at retailers in the Wellington CBD.

- 7.4. To view leakage across the region, I obtained BNZ cardholder data for the 12 months from January to December 2013, which is more than two years after the data sample used in the 2011 Property Economics report. The data shows total spending by residents in each district in the Wellington Region, how much was spent in different districts within the Region and how much was spent in the rest of New Zealand outside the Region. From these data I calculated total retail leakage for each district in percentage terms, and the share of retail spending leaked to other parts of the Wellington Region.

Table 1: Retail Leakage across Wellington Region

	Total Leakage	Leakage to Region
Kapiti Coast	29%	18%
Porirua	41%	32%
Upper Hutt	40%	33%
Lower Hutt	30%	22%
Wellington	27%	15%
Masterton	23%	12%
Carterton	64%	55%
Sth Wairarapa	62%	54%

- 7.5. The data in **Table 1** show that of the eight districts within the Wellington Region, Kapiti Coast has the third lowest amount of retail leakage whether one looks at the total leakage or just the amount flowing to other parts of the Wellington Region. On both of these measures, Kapiti's leakage is much lower than Porirua, Upper Hutt, Carterton and South Wairarapa.
- 7.6. The data in **Table 1** also strongly suggest that districts should expect around 10% leakage to the rest of New Zealand. The difference between the two measures shown is very stable, averaging 10% for the region and tightly clustered around this value with every district leaking between 8% and 11% of spending to the rest of New Zealand. This may be due to online purchasing, holiday spending and/or

spending by family members living away from home (e.g. students at university).

- 7.7. Comparing the above data with the 2011 Property Economics report shows a reduction in total retail leakage from Kapiti during the two years between the data samples (from 31% to 28%) and a reduction in the leakage to other parts of the Wellington Region (from 20% to 18%). For the reasons explained above (¶7.2 and 7.3), I disagree with Property Economics' suggestion that improvements in the quality of retail offers are needed to limit retail leakage.¹² However, even if one considers that retail leakage is a problem to be addressed through planning rules, the scale of that problem clearly reduced between 2011 and 2013.

Leakage-Based Triggers

- 7.8. I note that the Officer's proposed policy 6.11(c)(vi) allows for "*some retail activities (excluding trade supply retail, yard-based retail and food and beverage outlets)*" in Precinct C "*when economic and social well-being analysis demonstrates:*

(a) a need for additional retail capacity to address District's retail leakage and failure to address this in Precinct A;

(b) the additional retail capacity is required to accommodate retail demand associated with household growth, which is in addition to projected retail demand; and

(c) the additional retail capacity will contribute to the functioning and performance of the District Centre;

- 7.9. I have several concerns with this proposal. First, by using "*when*" rather than "*if*", the proposed policy 6.11(c)(vi) it seems to assume that all three conditions will indeed be met at some time during the life of the plan. The evidence does not support this assumption.

¹² "Typically good quality centres attract customers from beyond its catchment, whereas a low quality centre will have retail expenditure leakage out of its catchment." Property Economics, Kapiti Employment Areas Study, October 2011, page 16.

- 7.10. Second, it is based on an assumption that improved retail offerings in Precinct A are *capable* of addressing the district's retail leakage. This has not been established and an equally plausible assumption (which is consistent with the data in **Table 1**) is that competition between retailers at the PTC is already revealing which stores can survive and thrive in that location.
- 7.11. Third, despite the intention to use retail leakage as a trigger for enabling out-of-centre retailing, no quantitative level of leakage is identified for that trigger which creates considerable uncertainty for retailers and developers.
- 7.12. Fourth, condition (b) is silent on why additional retail zonings are needed to accommodate unexpected growth and why this needs to be out-of-centre. On this point I note that, on Property Economics' analysis, there is currently an excess of retail space at Paraparaumu¹³ and that some 36ha of retail-zoned land at the PTC is yet to be developed.¹⁴
- 7.13. Finally, regarding the District Centre (i.e. the PTC), it is difficult to understand how condition (c) could ever be satisfied over the 10 year life of the PDP. Out-of-centre retail cannot actually "*contribute to the functioning and performance*" of the centre unless the centre is already thriving and has, as a result of its success, become subject to congestion. My reading of Property Economics' various reports suggest that this level of success is not expected over the next decade.

