# Business land: problems and causes

## Research to support a proposed NPS on urban planning

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# 1 Executive summary

The proposed National Policy Statement (NPS) on Urban Development is intended to ensure regional and district plans provide adequate development capacity for businesses and housing. This includes both the total quantum of development capacity and business land, and attributes such as its location and type.

This research considered the sufficiency of the supply of business land in urban areas experiencing the highest population growth in New Zealand,[1] and if issues were identified, whether an NPS might positively effect change. Business land is defined in this report as land specifically zoned for productive uses in urban areas,[2] including manufacturing, retail, commercial offices, hospitality and accommodation, and business services. The overarching issue was examined through a combination of stakeholder interviews and a review of relevant data and documents.

The conclusion reached is that the overall supply of business land is generally sufficient, and in some areas it is likely that there is an oversupply.[3] In these areas, an oversupply of some types of business land is contributing to a "hollowing out" of the town centre and/or an under-utilisation of infrastructure as development has not eventuated.

However, the more important finding is that in areas of growth and change, most notably Auckland, there is a shortage of "the right land in the right location". This varies by sector, but is particularly so for businesses engaged in capital intensive (and often land extensive) activities that generate noise, odour or traffic movements. These include manufacturers and utility operators on land zoned only for such uses (and therefore of lower value).

This "locational insufficiency" of business land often shows up in reverse sensitivity, or tensions between established businesses and new developments, which are often higher value uses that develop nearby. The incumbent businesses typically oppose new development, because once it happens they often incur costs to reduce their impacts or relocate. Large utility providers such as airports or ports cannot relocate. However often even small manufacturers will not move if there is not suitable alternative land.

Where the locational distribution of business land is slow to change in response to growth, it restricts the evolution of the local economic structure and therefore productivity improvements. It may also be a constraint to housing development, given the large amount of land zoned for industry in established urban areas.

This research has identified three ways that resource management planning may contribute to these outcomes:

1. Councils do not have a good understanding of current business land requirements and how these are likely to change. This is partly because councils generally invest much less in understanding business requirements than residential demand, and partly because it is much more difficult to forecast local economic development and its implications for land. This is compounded by data limitations.
2. Inappropriate zoning, resource consent conditions and other regulations may impose unnecessary costs on some businesses, and constrain economic development.
3. Planning and other processes contribute to the long timeframe of converting land from its current zoning or use to new business use. This can apply to greenfield land being converted to business land, and to brownfield land being converted to a zoning that allows for higher-value business activity.

[1] The areas identified as experiencing growth were Auckland, Hamilton, Tauranga, Christchurch and Queenstown.

[2] Note that not all business activity occurs on land specifically zoned for this use. Research undertaken for the Proposed Auckland Unitary Plan indicates that about 20 percent of employment is currently located in other areas, such as in residential zones. It predicts that 36 percent of future employment growth will be located on land other than business land.

[3] The exception to this finding is a potential shortage of hotel accommodation in Queenstown, which is compounding pressures on housing in the area.

A number of stakeholders indicated that based on their own experiences the process could take up to 15 years, from initiating a change of zoning to the commencement of economic activity on a given site, whereas a council suggested a timeframe of around seven to eight years is the average.

These issues can apply generally to all areas experiencing growth. However, when combined, these issues can result in significant rigidities in business land supply, limiting councils', firms' and developers' ability to respond to changes in the patterns of demand for business land. This can create significant potential for supply to fail to meet demand.

Therefore, consideration needs to be given to the ways in which an NPS might:

- Encourage a more consistent and rigorous approach to data gathering and demand forecasting of business land at a council level.
- Improve the appropriateness of council regulations that affect the location of business land.
- Provide opportunities to reduce the time required for conversion of business land.

# 2 Introduction

The intention of the proposed National Policy Statement on Urban Development is to ensure regional and district plans provide adequate development capacity for businesses and housing.

The purpose of this research project is to provide meaningful input into understanding the potential problems associated with business land provided for in regional and district resource management plans; and to inform the development of a problem definition and the direction of a National Policy Statement.

To achieve this, this research has focused on areas identified as experiencing growth and has drawn on three main sources of information:

- Stakeholder views gathered through interviews with 24 different business organisations, developers, infrastructure providers and councils.[4]
- Existing research and reports on the demand for and supply of business land undertaken or commissioned by councils.
- Publicly available data on business land from CoreLogic and real estate companies.

This report will therefore assist the Ministry of Business, Innovation and Employment (MBIE) and the Ministry for the Environment (MfE) to understand the national and local issues in regards to business land and what the underlying causes of these problems are; and discuss how local authorities and the proposed National Policy Statement can potentially respond to the problems identified.

## 2.1 Definitions

One of the issues identified in the next section of this report is that councils often experience difficulties forecasting the demand for business land, which is made more difficult by the lack of a definitive source of data. This is because there is no one definitive definition of business land nor is there any consistency between the use of terms such as business land, commercial land, or industrial land.

Councils classify different types of business land in their resource management plans using different zones designed to control the effects of activities; but they each have a unique zoning typology. In addition, none of these zoning typologies match definitions used in various property databases, or the classifications of economic activity used by economists.

For the purpose of this study we have therefore defined business land as "all land zoned and used for productive purposes". Table 2.1 illustrates the type of land uses that we have included in our analysis based on this definition, and how the Australian and New Zealand Standard Industrial Classifications (ANZSIC) from Statistics New Zealand matches with the land use classifications of CoreLogic, and the business zones typically used in resource management plans.

The ANZSIC classifications are used to analyse economic activity. Under this classification system individual businesses are assigned to an industry based on their predominant activity. This allows us to examine the business activity that could be occurring in an area.

We have used CoreLogic data on business land as this is a large and useful database that draws on rates information from councils. CoreLogic provides data on land areas and values for each land title and the data is available at a Mesh Block and Census Area Unit level. This allows us to readily identify the number of hectares of occupied and vacant business land within a defined area. This database also allows us to readily identify the different types of business activities that are potentially occupying this business land.

[4] A complete list of stakeholders spoken to is provided in Appendix A Organisations interviewed.

Business zones are also classified in resource management plans, and these generally focus on how to manage and restrict activities and land uses to minimise their effects on the environment.

Table 2.1 Business land definitions

| Economic sectors<br>ANZSIC Level 1 | Business land<br>CoreLogic definitions | Business zones<br>Resource Management Plans[5] |
|---|---|---|
| Retail trade | Commercial | Metropolitan centre |
| Accommodation & food services | | Town centre |
| | | Local centre |
| Information, media & telecommunications | | Neighbourhood centre |
| | | Mixed-use |
| Finance and insurance | | General business |
| Professional, scientific & technical services | | Business park |
| Administrative & support services | | |
| Public administration & safety | | |
| Education & training | | |
| Health care & social assistance | | |
| Arts & recreation | | |
| Mining | Industrial | Mixed-use |
| Manufacturing | | |
| Construction | | |
| Wholesale trade | | |
| Transport, postal & warehousing | Light industrial | |
| Information, media & telecommunications | | |
| Rental & hiring services | | |
| Other services (e.g., car repairs) | | |
| Electricity, gas, water & waste services | Utilities | Heavy industry |
| Transport, postal & warehousing | | |

[5] The examples provided here are terms used in resource management plans to define business zones and are from the Proposed Auckland Unitary Plan.

# 3 Scene setting

Any consideration of the adequacy of business land supply needs to be informed by the characteristics of different sectors and their different land requirements; and by the trends that are driving economic growth and development.

## The business land requirements of different economic activities

All local economies comprise a mix of activities that have very different business land requirements. For example, retail firms need to locate near consumers, including in centres and dispersed throughout residential areas. Business services activities tend to agglomerate near each other, often in high-rise buildings in main centres that can be accessed by many workers. On the other hand, manufacturers, wholesalers and utility firms tend to be capital intensive and require large amounts of land. They like to locate near transport networks but buffered from other uses, because of their effects (such as noise, odour, traffic movements or discharge requirements). These characteristics often make these activities less mobile.

The six urban areas in this study have somewhat different economic structures and demands for business land. For example, about 40 percent of New Zealand's business services and wholesale trade are concentrated in Auckland, driving demands to go both up and out. Wellington is the public sector capital and has very little manufacturing, matching well with its relatively contained urban form. Queenstown is completely dominated by its tourism activities and therefore demand for hotel accommodation.

## The evolution of economic structure and growth

Economies are in a constant process of development and change. A very obvious example of this process is the shifting balance of economic activity evident in most countries over the past century, as employment has been released from agriculture and then manufacturing, into the ever-expanding services sector. This sectoral transformation has in turn contributed to the growth of urban areas, and in particular, areas that already dominate the national economy. This is a trend that is clearly evident in New Zealand.

Underpinning this process of development and change is the basic economic process of consumers, workers and firms striving for better outcomes in terms of lower prices, higher wages and greater profits. This has driven innovation and technological improvement. Change is simply the result of people striving to make economic gains.

Evidence clearly demonstrates that as areas grow in scale and density they tend to become more productive, offering the potential for higher wages and profits. In approximately half of all OECD countries, more than 40 percent of national Gross Domestic Product (GDP) is produced in less than 10 percent of their regions.[6] Further, most OECD metropolitan regions with more than 1.5 million inhabitants have higher GDP per capita than the national average, and this higher income in metropolitan areas is attributable to higher labour productivity levels associated with their sectoral specialisms, and their scale and density.[7]

The growth of urban areas can therefore be viewed as an economic response arising from the self-maximising behaviour of firms and workers. The general pattern of New Zealand's population growth reflects this view, with all growth since the 1920s being accommodated in urban areas. Current population projections are that the highest rates of growth will be experienced in both New Zealand's largest city Auckland, and by relatively small areas such as Queenstown, Selwyn, Waimakariri, New Plymouth, Waikato and Waipa districts.

[6] OECD. (2009). Regions at a Glance. (www.oecd.org).

[7] Kamal-Chaoui, L. & Robert, A. (eds). (2009). Competitive Cities and Climate Change. OECD Regional Development Working Paper No2.

Some of these areas are either rural areas on the periphery of cities, or are small urban centres surrounded by farmland or natural beauty. This may reflect the dual nature of New Zealand's economy, with income being generated both by our natural resource exports in rural areas, and knowledge intensive services in cities.

## Economic and spatial change within cities

Economic transformation outlined above drives growth, as the economic structures of both national economies and regions evolve into higher value activities. This implies a process of change across many levels, including within cities, where in theory the most productive land is occupied by the most productive activities. In reality, however, there are many factors that contribute to a less than perfect spatial arrangement of businesses.

