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SMARTHGROWTH COMMERCIAL UPDATE

SMARTGROWTH PARTNERS

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1. INTRODUCTION

The purpose of this report is to review, at a high level, the Strategic recommendations and directions set out in the *'Tauranga City and Western Bay of Plenty Retail and Commercial Strategy'* report by Property Economic undertaken in March 2008, in the light of the significant global economic changes and its implications, and change in key base data, primarily in respect of growth rates. The report responds to the SmartGrowth Update project research brief provided in July 2012.

This report covers:

1. Changes in base data and resulting changes to future retail and commercial markets.

2. Identify new and emerging trends in retail and commercial activity and formats that are relevant to the direction of the Smart Growth catchment economy.

3. Review the previous Strategic direction and recommendations for retail and commercial growth in the Smart Growth catchment based on these changes, and identify any variances.

4. Consultation with key companies / individuals within the property community of the wider SmartGrowth area to obtain their respective views on growth opportunities and how best to accommodate such.

For the purposes of clarity, in this report the 'SmartGrowth area' covers the territorial authority jurisdictions of Western Bay of Plenty District (**"WBOP"**) and Tauranga City Council (**"TCC"**).

2. GROWTH PROJECTIONS

This section reviews the base data and economic projections between the SmartGrowth projections of 2007 and the updated 2011 SmartGrowth set. Following these changes any relevant impact upon the likely changes in the wider economy are briefly discussed as they would pertain to the retail and commercial environment and potential direction, as well as relative competitiveness and comparative advantages that may exist in this area.

2.1. POPULATION AND HOUSEHOLDS

The key estimates utilised to understand the future for retail and commercial activity within the SmartGrowth area within the Property Economics report were a 2006 Statistics NZ projection suite. However, we will utilise the 2007 SmartGrowth projections in this report as the starting point for comparisons to enable differentials to be assessed between consistent projection methodologies and consistency with other Council documents. Since 2007, the SmartGrowth projections have been updated by both TCC and WBOP and are included in Table 1. These new projections extend through to 2051, and show around 76% growth in population and 85% in households across the SmartGrowth area over the 2011-2051 periods.

There have been several changes with the updated 2011 projections in comparison to the previous 2007 projections which are relevant to the distribution and overall quantum of sustainable activity within the catchment. First, the overall population levels at 2051 are expected to be 9% lower than originally forecast. This equates to around 10,500 fewer residents and 5,000 fewer dwellings in the SmartGrowth area by 2051.

Breaking this down further, nominally this 'drop' in growth is greatest in Tauranga City with around 8,350 (80%) of the projected population decrease, and around 3,750 (75%) of the projected dwelling decrease, forecast to fall within Tauranga. While these projected decreases are not considered material given the context of the overall market size as at 2051 of around 287,000 residents and 113,000 dwellings, it does represent a more subdued growth path for the SmartGrowth area than previously anticipated.

Table 1 provides a more detailed comparison of the two sets of projections over the entire 2011-2051 period.

TABLE 1: SMARTGROWTH POPULATION PROJECTION COMPARISONS

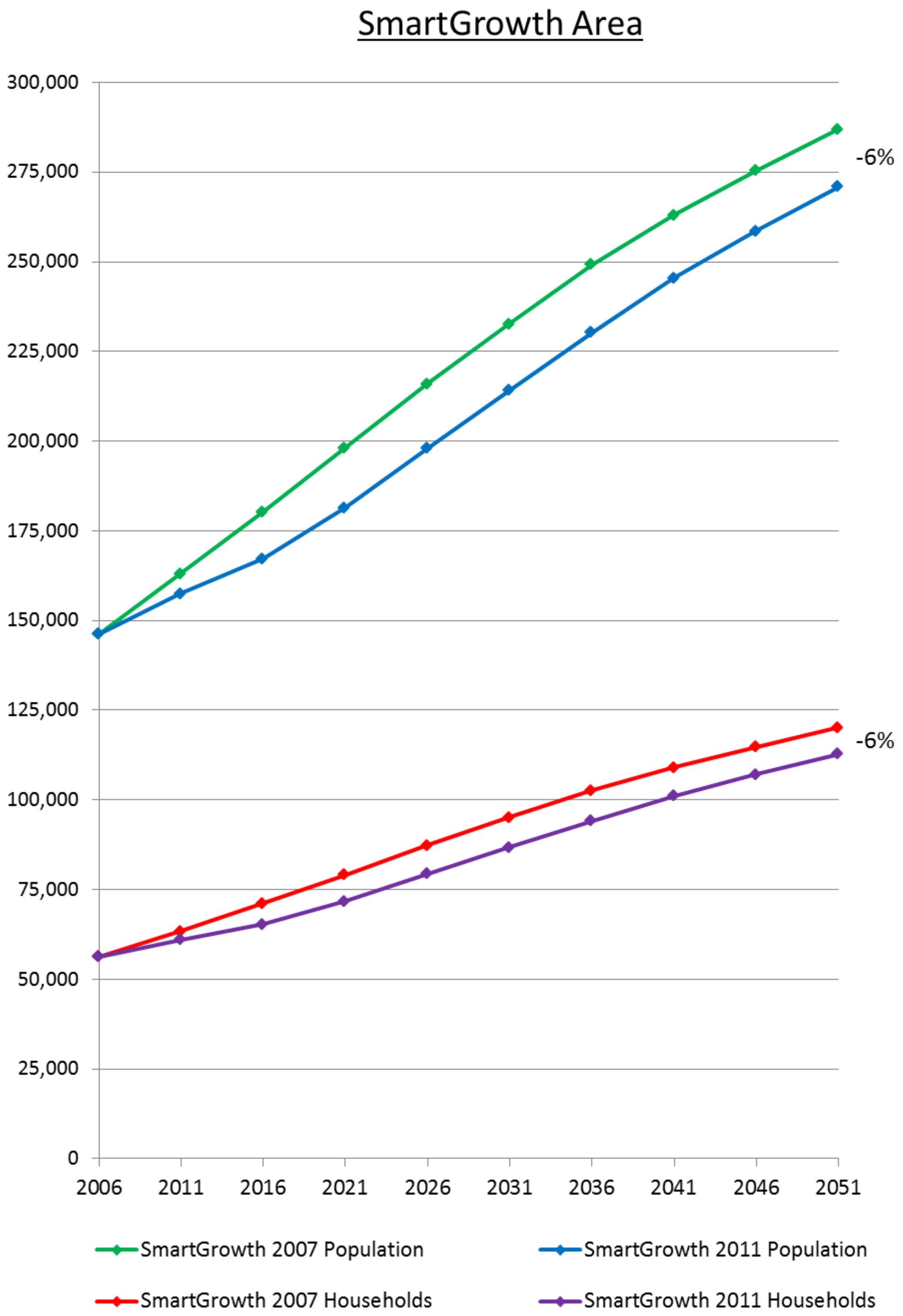
	Population						
SmartGrowth 2007	2011	2021	2031	2041	2051	Growth 2011 - 2051	% Growth 2011 -
Tauranga City	116,236	142,226	166,966	189,616	209,287	93,051	80%
Western Bay of Plenty District	46,835	55,965	65,735	73,435	77,675	30,840	66%
SmartGrowth Area	**163,071**	**198,191**	**232,701**	**263,051**	**286,962**	**123,891**	**76%**
SmartGrowth 2011							
Tauranga City	111,452	129,101	153,841	176,491	196,161	84,709	76%
Western Bay of Plenty District	46,010	52,274	60,347	68,954	74,776	28,766	63%
SmartGrowth Area	**157,462**	**181,375**	**214,188**	**245,445**	**270,937**	**113,475**	**72%**
Variation 2007 vs. 2011							
Tauranga City	-4%	-9%	-8%	-7%	-6%	-8,342	-9%
Western Bay of Plenty District	-2%	-7%	-8%	-6%	-4%	-2,074	-7%
SmartGrowth Area	**-3%**	**-8%**	**-8%**	**-7%**	**-6%**	**-10,416**	**-8%**