8. RETAIL MARKETS

- 8.1. In compiling this section of my evidence, I have reviewed the Property Economics reports that underpin the s42A report, and previous relevant documents including the Environment Court decision on

¹³ Property Economics, 2016, Kapiti Coast District Plan Retail Overview, page 11.

¹⁴ Property Economics, 2016, Kapiti Coast District Plan Retail Overview, page 12.

PC72A and a 2006 report proposing a retail strategy which was prepared for KCDC by McDermott Miller.

- 8.2. I have also undertaken empirical modelling myself, designed to assess the way the PDP should factor retail market issues into its provisions. Given the existing base of evidence it is not necessary for me to set out the details of this modelling here because my views can be readily explained with reference to the existing record.

Factual Issues

- 8.3. A useful starting point is the amount of retail space currently available in the PTC. In the PC72A hearing during October 2013, three experts (including Mr Heath) agreed the available Gross Floor Area (GFA) in the PTC to be "*about 70,000 m² which is approximately 62% of total retail floor space in the District*".¹⁵ By contrast, in a report prepared two years later (October 2015) for KCDC, Mr Heath used a figure of 56,500m² to represent the GFA available in the PTC.¹⁶ Although it was reported two years later, the smaller 56,500 m² figure in the report relied on by KCDC was actually estimated earlier, in 2011.
- 8.4. From reading the evidence it is not clear to me why Mr Heath would (a) agree during the PC72A hearing that retail space in PTC had expanded by 24% between 2011 and 2013 and then (b) revert to the older 2011 figure in his advice to KCDC. However it is clear that, on this point, the advice on which KCDC has relied is materially out-of-date. Nor does this take into account the recent consenting of Coastlands Square or the Takari Buildings, both consented this year.
- 8.5. I also have concerns over the calculations used by Property Economics to estimate "sustainable GFA". Sustainable GFA plays an important role in Mr Heath's analysis because it indicates the extent of over- or under-supply of retailing space. It is therefore disturbing that it is calculated in different ways at different parts of the Property

¹⁵ Environment Court Decision Number [2014] NZEnvC 52, 13 March 2014, paragraph 11.

¹⁶ Property Economics, Kapiti Coast Retail Analysis, October 2015, Table 7.

Economics report dated October 2015 called Kapiti Coast Retail Analysis.

- 8.6. In several places, that report supplies retail spending figures and the associated estimate of sustainable GFA. Dividing the former by the latter, we can recover the annual revenue that is assumed by Property Economics to sustain each square meter of GFA.
- 8.7. However, despite the economic importance of the PTC, Mr Heath does not report any estimates for demand or sustainable GFA in this location. Instead, he offers detailed estimates of demand and sustainably GFA for five other “retail core catchments” in his Table 4, and Kapiti District estimates in his Tables 2 and 3. I have used these data to reverse-engineer Mr Heath’s assumptions about the revenue needed to sustain 1m² of GFA in each of these areas.

Table 2: Property Economics Assumptions on Revenue to Sustain 1sqm of GFA

	2015	2033	Change
Waikanae TC	\$ 7,722	\$ 7,684	-0.5%
Raumati	\$ 6,164	\$ 6,299	2.2%
Otaki TC	\$ 6,044	\$ 6,155	1.8%
Paraparaumu Beach	\$ 6,369	\$ 6,355	-0.2%
Paekakariki	\$ 5,825	\$ 6,390	9.7%
Kapiti in Total	\$ 5,048	\$ 5,054	0.1%

- 8.8. As shown in Table 2, there are big differences in the assumptions used by Property Economics for different places and big differences in the way these are assumed to change over time. None of these differences are explained by Property Economics.
- 8.9. I note that differences in the mix of retail types can affect the average revenue requirement per square metre of GFA. For example, the Waikanae and Paekakariki figures might differ because of the inclusion of supermarkets in the former. However it is particularly odd that the revenue assumption used to estimate sustainable GFA across Kapiti in total is smaller than that of the least costly centre (Paekakariki).

