BEFORE THE CHRISTCHURCH REPLACEMENT DISTRICT PLAN INDEPENDENT HEARINGS PANEL

IN THE MATTER   of the Resource Management Act 1991 ('the Act') and the Canterbury Earthquake (Christchurch Replacement District Plan) Order 2014

AND

IN THE MATTER   the Christchurch Replacement District Plan: Proposal 15 (Commercial).

REBUTTAL EVIDENCE OF FRASER JAMES COLEGRAVE FOR DANNE MORA HOLDINGS LIMITED

(Submitter No. FS-1430)

Dated: 30 April 2015

INTRODUCTION

1   My full name is Fraser James Colegrave.

2   My qualifications and experience are set out in my evidence in chief, dated 24 April 2015.

3   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.

4   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. I have not omitted to consider material facts known to me that might alter or detract from the opinions I have expressed.

SCOPE OF THIS REBUTTAL EVIDENCE

5   This rebuttal evidence responds to the evidence-in-chief of Adam Thompson on behalf of Terrace Development Services Limited. Given the length and breadth of that statement, I walk through it chronologically and comment on matters related to retail floorspace supply and demand.

6   For ease of cross-reference, the section headings below match those used by Mr Thompson.

ECONOMIC EFFICIENCY AND LAND USE (SECTION 4)

7   Mr Thompson starts by outlining his views on the economic theory of urban land use, during which he highlights the potential costs of overly-restrictive planning regimes.

8   I largely agree with this sentiment, and note that such concerns were one of the reasons that I recommended the Council nearly triple its proposed initial cap on retail for the Halswell KAC (from 9,000m^2 in the preliminary draft to 25,000m^2 in the pRDP).

9   More generally I agree that, all other things being equal, a less prescriptive approach is preferred and is more likely to foster efficient outcomes. This was reflected in the joint statement from the economics conferencing session, where I agreed to the following broad statement:

*"Some parties are seeking greater flexibility than proposed in the RP to allow office activities to occur in centres, commercial and industrial areas, rather than this being directed through planning provisions towards the CBD. The proposed Plan provisions to this effect are considered to be costly and ineffective, and have negative externalities. These parties believe there are more effective tools for restoring the vitality of the CBD." (Mike Copeland, Phil McDermott, David Harris, Martin Winder, **Fraser Colegrave**, and Tony Dimasi)*

10   Interestingly, however, Mr Thompson disagreed with this and instead preferred the following (more restrictive) counter-position:

*Other parties believe that the costs of restrictions proposed in the Plan may be outweighed by remedying the perceived market failures, and they believe these benefits may outweigh the costs of directing offices to the CBD. (Tim Heath, Phil Osborne, **Adam Thompson**, Derek Foy, Michael Cullen & Douglas Fairgray)*

THE VIABILITY OF CENTRES (SECTION 5)

11   Next Mr Thompson touches on the issue of centre viability, and suggests that a very high and prolonged vacancy rate (of 25%) needs to occur for the potential costs of a new centre to outweigh the benefits.

12   I disagree, and consider this an unreasonably high benchmark. It would mean, for instance, that Westfield Riccarton would need to have more than 35 of its 150 shops vacant simultaneously for an extended period of time for distributional effects to matter.

13   Mr Thompson goes on to note that centre failure is rare and hence that concerns about distributional effects are largely unwarranted. While I agree that such effects are sometimes over-played, it could also be argued that the absence of such failures reflects the cautious, centres-based approach taken by most Councils to retail planning in the first place.

14   Having decided that distributional effects are of limited relevance, Mr Thompson concludes that aligning retail supply and demand within arbitrarily-drawn catchments is the best way to approach retail planning. At the same time, he notes that the use of gravity models is not, in itself, a useful basis for decision making, but tries to use the results of them to justify his own position. I return to this point shortly.

CENTRE-ZONE LAND DEMAND FOR CHRISTCHURCH AND THE HALSWELL KAC (SECTION 7)

15   Section 7 of Mr Thompson's evidence addresses his perceptions of future retail floorspace, both citywide and also for the Halswell KAC. To this end, he introduces several "basic analyses" which, he admits, should ideally be done in greater detail.

16   Not only do I consider these methods to be flawed for several reasons, but Mr Thompson's application of them contains a number of inconsistencies and apparent numerical errors. I explain these below.

