APPENDIX E

ECONOMICS REPORTS

561 Horotiu Road Commercial Development

Economic Assessment

25 September 2020

m.e consulting

561 Horotiu Road Commercial Development

Economic Assessment

Prepared for

Waikato District Council

Document reference: WKTO008.20

Date of this version: 25 September 2020

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1 Introduction

1.1 Background

Waikato District Council ("WDC") has received a resource consent application to establish a set of seven attached shops at 561 Horotiu Road ("the Site"), within the Te Kowhai settlement, some 6km west of the SH1 Interchange at Koura Drive (SH39). The application was publicly notified, and submissions closed on August 17 2020. Council has now commissioned Market Economics to better understand the potential economic effects of the proposal, in particular whether there is sufficient demand to sustain the proposed development and effects on existing businesses.

1.2 Objective

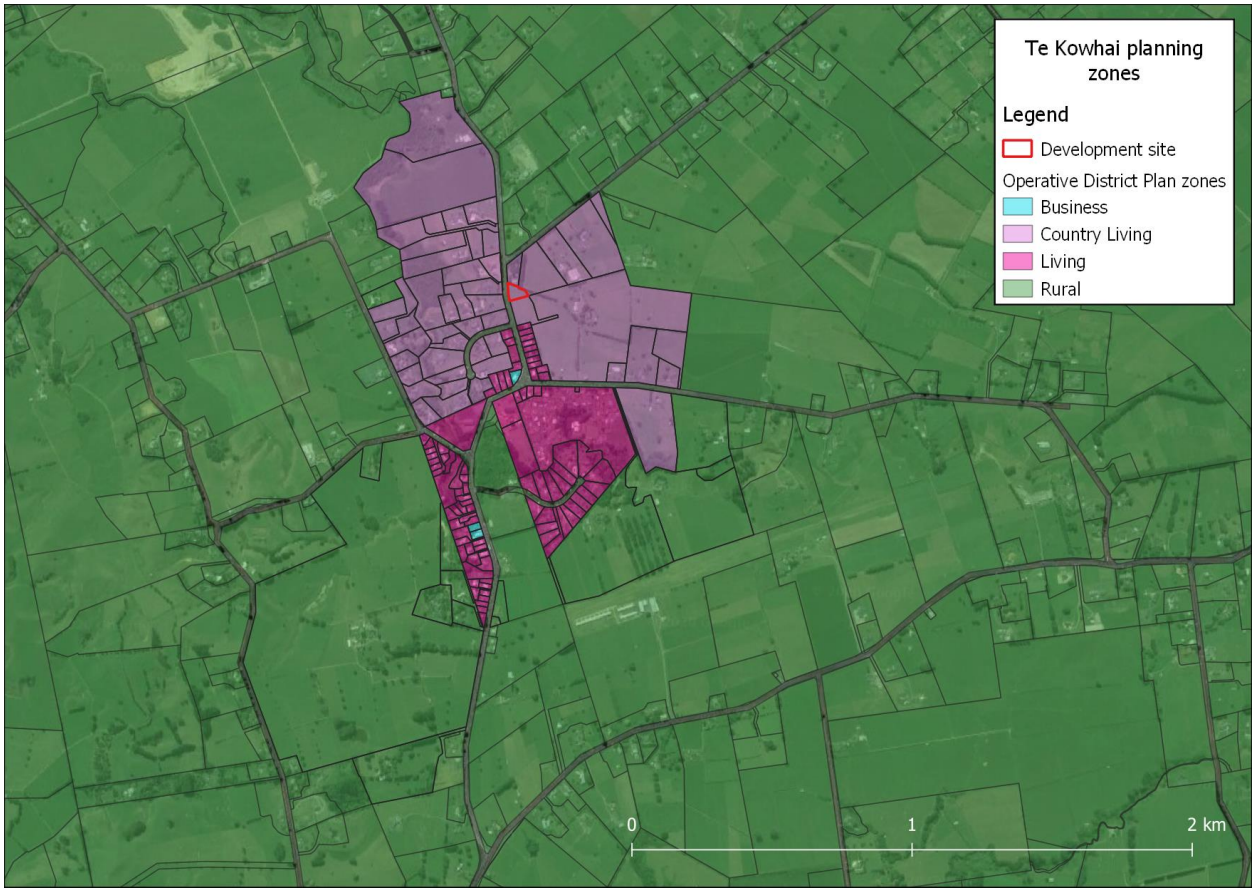
The objective of this report is to assess the potential economic effects of the proposal, in particular whether there is sufficient demand to sustain the proposed development and to draw conclusions as to the effects on existing businesses and the flow on effects on the amenity of Te Kowhai's business areas.