Implications for the PDP

8.10. Given the above anomalies, an obvious question arises as to how serious these are for the information base under-pinning the PDP. To assess this, I have calculated a new version of Table 8 in Mr Heath's 2015 Retail Analysis using an average of Mr Heath's assumptions for Waikanae and Paekakariki as shown in Table 2 above. With this single change, retaining all of Mr Heath's other assumptions, the revised table is shown below.

Table 3: Supply Demand Balance using Alternative Assumptions From Mr Heath

	2015	2018	2023	2028	2033
Sustainable GFA	75,440	80,905	79,524	89,396	95,215
Less 2011 GFA Supply	96,102				
Net Balance	-20,662	-15,197	-16,578	-6,706	-887
Airport LFR Capacity	10,000				
Demand Supply Differential	-30,662	-25,197	-26,578	-16,706	-10,887

8.11. I should emphasise that I disagree with other assumptions underlying Mr Heath's Table 8, including that the pattern of retail spending and retail leakage will remain constant over the forecast period, and the out-of-date GFA supply figure.

8.12. As a further sensitivity check on Mr Heath's numbers, I have compiled an alternative version of the above table that retains all of Mr Heath's assumptions, including his estimates of sustainable GFA, but adds to the existing supply an amount of 13,502m² being the difference between Mr Heath's 2011 estimate of GFA at the PTC and the estimate he agreed to during the PC72A hearing. Thus update row is labelled "Agreed 2013 GFA Supply" in the following table.

Table 4: Supply Demand Balance using Agreed 2013 GFA Supply

	2015	2018	2023	2028	2033
Sustainable GFA	101,224	106,480	115,755	126,078	132,580
Less Agreed 2013 GFA Supply	109,604				
Net Balance	-8,380	-3,124	6,151	16,474	22,976
Airport LFR Capacity	10,000				
Demand Supply Differential	-18,380	-13,124	-3,849	6,474	12,976

8.13. It is clear from **Table 3** and from **Table 4** that Mr Heath's numbers are highly sensitive to his assumptions about the revenue required to sustain retail floor space and the level of existing supply. In particular

8.13.1. if the assumptions Mr Heath uses for individual centres are also applied to the Kapiti district as a whole (as in **Table 3**), the retail market will be over-supplied with space throughout the forecast period; and

8.13.2. even using all Mr Heath's assumptions but simply updating the 2013 supply in line with the agreement reached during the PC72A hearing indicates over-supply of retail in the Kapiti district for the next decade.

8.14. Against this background, I now turn to Mr Heath's most recent report, dated July 2016 and titled Kapiti Coast District Plan Retail Overview. This report relies on the same tabulated demand-supply differential as the October 2015 report discussed above, and is subject therefore to the same criticisms and the same risk of materially under-stating the extra floor-space that could be sustained.

8.15. In this 2016 report, Mr Heath makes the following statement in reference to development at the airport (p.18).

"The retail and economic analysis indicates no additional retail enablement should be provided at the airport above what is already consented. The proliferation of retail and commercial office activity at the airport, given it services the same market as the PTC, can only serve to dilute the PTC and undermine its redevelopment and improvement in offer and environment being encouraged in the proposed District Plan"

8.16. I agree with this statement, which is all the more important since, as shown in **Table 3** and **Table 4**, there already appears to be a significant over-supply of retail space in the Paraparaumu area.

Supermarkets

8.17. However, I strongly disagree with Mr Heath's next paragraph which reads as follows.

"One supermarket at the airport is considered appropriate, particularly given its existing supermarket store in the airport, with no limitation required on size which is considered to have inherent maximum cap given the brand and existing surrounding supermarket provision".