	Households						
SmartGrowth 2007	2011	2021	2031	2041	2051	Growth 2011 - 2051	% Growth 2011 -
Tauranga City	45,905	57,559	68,960	79,398	88,462	42,557	93%
Western Bay of Plenty District	17,515	21,618	26,159	29,686	31,685	14,170	81%
SmartGrowth Area	**63,420**	**79,177**	**95,119**	**109,084**	**120,147**	**56,727**	**89%**
SmartGrowth 2011							
Tauranga City	43,899	51,802	63,203	73,641	82,705	38,806	88%
Western Bay of Plenty District	17,111	19,946	23,586	27,526	30,051	12,940	76%
SmartGrowth Area	**61,010**	**71,748**	**86,789**	**101,167**	**112,756**	**51,746**	**85%**
Variation 2007 vs. 2011							
Tauranga City	-4%	-10%	-8%	-7%	-7%	-3,751	-9%
Western Bay of Plenty District	-2%	-8%	-10%	-7%	-5%	-1,230	-9%
SmartGrowth Area	**-4%**	**-9%**	**-9%**	**-7%**	**-6%**	**-4,981**	**-9%**

Source: Property Economics, TCC, WBOP

The following figures graphically represent the nominal projections in Table 1 to visually portray the variances between the 2007 and 2011 projection sets for ease of comparison.

FIGURE 1: 2007 VS 2011 SMARTGROWTH AREA PROJECTION DIFFERENTIALS



Source: Property Economics, TCC, WBOP

FIGURE 2: 2007 VS 2011 TAURANGA & WBOP PROJECTION DIFFERENTIALS

Source: Property Economics, TCC, WBOP

Note when comparing Tauranga City and WBOP graphs, be mindful of the different 'Y' axis scales.

Potential Impacts

A lower population and household base within the SmartGrowth area as highlighted in the preceding graphs will ultimately mean lower levels of proportional (to other economic factors such as labour force participation) retail spend and commercial activity. This alteration flows through to all the remaining sectors of this update.

As a note, the updated 2011 SmartGrowth projections are now closer (marginally higher) to the original Statistics NZ projections applied in the 2008 Property Economics report, and as such reinforce the high level conclusions and strategic direction promulgated in that report.

3. COMMERCIAL SECTOR REVIEW

Commercial office space requirements for the SmartGrowth area were previously estimated and are included in Tables 2 & 3 below. They showed growth from 2006 to 2021 at annualized rates which equated to total employment growth of approximately 13,500ECs (Employee Count) with an office floorspace requirement of nearly 450,000sqm to 2026.

TABLE 2: ANNUALISED EMPLOYMENT GROWTH RATE (2006 -2026 ECS)

ANZSIC Code	2006	2011	2016	2021
Communication Services	209	11	10	15
Finance and Insurance	-27	80	63	66
Property and Business Services	517	264	148	156
Government Administration and Defence	80	67	43	54
Education	-48	27	3	-57
Health and Community Services	-29	340	106	165
Cultural and Recreational Services	33	33	11	16
Personal and Other Services	105	106	69	64
Total Commercial	839	929	452	479

Source: Statistics NZ, Property Economics

TABLE 3: ANNUALISED COMMERCIAL FLOORSPACE GROWTH REQUIREMENT (2006 – 2026 SQM)

ANZSIC Code	2006	2011	2016	2021
Communication Services	5,989	322	287	432
Finance and Insurance	-560	1,679	1,329	1,384
Property and Business Services	10,896	5,563	3,108	3,285
Government Administration and Defence	2,928	2,461	1,572	1,962
Education	-3,708	2,097	238	-4,358
Health and Community Services	-1,107	12,807	3,999	6,204
Cultural and Recreational Services	2,251	2,263	739	1,133
Personal and Other Services	7,196	7,321	4,743	4,410
Total Commercial	**23,886**	**34,513**	**16,015**	**14,452**

Source: Statistics NZ, Property Economics

Tables 4 to 6 show the actual employment changes in the catchment over the past 11 years, with Table 4 comparing these changes to other regions in close proximity. These changes illustrate the fact that Tauranga City and the Western Bay of Plenty District have experienced significant commercial and industrial employment growth over the 11 year period.

In relation to the national, and well as neighbouring districts, the SmartGrowth area has in percentage terms seen greater levels of growth with commercial activity growth at 55% (Tauranga City) and 81% (WBOP District) respectively, albeit off lower bases so this needs to be read in context.