An important observation is that, when considering the provision of business land, the transformation of existing (brownfield) areas is a fundamental part of the evolution of an urban economy. This is because as the economy evolves the productive potential of locations change, and through this process business land can be converted into higher value uses. For example, industrial activities have tended to gravitate away from city centres to be replaced by office based activity. Therefore, the provision of business land must take into account both the opening up of new land but also the effective transformation of existing land. This allows for the introduction of higher value activities into areas where these activities can become more productive.

This leads to the observation that one of the keys to a more dynamic and productive urban economy is the identification and minimisation of barriers to the mobility of firms.

Of late, employment growth in industrial activity has been low; however, it would be wrong to assume from this that there is little demand for additional industrial land. There are more dynamic changes taking place within the economy that will influence the future demand for greenfield and brownfield land for industrial activities.

For example, the changing needs of some industrial activities, like transport and logistics, where the efficiencies arising from scale combined with increased automisation are leading to a preference for larger sites in proximity to good transport connections and markets. The demand for transport and logistics is largely driven by population and consumption, areas with strong population growth are also likely to be the areas that see an increasing demand for larger greenfield sites for this purpose. The result is increasing demand for greenfield sites where new, purpose built premises can be developed.

These cleaner types of industrial activity are also displacing other heavier or noxious industrial activities, such as heavy construction, from existing business areas where land values are rising. In turn, these displaced activities require large, low-cost sites located on the urban fringe.

In other locations business areas are transforming from industrial to commercial centres, like Rosedale in Auckland, where smaller-scale commercial developments have completely crowded out industrial activity. Another example is the Ellerslie/Penrose area, which now has the second largest concentration of employment in businesses services in the Auckland region, behind the CBD.

The key point is that the question of sufficiency of land supply needs to be informed by the dynamic process of economic transformation, which will always take place in growing urban areas. Economic development is not just dependent on a supply of greenfield land it also requires the transformation of brownfield areas as firms expand, evolve and relocate – a supply of greenfield sites can often assist with this process.

A final point to bear in mind is that relocation is likely to be expensive for firms, particularly those that are relatively capital intensive. This suggests that any opportunity to reduce the costs and barriers associated with business relocation could assist the process of transformation in an area to higher value economic activity. This raises resource management planning, and consequent zoning decisions, as potentially important in facilitating transformation. We discuss these matters further in section 5 below.

# 4 Sufficiency of business land supply

This research project has considered the sufficiency of supply of business land in areas experiencing growth.[8] Where issues were identified, this project has considered whether a National Policy Statement (NPS) might positively effect change.

The project team have considered the overarching issue through a combination of stakeholder interviews and a review of relevant data and documents. The conclusion we have reached is that the overall supply of business land is generally sufficient and in some areas it is likely that there is an oversupply. The more important finding is that in areas of growth, most notably Auckland, there is a shortage of 'the right land in the right locations'.

This research has identified three ways that resource management planning may contribute to these outcomes:

1. Councils do not have a good understanding of current business land requirements and how these are likely to change. This is partly because councils generally invest much less in understanding business requirements than residential demand, and partly because it is much more difficult to forecast local economic development and its implications for land. This is compounded by data limitations.
2. Inappropriate zoning, resource consent conditions and other regulations may impose unnecessary costs on some businesses, and constrain economic development.
3. Planning and other processes contribute to the long timeframe of converting land from its current zoning or use to new business use. This can apply to greenfield land being converted to business land, and to brownfield land being converted to a zoning that allows for higher-value business activity. A number of stakeholders indicated that based on their own experiences the process could take up to 15 years, from initiating a change of zoning to the commencement of economic activity on a given site, whereas a council suggested a timeframe of around seven to eight years is the average.

These issues can apply generally to all areas experiencing growth. However, when combined, these issues can result in significant rigidities in business land supply, limiting councils', firms' and developers' ability to respond to changes in demand for business land. This can create significant potential for supply to fail to appropriately match demand.

Therefore, consideration needs to be given to the ways in which an NPS might provide opportunities to reduce the time required for conversion of land, and encourage a more consistent and rigorous approach to data gathering and demand forecasting of business land at a council level.[9]

## 4.1 Summary of business land supply in each local area

To inform the analysis a range of stakeholders representing public and private sector interests were interviewed using a standard questionnaire. These interviews sought to elicit stakeholder views on the adequacy of business land supply, and the potential for an NPS to improve the balance between demand and supply.

A high-level synopsis of the stakeholder interviews is that business land supply is generally perceived to be adequate in Christchurch, New Plymouth, Hamilton, Tauranga, Whangarei and Wellington. For industrial activity a key requirement is the availability of large, flat sites. Christchurch and New Plymouth are felt to have a particularly good supply of this type of land.

[8] The areas experiencing growth were identified as Auckland, Hamilton, Tauranga, New Plymouth, Wellington, Christchurch and Queenstown.

[9] We have not attempted to prioritise these issues as their importance is likely to differ across locations and they are likely to arise in combination with other issues, i.e. the real effects will often be a result of a combination of issues.

In Christchurch, businesses that were previously on mixed-use or business land on the edges of the CBD have largely relocated to greenfield sites in suburbs such as Addington or Riccarton, or in surrounding districts such as Selwyn.

There has been some pressure on existing brownfields sites for residential housing, but as the rebuild continues these pressures are expected to ease as more subdivisions become available and inner-city living opens up to Christchurch residents.

In New Plymouth, the New Plymouth District Council has undertaken a large planning exercise and created a New Plymouth District Blueprint. This blueprint considers brown and greenfields development, and identified several potential growth areas for residential developments over the next 30 years. Overall, this planning process has indicated that there is sufficient land zoned for business activity in the District. However, the Council also indicated, as did stakeholders, that the District Plan is prescriptive now due to permissive zoning leading to unexpected or unplanned developments within the CBD and surrounding suburbs of New Plymouth.

In Hamilton the supply of business land generally, and industrial land in particular, is felt to be sufficient in the short to medium-term. This adequacy has been assisted through the development of new areas, most notably at Ruakura where over 880 hectares of land is available, combined with the relatively modest uptake of land over the last decade. The main risk to this assessment is the potential for development pressure to increase in anticipation of the completion of the Waikato Expressway, combined with the spill-over effects from Auckland.

Tauranga is also well catered for through the development of sites such as Tauriko, although a small number of respondents felt that land supply in the vicinity of the city centre would become more constrained over time.

In Wellington there are brownfields sites that could be redeveloped while large and small greenfields sites exist in the surrounding Cities and Districts. Commercial and industrial areas north of Wellington, in Tawa, Grenada and Porirua, could undergo further intensification and the demand for land in these areas may grow further with the completion of roading projects such as Transmission Gully and the proposed Grenada to Petone cross-link road. Currently, there is sufficient land zoned and available in these areas. These roading projects may also open up greenfields sites in the Kapiti Coast District, and led to the intensification of existing brownfields sites in Seaview and Petone. Again, there is existing capacity within the Seaview and Petone sites.

One national stakeholder organisation contended that Queenstown was struggling to meet the demand from developers seeking large, flat sites. However, others we talked to from the business real estate sector did not see the same pressure.

Auckland is a more complex picture than the other growth centres. The first important observation from Auckland stakeholders, which also applies to all areas, is that business land requirements are more difficult to predict than residential. It was emphasised that not only is there inconsistent and variable data available on both the demand for and supply of business land, but there also needs to be more recognition that it takes time to understand the land requirements for businesses, as these are often far more specific than requirements for residential developments.

The views on sufficiency of business land supply in Auckland were mixed.[10] The general perception tended to infer that all types of business land was in short supply. One respondent succinctly put it that business land in Auckland was, "too expensive, there's not enough of it, and it's in the wrong place". This perception appeared to be more related to industrial land.

[10] At the time of writing this report there was a live debate between Auckland Council, its consultants and expert witnesses as to the sufficiency of different types of business land and its location, particularly industrial land but also retail land with some large retailers objecting to the emphasis being placed on town centre locations. This report summaries stakeholder views and data outside of this debate.

There is around 930 hectares of vacant industrial land available in Auckland and industrial activity is consuming around 30 to 40 hectares of land per annum. However, providing a figure on the amount of vacant land available does not indicate where the land is, if it has suitable infrastructure, and if it is attractive to businesses to locate there. All this figure does is indicate that the overall supply of land does not appear to be the issue.

The more important issue appears to be related to the location of available land, particularly in terms of ensuring adequate access for employees. This is a particular issue in areas such as the Airport, as a significant proportion of the most readily available land is in and around this area.

Creating a more dynamic environment for regeneration through better enabling the re-location of existing industrial activities was also identified as a specific issue related to business land supply in Auckland and Christchurch. In these areas, freeing up brownfield land for re-development is contingent on making land available for the relocation of at least some of the existing industrial activity.

An overarching comment that applies to all areas, and was raised by many stakeholders, is that the time it takes to identify, zone and develop land is too long. A number of stakeholders indicated that based on their own experiences the process could take up to 15 years, from initiating a change of zoning to the commencement of economic activity on a given site, whereas a council suggested a timeframe of around seven to eight years is the average. The importance of this is that a lengthy conversion process will limit a location's ability to respond to changes in the patterns of demand for business land, and even though the quantity of land supply may be adequate, given the more specific requirements of businesses, there might not be enough of the "right land".

# 5 Issues related to resource management planning

Councils are required to produce resource management planning documents that have a long-term focus. These plans should ensure that the supply of business land (utilised and available) achieves the wider, sustainable economic growth outcomes or goals of an area – for example, the Wellington Regional Strategy or the Auckland Unitary Plan.

However, this research project has found that at times this is not the case and a divergence can exist between national, regional, and local interests. This is because business land requirements are difficult for councils to forecast, as individual businesses have more specific needs compared to households, and there is no definitive source of data or information on business land in New Zealand.

One important consequence of the difficultly facing councils of accurately forecasting firms' needs for business land is that this leads to permissive zoning and potentially zoning to the highest value land use, as a means of accommodating a broad spectrum of activities. Permissive zoning may be appropriate in well-established, dense, and market attractive areas but it can be counterproductive in greenfields sites and lead to the hollowing out of town centres or CBDs as retail or commercial offices locate in these areas.

In other words, the context is important when assessing the implications of permissive zoning. The potential zoning to highest value land use may be useful in facilitating the economic transformation of an urban area. However, where highest value land use acts against a range of economic activities becoming established then the resulting economic profile may be unsustainably narrow. Further, this competition for land may be between several land use options – commercial, heavy or light industrial, residential, or retail.

Permissive zoning can also create issues in regards to the provision of infrastructure, and ensuring that the right infrastructure is provided in the right place at the right time. The provision of infrastructure can also create reverse sensitivity issues where infrastructure is currently in place but it is at odds with the proposed residential development or business park due to the close proximity or a proximity that has the potential to lead to a land-use clash. This can happen in and around airports, ports and electricity distribution.

