

Technical Memo

To:	Christchurch City Council	From:	Insight Economics
Date:	Monday, 16 December 2024	Page:	7 (including this page)
Subject:	Peer Review of Mitre 10 Mega Prestons Road Economic Assessment		

Scott,

Thank you for engaging us to assist with this matter. This brief memo sets out the findings of our peer review.

Context

PMG Funds Limited and Pacific Property Fund Ltd (the **applicants**) are seeking consent to establish a Mitre 10 Mega (**M10M**) store within the Prestons Road Commercial Core Zone (the **proposal**). To assist, Property Economics (**PE**) prepared an economic assessment of the proposal dated August 2024, titled “*Mitre 10 Mega Prestons Road Economic Assessment*” (the **PE report**). PE subsequently responded to Council’s Request for Further Information in a memo dated October 2024 (the **RFI response**). We have been commissioned to conduct a peer review of these documents from an economic perspective.

Scope of this Peer Review

The scope of this peer review is limited to the PE report and the RFI response. We have not reviewed the wider application documentation.

Structure of this Peer Review

In the remainder of this memo, we work through the PE report according to the themes listed below, commenting on any material issues if or when they arise.

1. General approach
2. Core economic catchment
3. Population and household growth projections
4. Retail demand projections
5. Assumed capture rates
6. Changing roles and functions of hardware stores
7. Ancillary retail tenancies
8. Minor errors / omissions
9. Overall conclusions

General Approach

The PE report assesses the economic impact of establishing a M10M within the Prestons Commercial Core Zone (**CCZ**) via the following key steps:

1. Defining a core economic catchment based on analysis of the existing commercial network and hierarchy in northern Christchurch, natural and physical barriers, and trade dynamics observed by PE in similar centres nationwide;

2. Forecasting convenience retail and commercial service land requirements within this catchment to 2038, using PE's Retail Model for both Medium and High population growth scenarios;
3. Assessing those estimated requirements against both their retail model projections and a theoretical maximum scenario based on the ODP's 12,000m² retail cap; and
4. Comparing the larger of these requirements against the total CCZ land to determine whether sufficient capacity remains after accommodating the proposed M10M.

PE concludes that approximately 5.4ha of CCZ land would remain available for other uses after accounting for projected convenience retail needs, suggesting that there is likely to be sufficient capacity for the M10M and without affecting the centre's intended roles and functions.

In our view, PE's analysis relies on characterising the Prestons CCZ as a convenience-only centre, citing the ODP's 12,000m² retail cap and 150m² single tenancy limit as proof. We understand from discussion with Mr Blair, the processing planner for the Council, that the zone as of 12 December became Local Centre Zone.

Exceeding the 12,000m² retail cap for the whole zone is a non-complying activity. With reference to the description of Local Centre, as set out in Policy 15.2.2.1, Table 15.1, PE's focus is correct.

Mr Blair has also clarified to us that Trade Suppliers is not Retail and does not contribute to the 12,000m² floor area *retail* cap. Trade Suppliers are excluded because they are not convenience-focused retail activities.

We agree with PE's convenience-focused approach given the centre's relative isolation (currently) and proximity to three Key Activity Centres within 4km of the site.¹ These established centres, along with the expanding Homebase, will likely constrain Prestons' ability to develop significant comparison-shopping functions regardless of planning controls.

Overall, we consider the approach used in the assessment to be appropriate.

Core economic catchment

In Section 3 PE has delineated the centre's core catchment based on the existing centre network, physical and natural barriers, and trade dynamics observed in other centre networks nationally. The catchment is primarily bounded by competing centres - Homebase to the south, Northwood to the west, and the Parklands neighbourhood centre to the east.

A key assumption is that the catchment includes just half of the Future Urban Zone (**FUZ**) to the west, with PE reasoning that future residents will split their shopping between the Prestons CCZ and other nearby centres. While this 50/50 split appears somewhat arbitrary, we consider it pragmatic and appropriate for the task at hand.

¹ Specifically, Northlands, The Palms, and Northwood.

The scale of the catchment equates to an approximately 5-minute drive time radius and is notably bounded by several convenience centres. In our view, this represents a reasonable trade catchment for a convenience-focused centre.

Overall, we consider PE's catchment delineation to be appropriate for assessing the centre's future land requirements.

Population and household growth projections

Section 5 of the PE report shows significant historical growth in the catchment, with the population increasing 80% from 2013 to reach approximately 10,900 residents in 2023. Looking forward to 2038, growth is projected to be 22-41% under the Stats NZ Medium and High projection scenarios, respectively.

While PE's data sources are provided (including Stats NZ), the methodology for deriving population estimates and projections is not clearly explained. This is particularly relevant as their catchment boundaries do not align with Statistical Area 2 (SA2) boundaries², and it is unclear how PE has adjusted for areas that only partially fall within their catchment.³

To validate PE's figures, we approximated their catchment using 2022 and 2023 SA2 boundaries. Our estimates suggest slightly higher population numbers, which is to be expected given the SA2-based catchment encompasses a much larger area. More importantly, however, the growth trajectories align well - our analysis shows similar population increases across both Medium and High scenarios, with growth rates generally within 1-2 percentage points of each other. We therefore consider PE's population projections to be reasonable.