8.18. This proposal cannot be reconciled with Mr Heath's desire to avoid *"the proliferation of retail and commercial activity at the airport"*. In considering this point I note that, at present, a less than 1,500m² grocery store (in the form of a New World Metro) exists at the airport, as per the controls introduced by PC73.

8.19. The existing small grocery store is very different to a full scale supermarket. It is unclear from the Officer's report whether the proposed amendment to the plan would see two supermarket retailers present at the Airport (the already consented Metro Store and an additional full size supermarket).

8.20. In my opinion, a full scale supermarket at the airport would seed the development of this zone as a distinct retail centre, act as an attracting force for other retailers and draw activity away from the PTC, and in turn undermine the vitality of the PTC.

8.21. For the same reason I oppose the submission and relief sought by Progressive to relax the planning provisions to enable supermarkets to establish wherever they like in the district.

9. DETAILED COMMENTS ON S42A REPORT

9.1. In this section I discuss other particular parts of the s42A report.

Definitions

Business Activity

9.2. I support the proposal to add a definition of Business Activity as discussed in the s42A report at ¶107 – 111. In the interests of clarity and certainty, any special term used regularly in the plan should be defined.

Department Store

9.3. The definition of Department Store is discussed at section 3.3.5 of the s42A report in response to a submission by KCAHL. I endorse the analysis and conclusions reported by the author, Sherilyn Hinton, who notes that standard definitions of department stores are more inclusive than the KCAHL proposal. In addition, I note that the KCAHL proposal would allow a department store to locate at the airport zone, provided it didn't sell apparel. This would be in conflict with the centres-based objectives in the PDP because it would effectively allow KCAHL to establish a new centre at the airport, anchored by a department store.

Large Format Retail

9.4. Regarding the definition of Large Format Retail (LFR) at section 3.3.9 of the s42A report, I support the proposed amendments. I note that the rationales for these amendments are to ensure that (a) LFR is not confined to the airport zone, which would be an extremely perverse outcome, (b) the product categories are clearly referenced which assists certainty and (c) supermarkets are not excluded from the LFR definition because they clearly are both Large Format and Retail. Like department stores, supermarkets can be used as anchors for a new centre.

- 9.5. More generally, I note from the submissions, and from the history of planning debates in the Paraparaumu areas, that there is commercial pressure from land developers to create as much scope for out-of-centre retailing as possible, including a new retail centre at the airport. However, this has already been precluded through Objectives 2.3 (development management), 2.16 (economic vitality) and 2.17 (centres), where the PDP endorses a centres-based planning approach with the PTC as the primary local element. For the reasons discussed above, I consider this centres-based approach to be economically efficient and carrying the best prospect of re-invigorating the PTC. Having made this decision, and bearing in mind the commercial pressures from out-of-centre developers, the KCDC needs to be careful to ensure that its centres-based objective is not undermined by more detailed provisions such as definitions.
- 9.6. A further example of the attempts by KCAHL to gain maximum freedom for out-of-centre retailing occurs in respect of the definition of "small scale convenience retail" discussed at section 3.3.13 of the s42A report. I note that KCAHL "*seeks definitions that do not restrain or restrict business activities in the Airport Zone*" (¶177 of s42A report), a position consistent with its desire to create a new centre at the airport. I support the recommendations in the s42A report to not amend the definition of small scale convenience retail.

Chapter 6 Generally

- 9.7. I support the general approach of Chapter 6 and particularly the centres-based philosophy on which it is based. For the reasons discussed in sections 5 to 7 above, I consider that strict controls on retail development at the airport and on the St Heliers land are appropriate in order to help stimulate the vitality of the PTC and achieve the associated economic public benefits.

- 9.8. Considerable uncertainty over the movement of people and firms arises from the major transport infrastructure projects nearing completion, and this uncertainty is further grounds for avoiding irreversible decisions to enable out-of-centre retailing at this time.
- 9.9. As a consequence, I support the s42A report's broad conclusions regarding the centre hierarchy, though I am concerned by the proposal that the retailing enabled in town centres should "*serve the major weekly household shopping needs*". This wording seems to include supermarkets, and based on the above analysis I do not consider that a supermarket should be enabled at Paraparaumu Beach.