## 5.1 Information underpinning decision-making

The demand for business land is typically forecast by councils using projected economic and population growth. These demand forecasts often consider the number of 'additional jobs' that could be created across a forecast period and concentrate on the growth in specific sectors such as manufacturing, wholesale trade, or transport and storage.

However, individual businesses have specific needs and employment density varies widely between sectors.[11] Added to this complexity are assumptions regarding employment density and floor area ratios, which are expected to change over time within sectors. This change is due to changes in business practise such as further automation within factories and warehouses, or a move to 'hot desks' within commercial offices.

Councils therefore need to be more mindful when they zone for different land uses, as business land requirements are significantly more difficult to forecast than residential needs. However, not all councils have the capability to do this and not all councils are good at forecasting the demand for business land.

Further, the need for forecasting is not always apparent. This is because not all areas of New Zealand are growing and therefore the need to forecast the demand for business or residential land is not a pressing issue.

[11] National member-based organisations indicated in interviews that their members typically require business land that has access to transport and telecommunications infrastructure, and a skilled workforce. In addition, firms in land-intensive industries require land that is suitably zoned, so that future expansion can be accommodated.

This is leading to sub-optimal decision-making. For example, this research project found that siloed and varied growth assumptions exist between some councils within the same region, which leads to inconsistent spatial planning. Examples of this can be found in Wellington, Christchurch and Northland.

### 5.1.1 No one source of data or set of assumptions

This research project has found that council planning processes for business land provision and zoning use a wide variety of data sources and assumptions. This lack of consistency is exacerbated by there being no definitive source of business land data nor one definition of business land.

National bodies who are dealing with each of the councils and their associated District Plans noted issues around inconsistencies, and the different timeframes or cycles that these Plans were on. These inconsistencies included definitions of land use and zoning between different councils.

These national bodies indicated that there is a role for a NPS or an RMA template to create greater consistency in definitions of land use and zoning, and an evidence base. The proposed NPS was seen by these bodies as an opportunity to provide guidance to councils on data sources and assumptions to be used for planning purposes.

### 5.1.2 Various stakeholders involved

Stakeholders indicated that there is a need for councils to rely on more than employment forecasts in their resource management planning. This is because sectors such as transport and logistics are becoming more capital rather than labour intensive, but the demand for their services is driven by the population. These businesses therefore need to have large sites that are often in greenfields locations.

In addition, some businesses require a certain level of density before making an investment decision. For example, the establishment of new supermarkets and shopping malls. Resource managing planning therefore needs to provide land for commercial businesses that support residential areas, but also be forward thinking enough to ensure that this is the best potential location for this commercial business to be located.

Stakeholders also indicated that they wanted to be more involved in the decision-making process as they often have skin in the game; for example, infrastructure providers such as Transpower; nationally significant industries such as Fonterra; service providers such as supermarkets; and property developers such as retail malls. These stakeholders also have long-term plans.

### 5.1.3 The challenge of infrastructure provision

There are two challenges in regards to infrastructure; firstly, accurately forecasting the rate and nature of growth in an area to ensure that the infrastructure provision is sufficient and secondly, gaining funding for the infrastructure necessary to support growth.

From a local government point of view this can be particularly challenging given that the costs of infrastructure provision are often loan-funded, and the uptake of land that has been put aside for commercial or industrial use is not always as expected.

The results can be varied but evidence suggests that councils can find themselves in a situation where land has been zoned for development and the trunk infrastructure built and funded from debt in advance of actual demand. The result is that debt servicing costs must be passed onto existing ratepayers. Better forecasting of the demand for business land would assist councils to mitigate this problem.

## 5.2 Appropriateness of business land zoning and resource consent practices

Permissive zoning means a range of land uses are allowed without considerable restrictions within a zone. This means there is limited intervention in regards to noise, lighting, storage, and use of hazardous substances. However, it can also mean that unintended land uses can be developed within that zone and reverse sensitivity issues occur.

### 5.2.1 Reverse sensitivity issues

Reverse sensitivity issues are complex and very case specific. Councils often have to manage these on a case-by-case basis and weigh up a number of competing issues before making a decision. Reverse sensitivity issues arise where a potential incompatible land use is proposed to be, or is already, sited next to an existing land use. Reverse sensitivity issues can occur when the resource management practices of councils allow incompatible uses to encroach on each other, or when these practises do not manage the amenity expectations of the new neighbours.

For example, reverse sensitivity issues arise when residential developments move into areas that are zoned business, commercial or mixed-use. There are also issues where light industry is moving into areas where heavy industrial activity is occurring. New amenity standards can place constraints on existing permitted activities. Residential and business developments and light industry require/expect higher levels of amenity and this creates reverse sensitivity issues.

If the new use is permitted, the established use may be required to restrict its operations or mitigate its effects so as not to adversely affect the new activity. This conflict can include noise, odour, glare/lighting, visual effects. This is a problem because reverse sensitivity can impact on business operational costs. These costs can include the cost of not having a resource consent renewed; the business being required to reduced their hours of operation; or the business having to increase expenditure to avoid, remedy or mitigate effects.

This research has found the extreme examples of pressure being exerted by surrounding residents and businesses on WaterCare about the ongoing operation of the Mangere Treatment Works, or pressure being exerted by surrounding residents on Wellington Airport about the ongoing operation of the Airport, or the recent example of the Ports of Auckland.

Businesses generally seek and require certainty that they can continue to operate at a given location; heavy industries in particular tend to have long-term planning horizons due to large capital commitments. They need assurance that their needs will be considered in the planning process. Infrastructure providers such as Transpower, WaterCare and Airports also have 30 year plans and they need assurance that their needs will be considered as part of spatial planning undertaken by Councils.

This certainty can be created by resource management planning processes providing protective buffers to protect areas for heavy activities, thereby reducing the pressure for change. However, greenfields developments also provide an important release valve for reserve sensitivity issues and need to be part of the planning process in order to respond to change – in business activity, in land use, and in land prices. Highbrook in Auckland is an example of a greenfield development that was established due to pressure on heavy industry to shift and open up an area for higher value land uses.

### 5.2.2 Permissive zoning and zoning to the highest land use

The context is important when assessing the implications of permissive zoning. The potential zoning to highest value land use may be useful in facilitating the economic transformation of an urban area.

However, where highest value land use acts against a range of economic activities becoming established then the resulting economic profile may be unsustainably narrow. Further, this competition for land may be between several land use options – commercial, heavy or light industrial, residential, or retail.

This research project has found that if the present function of industrial or commercial areas is to be retained, then changes in land use cannot be left to the property market alone to resolve. This is because regulatory costs matter to firms and developers, but they are significantly less influential than the pricing effect arising from permissive zoning. Regulatory costs matter most where zoning is permissive, as it is additional costs on top of higher land prices, making industrial or commercial land uses less economic. This potentially results in activity being crowded out as land values respond to the higher value opportunities afforded.

Again, it is pertinent to note that this market-driven change in land use may be appropriate in assisting urban transformation. However, there may be cases where a narrow range of economic activity becoming established results in an unsustainable economic profile in an area.

Zoning to the highest value land use has a similar effect as permissive zoning as landowners use the planning process to increase the price of their land; no land owner wants low-value land uses like industrial as they want to maximise the value of their land. This leads to developers seeking zoning to the highest value land use, particularly zoning to residential land. As one Auckland stakeholder explained when referring to greenfield sites, "all developers want residential zoning and want industrial land to be somewhere else."

Another example might be an area that is intended to be developed for industrial purposes but zoned for commercial activity. The result will be that the land values will adjust to reflect the higher value use, if a market exists for these activities, and the lower value activities will be priced out of the area.

- For example, big box retail in an industrial zoned area in Kerikeri has largely priced out the industrial land uses from establishing in that zone. This has the flow-on effect that industrial businesses have concentrated instead in the surrounding rural production zoned areas, displacing the desired rural activities.
- For example, an airport has purchased land vacated by a primary school. The land is parallel to the airport runway and concerns have been raised that the land beside the airport runway could become a high-density special housing area. This has the flow-on effect that it restricts airport activity, displacing flight paths and leading to a potential loss in airlines servicing that airport or the routes serviced.

Zoning for higher value uses has a similar outcome in many ways to permissive zoning, as this can drive out lower value activities. This may facilitate much needed economic transformation in an area. However, this may be a problem where there might be sensible policy reasons for retaining certain activities in a particular area or if the displaced activities are unable to relocate successfully.

## 5.3 Time lag to convert business land

Growth areas are dynamic, with changes in land use reflecting changes in the composition of the economy as much as economic growth. Land use also reflects changing behaviours and amenity values. The displacement of activity from different parts of a town or city is therefore part of the dynamic process of economic growth and development.

Businesses also operate in an ecosystem; they move and change location to take advantage of changes in markets, supply chains, incentives, or R&D. Business practises change, and businesses need to remain dynamic to be competitive, so they are searching or considering fit-for-purpose locations. Areas can therefore change in terms of their viability for a business and this can also lead to land use changes as businesses move in and out of an area.

Allowing changes in economic structure within brownfield areas relies to some extent on enabling the movement of existing businesses to other, more suitable areas. This is how greenfield land acts as a release valve, and an example of this is in areas such as Penrose, Auckland or Addington, Christchurch. Here, higher-value activity such as business services is moving into the area, and heavy industry is moving from these areas to greenfields locations such Highbrook, Auckland, or in and around the airport in Christchurch.

This movement of businesses only becomes an issue when there are no greenfield or brownfield sites available with the appropriate zoning and infrastructure. Further, it becomes a larger problem when the timeframe of occupying an identified or available site is between seven and 15 years. This type of timeframe – the time it takes to complete the conversion of land from the current zoning to occupation - creates uncertainty for existing business owners and developers, which in turn impacts on the cost of doing business and their investment decision-making.

It can also lead to a displacement of activity, as businesses are forced out of the current area they are operating in, possibly as reverse sensitivity issues cannot be dealt with, and may be forced to close their operation, or move offshore. One stakeholder provided examples of manufacturing firms that had changed their location or where considering closing their operations due to reverse sensitivity issues.

# 6 Geographic area specific issues

This research has focused on seven territorial authority areas identified by MBIE and MfE as areas of growth. These are Auckland, Hamilton, Tauranga, New Plymouth, Wellington, Christchurch and Queenstown.

Data and information was gathered on these seven areas from a variety of sources including MBIE and the individual councils. Our team also interviewed stakeholders based in some of these locations to provide an insight into more local areas of concern, as summarised in the section below. In addition, selected national bodies were also interviewed.

Information on land use was gathered from CoreLogic as this information was available at a CAU level and provided data on land use by size, area, and value. It also allowed us to examine the overall amount of vacant business land. This research tried to gather data and information on vacancies and rent but no single source was available.