TABLE 4: ACTUAL CHANGES IN EMPLOYMENT (2000 – 2011)

	New Zealand	Bay of Plenty Region	Western Bay of Plenty District	Tauranga City	Waikato Region	Hamilton City
			Total Employment			
2000	1,596,360	86,670	9,730	35,360	132,800	56,820
2011	1,909,900	111,110	13,780	50,450	164,180	74,140
Change	20%	28%	**42%**	**43%**	24%	30%
			Commercial Employment			
2000	367,966	15,398	1,426	7,179	24,161	14,195
2011	485,394	22,810	2,577	11,142	33,680	20,283
Change	32%	48%	**81%**	**55%**	39%	43%
			Industrial Employment			
2000	503,889	26,808	2,774	11,757	38,983	16,224
2011	527,527	29,355	3,466	14,185	44,950	18,744
Change	5%	10%	**25%**	**21%**	15%	16%

Source: Statistics NZ

Note Tables 5 – 7 are based off the most up-to-date version of the ANZSIC[1] system, which are slightly different to the ANZSIC categories utilised in the previous report, making direct comparisons at the sector level tenuous. As such the overall commercial employment trend is considered most relevant for the purposes of this high level review. Overall, the higher level trends indicate the WBOP and TCC areas have performed better (in terms of employment growth) than many other parts of NZ over the 2000-2011 period. The following tables 'drill down' in more detail at a sectorial level to identify industries of growth over this period.

[1] Australia New Zealand Standard Industrial Classification

TABLE 5: WBOP TEMPORAL EMPLOYMENT IN COMMERCIAL SECTOR (2000 – 2011 ECS)

	2000	2002	2004	2006	2008	2010	2011
J Information Media and Telecommunications	25	20	30	25	20	18	18
K Financial and Insurance Services	95	110	95	100	110	110	95
L Rental, Hiring and Real Estate Services	180	240	210	170	190	140	180
M Professional, Scientific and Technical Services	260	330	380	390	500	470	830
N Administrative and Support Services	670	680	900	1,180	1,410	1,480	1,100
O Public Administration and Safety	28	33	31	30	31	33	36
P Education and Training	75	75	77	66	83	92	92
Q Health Care and Social Assistance	480	620	710	760	790	820	870
R Arts and Recreation Services	20	35	24	33	38	38	30
Total Industry	**1,833**	**2,143**	**2,457**	**2,753**	**3,172**	**3,201**	**3,251**

Source: Property Economics, Statistics NZ Business Frame

Tables 5 and 6 show the trended commercial sector growth for both TCC and WBOP. It is of interest to note that both areas have experienced the same level of overall employment growth in the last 11 years, in percentage terms, with 42% and 43% respectively (refer Table 4), with Tauranga City experiencing nominally greater levels of growth.

However, the sectors in which this growth has occurred are markedly different. Tauranga City has experienced greater levels of growth in population driven service sectors such as Education and Healthcare, while WBOP has greater proportional levels of growth in Commercial and Agricultural sectors.

TABLE 6: TAURANGA CITY TEMPORAL EMPLOYMENT IN COMMERCIAL SECTOR (2000 – 2011 ECS)

	2000	2002	2004	2006	2008	2010	2011
J Information Media and Telecommunications	840	920	970	490	470	420	410
K Financial and Insurance Services	740	790	820	950	940	900	970
L Rental, Hiring and Real Estate Services	500	580	730	740	840	730	780
M Professional, Scientific and Technical Services	1,580	1,740	2,180	2,510	2,900	2,810	2,770
N Administrative and Support Services	1,250	1,550	1,670	1,990	2,420	2,230	2,590
O Public Administration and Safety	416	452	505	558	594	644	716
P Education and Training	242	274	308	331	392	409	410
Q Health Care and Social Assistance	5,060	5,410	5,910	6,530	7,070	7,450	7,570
R Arts and Recreation Services	108	135	150	160	220	193	205
Total Industry	**10,735**	**11,851**	**13,243**	**14,259**	**15,846**	**15,785**	**16,421**

Source: Property Economics, Statistics NZ Business Frame

There are several factors that have changed over the past 5 years (since the previous report) that influence the SmartGrowth area's economic environment and will ultimately change the likely requirements for both retail floorspace and commercial space. These include:

- The updated population projections

- Changing labour force participation rates (the increasing need for former retirement 'age' workers to continue working)

- The increased need for rationalization of business space and an increase in the number of employees working from home

- The global recession has sped up changes in the economy as less efficient forms of business and retail have less time to evolve to compete

- Greater levels of extended economic uncertainty will redirect capital both national between sectors and international between countries.

As a result of these fundamental changes, Property Economics has rerun the employment projections for the SmartGrowth area to 2051.

Table 7 outlines these growth projections by sector. Employment within the SmartGrowth area for 2011 is derived from the Statistics NZ Business Frame data and is actual, and therefore as accurate as the previous data set.

As alluded to earlier it is also important to note the changes in the employment sectors utilised by Statistics NZ and ANZSIC from the original report. These changes do not alter the overall commercial outcome, however more detail on the composition of the employment for each commercial sector is outlined in Appendix 1.

TABLE 7: SMARTGROWTH AREA COMMERCIAL SECTOR EMPLOYMENT PROJECTIONS (2011 -2051 ECS)

	2011	2021	2031	2041	2051
J Information Media and Telecommunications	428	430	430	452	426
K Financial and Insurance Services	1,065	1,079	1,277	1,264	1,384
L Rental, Hiring and Real Estate Services	960	1,076	1,274	1,396	1,529
M Professional, Scientific and Technical Services	3,600	5,594	6,623	10,056	11,011
N Administrative and Support Services	3,690	5,632	6,669	9,946	10,890
O Public Administration and Safety	752	1,013	1,199	1,578	1,727
P Education and Training	502	631	748	919	1,006
Q Health Care and Social Assistance	8,440	10,211	12,091	14,295	15,651
R Arts and Recreation Services	235	344	407	583	638
Total Industry	**19,672**	**26,010**	**30,719**	**40,488**	**44,262**

Source: Property Economics

Table 7 estimates total commercial sector employment growth to 2051 (from 2011) at nearly 25,000 ECs or 125%. This level of percentage growth is not unexpected given the 40-year term of the projection forecast.

The SmartGrowth area has experienced some degree of Commercial office based activity growth since 2006, specifically in Professional Services. This growth is expected to continue, albeit at a slower rate. The total growth in commercial sector employment to 2026 is estimated to be 11,300ECs from 2006. This compares with the earlier report estimate of 13,500ECs that was based off a smaller population projection. The primary reason for this change (i.e. slightly lower forecast employment growth) is the change in the global market. While it is expected that the SmartGrowth area will remain competitive for population driven services, there will be some degree of retrenchment in local commercial areas for larger commercially based businesses.