2 Planning environment

2.1 Operative District Plan

The proposed development is located within the Country Living zone, a zone reserved for single residential dwellings on large lots, a zone that occupies most of the settlement to the north of Te Kowhai Road. The majority of the higher density Living zone is to the south of that Country Living zone (Figure 2.1). There is very limited presence of Business zone, and that zoning is located in what are essentially spot zones that reflect the presence of an existing activity, limited to the automotive workshop at the junction of Te Kowhai and Horotiu Roads, and the Te Kowhai Foodcentre (dairy/takeaways) at 656 Horotiu Road near the southern edge of the settlement.

Figure 2.1: ODP zones in and around Te Kowhai



2.2 Structure Plan

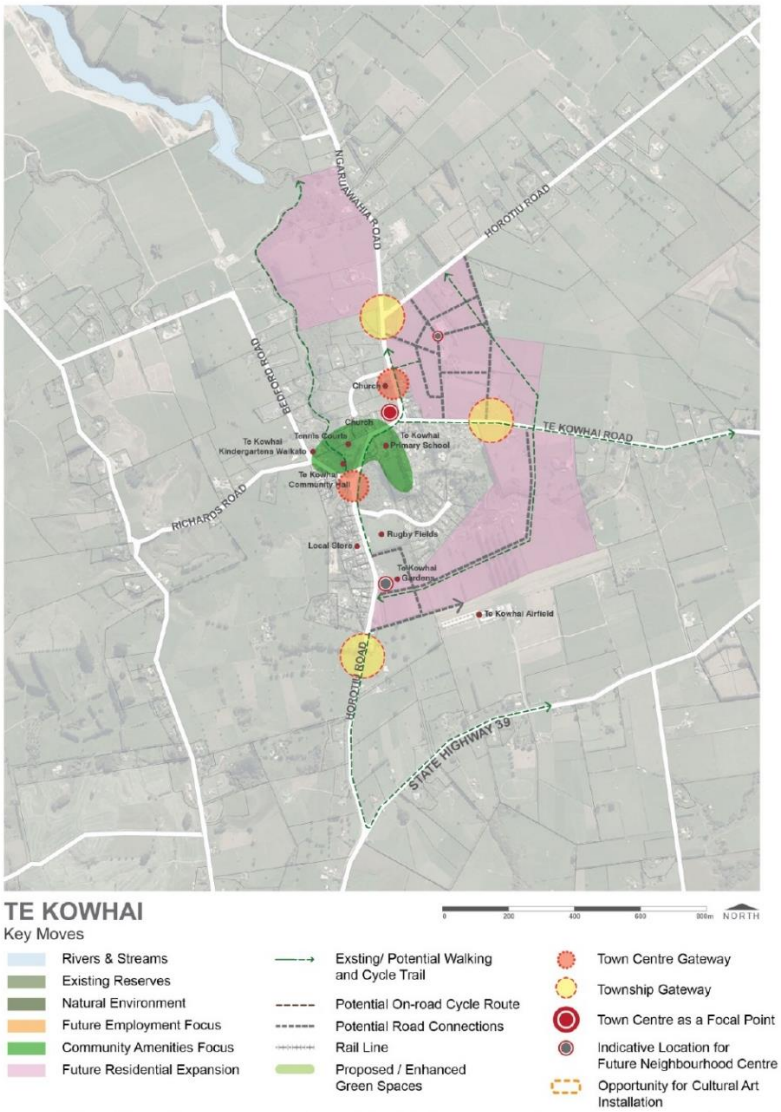
In 2017 the "Ngaaruawaahia, Hopuhopu, Taupiri, Horotiu, Te Kowhai & Glen Massey Structure Plan" ("the Structure Plan") was adopted by WDC. The Structure Plan is a non-statutory document that was developed as a guide to the development of settlements in the District, including Te Kowhai. It provides a strategic and spatial framework for future land uses over the next 30 years, and is a guide to development staging.

A number of "key moves" were identified for Te Kowhai, including, relevant to this assessment:

- Retain the village 'look' within new developments and keep the identity of the village;
- Extend the business area to promote growth;
- Country Living development to be 3000m^2;
- Future country living residential areas could be to the north, east and a small area to the south.

A graphic with a spatial overview of those key moves was provided, and identified the northern "Town Centre Gateway" as being just south of the Site and Westvale Lane, with a southern gateway at about Bedford Road, south of the Te Kowhai Hall (Figure 2.2). Those two gateways would appear to provide an indication of the intended outer extents of the town centre. Similar gateways were identified for the broader township, and appear to be located at the outer limits of the operative Living zone.