Retail demand projections

Sections 6.2 and 6.3 of the PE report projects future retail expenditure within the catchment and the associated land requirements at the Prestons CCZ. To validate these projections, we used our own retail demand model to generate catchment spend projections using SA2's that broadly match PE's catchment.⁴

Our analysis suggests that PE's convenience retail expenditure estimates are low. For instance, under the High scenario in 2038, PE projects total convenience retail spend of \$86m, while our analysis suggests \$174m - a difference too large to be explained by catchment size alone. The table below shows our estimates of retail demand under the medium and high population projections.

² The most fine-grained subnational population estimates and projections that Stats NZ offer publicly.

³ Acknowledging that PE may have acquired population data at a different geographical resolution.

⁴ Specifically, the Marshland, Prestons, Travis, Wetlands, and Waitikiri SA2s.

Table 1: Insight Economics Expenditure Projections for PE's Catchment (\$m)

Projection	Category	2023	2028	2033	2038
Medium	Supermarket and grocery stores	\$59	\$67	\$77	\$87
	Convenience (excluding Supermarket and grocery stores) ⁵	\$49	\$56	\$64	\$72
	Total Convenience Retail Expenditure	\$108	\$123	\$141	\$159
High	Supermarket and grocery stores	\$59	\$69	\$82	\$95
	Convenience (excluding Supermarket and grocery stores)	\$49	\$58	\$68	\$79
	Total Convenience Retail Expenditure	\$108	\$127	\$150	\$174

This discrepancy raises some concerns about the reliability of PE's retail expenditure estimates and, consequently, their projected centre land requirements. However, we acknowledge that a direct comparison is complicated by potential differences in retail categories, catchment size, and methodology. While PE has indicated their store types align with typical Local Centre convenience retail (e.g., pharmacy, food and beverage, dairy, liquor stores), without more information about their specific store mix and retail model methodology, we cannot make a definitive comparison.

Assumed capture rates

Section 6.3 of the PE report discusses several assumptions used to project centre land requirements, which we believe warrant consideration. Specifically:

1. The non-retail commercial service land requirement is assumed to be 50% of the retail land requirement. This ratio is likely to err on the conservative side by potentially overstating total land demand.
2. Convenience retail spend is assumed to be fully captured within the catchment. While this likely overstates demand given typical consumer behaviour such as trip-chaining and multi-purpose shopping trips, it represents an appropriately conservative approach for assessing future land requirements.
3. A 30% leakage rate for supermarket expenditure. While it is reasonable to expect some consumers to visit supermarkets outside their local area due to workplace location and various other factors, the basis for this specific figure is unclear.

While these assumptions generally err toward conservative estimates, some additional explanations for the values would be useful. However, given that PE has adopted assumptions that likely overstate rather than understate land requirements, the absence of justification does not, in and of itself, invalidate their conclusions about land sufficiency.

Changing roles and functions of hardware stores

Section 4.1 of the PE report argues that there has been the fundamental transformation of hardware and building supply stores over the past 10-15 years, characterised by significantly larger footprints and an increased focus on trade/building supply markets alongside traditional retail customers. Our analysis using CoreLogic's Property Guru data confirms PE's assertion that 'mega' stores (such as

⁵ Convenience categories include specialised food retailing (excluding liquor), liquor retailing, pharmaceutical and other store-based retailing, and food and beverage services.

M10M) typically have footprints 5-10 times larger than traditional stand-alone hardware stores⁶ (both in terms of GFA and land area).

We also agree that stores like M10M now compete more directly with trade-focused businesses traditionally found in industrial areas, rather than with general retail. This is likely the reason why Trade Suppliers are not considered to be retail for purposes of rules in the District Plan. In addition, their substantial footprints, parking requirements, and car-oriented nature make them poorly suited to the City Centre and Town Centres, where they would otherwise conflict with the pedestrian-focused retail environment. Consequently, in our view, establishing on this site would not deprive higher-order centres of a potential anchor tenant that could enhance their retail vitality.

Ancillary retail tenancies

Section 6.4 of the PE report addresses the land capacity implications of the proposal. PE demonstrates that with M10M occupying circa 2.5ha and the proposed retail buildings contributing 0.8ha toward meeting retail needs, sufficient capacity remains within the 10ha CCZ to meet future growth. In other words, PE's projected requirement for up to 4.6ha of land for additional convenience retail can be accommodated through the proposed retail buildings and on the remaining developable land.

PE notes that some of the proposed retail tenancies exceed the ODP's 150m² limit, with a few tenancies above 200m². Their conclusion that this won't adversely impact the health, vitality, role and function of other commercial areas is likely reasonable given that:

1. Only a few of the proposed additional tenancies exceed 150m²;
2. Specialty tenancies of this scale are common in centres of this nature without compromising their convenience function; and
3. The total retail GFA remains well within the centre's 12,000m² cap.