TABLE 8: REVISED ADDITIONAL COMMERCIAL FLOORSPACE DEMAND (2011 – 2026)

	2021	2026
J Information Media and Telecommunications	54	0
K Financial and Insurance Services	378	2,673
L Rental, Hiring and Real Estate Services	4,524	1,911
M Professional, Scientific and Technical Services	57,884	15,037
N Administrative and Support Services	66,000	16,500
O Public Administration and Safety	8,500	3,060
P Education and Training	5,400	2,700
Q Health Care and Social Assistance	75,000	45,000
R Arts and Recreation Services	3,400	1,190
TOTAL	**221,140**	**88,071**

Source: Property Economics

In terms of required office floorspace this changes significantly. The previous projections estimated a requirement of nearly 450,000sqm of office floorspace, while the updated projections estimate a requirement of only 310,000sqm, (cumulative demand 2011 – 2026 as shown in Table 8) with both employee numbers and the employee : floorspace ratio falling (this is discussed in more detail later in the report). This has resulted in forecast floorspace demand as at 2026 30% lower than originally projected in the 2008 Report. This has been fuelled by the sustained global financial crisis which has accelerated the drive for businesses to improve office efficiencies (to lower operational costs) and employee productivity (improve outputs).

Lower 'office based' commercial floorspace requirement in effect means less 'out of centre' office activity should be encouraged in cities / districts where the existing commercial centre network could be significantly improved from an economic productivity, functionality and efficiency perspective, as there is anticipated to be less office sector demand to replenish 'lost' activity and less demand for new provision to be established in centres. In essence any 'lost' office activity to 'out of centre' locations proportionally is greater in the

SmartGrowth area in future as a result of the lower projections than under the 2007 SmartGrowth p[projection scenario, and therefore reinforces the appropriateness of a more centres oriented approach to strategic planning in the region.

3.1. COMMERCIAL OFFICE TRENDS

Several commercial office trends were outlined in the previous Property Economics report. These trends included:

- Science & Technology Parks
- Office Parks
- Office Building Design: Including environmentally healthy space and improved community areas
- Outsourcing
- Technological Improvements

Many of these trends have continued with the recognition of improved efficiencies through the clustering of symbiotic activities and support services. The required levels of amenities also continue to rise as office activity that locates within New Zealand becomes increasingly based on specialised labour.

Over the past 5 years there has been a clear push both nationally and internationally for the centralization of this office activity. From a community point of view there are clear benefits resulting from centralised activities primarily, in the form of efficiencies including:

- Transportation efficiencies for both public and private businesses
- More community service provision and decreasing marginal costs
- Agglomeration benefits through improved information transfers
- Greater built-form efficiencies (water, power, broadband, floorspace utilization, local area amenity upgrades)
- Concentration of human social interaction and activity

All these benefits have been recognised for some time and have increasingly formed the basis for planning policy that emphasises the growth and development of urban centres. However, it has become clearer that these high level benefits are crucial for the long term competitiveness of any given local economy. This is to say that it is no longer a matter of choice to present these benefits to the market but one of necessity if a local economy is compete within an extremely mobile market.

As previously stated, the global downturn has created a situation that has resulted in a marked increase in the drivers of business change. To rationalise, many businesses have opted for different forms to the traditional built-form. The Internet, mobile offices, home businesses, and office motels have increased competitiveness, both nationally and internationally over the past 3 years. This has created a greater level of transitional labour which in turn has reduced the potential demand for office floorspace.

A key consideration with regard to these changes is the increasing competitiveness for these forms of office activity. It is difficult, due to the mobile nature of this activity, to compete for this activity other than to service a more localised population due to the more expansive areas these technologies are able to service. However built-form office space (which still constitutes the majority of commercial office activity) is highly competitive and will remain so in well located, high amenity locations. Although not a new trend this office activity is increasingly deprioritising price, due to the alternative competition, and increasingly seeking the efficiency and amenity gains which is optimally provided in the built commercial centre networks. As such, clustering of built-form commercial floorspace and activities in existing high amenity centres in the SmartGrowth area (as propagated in SmartGrowth) is considered crucial to enhancing the competitiveness of the commercial centres in the Tauranga / WBOP area.

The result of these recent changes, or perhaps more accurately an acceleration of existing changes, is the need for local economies to enable and support clustered, efficient areas for commercial development where public amenity can also be maximized. This requirement of centralised activity nodes was and is the crucial component for economic sustainability for local economies such as those in the SmartGrowth area. For urban planning policy this means increased emphasis on existing established or planned commercial centres as locations to drive future commercial growth, rather than significant investment in new, Greenfield or Brownfield locations.

3.2. LONGER TERM OFFICE TRENDS INFLUENCES

There is a number of emerging office trends that will have a significant effect on the space requirements for businesses and office employees in the future. The key feature driving 'space planning' for offices in the future will not be so focused on the quantum of space required (based off traditional calculations of a city's employment / labour force base at any particular point in time), but focused on how people will actually use existing or new office space, i.e. the inputs into an appropriate demand formula have widened to include important attributes such as 'where will employees work' and implications of this on how office space is likely to be used and required.

This is being fuelled by the unrelenting advancement in technology that enables a move towards a more flexible and mobile workforce, facilitating a mix of both virtual and real workspaces. This is all driven by business economics to improve workforce productivity and efficiency by getting the workforce to work more collaboratively and more effectively (either face-to-face or online) with this seen as a crucial key to a business's future success and a crucial driver of change. In effect, a worker's 'office' is unlikely to be a single fixed abode in many instances in the future, with space shared between multiple parties and locations. This has the effect of lowering longer term demand for 'fixed office space' whilst also lowering the rate of growth of such space.

Some emerging office trends that will influence (predominantly lower) the amount of office space required for both businesses and employees in the future, and therefore impact how office space is likely to be utilised looking ahead, from which Tauranga and the wider WBOP are unlikely to be immune, include:

- Telecommuting / Virtual Offices – increasingly businesses are offering telecommuting as a way to give employees more flexible schedules and in some cases make up for not offering larger salary increases. This also lowers the costs associated with traditional office space as a result of lower space requirements with fewer employees working in the office at the same time.