Figure 2.2: Te Kowhai Key Moves Plan, from the 2017 Structure Plan (p40)

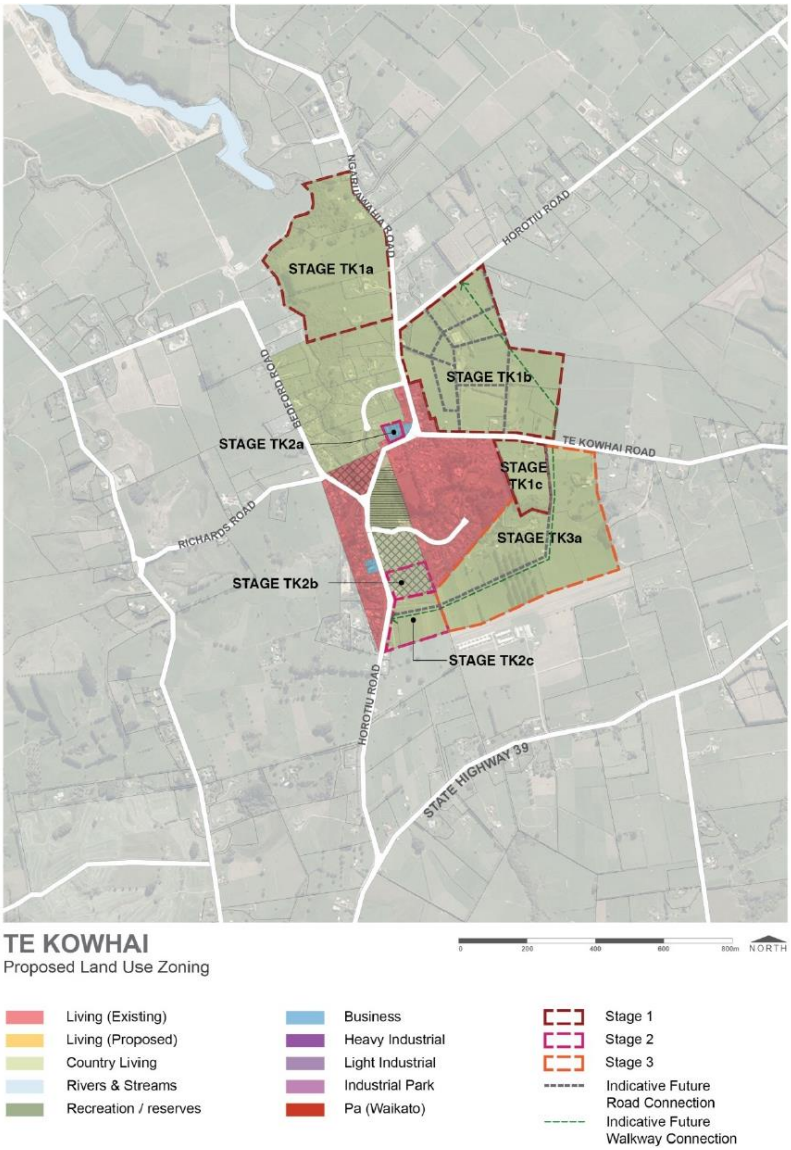


The Structure Plan identified residential development capacity for Te Kowhai's proposed growth areas at 200 lots, over the three decades beginning 2016 (Figure 2.3). Those growth areas are located to the north, east and south of the current settlement, but not to the west (Figure 2.4).

Figure 2.3: Te Kowhai residential development capacity yields (from the 2017 Structure Plan Table 2)

Area	Timing	Proposed zone	Area (ha)		Dwellings/ ha	Yield	
			Gross	Net		Lots	Population
TK1a	2016-2026	Rural residential	21.7	17.3	3.0	52	140
TK1b	2016-2026	Rural residential	27.9	22.3	3.0	67	180
TK1c	2016-2026	Rural residential	4.6	3.6	3.0	10	29
TK2c	2026-2036	Rural residential	3.8	3.0	3.0	9	23
TK3a	2036-2046	Residential	26.0	20.8	3.0	62	156
Total Te Kowhai growth cells			84.0	67.0		200	528

Figure 2.4: Te Kowhai Development Staging Map, from the 2017 Structure Plan (p49)