We agree that these larger tenancies, while requiring consideration under rule 15.4.6.2.6(ii) of the ODP, do not raise significant economic concerns. The mix of tenancy sizes serves to diversify the centre's offering while maintaining its primary convenience retail role.

Minor errors / omissions

Flood Risk Assessment (pg. 14): The PE report suggests that flood hazards could constrain residential yield in the Marshland area, implicitly questioning the need for such extensive CCZ (now Local Centre Zone) provision. However, our discussions with Christchurch City Council indicate this risk is likely overstated. The Council confirms that:

- The subject site itself has no flooding issues;
- Standard flood mitigation measures for in zone anticipated growth generally effectively address risks in the broader area – logically this was taken into account when the land was identified for growth; and

⁶ Such as Hammer Hardware and 'regular' Mitre 10 stores.

- While the precise timing of development is uncertain, the FUZ land will likely come to market given its zoning and the broader housing supply pressures facing Christchurch and other major urban areas.

We note that PE has subsequently addressed this matter in their RFI response.

Economic Benefits Discussion (pg. 29): The claim that M10M would “internalise more expenditure in the local economy” by “reducing spending outflow to other hardware and building supply stores in more distant locales” appears overstated. This might arise in an area underserved by hardware retailers, such as Selwyn district where residents are known to travel to Hornby. However, in this context, with several ‘mega’ format hardware stores within 5km of the site (including three M10M), there is likely minimal spending currently ‘leaking’ to distant locations that would otherwise be retained. In other words, the proposed M10M will likely redistribute existing local spend rather than retain spending that’s currently ‘leaking’ to distant locales.

In our view, these issues, while notable, do not materially affect the report's conclusions regarding land requirements and centre viability.

Conclusion

The PE report is broadly commensurate with what we would expect from an assessment of this nature and provides an appropriate analytical framework for assessing the proposal. We are satisfied with their overall approach; however, our analysis suggests PE's retail expenditure estimates may be unreliably low, even accounting for minor differences in catchment size/definition. This means that the land requirements projected by PE for future convenience retail needs may also be too low. While this does not invalidate PE's broader conclusion that this Local Centre Zone may be oversized for its intended function, it does raise questions about the sufficiency of remaining land capacity for future convenience retail needs across the catchment. That said, it is likely that there would still be sufficient capacity under both Medium and High scenarios to accommodate both the M10M and future convenience retail needs.

I trust that this memo provides all the information that you need for now, but please let me know if you need anything further.

Sincerely,



Fraser Colegrave
Managing Director
Insight Economics Limited

About the Lead Author – Fraser Colegrave

- 1 My full name is Fraser James Colegrave.
- 2 I am an economist and the managing director of Insight Economics, a boutique economics consultancy based in Auckland. Prior to that, I was a founding director of another consultancy – Covec – for 12 years.
- 3 I hold a Bachelor of Commerce (1st Class Honours) in Economics from the University of Auckland.
- 4 I have over 26 years' commercial experience, the last 23 of which I have been an economics consultant. During that time, I have successfully led and completed more than 600 projects across a broad range of sectors.
- 5 My main fields of expertise are land-use, property development, and infrastructure funding. I have worked extensively in these areas for dozens of the largest companies in New Zealand. In addition, I regularly advise local and central Government on related policy matters, and therefore understand the issues from multiple perspectives.
- 6 Current and recent clients include Auckland Airport, Crown Infrastructure Partners, Fletcher Living, Foodstuffs, Fulton Hogan, Hughes Developments, Kāinga Ora, Kiwi Property, Kiwirail, Kmart, New Zealand Productivity Commission, Ngāi Tahu Property, Ngāti Whātua Ōrākei, Tauranga City Council, Wellington City Council, Woolworths NZ, and Your Section.
- 7 In 2007/8, I led a consortium of consultants helping Christchurch City Council (CCC) to assess various options for the Urban Development Strategy. In 2013/14, I was commissioned to peer review the Land Use Recovery Plan on behalf of Environment Canterbury. Later, I was commissioned by CCC to assess the optimal size and staging of the Halswell Key Activity Centre (KAC).
- 8 Over the last three years, I assessed 11 private plan changes in Selwyn during their District Plan Review, and then I worked on a further five in the Waimakariri District as part of their District Plan review process.
- 9 In 2022, I also helped gain consent for the Ravenswood development, which is Waimakariri District's third KAC. I have also completed dozens of economic assessments for a range of residential and retail developments across Greater Christchurch, so I have a good working knowledge of the local and subregional economies.
- 10 Recently, I represented Kāinga Ora on the Plan Change 14 process in Christchurch City, while in 2023 I provided a detailed economic critique of the proposed Greater Christchurch Spatial Plan for a consortium of private interests.