- Open Office Spaces – with fewer employees coming into the office, businesses are reconfiguring floor plans to devote more square metres to communal areas and less to traditional, walled work spaces to include shared workstations or 'hot desking'. This permits more 'fun' areas to be developed improving employee wellbeing and interaction in the work environment, whilst promoting information and knowledge sharing between employees which is viewed as a positive pathway to increasing productivity.

- Mobile Devices – an increasing number of employees are using their own iPhones, iPads and other portable electronic devices for work instead of business issued computers or laptops. This provides the opportunity for employees to work 'anywhere at any time'.

- Instant Communication – an increasing numbers of employees view email as an inefficient form of communication compared to texts messages, social networks and other alternatives, with many commentators in the office trend field suggesting email is quickly going the way of the fax machine.

- Online Collaboration Tools – more business are using web-based software to communicate with telecommuting employees (refer first bullet point) and mobile workers via web-based programmes such as "Cloud". This allows employee contact from anywhere with web access or WIFI rather than having physically to be in the office, i.e. less office cubicles required.

- Independent Contractors / Freelance Workers – increasingly more people are working as independent contractors, for many not because they cannot find permanent employment but because they want to. The 40-hour work week is quickly becoming a concept of the past, with many businesses paying contractors by the project instead of requiring them to spend 40 hours a week sitting in the office. This also assists de-risking business operational costs and overheads during quiet periods of work.

- Co-Working Spaces – there is an increasing movement for home-based businesses and workers to investigate the potential for co-working spaces in their local area. This is where they can find a desk for a few hours, often at minimal expense, plus access to conference / meeting rooms, Internet connections and other standard office amenities, without having the 'full cost' of a term lease. This is basically small businesses sharing the same office space to lower operational expenses.

The genesis of these 'work space' advances up to this point has been the innovation in mobile technology, and as this becomes more accessible to more people, increasing numbers of workers will be able to work remotely yet still maintain the necessary access to work colleagues and information.

With an increased 'mobile' workforce, transport routes and major transport hubs are likely to become increasingly important. Emerging trends in Europe (albeit at a larger scale than what NZ would ever experience, so needs to be read in context) is the development of 'drop-in' business centres around major transport nodes which can be used by employees from multiple companies. This space is also often referred to as satellite or 'non company' offices. This saves the company from establishing a small permanent office in a location

which may be only lightly utilised and saves significant (and on-going) capital investment in that location in the form of rent, operating expenses, etc. This trend in Europe is fuelled by comprehensive public transport systems of the likes we are unlikely to ever experience in NZ due to population densities, so is considered to have only limited impact in NZ over time and likely be confined to the major centres only.

This is similar to the concept of 'business hotels' in CBD's where a single commercial office building is utilised by numerous businesses on an 'as and when required' basis and allows business to share higher quality environments (entry foyer, reception, board and meeting rooms, communal areas) and access more sophisticated facilities and technology (office technologies, high speed Internet connections, etc.). This provides greater flexibility for the more mobile workforce, and can reduce business operational costs due to its non-permanent tenure and more efficient 'shorter term' occupancy period.

Accessing company data while 'on the run' so to speak, as opposed to traditionally only being able to access data if an employee were sitting in the office, is now the new 'normal' with the development of mobile technology. This will strongly influence office supply planning and delivery. This is because of the entry into the employment demographic of Generation 'Y', who longer term planning is in effect for, are a very techno savvy generation who only know a technological world. Sustained advancements in technology and changing their modus operandi in relation to work is an expectation and considered good practice, not an innovation that requires a paradigm shift, i.e. Generation 'Y' have an appetite for constant technological advancements which if not 'fed' results in them feeling frustrated and 'hungry' until the next 'new thing' is delivered to the market. Their experience is a world of consumerism and constant change.

These office trends, many of which are establishing in the market already, will have a material effect on lowering office floorspace and employee space requirements in the future; most businesses will have to focus on better managing their operational expenses to increase competitiveness, profitability and ultimately investment return. These trends make it more important to channel office activity into the existing, established or planned commercial centre network of Tauranga and WBOP which has been recognised through the recent District Plan reviews, to ensure that the vitality and the role of the commercial centre hierarchy is not unduly compromised by the dispersal (lassie faire approach) of such activity.

In strategic planning terms, the net effect of these identified trends is not so much a drop in office floorspace activity in the future based on current levels, but rather a decrease in the rate of growth office floorspace demand. This is due to the transition of how office floorspace is used and occupied over the next 10-20 years, even with the assumption the Tauranga and WBOP economy continues to grow.

These identified changes will take time for businesses to 'work through'; to change their business operating systems, to incorporate new technology as sometimes significant capital investment is required. These will not be thrust onto the market within the next 2-3 years, but are more generational shifts relevant to longer term planning such as under SmartGrowth.

3.3. PREVIOUS COMMERCIAL ISSUES AND RECOMMENDATIONS

Having regard to the previous sections on commercial office trends and future demand, the following review of the 2008 report commercial issues and recommendations are now considered and re-evaluated.

Issue: Decentralisation of Office Floorspace

2008 Report

A large proportion of new office floorspace is establishing outside the CBD, undermining its redevelopment potential, economic productivity and value as a social centre for Tauranga.

Recommendations:

1. Define an office centre hierarchy (in conjunction with the retail centre hierarchy) based on existing, consented and proposed centres.
2. Establish a set of sub-zones within the Commercial zones that support the establishment of an office hierarchy.
3. Evaluate the costs and benefits of subsidised public carparking buildings in the CBD.

2012 Re-evaluation:

No detailed re-evaluation of the supply of commercial space in the SmartGrowth area has been undertaken as part of this review. It is assumed, given the original level of space, that growth in 'out-of-centre' / out of zone (i.e. office activity leakage into Residential areas) locations continues to outperform (in terms of quantum growth) that found in the commercial centre network within the SmartGrowth area.

Given this and the current conditions that exist in Tauranga in terms of the competitive office environment, and lower reassessed commercial floorspace demand as at 2026 (refer chapter 3.0), the original 2008 recommendations are still not only valid but become increasingly essential to the sustainability of commercial growth in the SmartGrowth area.

In order for the SmartGrowth area to remain competitive in terms of commercial activity and attracting new business with other places like Auckland and Hamilton, and non-centre locations within the SmartGrowth area itself, it is imperative that the main commercial centres in Tauranga City and the Western Bay of Plenty District maintain and improve their efficiency and long-term physical amenity. This allows them to compete for built-form (new proposals) office activity. The linchpin of this competitiveness is the important role and function of the Tauranga CBD and its pre-eminence as the heart of commerce in the sub-region which must be supported and enhanced to secure investment and convey investment certainty.