2.3 Waikato 2070

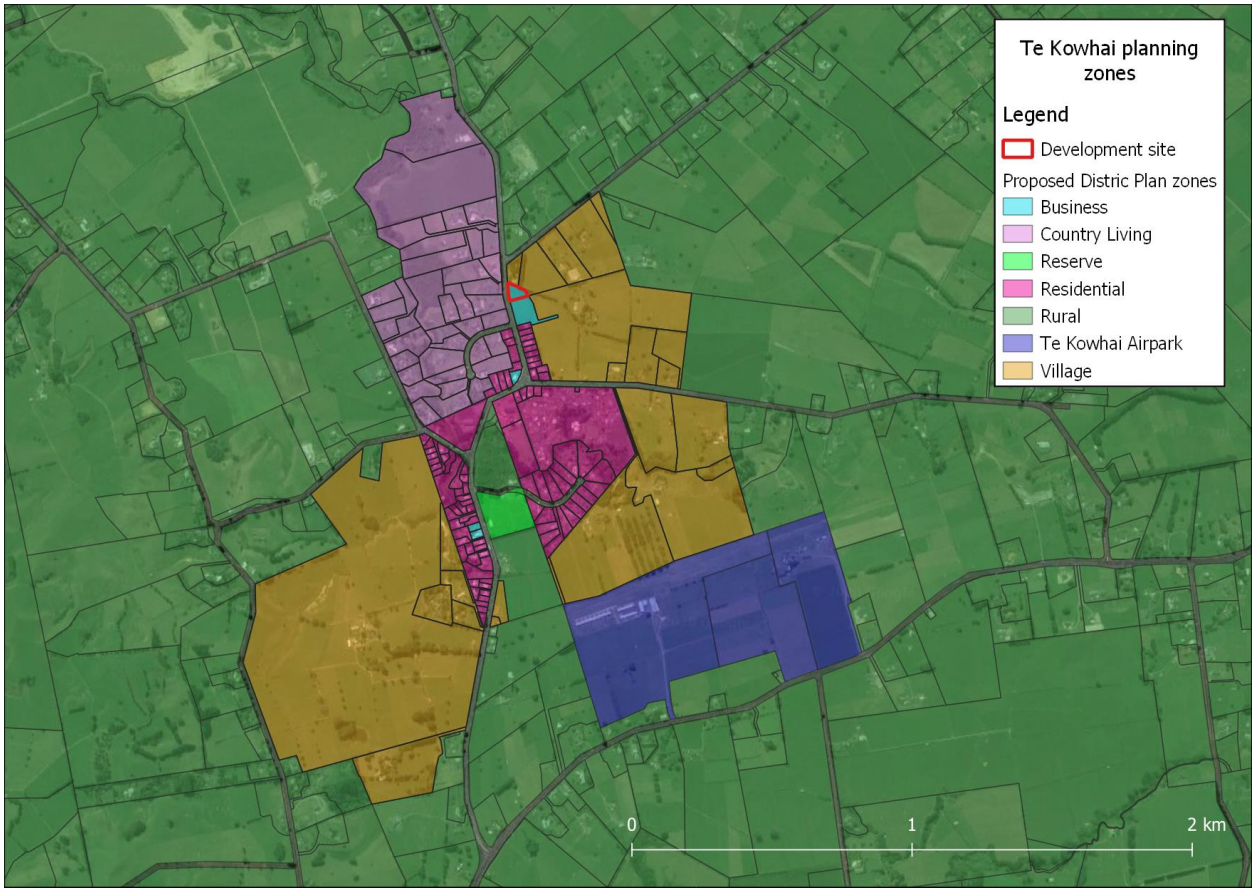
The "Waikato 2070" Growth and Economic Development Strategy was adopted by Council in May 2020. That document presents a slightly different take on expected growth in Te Kowhai to the Structure Plan. In Waikato 2070 three growth areas are identified, of which two area residential, and having a development timeframe of 10-30 years. Those two are Te Kowhai Central, and Te Kowhai West, and represent a shift of expected development areas away from the northern edge of the settlement compared to the areas identified in the Structure Plan (Figure 2.5). No dwelling capacity estimates of anticipated yield information is presented.

Figure 2.5: Waikato 2070 Te Kowhai Development Plan

2.4 Proposed District Plan

The Proposed District Plan ("PDP") is generally consistent with Waikato 2070's vision for Te Kowhai, in terms of the distribution of residential zones. The PDP proposes to zone the Site Business, although there is no certainty at this point in time that the rezoning will go ahead, and we understand that no weight can be put on the PDP provisions. It is not clear why the PDP proposes to zone the Site Business when it is to the north of town and the new residential areas identified in Waikato 2070 are to the south of the town.