As discussed in Section 2, some large national real estate companies gather this information but it is not available for every city or town nor at a detailed level. Bayleys Research provided the most comprehensive data on rent and business land supply, but this was predominantly focused on three types of business land use: office, retail and industrial land. Further, the focus on office and retail vacancies and rents were focused just on the CBD area of a town or city.

## 6.1 Auckland

Auckland is New Zealand's dominant economic centre, leading national population and productivity growth. Growth in the Auckland CBD has been complemented by growth in key local employment centres such as Newmarket, Ellerslie/Penrose, Manukau and Albany. These local employment centres have grown as the manufacturing base of the Auckland economy has transformed towards more of a 'knowledge driven' economy.

However, manufacturing itself has evolved and with it changes in distribution and wholesaling and where these large businesses have located in Auckland. Many of these businesses are now in the Southern areas of Auckland, while the CBD and other main centres such as Ellerslie/Penrose and Takapuna have increased the number of firms in sectors such as finance and business services. This has led to business land use changes.

### 6.1.1 Council documents

Information gathered for this study suggests a specific issue related to business land supply in Auckland was the need to create a more dynamic environment for economic regeneration through better enabling the relocation of existing industrial activities.

Some business areas are transforming from industrial to commercial land uses. Notable examples include Rosedale where smaller scale commercial developments have crowded out industrial activity in an area initially developed for industrial purposes. This transformation is more pronounced in the Ellerslie/Penrose area, which now has the second largest concentration of employment in businesses services in the Auckland region, behind only the CBD.

These 'cleaner' types of industrial activity are also displacing other industrial activities, such as heavy construction, from areas where land values are rising. In turn, these displaced activities require large, low-cost sites located on the urban fringe. Such a pattern of development can be observed in Silverdale.

The dynamic changes taking place within Auckland's economy could influence the future demand for greenfield land for industrial activities. This includes the changing needs of industry, with activities such as warehousing not only increasing but also becoming more reliant on large sites and more automated processes.

The result is an increasing demand for greenfield sites close to other areas of economic activity, where new, purpose-built premises can be developed. Information gathered in this study therefore suggests it would be prudent to ensure there is sufficient additional greenfield land available so that the dynamic process of economic transformation could continue in existing centres and business areas.

### 6.1.2 Data on land use

The patterns of business land use in Auckland from 1997 to 2014 can be tracked at a high level using CoreLogic data.[12] In 2014, 7,780 hectares of business land was in use in Auckland. This includes commercial and industrial land, and land used for utilities.

Between 1997 and 2014, the amount of business land available in Auckland has increased by 5.8 percent per annum. The largest change in land use has been an increase in mixed-use, with an additional 843 hectares now used for these types of activities.

Commercial mixed-use, at 1,049.5 hectares is the biggest user of business land. Industrial warehousing is the second largest business land user in Auckland at 1,041.5 hectares. This is unsurprising given the large sites required by this type of activity.

Light industry occupies approximately 886 hectares in Auckland while retail occupies approximately 470.8 hectares and offices occupy 242.6 hectares. Commercial offices have the highest land value per hectare in Auckland at $14.6 million in 2014.

In 1997, there was approximately 529.8 hectares of vacant business land. In 2014, this had increased to 1,128.9 hectares of vacant business land available or a difference of approximately 600 additional hectares. Overall, this data indicates that the total amount of business land available has increased along with the utilisation of this land, and that industrial activity is consuming around 50 hectares of business land per annum.

This supports our view that at the regional level there is sufficient land available to meet demand. However, this sufficiency may vary by area and sector within Auckland and needs to be further considered.

### 6.1.3 Data on rents

Data from real estate companies can be used to look at snapshots of data on business land rents and vacancies. Data from Bayleys indicates that there was around 60,000 square metres of CBD office accommodation in 2015, on which construction was underway or soon to commence, with another 30,000 square metres being refurbished. Colliers International report a development pipeline to 2022 of over 180,000 square metres of Auckland CBD office accommodation, with a further 100,000 square metres of office accommodation being planned for the remainder of Auckland.

This pipeline of activity impacts on the average rent per square metre that landlords can charge and their potential return on investment. In Table 6.1 below, data on the average rent per square metre in the Auckland CBD is shown. The per annum yield is the average gross return (i.e. % per annum) over the past 10 years achieved by landlords on their investment, as earnt from the average rents indicated. The lower and upper limit of this average rent is shown for office, retail and industrial land.

Office and retail space is split into primary and secondary categories, while industrial land is split into office/showroom and warehouse space. Industrial land is not available in the CBD so data from Bayleys is provided for East Tamaki.

[12] This is the period that a complete dataset is currently available for. CoreLogic updates their database annually.

Table 6.1 Average rent per square meter, Auckland, 2015[13]

| Auckland | | Rent $/m$^2$ | | Per Annum Yield (%) |
|---|---|---|---|---|
| | | Lower | Upper | 10 year average |
| Office CBD | Prime | 300 | 320 | 10.4 |
| | Secondary | 200 | 250 | 10.4 |
| Retail CBD | Prime | 1,500 | 3,500 | 10.3 |
| | Secondary | 205 | 900 | 10.3 |
| Industrial | Office/ Showroom | 130 | 225 | 10.8 |
| (East Tamaki) | Warehouse | 100 | 125 | 10.8 |

*Source: Bayleys Research*

As at June 2015, the average rent paid for prime office space in the Auckland CBD was between $300 and $325 per square metre, while the average rent for secondary office space was between $200 and $250 per square metre, as shown in Table 6.1. In turn, the average rent for industrial land is lower, at between $100 and $125 per square metre for warehousing and between $130 and $225 per square metre for office/showroom space. Landlords are therefore encouraged to provide commercial office and retail premises rather than warehousing or showrooms within an industrial area. This is because of the higher rents this type of activity demands.

### 6.1.4 Data on vacancy rates

Vacancy rates provide a good signal to the market around the potential for investment in new office capacity. Although, there are significant rigidities in this market and supply often lags demand for a period following development, which can lead to surplus capacity.

The overall vacancy rate in the Auckland CBD office market declined in the first half of 2015 to a historic low of 8.8 percent in July 2015, reflecting some of the tightest market conditions seen in a number of years. This fall was driven mainly by a large decrease in B Grade vacancies as prime (Premium and A Grade) vacancies are already at a very low level. Premium and A Grade office accommodation has a CBD vacancy rate close to three percent, and this is forecast to remain in tight supply until the office space that is underway or soon to commence is completed. A net rental of $650 per square metre for the top floor of a new CBD building nearing completion is evidence of the upward pressure on rent prices.[14]

Within the Auckland CBD, demand is focused on office buildings near the waterfront. The traditional core of the CBD used to run up Queen Street north to south, from the Harbour to Aotea Square. However, over the last few years' development has focused on the northern sector of the CBD, with most of the blue chip tenants now situated in this area. Eighty percent of CBD prime office premises are located here.

Bayleys Research latest annual industrial vacancy survey showed overall vacancies in Auckland falling to 3.6 percent in January 2015, down from 3.8 percent a year earlier. This survey covers the Airport Corridor, Wiri, Penrose, Mt Wellington, Rosebank Road, East Tamaki and the Albany Basin.

The amount of empty industrial space on the North Shore is at an all-time low. Compounding the problem is the low level of new development activity. Bayleys argue this is a reflection of the shortage of industrial zoned land on the North Shore and the impact this has had on land values.

[13] Data from Bayleys Research was used as this was the most comprehensive and complete dataset available from the large, national real estate companies.

[14] Data provided by Bayleys Research.

Industrial tenants are finding it next to impossible to compete with owner-occupiers who are paying record prices to secure premises and have the ability to spread the cost over 10 to 15 years of occupation. Equally, smaller to medium sized developers are being pushed out of the market due to a lack of scale and the high cost of construction. Excessive council charges relating to service connections especially for water are another major obstacle to development for these small-to medium-sized developers.

There are a few, larger developers such as Goodmans (Highbrook Business Park) and Auckland Airport (The District precinct) who have land banked large tracks of land for many years, who are now able to control the supply.

### 6.1.5 Stakeholder views

The general perception among Auckland stakeholders was that business land was in short supply. However, when we drilled down the picture changed a little and stakeholders suggested that it was a shortage of the "right land in the right location". Further, where this "location insufficiency" arose it was often due to a slow change in response to growth that restricted the evolution of the local economic structure.

Stakeholder views suggest it is important to allow existing industrial areas to transform into areas of higher value economic activity. It is also important to make greenfield land available for the relocation of at least some of this existing industrial activity, or free up more brownfield land for redevelopment. This is because many land-intensive businesses, such as transport and logistics, cannot intensify their land use upwards, and so there needs to be some provision for "more land" for these types of businesses and business activity.

Other concerns that were expressed focused on the location of available land and access to potential employees. For example, some stakeholders suggested that industrial activity was being forced to the periphery and this was creating accessibility problems for workers. Others suggested that a significant proportion of the most readily available land is in and around the Airport, not widely distributed around the Region. These stakeholders suggested that the airport land is geographically isolated and difficult for workers to access.

## 6.2 Hamilton

Hamilton has grown and expanded its core function as a rural service centre. In 2015, 25 percent of the GDP generated by the Hamilton regional economy was from the Business Services sector, and 17 percent of the employment and 39 percent of all businesses are within this sector.[15]

The economy of the greater Hamilton area relies on the dairy sector, which drives the demand for related manufacturing and engineering, and agri-science research. As a result, Hamilton is now also a key location for metal-based manufacturing activity.

In the agri-science area, increasing activity in research and development associated with improving land output in the dairy sector is starting to provide opportunities in other sectors including processing, education and logistics. This pattern of 'smart' development is leading to a strong perception that Hamilton is a 'smart city' and there are a number of opportunities facing Hamilton. One is the process of generalising technology developments for dairying, as happened previously in metals and machinery, moving beyond the dairy sector and opening up new market opportunities.[16]

[15] BERL Regional Database 2016. The Business Services sector includes industries such as finance and insurance, property developers and real estate agents, telecommunication services, internet publishing and broadcasting, computer services, professional, scientific and technical services, as well as electricity, gas, and water supply, and waste collection and treatment.

[16] Waikato Regional Council. (n.d.). Waikato Futureproof Landuse Planning Appendices.

### 6.2.1 Council documents

The HCC Operative District Plan, the rules of which have been broadly in place since 1999, is now recognised as being very permissive. In Hamilton, land theoretically zoned for industrial activity in many areas, particularly in the north of Hamilton along the former State Highway 1, is now unrecognisable as an industrial area

This area is now characterised by retail of almost all descriptions, including large format retail and supermarkets, car yards, a major shopping mall and numerous smaller retailers and fast food outlets. This proliferation of retail has had significant impacts, including on the road network, resulting in a variety of interventions.