This is reflected in the Tauranga City Plan objectives and policies for the City Centre Zone, policy thinking on parking management and other civic facilities or joint ventures and in the City Centre Strategy implementation actions over time. Second, the recognition of a hierarchy of suburban or town commercial areas within both the Tauranga City Plan review and the Western Bay of Plenty District Plan review, with corresponding planning provisions is also seen as important. Any additional commercial zoning in response to landowner pressures should be treated cautiously.

This is not without its challenges and recent development has occurred on the edge of the CBD rather than in the heart. Some rationalisation of property ownership and continued promotion of the area as a quality lifestyle destination is required

4. RETAIL SECTOR REVIEW

Several factors have changed in the retail market both in the wider economy and in the SmartGrowth area since the 2008 Report.

TABLE 9: PREVIOUS RETAIL FLOORSPACE DEMAND ESTIMATES (2006 – 2026)

2006	Sprmkt	Other	Footwr	Cloth & Soft	Furn & Floor	Applnce	Hardwr	Chem	Dept.	Recr	Café & Rest	Pers & HH	Other	Total
Bayfair	2,649	883	138	1,334	1,332	1,489	790	708	3,251	1,662	1,807	906	1,894	18,844
Bethlehem	1,139	380	59	574	573	641	340	304	1,398	715	777	390	815	8,104
Brookfield	2,021	674	105	1,018	1,017	1,136	603	540	2,481	1,268	1,378	692	1,445	14,377
Central	3,999	1,333	208	2,014	2,011	2,248	1,192	1,069	4,908	2,510	2,728	1,368	2,859	28,448
Cherrywood	2,443	814	127	1,231	1,229	1,374	728	653	2,998	1,533	1,666	836	1,747	17,379
Katikati	1,047	349	55	527	527	589	312	280	1,285	657	714	358	749	7,449
Mt Maunganui	1,980	660	103	997	996	1,113	590	529	2,430	1,243	1,351	678	1,416	14,086
Omokoroa	394	131	21	199	198	222	118	105	484	247	269	135	282	2,804
Tauriko	395	132	21	199	199	222	118	106	485	248	269	135	282	2,810
Te Puke	1,445	482	75	728	727	813	431	386	1,774	907	986	495	1,033	10,282
Maketu	983	328	51	495	495	553	293	263	1,207	617	671	336	703	6,995
Papamoa	2,117	706	110	1,066	1,065	1,190	631	566	2,598	1,329	1,444	724	1,514	15,061
Waihi Beach	1,012	337	53	510	509	569	302	270	1,242	635	690	346	724	7,199
Wairakei	500	167	26	252	252	281	149	134	614	314	341	171	358	3,559
Welcome Bay	1,355	452	71	682	682	762	404	362	1,663	850	924	464	969	9,639
Poike	1,569	523	82	790	789	882	468	419	1,926	985	1,070	537	1,122	11,161
Balance	3,124	1,041	163	1,573	1,571	1,756	931	835	3,834	1,960	2,131	1,069	2,234	22,222
Total	**28,171**	**9,390**	**1,467**	**14,191**	**14,171**	**15,840**	**8,401**	**7,528**	**34,579**	**17,680**	**19,216**	**9,640**	**20,145**	**200,419**

2016	Sprmkt	Other	Footwr	Cloth & Soft	Furn & Floor	Applnce	Hardwr	Chem	Dept.	Recr	Café & Rest	Pers & HH	Other	Total
Bayfair	3,866	1,289	201	1,947	1,945	2,174	1,153	1,033	4,745	2,426	2,637	1,323	2,765	27,504
Bethlehem	2,090	697	109	1,053	1,051	1,175	623	559	2,565	1,312	1,426	715	1,495	14,869
Brookfield	2,586	862	135	1,303	1,301	1,454	771	691	3,174	1,623	1,764	885	1,849	18,400
Central	7,648	2,549	398	3,853	3,847	4,301	2,281	2,044	9,388	4,800	5,217	2,617	5,469	54,414
Cherrywood	3,002	1,001	156	1,512	1,510	1,688	895	802	3,685	1,884	2,048	1,027	2,147	21,360
Katikati	1,570	523	82	791	790	883	468	419	1,927	985	1,071	537	1,122	11,166
Mt Maunganui	2,756	919	144	1,389	1,387	1,550	822	737	3,383	1,730	1,880	943	1,971	19,611
Omokoroa	824	275	43	415	415	463	246	220	1,012	517	562	282	589	5,865
Tauriko	529	176	28	266	266	297	158	141	649	332	361	181	378	3,761
Te Puke	1,948	649	101	981	980	1,095	581	520	2,391	1,222	1,329	667	1,393	13,857
Maketu	1,297	432	68	653	652	729	387	347	1,592	814	885	444	928	9,228
Papamoa	3,016	1,005	157	1,519	1,517	1,696	899	806	3,702	1,893	2,057	1,032	2,157	21,457
Waihi Beach	1,580	527	82	796	795	888	471	422	1,939	991	1,077	541	1,130	11,238
Wairakei	1,474	491	77	743	742	829	440	394	1,810	925	1,006	505	1,054	10,490
Welcome Bay	1,950	650	102	982	981	1,096	581	521	2,393	1,224	1,330	667	1,394	13,872
Poike	2,751	917	143	1,386	1,384	1,547	820	735	3,377	1,726	1,876	941	1,967	19,570
Balance	4,344	1,448	226	2,188	2,185	2,443	1,295	1,161	5,332	2,726	2,963	1,487	3,107	30,907
Total	**43,232**	**14,411**	**2,252**	**21,778**	**21,747**	**24,308**	**12,892**	**11,553**	**53,065**	**27,132**	**29,490**	**14,794**	**30,915**	**307,569**