Figure 2.6: PDP zones in and around Te Kowhai



As we understand it, there is no information in the PDP as to why there is an additional Business zoning proposed in the north of Te Kowhai, which takes in the Site. One potential reason for that could be that consent has been issued for a cafe to operate from the site adjacent to the development Site, although we are not aware of any strategic thinking in that regard. That proposed zoning appears to be inconsistent with the Structure Plan's indication of the town centre being near the intersection of Horotiu and Te Kowhai Roads.

3 Te Kowhai settlement

The existing Te Kowhai settlement is a small village, with 189 households recorded in the 2018 Census.[1] That had changed little from the 2006 (165 households) and 2013 censuses (183 households). Retail activity in the town is limited to the Te Kowhai Foodcentre (dairy/fruit and veges/takeaways) at 656 Horotiu Road near the southern edge of the settlement. There is also:

- The Te Kowhai Village café 100m south of the Foodcentre
- an automotive workshop at the junction of Te Kowhai and Horotiu Roads
- a consented, although not yet operative, café on the site adjacent (to the south) of the application Site.

[1] Based on the three Statistical Areas (SA1s) that make up the urban part of the Te Kowhai settlement.

4 Sustainable centre space

4.1 Approach

A primary objective of this assessment is to quantify sustainable centre space in Te Kowhai, to understand how the proposed development would affect the existing environment, particularly the existing commercial activities identified in section 3.

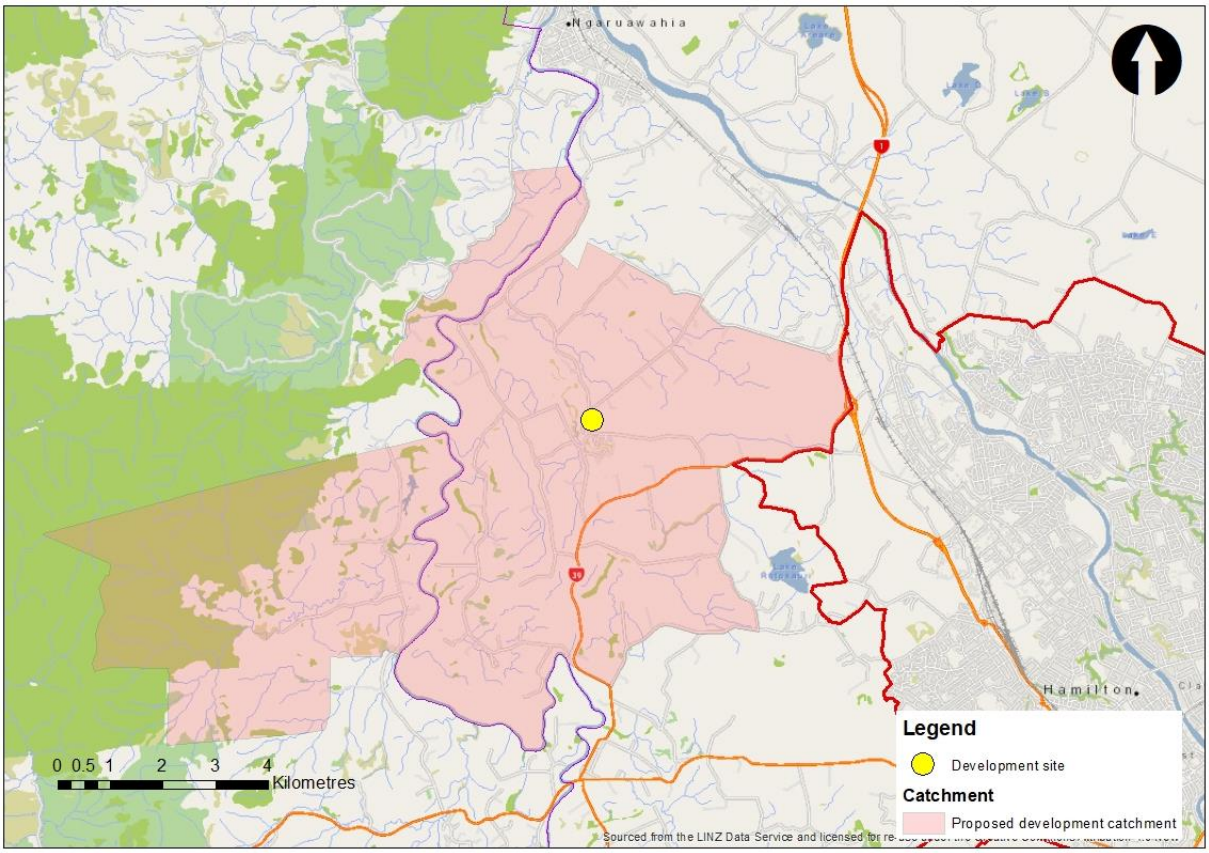
For that the assessment we have:

- Identified a catchment which represents that trading area from within which most sales of the proposed development, and existing stores in Te Kowhai, will come.
- Quantified current and projected household in the catchment.
- Estimated total retail demand resident in the catchment, i.e. that which is directed to all destinations. This includes spending by households, tourists, businesses and employees working there.
- Estimated the distribution of that total retail spend to different destinations, with only a proportion directed to Te Kowhai. This accounts for the limited provision of retail in Te Kowhai even with the proposed development, and the likelihood that a majority of spend resident in the catchment will continue to "leak" to urban Hamilton and Ngaruawahia.
- Assessed the amount of centre floorspace that will be required to support that locally retained spending, including space for all retail stores and non-retail centre activities (household and community services, offices, medical, etc.).

4.2 Catchment

The catchments defined is based on the existence of alternative retail/commercial centres and with reference to accessibility given the roading network and topographic constraints. The nearest alternative destinations are The Base at Te Rapa (10km east) and Ngaruawahia (10km north) (Figure 4.1). The catchment is naturally limited to the west by the lack of road access and large, forested area west of the Waipa River, and extends nearly as far south as Whatawhata (on SH23 between Raglan and Hamilton).

Figure 4.1: Indicative catchment of proposed Te Kowhai commercial development



4.3 Household projections

Households are the key units of retail demand in the catchment, and for this assessment we have assessed household counts using the following information:

- For areas outside the township, as defined in Waikato 2070: Statistics NZ's latest household projections.
- For the township:
    - Pre-2028:[2] Statistics NZ household projections. These are generally consistent with the "current population" estimate of 500 people (c.200 households, as identified in section 3) that is presented in the Te Kowhai Development Plan in Waikato 2070.
    - Post-2028: The possible future population (4,000 people) presented in Waikato 2070 is used as a 30 year target (2048). That population is assumed to equate to 1,500 households. Growth between 2028 (when the Te Kowhai West and Te Kowhai Central growth cells begin to be developed) and 2048 (the end of the

[2] 2028 is the beginning of the 10-30 year growth window in which the Te Kowhai West and Te Kowhai Central growth cells are projected to be developed.

expected growth window in the Development Plan) is assumed to be linear, reaching the 1,500 household endpoint in 2048. At growth of around 250 households every five years, that equates to a 2043 household projection for the town of c.1,250.

The growth projections applied in the model are shown in Figure 4.2. Current estimates indicate a 2018 household count of 870 in the catchment, including nearly 200 in the town itself, and the balance in surrounding rural areas. Growth of around 200 households across the whole catchment is projected by 2028, at which point growth is projected to accelerate in line with the timings indicated in Waikato 2070. Between 2028 and 2043 growth of around 60 households per annum is assumed, which places Te Kowhai's future household count well on the way to achieving the 30 year "possible future population" identified in Waikato 2070.

Figure 4.2: Catchment household projections

Catchment	2018	2023	2028	2033	2038	2043	Growth 2018-2043	
							n	%
Households	870	970	1,070	1,370	1,670	1,970	1,100	126%

4.4 Retail demand projections

Those catchment households, together with businesses and tourists based in the town, generate around $24m in annual retail demand.[3] Of that, food retail[4] and core retail[5] are the largest storetype destinations of spending in the catchment, at around $10-11m each in 2018. Given projected market growth in the catchment, and an assumed 1% average annual increase in consumer retail spending, in line with trends observed over the last 30 years, that base demand is projected to have increased to around $28m for each store grouping by 2043. That represents growth of around $18m in each group (+175%). Hospitality demand resident in the catchment is currently less than $4m, and projected to increase by a similar proportion to food and core retail, to reach over $9m by 2043 (+$5.8m, 169%).

Figure 4.3: Catchment retail demand projections

Catchment	2018	2023	2028	2033	2038	2043	Growth 2018-2043	
							n	%
Food retail	$ 10.1	$ 11.6	$ 13.2	$ 17.7	$ 22.6	$ 27.8	$ 17.7	176%
Core retail	$ 10.5	$ 11.9	$ 13.6	$ 18.2	$ 23.2	$ 28.6	$ 18.1	173%
Hospitality	$ 3.4	$ 3.9	$ 4.4	$ 5.9	$ 7.5	$ 9.3	$ 5.8	169%
Total	$ 24.0	$ 27.4	$ 31.3	$ 41.9	$ 53.3	$ 65.6	$ 41.6	517%

[3] Excludes automotive spend, and spend on non-centre retail storetypes such as hardware, marine and garden centres.