Policy 6.6

- 9.10. I support the conclusions of the s42A report regarding policy 6.6 (Retail, commercial and industrial activity not within the working zones). This policy (and its recommended amendment) is a critical plank in achieving the centres-based objectives of the PDP.

Policy 6.7

- 9.11. I have a concern over the proposed amendments to policy 6.7, which would constrain development within a centre unless that development could be shown to "*support(s) and complement(s) the role, function and viability of other centres*". This proposal appears to work against the centres-based objectives of the PDP. It could be read as placing an onus on the PTC to demonstrate that any proposed development within the PTC will actually *support* other centres. I have noted above (¶7.9) the very limited circumstances in which out-of-centre development could possibly support the centre. In my opinion, the proposed text for policy 6.7 would prevent rather than support the ongoing development of the PTC and would therefore undermine the centres-based objectives of the PDP. I suggest that it would be helpful to amend the wording of that policy to clarify that permission for development in centres other than the

PTC would depend on such development supporting and complementing the role, function and viability of the PTC.

Policy 6.10

9.12. Regarding policy 6.10 (District Centre Zone) I note that this refers to the Structure Plan which is challenged by Mr Lundy's evidence. Additionally, I am concerned that while the s42A report recommends (at ¶1828) deleting the claim that Coastlands contributes to retail leakage, it does so without acknowledging the severe weakness of that claim. As I have explained in section 7 above, there is absolutely no evidence to support the view that Coastlands contributes to retail leakage from the Kapiti District, much less that there is anything unusual about retail leakage from Kapiti.

Policy 6.11

9.13. Policy 6.11 is linked to policy 6.10 but provides additional detail. My views on policy 6.11 are therefore also subject to Mr Lundy's evidence regarding the structure plan. In addition, I have concerns regarding policy 6.11(c)(v) and 6.11(c)(vi), both of which permit commercial development in Precinct C, drawing people and activities away from the PTC and thereby reducing both the current level of economic public benefits and the potential for further increases in these benefits. Regarding 6.11(c)(v), the proposed hurdle for commercial development is that "*activities remain compatible with the role and function of Precinct A as the primary commercial core of the District Centre Zone*". The requirement to "remain compatible" with the role and function of Precinct A is a much weaker hurdle than that proposed in policy 6.7, discussed above at ¶18.10. In my opinion, the proposed wording for policy 6.7 should be the minimum standard. However the public economic benefits arising from the centres-based planning approach would be much higher if commercial development were instead located in the PTC itself. I have already discussed policy 6.11(c)(v) above (see ¶17.8 and 7.9) and will not repeat those comments here.

Airport Precinct Zone

9.14. The Airport Precinct Zone is discussed in detail in section 3.5.2.2. of the s42A report, which responds to wide-ranging submissions by KCAHL that effectively challenge the overall objectives of the PDP's centres-based management approach. For the reasons described above, I support the PDP's centres-based objectives. I agree with the s42A report that the submissions of KCAHL would materially undermine those objectives from an economic perspective and must be therefore be rejected.

Rule 6A.1.11

9.15. Rule 6A.1.11 establishes and governs the permitted activity status for activities in the commercial core of the PTC. It is an important feature of the PDP because it has the potential to promote consolidation and revitalisation of the PTC. I note and support the proposed amendments to the Rule in the s42A report, which delete three performance standards. Rapid consenting of developments in the commercial core is important to the overall objectives of the PDP and is therefore an important way in which the KCDC can and should show tangible support for upgrading the PTC.

Rule 6A.5

9.16. I have two concerns with the proposals in the s42A report regarding Rule 6A.5. The first is that, within the PTC it proposes non-complying status for any activities that do not meet permitted or restricted discretionary status, including developments not in accordance with the Structure Plan. I do not understand the logic for this proposal and consider that it will retard efficient development in the District Centre Zone.