2006-2016 Growth	Sprmkt	Other	Footwr	Cloth & Soft	Furn & Floor	Applnce	Hardwr	Chem	Dept.	Recr	Café & Rest	Pers & HH	Other	Total
Bayfair	1,217	406	63	613	612	684	363	325	1,494	764	830	417	870	8,661
Bethlehem	951	317	50	479	478	535	284	254	1,167	597	649	325	680	6,765
Brookfield	565	188	29	285	284	318	169	151	694	355	386	193	404	4,022
Central	3,650	1,217	190	1,839	1,836	2,052	1,088	975	4,480	2,291	2,490	1,249	2,610	25,966
Cherrywood	560	187	29	282	281	315	167	150	687	351	382	191	400	3,981
Katikati	522	174	27	263	263	294	156	140	641	328	356	179	374	3,717
Mt Maunganui	777	259	40	391	391	437	232	208	953	487	530	266	555	5,525
Omokoroa	430	143	22	217	216	242	128	115	528	270	293	147	308	3,060
Tauriko	134	45	7	67	67	75	40	36	164	84	91	46	96	951
Te Puke	503	168	26	253	253	283	150	134	617	315	343	172	359	3,575
Maketu	314	105	16	158	158	177	94	84	385	197	214	107	224	2,233
Papamoa	899	300	47	453	452	506	268	240	1,104	564	613	308	643	6,397
Waihi Beach	568	189	30	286	286	319	169	152	697	356	387	194	406	4,039
Wairakei	974	325	51	491	490	548	291	260	1,196	611	665	333	697	6,931
Welcome Bay	595	198	31	300	299	335	177	159	730	373	406	204	426	4,233
Poike	1,182	394	62	595	595	665	352	316	1,451	742	806	404	845	8,409
Balance	1,221	407	64	615	614	686	364	326	1,498	766	833	418	873	8,685
Total	**15,061**	**5,020**	**784**	**7,587**	**7,576**	**8,469**	**4,491**	**4,025**	**18,487**	**9,452**	**10,274**	**5,154**	**10,770**	**107,150**

Source: Property Economics

Table 10 below outlines the retail floorspace projections from the previous report finalised in 2008.

It estimated growth of just over 107,000sqm of net retail floorspace by 2026 for the entire SmartGrowth area catchment, equivalent to around 150,000sm GFA.

Salient factors for change since the previous projections were undertaken are the updated population projections and the lower annual growth in real retail spend. Other changes in the retail market, nationally and locally include:

- Rapidly increasing Internet market. Although this was considered in the original report, the extent of its growth has been greater than expected and with improved Internet sites, better security and transportation improvements is likely to continue.

- Higher NZ dollar. Has resulted in increasing imports the influence of which is primarily felt through the Internet channel.

- Increasing competition for retail space. This is the result of other population driven services requiring greater profile and quality space to compete and taking up retail floorspace.

- Short-term reduction in debt spending and disposable income.

The result from these factors are consolidated in Tables 9 and 10 which show the level of retail expenditure generated within the SmartGrowth area. Given the factors above as well as 'other' leakage this culminates in the sustainable floorspace figures in Table 10

TABLE 10: RETAIL EXPNDITURE GENERATION SMARTGROWTH AREA (2006 – 2051 $M)

	2006	2011	2016	2021	2031	2041	2051
Food retailing	826.0	934.7	1,049.0	1,199.1	1,507.8	1,829.7	2,127.3
Clothing, footwear and personal accessories retailing	173.2	197.1	221.5	254.8	322.7	394.9	463.7
Furniture, floor coverings, houseware and textile goods retailing	84.3	95.3	106.9	123.0	155.3	189.1	220.4
Electrical and electronic goods retailing	87.6	99.1	111.2	127.7	161.0	195.8	227.9
Hardware, building and garden supplies retailing	36.9	41.7	46.8	53.3	66.8	80.8	93.6
Pharmaceutical and personal care goods retailing	57.5	65.4	73.5	85.0	108.1	132.6	155.8
Department stores	199.0	225.6	253.3	289.8	364.8	443.7	517.3
Recreational goods retailing	92.3	104.8	117.7	136.2	172.8	211.6	248.1
Other goods retailing	92.5	105.6	118.8	137.4	175.0	215.4	254.3
Food and beverage services	331.9	378.0	424.9	493.4	628.9	773.6	911.7
Total	**1,981.2**	**2,247.2**	**2,523.5**	**2,899.7**	**3,663.3**	**4,467.0**	**5,220.0**

Source: Property Economics

Table 11 excludes the sustainable floorspace figures post 2026 due to the fact that these are now considered potentially unreliable given the advancements of other retail channels

and therefore the likely to impact on the built-form demand, and therefore new floorspace requirements. As such, any longer term retail projections should be interpreted as providing a general steer for strategic direction rather than focusing on the exact quantum, and therefore at this point in time the SmartGrowth strategy of consolidated growth in and around existing centres (given their current potential and vulnerability) is considered prudent and appropriate at this stage.

TABLE 11: SMARTGROWTH AREA SUSTAINABLE RETAIL FLOORSPACE (2006 – 2026 SQM)

	2006	2011	2016	2021	2026
Food retailing	66,077	71,898	77,587	85,283	89,706
Clothing, footwear and personal accessories retailing	23,096	25,272	27,310	30,205	31,997
Furniture, floor coverings, houseware and textile goods retailing	24,079	26,177	28,242	31,242	33,006
Electrical and electronic goods retailing	25,035	27,224	29,374	32,434	34,215
Hardware, building and garden supplies retailing	14,755	16,034	17,296	18,941	19,859
Pharmaceutical and personal care goods retailing	5,751	6,290	6,796	7,560	8,038
Department stores	56,864	61,980	66,913	73,599	77,523
Recreational goods retailing	18,464	20,153	21,765	24,210	25,709
Other goods retailing	14,226	15,618	16,892	18,798	20,023
Food and beverage services	36,881	40,383	43,646	48,735	51,969
Total	**285,228**	**311,029**	**335,821**	**371,006**	**392,044**

Source: Property Economics

The original projections in the previous 2008 report estimated 107,000sqm additional floorspace was demanded by 2026. The projections based on updated (2011) population data determine that almost exactly the same quantum of floorspace can be sustained (106,800 sqm), while including recognition of the greater impact of Large Format Retail, Internet shopping and a marginally higher population base from the 2008 report.

4.1. RETAIL TRENDS

Drivers of Change

Changes in retail shopping patterns in New Zealand have been striking over the past half century resulting in a material transformation in the way New Zealanders' shop. Accordingly this has given rise to a new centre hierarchy within today's commercial centre network in most growing cities around the country. This is not unusual in dynamic sectors such as retail which has to continually reinvent itself with fluid trends, services, products and formats in an attempt to attract the increasingly discerning consumer. In our opinion the key drivers of change in the New Zealand retail landscape include:

- Retail consumer expectation

- Vehicle / shopper accessibility and catchment scale

- Shopping malls and large format retail (**"LFR"**)
- The (R)etail (R)evolution

Consumer Expectation

In retail terms 'a static centre is a dying centre', with unrelenting renewal of the retail offer and experience vital to staying ahead in an increasingly competitive market.