[4] Food retail includes supermarkets and grocery stores, butchers, fruit and vegetables, fish shops and all other specialised food retail stores.

[5] Core retail includes all other retail types not described as being excluded (i.e. includes apparel, department stores, electrical and appliances, housewares, pharmacy, recreation, etc.). Hospitality includes all takeaways, cafes, restaurants, pubs and bars.

It is important to understand that those demand projections represent total demand resident in the catchment, and not total sales in the catchment. A significant proportion of that locally resident demand will flow out of the catchment for other destinations, as assessed in the next section.

4.5 Locally sustainable floorspace

Taking the demand projections in Figure 4.3, the next step is to apply assumptions about the proportion of spend that will be locally retained, and to make some allowance for an inflow of spend from outside the catchment that might be directed to Te Kowhai businesses. For this assessment we have assumed that:

- Food retail: 25% of locally resident demand is directed to local stores, with the majority (75%) leaking out of the catchment, primarily to Te Rapa and Ngaruawahia. That is countered to some degree by a small inflow of spending in Te Kowhai by non-catchment residents (e.g. traffic passing through), which is assumed to account for 10% of total food retail sales.
- Core retail: Assumptions are applied at an individual storetype level for the 21 storetypes in this group, but on average 5% of locally resident demand for storetypes in this group is assumed to be directed to local stores, with 95% leaking out of the catchment. That leakage is high because goods sold in this category (clothing, furniture, sporting goods etc.) tend to require large population bases to support stores, and it is usually uneconomic to support stores in small market such as Te Kowhai (even a larger, future Te Kowhai). The inflow of spending in Te Kowhai by non-catchment residents is assumed to account for 10% of total core retail sales.
- Hospitality: 20% of locally resident demand is directed to local businesses, with 80% leaking out of the catchment. The inflow of spending in Te Kowhai by non-catchment residents is assumed to account for 15% of total core retail sales.

Those locally retained market shares are consistent with how centres in markets the size of Te Kowhai operate around New Zealand, given their natural position in a broader centres hierarchy and the types and extent of activity that is financially viable in this size of market. It is inevitable that most retail needs will be met in larger centres that have a broader range of businesses.

Based on those assumptions, the assessment indicates that around 380m^2 of retail and hospitality floorspace was sustainable in Te Kowhai in 2018, with market growth adding around another 100m^2 in the following 10 years, taking sustainable space to nearly 500m^2 by 2028. As the growth areas identified in Waikato 2070 begin to be developed after 2028, sustainable local retail floorspace is projected to increase by 150-200m^2 every five years, to reach 1,000m^2 by 2043 (Figure 4.4). That 1,000m^2 would be comprised of:

- predominantly food retail space (around 700m^2 of space comprising, for example,. a superette, or dairy and small amount of specialty food retail such as a butcher/vege shop)
- around 200m^2 of hospitality space (one or two businesses such as cafes, or takeaways)
- a very small amount (around 100m^2, or say one small shop) of general retail space.

Figure 4.4: Catchment retail demand projections

Catchment	2018	2023	2028	2033	2038	2043	Growth 2018-2043	
							n	%
Food retail	250	280	320	430	550	680	430	172%
Core retail	50	50	60	80	100	120	70	140%
Hospitality	80	90	100	130	170	210	130	163%
Total	380	420	480	640	820	1,010	630	475%

4.6 Net additional space required

Given the limited extant presence of retail and hospitality businesses in Te Kowhai, some additional space would be sustainable in the town in the future, although it will only be once the Te Kowhai West and Te Kowhai Central growth cells begin to be developed in around 2028 that any material increase in sustainable space will be viable. Current growth in the town will be insufficient to support any material increase in retail supply before around 2028, with any new space developed before 2028 likely to be either:

- Difficult to tenant; or,
- Uneconomic to operate at other than very limited hours; or,
- Occupied by a niche tenant that can develop a reputation allowing it to function as a destination in its own right, and survive by attracting custom from outside the catchment, such as a gift shop/gallery or destination cafe; or,
- In direct competition with existing businesses in the town, with the potential to result in their closure.

Te Kowhai is currently a very small retail catchment, and the amount of retail/hospitality space in the town is broadly consistent with the amount of space that is sustainable.

4.7 Effects of proposed development

From that assessment, the creation of additional retail or hospitality space in Te Kowhai (over and above the activities identified in section 3) would be likely to result in either much of that space remaining vacant or the closure of existing businesses. However, we are not clear as to the implications of any such potential closures in the case of Te Kowhai. Generally in resource management case law in New Zealand, a concern with distributional effects arises because:

- new retail/commercial activities can generate trade competition effects on existing businesses.
- while those direct (trade competition) effects are not able to be considered as effects under the RMA, the (indirect) effects flowing from those direct effects are able to be taken into consideration in evaluating the merits of a proposal.