17   The first simple analysis attempts to estimate future in-zone land demand to 2025 by stating that there will be additional demand for 108 hectares, but that this will be met by only a 17 hectare increase in supply, from which he deduces a 91 hectare shortfall.

18   I disagree with this logic and conclusion for several reasons. First, his estimate of future demand is extremely high because:

   (a)   He estimates retail floorspace growth of 161,700m^2 from 2015 to 2025 even though the application of his second method – which I discuss shortly – yields a much lower figure of only 68,000m^2.[1]

   (b)   He assumes that service/public/recreation floorspace demand will grow at the same rate as retail without any explanation.

   (c)   He appears to assume that all future growth will be in-centre and therefore ignores the strong likelihood that out-of-centre growth will continue to occur in future.

19   At the same time, Mr Thompson's estimate of in-centre supply is artificially low, evidently because he appears to assume that growth will occur only on greenfields centre land (namely the Halswell KAC) and hence that there will be no intensification or consolidation of existing centres. This contradicts his position in the joint statement, where he agreed that:

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[1] Table 2 of Mr Thompsons EIC shows population growing from 357,600 to 386,200 over this period, and Mr Thompson states that the average requirement is 2.4m2/capita. This translates to only an additional 68,000m^2 of retail floorspace to 2025.

"The most appropriate way to manage retail development over the life of the Replacement District Plan is to adopt an approach that envisages retail development primarily in and around the Christchurch centres network, including through expansion and/or intensification of existing centres…"

20   Mr Thompson's second approach to estimating future retail needs relies on dividing the city up into arbitrarily-delineated catchments and assessing the extent to which he perceives supply meets demand.

21   This is the same approach that he applied in his original analysis (as attached to submission 966) and which I commented on in my evidence in chief.

22   To recap, while I can see some merits in this sort of approach for small convenience-oriented centres, its application to larger centres such as KACs is problematic.

23   First, as previously noted, it requires the arbitrary delineation of catchments, even small changes to which fundamentally alter the results. For example, Mr Thompson include a west catchment but no east; there are two northwest catchments but only one northeast; and, most importantly, the number and physical delineation of the catchments lacks any explanation..

24   To demonstrate the shortcomings of approach, I redid it using a simplified (4-quadrant) analysis, where the city was divided into four discrete chunks (the geographic centre of which was the new CBD retail precinct). These quadrants are illustrated in the figure below, and are similar to the quadrants used by Mr Heath in his section 32 report on the pRDP.