While some genuine industrial land uses remain, they are very few and this appears to have had unplanned impacts on the vitality of the CBD as retailers and offices have moved, presumably into cheaper land with more lenient planning controls than are evident in other zones.

The Proposed HCC District Plan therefore seeks to better protect industrial land for genuine industrial purposes. The new plan includes an industrial zone and a new logistics and inland port area at Ruakura. It also introduces a wide range of business zones that Hamilton City Council hopes will better allocate uses appropriate to each area. It is expected that a more considered regional view on planning and business land provision will be achieved once the District Plans are adopted; although, this will not address historic decisions.

### 6.2.2 Data on land use

In 2014, 248 hectares of commercial land and 716 hectares of industrial land was in use in Hamilton. The average land value for commercial land was $3.8 million per hectare in 2014, compared to average land value for industrial land of $1.3 million per hectare.

Between 1997 and 2014, an additional 10 hectares of land has been opened up for commercial office space. The value of this land has grown from $1.9 million per hectare in 1997, to $4.8 million in 2014. In terms of land area, the largest increase has been in retail. The amount of business land used for retail has grown by 43 hectares between 1997 and 2014, or a rate of 5.8 percent per annum. The value of this land has also noticeably grown, from $2.5 million per hectare in 1997 to $4.4 million in 2014.

In total there was 267 hectares of vacant commercial and industrial land in 2014 and this land had a value per hectare of $4.4 million. Overall, the total amount of business land available has increased along with the utilisation of this land. This supports our view that at the regional level there is sufficient land available to meet demand.

### 6.2.3 Data on rents and vacancies

At the moment the Hamilton CBD office market is a tale of two halves - tight vacancies among prime A grade properties versus ongoing weakness and higher vacancies among poorer secondary B and C grade space. Development activity has largely been limited to refurbishment and redevelopment work among older and lower grade office buildings.

This tale of two halves is illustrated in the average rents per square metre displayed in Table 6.2. This information gathered by Bayleys indicates that as at June 2015, the average rent for prime office space was between $200 and $275 per square metre while secondary office space was renting for an average of $120 to $200 per square metre.

Hamilton's other major office precinct is Te Rapa, and this area is occupied by a small number of prime tenants including Ecolab and ACC. Much of the city's population growth is centred in the fast growing northern suburbs of Rototuna North and Flagstaff, and the push-pull for office occupiers between the CBD and Te Rapa is likely to continue.

Table 6.2 Average rent per square meter, Hamilton, 2015

| Hamilton | | Rent $/m$^2$ | | Per Annum Yield (%) | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office | Prime | 200 | 275 | 7.0 | 8.0 |
| | Secondary | 120 | 200 | 8.5 | 11.0 |
| Retail | Prime | 150 | 400 | 8.0 | 9.0 |
| | Secondary | 110 | 140 | 8.0 | 10.0 |
| Industrial | Office/ Showroom | 90 | 150 | 7.0 | 8.0 |
| | Warehouse | 70 | 90 | 8.5 | 10.0 |

*Source: Bayleys Research*

In the CBD, the average rent for prime retail space is highest, with averages of between $150 and $400 per square metre, as shown in Table 6.2. However, there has been weak demand for prime retail properties and sufficient supply, and in response the City Council is looking to rejuvenate the CBD into a more compact CBD centred on the riverfront.

Bulk retail space in Hamilton City, as at June 2015, had average rents per square metre of between $110 and $140. Bayleys research indicates there has been a steady demand for this type of retail space and a sufficient supply to meet this demand. The average return on investment for landlords was between eight and 10 percent per annum for this type of property, which was similar to returns for industrial warehouse properties.

Hamilton at the start of 2015 had 690,900 square metres of industrial space with a vacancy rate of 5.1 percent. Prime industrial land, as at June 2015 was renting for an average of $90 to $150 per square metre while warehousing was renting for an average of $70 to $90 per square metres.

## 6.3 Tauranga

Tauranga's economy is being fuelled by a booming port, a bullish kiwifruit industry, significant road infrastructure improvements, and continued strong population and housing growth.

In particular, completion of dredging to allow bigger ships into the Port in 2016 is expected to increase port capacity and lead to further demand for storage and logistics space around the Port. The meeting of this demand will be helped by the completion of the Eastern Link Road, which has opened up vast tracts of land for further development.

These developments should underpin Tauranga's commercial and industrial property market in the short to medium-term.

### 6.3.1 Council documents

The Bay of Plenty Region faces challenges due to the different speeds that the regional economy is operating at. Some districts are facing land pressures due to growing populations, while other districts have plenty of land due to low or no population growth.

Tauranga in particular relies on land being available outside of its boundary for commercial or industrial developments. This is because many commercial areas in Tauranga are within urban areas and are unable to expand, and there are no planned areas for heavy or noxious industry.

There is a flow of people across the TLA boundaries within this Region, these people are moving between their residence and employment, and there are a lot of synergies and dynamics across the various boundaries.

The information gathered in this research suggests that while the Tauranga City Council has expressed concern that new residential developments within the Tauranga City boundaries need to be high density to prevent urban sprawl, they are continuing to allow permissive zoning to occur. In addition, while it is recognised that urban development cannot occur without the provision of urban services such as water, wastewater, stormwater, transportation, reserves and community facilities, this infrastructure is expensive and typically requires debt funding.

### 6.3.2 Data on land use

Between 1997 and 2014, the amount of business land available in Tauranga has grown by 368 hectares, or 2.7 percent per annum. In 1997, approximately 636 hectares of business land was available with a land value per hectare of $529,975. By 2014, the land area available had grown to just over 1,000 hectares with an average land value per hectare of $2.5 million.

Tauranga has a different land use profile than cities such as Auckland, Wellington and Christchurch. The largest user of business land in Tauranga is accommodation for the elderly, with 117.2 hectares of land used for this purpose. The second largest commercial land use in Tauranga is retail with 66.7 hectares, followed by 38.6 hectares of commercial mixed use. Commercial offices occupy less space but have a higher land value per hectare, at $8.5 million in 2014.

In 2014, there was approximately 176 hectares of vacant commercial and industrial land, with an average land value per hectare of $1.2 million.

### 6.3.3 Data on rents and vacancies

Growth in suburban shopping centres over recent years has had a negative impact on CBD retailers. Vacancies among CBD shops are becoming increasingly visible and are taking time to fill. Within the CBD, the City Council has given approval for the building of a Waikato University campus and the development of two major office schemes. Bayleys research indicates that these projects could act as a major catalyst in revitalising the central city area and boosting demand for retail services.

As at June 2015, information gathered by Bayleys indicates there is a sufficient supply of prime A-grade office accommodation and secondary B and C-grade office space in Tauranga. As indicated in Table 6.3, average rent for prime office space was between $300 and $320 per square metre as at June 2015, while secondary office space rents were on average $100 to $180 per square metre.

Table 6.3 Average rent per square meter, Tauranga, 2015

| **Tauranga** | | **Rent $/m$^2$** | | **Per Annum Yield (%)** | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office | Prime | 300 | 320 | 6.5 | 7.5 |
| | Secondary | 100 | 180 | 8.0 | 9.0 |
| Retail | Prime | 400 | 500 | 5.5 | 6.5 |
| | Secondary | 150 | 250 | 8.5 | 10.0 |
| Industrial | Office/ Showroom | 90 | 100 | 6.0 | 7.0 |
| | Warehouse | 70 | 90 | 8.5 | 10.0 |

*Source: Bayleys Research*

This table also indicates that average rent for bulk (prime) retail space was between $400 and $500 per square metre as at June 2015. There is a sufficient supply of this space in the suburbs, and a steady demand. This is the commercial land noted earlier that is within urban areas and unable to expand. In the CBD, weak demand for secondary retail space has resulted in lower retail rents, with most space renting for an average of $150 to $250 per square metre. This weak demand is due to retailers moving to the suburbs.

Mt Maunganui/Port of Tauranga is by far the largest of the established industrial areas in Tauranga, with around 310,000 square metres in total gross floor area. This is an area similar in size to the other four major industrial areas combined – Greerton, Judea, Papamoa and Tauriko. In terms of size, the Port of Tauranga covers an area of 190.3 hectares. This area is split into a bulk cargo precinct (114.3 hectares) and an operational precinct (76 hectares, of which 30 percent remains available for further expansion and/or development).

Tauranga has an abundance of industrial zoned land available in and around the city, totalling in excess of 650 hectares. In addition, as at January 2015, industrial land vacancies were approximately 13.5 percent of the total zoned land. Bayleys research indicates that as at June 2015, office/showroom space in an industrial space area had an average rent of $90 to $100 per square metre, for which there was a steady demand and sufficient supply.

Secondary industrial space, particularly that used for warehousing, was attracting rents of $70 to $90 per square metre, and also had a steady demand, but given the large amount of industrial land available in Tauranga there is sufficient supply.

## 6.4 New Plymouth

The comparative advantages of the Taranaki Region are oil and gas extraction and supply; dairy farming; and dairy product processing. Oil and gas extraction generated just over 26 percent of regional GDP in 2015, at $2,270 million (2015$m)[17], and it is the fortunes of this sector that drive the demand for industrial and commercial land. This is because of the large number of businesses that provide goods and services directly and indirectly to the oil and gas extraction and supply sectors.

### 6.4.1 Council documents

The District Plan is currently being reviewed in New Plymouth. The draft is expected to be released in mid-2016, with the final version expected to be adopted, after consultation, in late 2017/18. The new plan is called the New Plymouth District Blueprint.

The current District Plan Council identified greenfield land requirements until 2027 in the following range: 120 to 150 hectares of additional residential land would be required in New Plymouth and around Bell Block, and 38 hectares of industrial or business land may be required throughout the City. These requirements were as at June 2007, and stakeholders indicated that industrial or business land requirements have not changed.

Under the current District Plan, land identified for industry may also be appropriate for commercial development and big box retailing is now located in areas that were previously industrial. The zoning of land for industrial or commercial purposes is therefore being reviewed in the District Plan as part of a 'Centres' review that includes an industry stocktake in the CBD.

Part of the proposed changes to the District Plan also include Plan Change D: Reverse Sensitivity from their Rural Review. The purpose of this change is to include further reverse sensitivity controls to protect some key rural resource-based industries from potential encroaching rural residential development. This change is based on concern that the viability of particular industries are being compromised by the increase in rural residential subdivision across the District. The key rural resource-based industries identified include existing poultry and piggery operations, quarries and oil and gas sites, and dairy sheds.