- Those indirect effects include effects on the viability and vitality of centres, and the ability for centres to continue to function as strategically valuable community assets that play an important role in providing for the needs of communities.

However, in the case of Te Kowhai, there is no centre zone to be concerned about effects on. The very limited commercial zones are restricted to three separate Business spot zones, each accommodating a single business, with a fourth business location at the site of the Te Kohai Village cafe. Of those four locations:

- The automotive workshop, a type of activity that is not usually included in retail impact assessments, nor likely to be affected by the proposed development from the current application which is unlikely to contain any automotive presence.
- The grocery store is a single business and therefore does not constitute a centre as discussed in the District Plan. It cannot be said that a standalone store plays any role in consolidating activity (section 6.3.3 of the Plan), nor that is has a social coherence or sense of place (objective 11.2.1).
- The café consented for the site adjacent (to the south) of the application Site would likely benefit from co-location of additional retail activities, although any disbenefit would be limited to trade competition effects, and not generate flow-on effects of any consequence for community wellbeing and functional amenity.
- The Te Kowhai Village café on Horotiu Road is not zoned Business, and so in our opinion it is questionable how much regard should be had to avoiding effects on it.

Given the standalone and non-centre, non-clustered nature of these four activities, it is to our mind questionable how much the District Plan would (or could, under the constraints of RMA case law on indirect effects) seek to avoid indirect effects on them. While our assessment indicates it is likely that some of those businesses could close, or shift to reduced operating hours as a result of the trade competition generated by the proposed development, those effects would be mostly limited to trade competition effects, and therefore be precluded from consideration when evaluating the merits of the application. That is perhaps a technical matter for the planning assessment to consider.

We say “mostly limited” because another aspect of the proposal that requires assessment is its location. Prior to Waikato 2070 being released, the Structure Plan indicated some future residential growth was anticipated on the town’s northern periphery. That appears to now have changed, with the planned new residential areas located only in the south (east and west). It would appear to make more sense that if additional retail supply is required in Te Kowhai at some stage, that is located in close proximity to the main population base. From our understanding of the likely future population distribution, the Site is a much poorer location option that alternative locations south of Te Kowhai Road.

If the Te Kowhai Foodcentre were to close or move to reduced operating hours, access to groceries would become slightly more difficult for people living around the store now, and less efficient travel patterns for the future Te Kowhai settlement would result compared to if the store remained the primary grocery destination in the town, by virtue of its superior, more central location relative to future growth areas compared to the application Site. However, the magnitude of that effect would be minor or less than minor.

5 Submissions

In total 25 submissions were received, with 22 in opposition, two in support and one neutral. Most of the submissions in opposition voice an opinion that additional retail supply in Te Kowhai is not required, that there is inadequate population base to support more stores and that there is a risk that existing businesses might well close if the proposed development proceeds.

The submissions in opposition are generally consistent with the findings of this assessment that there will not be adequate locally resident demand to support an expansion of Te Kowhai's retail and hospitality supply for some time yet, and not prior to significant residential developments occurring in the future development areas of Te Kowhai West and Te Kowhai Central.

6 Conclusion

Our assessment has shown that Te Kowhai is a very small retail market now, and will remain so into the future. The amount of retail/hospitality space in the town is broadly consistent with the amount of space that is sustainable. It will be around 2028 before the new growth cells anticipated in Waikato 2070 begin to be developed, and residential growth increases local retail demand to a point where additional local retail supply is sustainable. Prior to 2028 at the earliest, any additional retail and hospitality space would be likely to result in the closure or much reduced liability of Te Kowhai's few retail/hospitality businesses.

The resource management implications of any such closures are limited by the standalone nature of the town's existing businesses, the absence of any clusters of economic activity in centres, and the inability to consider trade competition when assessing the merits of an application.

One key factor to consider is the effect on accessibility of local retail supply given the location of the proposed development at the opposite side of Te Kowhai from where the future growth cells have been identified. Although the PDP proposes to zone Business land on the application Site, it is unclear why that is the case, and that northern location appears to be an inefficient location from which a small neighbourhood centre could service the large new growth areas around the southern fringe of the town.

In summary, we consider the proposed development to be much larger than would be sustainable in the current township of Te Kowhai, and the better part of a decade ahead of demand. The Site is poorly located with reference to Te Kowhai's future growth areas, and the development would be likely to result in significant trade competition effects on existing businesses.