Figure 1: Quadrants used for Revised Needs Analysis
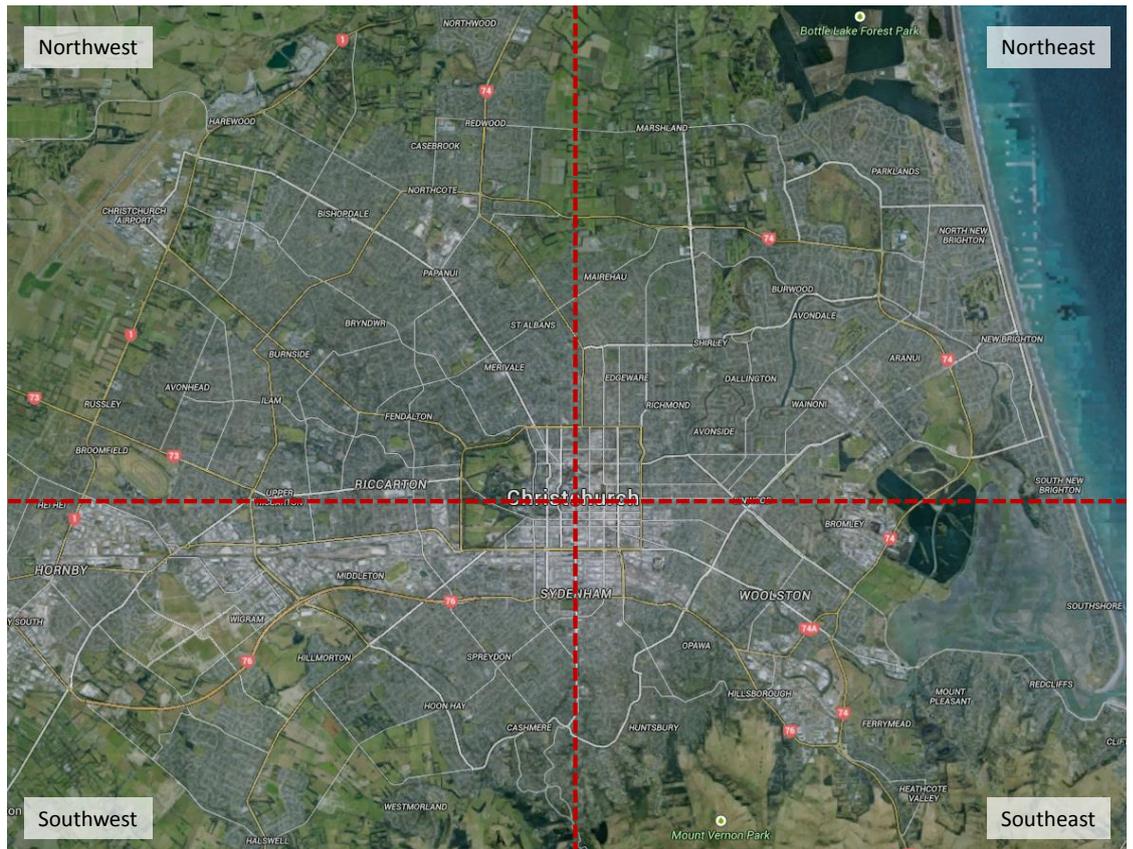
25   While I admit that these catchments are also – by definition – arbitrary, that is not the point. I am not suggesting that these 'catchments' are necessarily superior to those of Mr Thompson, although these obviously have more intuitive appeal. The real point is that, by adopting a different set of catchments like this, the results and conclusions of Mr Thompson's analysis change entirely, rendering the underlying methodology unreliable.

26   In fact, when the catchments are drawn this way, the southwest has the *highest* retail GFA in absolute terms, and also the highest in per capita terms. This is a direct contradiction to Mr Thompson's analysis, which suggests that the Southwest has the lowest provision in per capita terms.[2]

27   The following table, which has been derived using Council-supplied floorspace data, presents the results of Mr Thompson's analysis using the quadrant catchments illustrated above.

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[2] It is also useful to note that even Mr Thompson later admits (at section 9.3) that the Halswell community is well served by existing centres, namely Hornby, Riccarton, Barrington and Tower Junction (to name but a few). I agree.

Table 1: Revised 'Needs Analysis' Based on 4-Quadrant Catchment and Official GFA Data

Catchments	Retail GFA in 2013 (m²)	2013 Census Usually Resident Population	Retail GFA per Capita in 2013 (m²)
Northeast	172,000	82,000	2.1
Northwest	287,000	117,000	2.4
Southeast	169,000	57,000	3.0
Southwest	326,000	79,000	4.1
Total Christchurch City (excluding Banks)	**954,000**	**336,000**	**2.8**

28   Putting the catchment issue to one side, Mr Thompson's numerical analysis appears to also contain a number of serious issues.

29   First, Mr Thompson estimates citywide retail supply of only 852,000m² in 2015, when Council-supplied GFA shows that there was 954,000m² in 2013 (as per the table above).

30   Accordingly, even ignoring new floorspace consented between 2013 and 2015, Mr Thompson has underestimated current supply by 100,000m² and his conclusion that there was existing latent demand of 150,000m² cannot be supported empirically.[3]

31   Second, Mr Thompson's estimates of demand growth also appear incorrect. Specifically, he estimates floorspace demand to increase by 134,000m² from 2015 to 2025, which translates to 4.7m²/capita of additional population. However, throughout his analysis, Mr Thompson refers to a long-run need of only 2.4m²/capita. When this figure is applied to population growth instead, the resulting floorspace demand growth falls by 49% (from 134,000m² to 69,000m²) from 2015 to 2025.

32   Thus, not only do I disagree with this approach due to the arbitrary nature of the underlying catchments, but I also disagree with Mr Thompson's application of it to derive future city retail needs.

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[3] This issue appears to partly reflect Mr Thompson's assumption that there is currently no retail GFA in the CBD, when Council data shows that there is around 141,000m².