### 6.4.2 Data on land use

In 2014, 178 hectares of commercial land and 849 hectares of industrial land was in use in New Plymouth. In total, 94 hectares of vacant commercial and industrial land was available in this area.

[17] BERL. BERL Regional Database 2016.

Vacant commercial land had an average land value per hectare of $3.2 million, while vacant industrial land had an average land value per hectare of $503,000.[18] Commercial land in New Plymouth is predominantly used for commercial offices and retail.

### 6.4.3 Data on rents and vacancies

Recently there has been a downturn in the oil and gas extraction and supply sectors, and energy and engineering companies have reduced their staffing levels in the Region. This has resulted in an increase in the number of vacant office premises, particularly prime office space, and led to significant growth in the amount of spare capacity within office buildings. This spare capacity is reflected in changes in average rents.

Information gathered by Bayleys indicates that, as at June 2015, the average return on investment to landlords of renting prime office space is between 8.5 and 9.5 percent per annum, lower than the returns gained by renting secondary office space, at between 9.5 and 12 percent per annum. This information and the average rent per paid per square metre of prime and secondary office space is shown in Table 6.4.

As at June 2015, the average rent paid for prime office space in New Plymouth was between $190 and $285 per square metre, while the average rent for secondary office space was between $140 and $170 per square metre.

Table 6.4 Average rent per square meter, New Plymouth, 2015

| New Plymouth | | Rent $/m$^2$ | | Per Annum Yield (%) | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office | Prime | 190 | 285 | 8.5 | 9.5 |
| | Secondary | 140 | 170 | 9.5 | 12.0 |
| Retail | Prime | 250 | 280 | 8.5 | 9.5 |
| | Secondary | 120 | 200 | 9.5 | 11.0 |
| Industrial | Office/ Showroom | 100 | 120 | 7.5 | 9.0 |
| | Warehouse | 80 | 110 | 9.5 | 11.0 |

*Source: Bayleys Research*

As is the case in many town centres, retail businesses in New Plymouth are facing competition from big-box retail centres. This impact is particularly stark within secondary strip locations and, as with offices, within buildings with low-seismic ratings. The increase in big-box retailing is evident in land use changes. Between 1997 and 2014, the amount of commercial land available in New Plymouth increased by 3.2 percent per annum. The largest change in land use was in retail, with an additional 41 hectares opening up. This means the largest use of business land in New Plymouth is now for retail purposes, with 63.3 hectares.[19]

As shown in Table 6.4, Bayleys research indicates that the average rent paid for prime retail space was between $250 and $280 per square metre, as at June 2015, while secondary retail space rented for between $120 and $200 per square metre. The return on investment to landlords of owning and renting this type of land was between 8.5 and 9.5 percent on prime retail space, and 9.5 and 11 percent on secondary retail space. This research noted that there is a steady demand for prime retail space in New Plymouth and a weak demand for secondary retail space, but sufficient supply of both.

The average rent for bulk retail space was between $150 and $180 per square metre, as at June 2015. There has been a strong demand from big box retailers for this land in the past. However, Bayleys research indicates that New Plymouth has sufficient supply to meet this, and any future, stronger demand for this type of land.

The downturn in the oil and gas extraction and supply sectors, and the impact this has on other industries such as engineering, is also evident in the leasing activity occurring on industrial land.

[18] CoreLogic Database 2016.

[19] Ibid.

The demand for industrial office showroom and industrial warehouse space has declined since mid-2014. This type of land generally attracts lower rents than commercial office and retail space. As at June 2015, information gathered by Bayleys indicated that the average rent paid for industrial showroom/office space was between $100 and $120 per square metre in New Plymouth, while warehousing on industrial land rented for between $80 and $110 per square metre. Further, there research found that there is perceived to be a sufficient supply of these types of properties in New Plymouth.

### 6.4.4 Stakeholder views

The evidence gathered as part of this research indicates that there is a sufficient supply of business land in New Plymouth. However, stakeholders views suggest that the provision of land for large greenfields developments or the expansion of existing brownfields sites are two key areas of concern. These concerns indicate the difficulties of forecasting the future demand for business land and economic growth in the Region, particularly given the differences within and between the districts, and the time it takes to provide consent for the expansion of existing brownfields activities or the provision of a new greenfield site in a rural location.

The information gathered for this study suggests that there is a role for an NPS to encourage councils to do forward planning despite having a stagnant population. New Plymouth provides a good example of this. The New Plymouth District has undertaken a large-scale forward planning exercise in detail, along with spatial planning, but Stratford District and South Taranaki District councils have not.

Stakeholders suggest that this is because Stratford District and South Taranaki District do not have the suite of problems associated with population growth or economic growth so they have "not felt the need". However, forward planning is not just about population, it is also about economic development and how the regional economy can be supported by and through spatial planning.

These stakeholders indicated that large scale greenfields developments are difficult to plan for. For example, Methanex in North Taranaki may rebuild their existing plan or invest in building another plan. How does the Council plan for something of this size, taking into account the impact on neighbours and infrastructure, as well as the significance of this plan to the New Zealand economy? Another example of a large one-off project on industrial land is Balance Agrinutrients replacing their Urea plant in Kapuni. This is privately owned and they want to build a new plant twice the size of their existing plant. This is significant to the South Taranaki District economy as well as the New Zealand economy. For Councils such as South Taranaki District it is important that they are able to monitor and respond to a situation such as changes to a Urea Plant in Kapuni, rather than just predict and plan for perceived population growth or decline.

An NPS could therefore allow councils such as Stratford District and South Taranaki District with the tools they need to be responsive to change, and decrease the overall time it takes to allow this change to occur.

## 6.5 Wellington

Wellington City employed 138,650 FTEs in 2015, which accounted for 60 percent of total employment in the region. The Social Services sector was the largest employer, employing approximately 36 percent of all FTEs in Wellington City, closely followed by the Business Services sector.[20]

Wellington is a government town; 20,590 FTEs were employed in Public Administration in Wellington City in 2015, which is approximately 15 percent of all employment. People who are employed in the Public Administration sector work for Central or Local Government.[21] Public Administration is also part of the Social Services sector.

[20] BERL. BERL Regional Database. 2016.

[21] Ibid.

The Business Services sector in Wellington City employs a large number of people in banking and finance, IT services, administrative services, and professional and technical services such as engineering and telecommunication services. The administrative services sector includes call centres, travel agents and people engaged in building cleaning and maintenance.

### 6.5.1 Council documents

Between 1995 and 2009, more retail and residential dwellings have moved into the Wellington City area and businesses on land that was previously commercial/business or industrial land have moved to the outer limits of the city or to the surround cities such as Porirua City or Lower Hutt City.

Wellington City has identified two business area sub-zones these are:

- Business 1 areas, which are predominantly mixed-use and include light industry; commercial and business services; some entertainment and local community and recreation services; and some residential. Activities within this area need to be complementary not compete.
- Business 2 areas, which are predominantly industrial and include warehousing, manufacturing and communication services. These areas have lower levels of amenity and lower pedestrian volumes, which is acceptable due to the types of industrial activity that occur in these areas.

Council policy is to permit appropriate activities in certain areas and assess others on a discretionary basis. These design guidelines, however, relate predominantly to large-scale buildings that are visible form public spaces. The focus here therefore is to enhance public amenity and maintain and enhance the existing urban form. This also means applications consider compatibility with adjoining land uses, and access to road and transport links.

Interestingly, the Council acknowledges that they need to consider the "net value" of industrial or commercial activity to Wellington City's economy against the "net value" that other activities competing for the same land may generate.

There are a number of constraining factors in regards to industrial or commercial activity in Wellington. These include: topography, reverse sensitivity, servicing, competition with potential need for residential expansion, proximity to transport routes, and group conditions.

The ability of the City to provide new areas of industrial or commercial land is not as simple as zoning more land. As noted by the constraining factors above. Due to this, logistics and distribution, manufacturing, and engineering firms are moving to fringe locations around the city due to vacant land supply constraints. These locations are predominantly in areas north of Wellington City.

### 6.5.2 Data on land use

In Wellington City there was 607 hectares of business land in 2014. Approximately 205 hectares of this land was used for commercial purposes while 292 hectares was used by industry. Commercial mixed-use occupied 72.4 hectares of business land or 35 percent of all business land in Wellington City. The biggest land user was the retail sector with 38.8 hectares, followed by commercial offices with 33.4 hectares. Commercial accommodation also occupies a large amount of land in Wellington City, with 13.1 hectares in 2014.

There was 20.8 hectares of vacant commercial land in Wellington City in 2014, and this land had a value of $6.1 million per hectare. In contrast, there was 35.8 hectares of vacant industrial land and this land had a value of $1.5 million per hectare.

The amount of vacant industrial land in Wellington City has declined since 1997 by one percent per annum, or a total of seven hectares, while the amount of vacant commercial land has grown by 6.9 percent per annum, or a total of 14 hectares.

### 6.5.3 Data on rents and vacancies

As at June 2015 Wellington CBD prime office space, as shown in Table 6.5 below, had an average rent per square metre of $480 to $660, while secondary office space was attracting rents of $280 to$450 per square metre. However, it is the prime retail space that attracts the highest rents in Wellington City, particularly Lambton Quay. As at June 2015, prime retail space along Lambton Quay had an average rent of between $2,000 and $3,200 per square metre. This is in contrast to the average rent for industrial warehousing in the Seaview area, which attracted average rents of $60 to $130 per square metre. Seaview is a prime industrial area in Wellington.

Table 6.5 Average rent per square meter, Wellington, 2015

| **Wellington** | | **Rent $/m$^2$** | | **Per Annum Yield (%)** | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office Core | Prime | 480 | 660 | 7.0 | 8.3 |
| | Secondary | 280 | 450 | 8.5 | 10.0 |
| Retail | Prime | 2,000 | 3,200 | 6.0 | 8.0 |
| (Lambton Quay) | Secondary | 850 | 1,400 | 6.0 | 8.0 |
| Industrial | Office/ Showroom | 90 | 200 | 8.0 | 10.0 |
| (Seaview) | Warehouse | 60 | 130 | 8.0 | 10.0 |

*Source: Bayleys Research*

The latest Bayleys Research Wellington Retail survey (January 2015) suggested that things are on the up for the retail market, with increased leasing activity forcing down vacancy rates within the CBD core and lifting rents.

Demand for good quality retail space in prime locations such as Lambton Quay and Courtenay Place was strong and this has led to some longer term leases being negotiated. For example, some spaces are now achieving six year lease terms with rents of $3,000 per square metre. The core CBD retail vacancy rate at this point was approximately 7.7 percent.

Fringe prime office space was renting for $330 to $480 per square metre as at June 2015, and there was a steady demand and scarce supply. In addition, secondary fringe office space was attracting rents of $175 to $320 per square metre and also had a steady demand, but was the only category to have surplus supply.