Rule 6A.5.3

9.17. Secondly, I disagree with the proposal (Rule 6A.5.3) to permit "*trade supply retail and yard-based retail activities*" in Precinct C. There are two reasons. First, there is ample space already within the District Centre Zone for both of these activities. Second I consider that "*trade supply retail*" is indeed highly compatible with general retailing and particularly well-suited to location in the District Centre Zone. This category does not need or use extensive outdoor display; it includes popular brands such as Repco, and could also extend to lighting stores and general hardware. In my view, locating such activities in Precinct C would materially undermine the centres-based objectives of the PDP from an economic perspective.

Rule 6B.3.2

9.18. For the same reasons I disagree with the extension of Rule 6B.3.2 to include "*trade supply retail*".

Rule 6G.6

9.19. I have very serious concerns with the proposed modifications to Rule 6G.6 which relates to activities in the Airport Zone including department stores, supermarkets and more than one store of between 151m² and 1500m² in GFA that retails groceries or non-specified food lines.

9.20. The first point is that there is clearly no case for permitting any of these developments in the Airport Zone at present. Doing so would be contrary to the objectives of the PDP and, by diverting activity to the Airport, it would materially undermine the prospect of revitalising the PTC. Development of these activities at the Airport at this point in time would have a serious and permanent adverse effect on the vitality of the Town Centre. Secondly, I consider it inconceivable that, over the 10 year life of the plan, a strong case for such development will emerge, bearing in mind the imperatives of consolidating and revitalising the District Centre Zone. None of the evidence I have seen

demonstrates this to be at all likely. By contrast, there are many concerns expressed in the s42A report and in supporting reports from Property Economics about the effects of out-of-centre retailing on upgrading in the District Centre Zone. Prohibited status is efficient and justified in this case because any more permissive status would create serious uncertainty and thereby deter efficient investment in the District Centre Zone.

- 9.21. For these reasons I agree with most of the advice of Mr Heath, as summarised for example at paragraphs 1775 – 6 of the s42A report. However, I cannot reconcile this advice with Mr Heath’s suggestion that one supermarket of unlimited size should be allowed. This suggestion runs completely counter to the balance of Mr Heath’s comments on this topic, but despite this conflict it is unsupported by any cogent argument. It is well known that supermarkets are major attractors of traffic and have the ability to anchor a centre. An unlimited scale supermarket at the Airport Zone would effectively begin the creation of a new retail centre, close to the District Centre Zone and in direct competition with it. I consider this extremely unwise. Mr Heath is silent on the implications of allowing department stores at the Airport all together.
- 9.22. Even worse, the s42A report recommends relaxing not just one of the three prohibitions but all of them. This opens the door to the creation of a full scale retail centre at the Airport Zone, anchored by a supermarket and a department store and augmented by the already consented 10,000m² of large format retail space.
- 9.23. None of the documents I have inspected that are authored by Council officers or its advisors have cited the Airport Zone as a new retail centre. In particular, no such suggestion exists in Property Economics 2015 Retail Analysis¹⁷ on which the s42A report relies, but this will be the practical implication of these concessions.

¹⁷ Property Economics, Kapiti Coast Retail Analysis, October 2015

- 9.24. As it stands, the s42A report is therefore internally inconsistent. It strongly endorses centres-based development and the revitalisation of the District Centre Zone, but it also recommends removing specific measures (in Rules 6G.4.2, 6G.5, and 6G.6), that serve those objectives.
- 9.25. In my view, these proposed rule changes should not be implemented. They are likely to undermine the wider public amenity benefits already provided in the District Centre Zone, but their main cost would be in the form of lost opportunities to upgrade the District Centre Zone. I consider that the opportunity cost (see ¶¶6.9 to 6.11 above) of the proposed rule changes would be very significant.

JOHN PHILIP SMALL

Date: 5 SEPTEMBER 2016