TRADE COMPETITION IMPACTS OF HALSWELL KAC ON EXISTING CENTRES (SECTION 10)

33   Finally, I raise a number of comments on Mr Thompson's analysis of trade impacts.

34   To provide context – in 2014, I wrote a report for the Council that estimated the trade impacts of various development scenarios, from which I recommended that the initial floorspace cap be increased from 9,000m^2 to 25,000m^2 (by merging the first and second phase allocations).

35   Subsequently, Mr Thompson requested me to run other scenarios to inform his evidence. Specifically, he requested me to test the impacts of a 30,000m^2, 40,000m^2 or 50,000m^2 centre (all of which were assigned the average retail mix of existing centres).

36   As I noted to Mr Thompson when he made the request, I do not consider such scenarios meaningful, as they systematically understate potential trade impacts. Consequently, I have *never* run such a scenario before and have actively steered clients away from it, including those seeking permission from councils to build large retail developments.

37   In essence, there are two main problems with this sort of scenario, which I believe make them unreliable:

        (a)   First, by assuming that the new centre will have the average retail mix of other centres, the new centre has no area of specialisation (which virtually all centres do have). As a result, the trade impacts for each retail store type are artificially low. Recognising this basic, I *always* peg the retail mix to an existing centre.

        (b)   In addition, this approach ignores the fact that larger centres – such as KACs – tend to have much higher employment densities than non-KACs (regardless of their physical configuration). Again, as a result, such scenarios systematically understate potential impacts.

38   For these reasons, I do not consider the scenarios requested by Mr Thompson reliable, and neither do I support the conclusions that he makes on the basis of their results.

39   However, not only did Mr Thompson request scenarios that artificially understated potential effects, but he also has misinterpreted the results.

40   Specifically, he only reported the estimated impacts for each centre overall, and failed to report the impacts by store type. Since the latter are always higher (for some store types) than the former, his reporting of the results is incomplete.

41   In addition, Mr Thompson tried to reduce the estimated impacts by comparing revenues with and without the centre at different points in time. However, the purpose of a trade impact assessment is to analyse revenues with and without a specific development at a fixed point in time. By using different dates, Mr Thompson has – again – misreported the estimated impacts of the scenarios that I ran for him.

42   For the reasons given above, I categorically reject Mr Thompson's conclusions on trade impacts. And, to add some balance, I now describe the trade impacts that I estimated for several real-world scenarios. All are for a 50,000m^2 centre in 2020, with the retail mixes and densities tied to four real world examples, namely:

      (a)   Northlands

      (b)   Sylvia Park

      (c)   Westfield Riccarton

      (d)   Westfield St Lukes

43   The results for these real world scenarios tell an entirely different story to that portrayed by Mr Thompson. For example, all cause trade impacts of 20% or more, with several exceeding 25%, For example, the Northlands scenario reduced Barrington's food retailing revenues by 29%, while the St Lukes scenario reduced Hornby clothing retail revenues by 26%.

44   In my opinion, these scenarios provide a far more realistic picture of potential effects, and suggest that there may be significant risks associated with enabling 50,000m^2 of retail activity immediately (as sought by Mr Thompson).

45   Finally, I note that Mr Thompson has tried to use the results of the gravity model to suggest that a 50,000m^2 centre would be viable immediately. He

does this by comparing the resulting turnover per square metre of floorspace to the average for all centres in my model.

46   However, again, I consider this inference is incorrect. The issue is that, because most of the centres in the model are not KACs, they tend to generate significantly lower revenues per square metre. Thus, by comparing the results to all centres (rather than to just KACs) the wrong conclusion is reached.

47   For example, Mr Thompson notes that the Halswell KAC was estimated to turnover $220 million (under his scenario), which translates to $4,400/m^2. Since the average for all centres in the model was $4,480/m^2 he considers this as proof of immediate viability.

48   However, this estimated sales performance for the Halswell KAC is actually quite poor when put in a more meaningful context. For example, it is 18% lower than the average for all other KACs (ignoring New Brighton) and 37% lower than the average performance reported in the Property Council's Shopping Centre Database. From a sales performance perspective only, I disagree therefore that a 50,000m^2 retail development at the Halswell KAC would be immediately viable.