New developments and extensive upgrades within A-grade retail spaces has also increased vacancy levels within secondary B and C-grade retail buildings. Landlords have been left with the option of either upgrading their buildings to compete for tenants or look for alternative uses. Given the increased demand for inner city living and expansion of the education sector within Wellington City, conversion to accommodation has proved to be an increasingly attractive option for some of these landlords.

In addition a number of other major developments and refurbishments are underway for Government agencies, which is impacting on rental rates, the length of leases and the terms and conditions that landlords are offering. This is cyclical, and impacts on the Wellington commercial market in waves of demand.

### 6.5.4 Stakeholder views

Stakeholders views suggest that variations exist between the councils in the region and that this siloed approach means that spatial planning is not well integrated. One example put forward of this is the proposal to rezone some industrial land in Upper Hutt to residential. This proposed zoning change is being opposed as it limits the overall supply of industrial land in the Wellington region, particularly as this area is well-located in terms of resiliency. For example, a data management company deliberately chose to locate there given its lower propensity for natural hazards, and its distance from residential areas. This area was also discussed by stakeholders as an example of where residential zoning is potentially encroaching into traditionally industrial areas through permissive zoning by councils.

Information gathered as part of this study also found that there needs to be better access to industrial areas. For example, road access along Petone waterfront to the industrial area in Seaview. This road is currently shared with residents which sees a mix of passenger vehicles and big trucks. Stakeholders suggested this was not an ideal situation and suggestions were put forward as to how this area needs to be changed.

## 6.6 Christchurch

It is difficult to provide a succinct overview of the operating economy in Christchurch at the moment.

However, prior to the Canterbury Earthquakes in 2011 the Christchurch economy was focused on providing goods and services to the surrounding rural hinterland, supporting a high-value manufacturing sector that was focused on export markets, and delivering visitor experiences that encouraged the overnight stay of domestic and international tourists arriving through Christchurch International Airport.

Christchurch remains the gateway to the South Island and the economy of the City plays a key role in our national economy. Many of the rebuild projects are focused on this role. For example, the four cornerstone projects within the Christchurch CBD have been successful in gaining significant tenant pre-commitment. These cornerstone projects aim to encourage business services back into the CBD area, as many of these tenants have moved out to the surrounding suburbs of Riccarton and Addington.

Focusing on the four cornerstone projects, at the ANZ centre Beca, has signed as the largest office tenant, leasing 4,100 square metres, while ANZ Bank is to take signage and naming rights, along with one floor of office space (2,700 square metres) and ground floor retail space of 400 square metres. In addition to the BNZ Bank, the BNZ Centre will be occupied by a number of government departments including, in Stage 1 Statistics New Zealand, the NZ Transport Agency and the Department of Internal Affairs. Stage 2 of this build will include the Accident Compensation Corporation as a key tenant. These projects are known as cornerstone projects as they will also aim to attract private sector businesses and investors back to the CBD.

### 6.6.1 Data on land use, rent and vacancies

Please note, we have not included business land data here from CoreLogic as the Canterbury earthquakes and rebuild makes this data irrelevant.

As shown in Table 6.6 below, CBD prime office currently rents for $340 to $400 per square metre while secondary office space is currently renting for $200-$300 per square. As the 15 Anchor Projects are rolled out in and around the CBD area, CBD rental rates and vacancies will fluctuate and CERA and CDC are interested in how the private sector will step into areas such as the South Frame, Innovation Precinct and Health Precinct.

Table 6.6 Average rent per square meter, Christchurch, 2015

| Christchurch | | Rent $/m$^2$ | | Per Annum Yield (%) | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office | Prime | 340 | 400 | 7.0 | 8.0 |
| | Secondary | 200 | 300 | 7.0 | 8.0 |
| Retail | Prime | | | | |
| | Secondary | | | | |
| Industrial | Office/ Showroom | 200 | 225 | 7.0 | 9.0 |
| (Hornby) | Warehouse | 75 | 120 | 7.0 | 9.0 |

*Source: Bayleys Research*

In contrast to the CBD core, redevelopment within Christchurch's city fringe and business park precincts has progressed rapidly over the four years, from 2011 to 2015.

Information gathered by Bayleys suggests that the supply – demand balance may be at the point of tipping for the first time since the February 2011 earthquake, with pockets of vacancies becoming apparent.

Fringe prime office space currently rent for $250 to $360 per square metre, while secondary fringe office space rents for $180 to $250 per square metre. There is sufficient supply of both of these types of commercial office space in the Fringe areas of the CBD.

At Waterloo Business Park in Islington the owners have reported that 15 of 17 sections in stage one have sold with titles having been issued in November 2014. In Hornby, Foodstuffs' new distribution centre has begun trading. The Hornby land and building costs for the new ambient temperature warehouse totalled $45 million, with plant, shelves and equipment adding $15 million.

Ngai Tahu Property's Wigram Business Park continues to grow with Calder Stewart Industries having begun development of a new rubber products plant on behalf of Skellerup. Skellerup is investing approximately $50 million in the new facility, which includes items such as moving staff and machinery from its existing Woolston facility.

As at June 2015, industrial showroom space in Sydenham had rents of $150 to $250 per square metre, and there was sufficient supply of this type of land. There was also sufficient supply of industrial warehouse land in this area, with rents in the $75 to $120 per square metre mark.

At Hornby, industrial showroom space rents for $200 to $225 per square metre, while land with industrial warehousing rents for $75 to $120 per square metre. There is sufficient supply of these types of land in Hornby to meet demand.

### 6.6.2 Stakeholder views

Stakeholders suggest that the encroachment of residential zoning into traditionally industrial areas is an issue in Christchurch. This is particularly acute where this is an inability for industrial and commercial land users to shift from an existing site due to a lack of greenfields developments, particularly developments that are in the right location.

Stakeholders noted the undue influence of developers particularly in regards to residential subdivisions; the non-notification of plan changes; poor planning decisions regarding the infill of brownfields commercial and industrial areas; and a lack of alternative sites leading to an increase in business costs as businesses have to deal with reverse sensitivity issues and the associated expected increase in amenity as residential housing moves into commercial and industrial areas.

The views of stakeholders suggest that an NPS has the potential to offer a shared vision and set of rules, which can create certainty for businesses in regards to zoning and land use. This is particularly important in Christchurch as the City is well placed to add more value to the raw primary products that are produced in the region. Stakeholders argued that if these agricultural outputs were to grow and develop further, then manufacturing businesses need to be located in the right place.

If businesses close or get pushed out of an area that is a "big signal" to other businesses that this area is not "business friendly" and it has a ripple effect whereby those businesses reconsider whether they should locate there or another area. This also creates further uncertainty due to the questioning of whether this is the right area to stay in or initially invest in.

A focus on regional development and growth therefore needs to acknowledge the role that key sectors play in this, and where these sectors are located and their needs. Further, stakeholders suggested that there needs to be an effective separation of some economic activity - as not all commercial business and industrial activity is compatible – but that this separation needs to be considered within the overall picture of economic development and evolution of the local economic structures.

## 6.7 Queenstown

The tourism sector is a major growth area in the Queenstown District and a key employer. High-value tourism activity has been identified as a key priority for future economic development and growth. MBIE research indicates that one-third of employment and 20 percent of the GDP generated by this District is from tourism-related sectors such as accommodation, food and beverage services, and arts and recreation.

### 6.7.1 MBIE and Council documents

Research undertaken by MBIE, and on behalf of the Queenstown Lakes District Council, indicates that housing affordability is acting as a constraint on economic development in Queenstown. This constraint is impacting on other areas such as the ability of employers to access skilled labour. This has resulted in the Queenstown Lakes District being added to government legislation that enables Council and the Government to work together closely to focus on housing supply and affordability.

Tourism also impacts on infrastructure such as roading and the water network, and this is leading to considerations of a visitor levy to increase the capacity of existing infrastructure. This would have to be legislated by the Government – a visitor levy – and the Government is generally reluctant to do this.

Research commissioned by the Queenstown Lakes District Council indicates that there is a good supply of residential zoned land in Queenstown, but it is not located where the demand for housing is – such as close to the Queenstown CBD where people work – nor has this availability of land resulted in houses of a suitable size or price for workers in the tourism or hospitality industries.

There is a high demand for housing from people working in tourism and hospitality, but they have low incomes. There is a large number of holiday homes in this area, but these are not providing a housing solution for seasonal workers as a shortage of hotel accommodation means people rent out their holiday homes to visitors rather than residents. This further reduces the supply of housing for residents, and means there is insufficient affordable homes.

In regards to business land, there has been a series of uncoordinated public and private plan changes that have led to the "urban form" of the CBD drifting form the intended spatial pattern. This has not been helped by the lack of an overarching policy framework on commercial/business activity.

Another issue is that Queenstown Lakes District may have too much business land in some areas and not enough in others. The argument here is that more business land may only be required in certain locations such as the Wakatipu-Arrowtown town centre and Queenstown town centre, and that other areas may need to intensify their development before freeing up more land through zoning. These other areas include Wanaka, where the current supply of business land is expected to exceed demand up until 2031.

### 6.7.2 Data on land use

In 2014, Queenstown-Lake District had approximately 333 hectares of business land with an average land value of $4.7 million per hectare. Approximately 75.9 hectares of land is used for commercial accommodation in this district, and the average land value is $7.3 million per hectare.

Between 1997 and 2014, the amount of land available for commercial accommodation grew by 2.6 percent, while the amount of business land available in total grew by an average of 8.7 percent per annum. However, where this land is located continues to be an issue, as noted in the previous discussion. In addition, in 2014 there was 19 hectares of vacant commercial and industrial land available with an average land value per hectare of $28.3 million. This is the highest land value per hectare for vacant land of any of the areas studied.

### 6.7.3 Data on rents and vacancies

The CBD remains the focus for tourism spending while the Frankton Flats and Remarkables Park areas have increasingly become the favoured shopping locations for the local population. The CBD benefits from its proximity to the establish tourism accommodation, which is adjacent. The CBD is a sought after location for retailers and there is a backlog of businesses looking for opportunities to setup shop.

The Shotover Park is a proposed mixed-use development at Frankton Flats that will include large format and smaller scale retail. In addition the long anticipated development of the Five Mile site is finally progressing into construction stage, while the Queenstown Gateway retail are is in the final stages of getting a building consent, with a Countdown supermarket as its anchor tenant.

Bayleys research indicates that as at June 2015, CBD prime retail space was attracting rents of $1,200 to $1,500 per square metre, due to strong demand and a backlog of businesses wanting space. Secondary retail space was also attracting high rents, of $600 to $800 per square metre but there is a sufficient supply of this type of land. These average rents are shown in Table 6.7 below.

Table 6.7 Average rent per square meter, Queenstown, 2015

| Queenstown | | Rent $/m$^2$ | | Per Annum Yield (%) | |
|---|---|---|---|---|---|
| | | Lower | Upper | Low | High |
| Office | Prime | 180 | 260 | 5.0 | 6.5 |
| | Secondary | 150 | 200 | 6.5 | 7.5 |
| Retail | Prime | 1,200 | 1,500 | 4.5 | 5.5 |
| | Secondary | 600 | 800 | 4.5 | 6.0 |
| Industrial | Office/ Showroom | 150 | 200 | 7.0 | 7.5 |
| | Warehouse | 80 | 150 | 6.5 | 7.5 |

*Source: Bayleys Research*

There is a steady demand for prime office space, as indicated in Table 6.7 the average rent for this type of space was $180 to $260 per square metre as at June 2015. There is less demand for secondary office space in Queenstown, and this is reflected in the lower average rents of $150 to $200 per square metre. A weak demand and sufficient supply of industrial warehouse land also means rent for this land is currently rented at an average rate of $80 to $150 per square metre.

### 6.7.4 Stakeholder views

Information gathered for this study suggests that the District has a substantial oversupply of proposed retail floor space and business zoned land but a shortage within the Queenstown CBD of residential housing, actual retail space, and hotel accommodation. "The current pattern of commercial/retail zoning has provided opportunities for development but resulted in an oversupply of land and no clear functional or character distinctions in terms of use of commercial land."[22]

[22] McDermott Miller Strategies Limited. (2013). Review of District Plan Business Zones Capacity and Development of Zoning Hierarchy. Report prepared for Queenstown Lakes District Council.

Further, information gathered as part of this study indicates that there is no constraint on the availability of appropriately zoned residential or business land, except in the CBD. In Queenstown CBD there is an acute shortage of vacant land zoned in this area and the town centre zone will either have to expand or be redeveloped more intensely. This could lead to unexpected consequences such as the potential for unsympathetic development that could lead to a reduction or loss of amenity.

Frankton Flat and Queenstown CBD are expected to be complementary retail developments, with Frankton Flat catering for local residents and Queenstown CBD catering for visitors. However, McDermott Millar note concerns that "if rents are lower and incentives are offered" there could be persistent vacancies in new retail floor space in the CBD and a reduction of retail opportunities within walking distance.

This could impact on compact urban form and increased vehicle trips, as well as reducing access to retail opportunities for visitors without cars. It could also led to a split with one centre for locals and one centre for visitors. "Design and functionality of urban areas contributes to tourist experience, but there also needs to be the daily presence of locals this creates potential social contacts between visitors and locals."[23]

This is an example of capacity being provided in the wrong place and in the Queenstown-Lakes District it has resulted in an uncertain pattern of centres, and no cohesive and comprehensive spatial planning strategy.

[23] Ibid.

# 7 Conclusion

Research undertaken for this project suggests that although the overall supply of business land is sufficient, and in some areas there is likely to be an oversupply, in areas of rapid economic and population growth there is a shortage of "the right land in the right locations".

Where the locational distribution of business land is slow to change in response to growth, it restricts the evolution of the local economic structure and therefore productivity improvements. It may also be a constraint to housing development, given the large amount of land zoned for industry in established urban areas.

This research has identified three ways that resource management planning may contribute to these outcomes:

1. Councils do not have a good understanding of current business land requirements and how these are likely to change. This is partly because councils generally invest much less in understanding business requirements than residential demand, and partly because it is much more difficult to forecast local economic development and its implications for land. This is compounded by data limitations.
2. Inappropriate zoning, resource consent conditions and other regulations may impose unnecessary costs on some businesses, and constrain economic development.
3. Planning and other processes contribute to the long timeframe of converting land from its current zoning or use to new business use. This can apply to greenfield land being converted to business land, and to brownfield land being converted to a zoning that allows for higher-value business activity. A number of stakeholders indicated that based on their own experiences the process could take up to 15 years, from initiating a change of zoning to the commencement of economic activity on a given site, whereas a council suggested a timeframe of around seven to eight years is the average.

These issues create significant rigidities in business land supply, limiting councils', firms' and developers' ability to respond to changes in the demand for business land.

The NPS could potentially assist in these areas:

- Conversion timeframe

This would assist in areas of growth, as well as in areas where there is currently no demand, but the Government has indicated that it would like economic growth to occur nationally.

- Certainty around the process, timeframes and costs.

These are all important from an investor's point of view. If uncertainty arises this adds to the cost, so a NPS "could provide certainty particularly outside the major urban centres. Provincial towns throughout New Zealand are very ad-hoc in their development, and many look like patchwork quilts."

- Demand forecasting

Guidance around consistent and accurate forecasting of firms' needs for business land, noting that business land requirements are significantly more difficult to forecast than residential needs.

- Balance economic vs other objectives in RMA

Stakeholders discussed the importance of the RMA taking into account the four well-beings in a more balanced way. Many felt that environmental effects were dominating decision-making and that economic effects were given less weight. This led to a perception that the RMA did not work well in areas of change. The NPS could potentially provide guidance here.

- Recognition that many businesses cannot intensify their land use upwards, and so there needs to be some provision for "more land" for these types of businesses and business activity.

This is particularly the case with well-established businesses (often manufacturing firms) who have been on the edge of the town or city in an industrial or semi-rural area. When other business activity or residential properties start to encroach on these businesses it starts to create reverse sensitivity issues, pressure for change and more intensive use of land. There are a wide range of examples of this occurring, including examples of major utilities providing essential services for which re-location is impractical and uneconomic.

All stakeholders argued that a National Policy Statement on Urban Development should provide guidance to local government rather than be a directive. This guidance should focus on large-scale planning projects undertaken by councils, not consenting activities.

Further, the Government should look to provide consistency through the inclusion of the definition of certain common terms in the NPS. This consistency of terms and evaluation and monitoring would allow national consistency.

Some of the stakeholders indicated that while it is called a National Policy Statement on Urban Development, perhaps it is best focused on metropolitan areas and regional cities rather than small towns and villages. A one-size fits all approach may not be appropriate in this instance as not all areas in New Zealand are growing. Further, populations are mobile and local government boundaries are arbitrary. Many councils work across boundaries and collaborate with their neighbours, a NPS on Urban Development needs to reflect and consider this.

# Appendix A Organisations interviewed

Auckland Tourism, Events and Economic Development

Bay of Connections

Business New Zealand

CERA CDU

Colliers International NZ Ltd

EDANZ

Federated Farmers

Greater Wellington Regional Council

Hamilton City Council

New Plymouth District Council

New Zealand Airports Association

New Zealand Employers and Manufacturers Association

New Zealand Property Council

New Zealand Trade and Enterprise

Ngai Tahu Property

Retail NZ

Tainui Holdings Ltd

Tauranga Chamber of Commerce

Te Runanga o Ngai Tahu

Transpower

Venture Taranaki

Watercare Services Ltd

Wellington Chamber of Commerce

Wellington City Council

# Appendix B Business land definitions

Table 7.1 Business land definitions, CoreLogic classifications and ANZISC

| CoreLogic Classification | ANZSIC |
|---|---|
| Commercial Accommodation | H4400 Accommodation |
| Commercial Cinema | J5513 Motion Picture Exhibition |
| Commercial Elderly | Q8601 Aged Care Residential Services |
| Commercial Health (private sector as opposed to public) | Q8401 Hospitals; Q8512 Specialist Medical Services; Q8790 Other Social Assistance Services |
| Commercial Education (private sector childcare and schools) | P010 Preschool Education |
| Commercial Liquor | G4123 Liquor Retailing |
| Commercial Motor Sales | G391 Motor Vehicle Retailing; G392 Motor Vehicle Parts and Tyre Retailing |
| Commercial Office | J Information Media and Telecommunications; K Financial and Insurance Services; L67 Property Operators and Real Estate Services; M Professional, Scientific and Technical Services; N72 Administrative Services; O75 Public Administration; O77 Public Order, Safety and Regulatory Services |
| Commercial Car Park | L6712 Non-Residential Property Operators |
| Commercial Retail | G39 Motor Vehicle Retailing; G41 Food Retailing; G42 Other Store-Based Retailing; S95 Personal and Other Services |
| Commercial Service Station | G4000 Fuel Retailing |
| Commercial Tourist | Parts of H Accommodation and Food Services; Parts of I Transport |
| Commercial Vacant | |
| Commercial Mixed Use | Any combination of the above |
| Industrial Food | C11 Food Product Manufacturing; C12 Beverage and Tobacco Product Manufacturing |
| Industrial Heavy Industry | C13 Textile, Leather, Clothing and Footwear Manufacturing; C14 Wood Product Manufacturing; Polymer Product and Rubber Product Manufacturing; Glass and Glass Product Manufacturing; Non-Metallic Mineral Product Manufacturing |
| Industrial Light Industry | S94 Repair and Maintenance; Furniture and Other Manufacturing; E30 Construction |
| Industrial Noxious | C15 Pulp, Paper and Converted Paper Product Manufacturing; C17 Petroleum and Coal Product Manufacturing; C18 Basic Chemical and Chemical Product Manufacturing; C21 Primary Metal and Metal Product Manufacturing; Fabricated Metal Product Manufacturing; Transport Equipment Manufacturing; Machinery and Equipment Manufacturing; B09 Non-Metallic Mineral Mining and Quarrying |
| Industrial Service | E32 Construction Services; Parts of M Professional, Scientific and Technical Services; Parts of F34 Machinery and Equipment Wholesaling; I461 Road Freight Transport; I462 Road Passenger Transport; I51 Postal and Courier Pick-up and Delivery Services; I522 Airport Operations and Other Air Transport Support Services; Parts of I530 Warehousing and Storage Services |
| Industrial Vacant | |
| Industrial Warehouse | F33 Basic Material Wholesaling; F34 Machinery and Equipment Wholesaling; Motor Vehicle and Motor Vehicle Parts Wholesaling; F36 Grocery, Liquor and Tobacco Product Wholesaling; F37 Other Goods Wholesaling |
| Industrial Mixed Use | Any combination of the above sectors; C16 Printing; J541 Newspaper, Periodical, Book and Directory Publishing; J59 Internet Service Providers, Web Search Portals and Data Processing Services |
| Utility Assets - Civic | D28 Water Supply, Sewerage and Drainage Services |
| Utility Assets – Electricity | D26 Electricity Supply excluding D261 |
| Utility Assets – Generating and Processing Plants | D261 Electricity Generation |
| Utility Assets – Postboxes | I5101 Postal Services |
| Utility Assets – Railways | I47 Rail Transport |
| Utility Assets – Telecommunications | J58 Telecommunications Services |

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