Given the commercial realities of there being 'winners and losers' in the retail game (with the latter tending to be a more popular category), one of the by-products of heightened competitiveness and commercial realities is often more retailers having to trade at lower store productivities ($/sqm), and positioning stores in higher performing centres (particularly banner stores) is becoming increasingly important to maximising sales potential. This will only become more pronounced in the future as market competitiveness grows. This trend has also led to stores broadening their product ranges (typically into goods from other retail sectors) in an attempt to increase market share and satisfy the unyielding appetite for improved investment returns from shareholders, i.e. new large format Hardware stores now sell goods from numerous retail categories.

There have been a number of key factors that have diluted the retail offer, vitality, amenity and ultimately performance of some of the 'traditional' centres in the Bay of Plenty and wider New Zealand, and driven changes in shopping patterns.

The Bay of Plenty region is not alone in battling these issues. Across the country the retail centres that have experienced minimal change in terms of how retail goods and services are delivered to consumers, and generally not reinvented themselves to meet today's 'expected' standard, have proportionally seen their consumer base and retail sales decline.

Motorways, Malls and LFR

Major changes that have occurred over recent decades, and shaped the wider retail market into what it is today, include the development of shopping malls from around 1970 onwards, the on-going development and improvement of New Zealand roading system, and the emergence in more recent times of LFR centres. Coinciding with this was the emergence of the 'fast food' market and petrol stations expanding their non-petrol offer to become 'mini dairies' to provide improved convenience for the increasing 'time precious' consumer.

Historically, many of the traditional town centres throughout most provinces in NZ were the heart of a community with a wide ranging retail offer and mix including supermarket, fashion, hardware, footwear, department stores, restaurants, community and recreational

facilities, and localised commercial services. However, while the term 'town centre' has remained, the traditional meaning of it cannot be applied to many of the modern day centres that carry the label.

As a result of the trends identified above, town centres today in many lower growth cities and provinces have had their historic role reduced to primarily one focused on supplying convenience retail and commercial services, civic and social functions for the immediate communities they serve. Te Puke and Katikati are examples of this type of town centre within the SmartGrowth area.

Regional shopping malls (such as Bayfair) and LFR centres have largely removed the 'higher order' comparison stores in centres where these trends have become embedded such as local hardware stores, fashion, footwear stores, and department stores, which have been absorbed by larger more centralized stores in larger retail centres attracting shoppers from far more extensive catchments.

This has been buoyed by improvements in the roading network, and better quality and cheaper cars (imported second hand cars from Asian countries primarily) making travelling quicker and easier around the country and intra-regionally, allowing consumers more retail choice and the ability to travel further afield to undertake their retail shopping. Dovetailing this has also been a shift towards shopping being considered a leisure activity. This has also been driven by retailers' desire to reduce overhead costs and duplication of stores to improve competitiveness against increased competition, i.e. have one larger store that services a larger market rather than two or three separate smaller stores to service the same market.

The 'upshot' of the identified changes in the market is that many traditional town centres in NZ are unlikely to go back to their more halcyon days of servicing the vast majority of the local community's retail needs. Rather, their future role will primarily be based around providing convenience based retail and commercial goods and services that are more frequently purchased, particularly food and beverage retailing, which can be accommodated in town centres.

This has resulted in consumers spreading their spending across a wider range of centres with the majority of their 'higher order' purchases going to 'higher order' regional centres triggering a layering of centre catchments across the region.

Clicks vs Bricks

Emerging now is the (R)etail (R)evolution with growing influence of Internet retailing, which allows consumers to purchase previously inaccessible goods from stores not only outside their local catchment, but right around the world. E-tailing is now moving into a mobile

format with enhanced instant access to good and services able to be made while ‘on the move’. All these changes have had, and will continue to have, cumulative and underlying influences on the more ‘traditional’ centres in Tauranga and WBOP in terms of the role they play in the community and the retail offer provided.

E-tailing is anticipated to be a major factor that will have an increasing influence on the future retail provision required and shopping patterns, and has now at around 5% of the market reached a point where it is an entrenched component of the retail landscape. Growing e-tail sales will account for an increasing proportion of total retail sales (estimated to reach 20% over time) which will effectively reduce the amount of retail expenditure available for ‘on-the-ground’ retail stores given it’s the same discretionary dollar being spent.

Successful retail centres in the future will continue to play a dominating role in retail markets providing human interaction and leisure experiences complementing the significant Internet sales channel. Retail centres which provide more than just a generic goods retailing platform will attract consumers looking for a ‘day out’ and ‘social experience’, and provide a wider range of functions not accessible through the Internet forum.

Interesting, diverse, and multi-functional retail based locations will always form an important part of society’s fabric. This is where the Tauranga City Centre becomes increasingly important overtime and has to maintain and enhance its position in the market. Successful sub-regional centres will only be those large places, which as well as providing a significant retail function, are conveniently accessed and located to provide consumer needs across a broad spectrum of activities and services. Retail-centric (retail focused) centres will no longer dominate the market in the future as access to retail goods is now through multi-channel means, i.e. no longer do consumers physically have to go to a store to buy a product as has been the case in the past, virtually anything can be bought on-line and delivered now.

In the future the roles are likely to be completely reversed, with retail stores having to attract consumers via non-product based means, i.e. promoting a specific consumer experience rather than just price and product, due to consumers being able to access any retail product they want cheaper on-line. The reality is now consumers are no longer confined to shopping locally but all around the world, and likewise a retailer now does not only serve the local market but can see product and purchase anywhere in the world.

One of the latest trends in the E-tailing evolution is (M)etail which provides consumers with a uniquely personalised or tailored experience and product. This is where consumers can actively contribute to the design their own product providing a more personalised experience and service.

One of the more touted emerging innovations getting traction in the market, and which in the future is projected have an impact on the retail sector among other industries to an as yet unknown degree, is the advancement of 3D printing. 3D printing is basically a machine

that can turn a product developed / designed on a computer (via a blueprint) with a 3D scan into a physical object. It creates a 3D solid object by building successive layers of material, and can produce complex objects too difficult for traditional factories to create.

This technology is in its infancy, but its scope is considered substantial. In the future it will basically enable the opportunity for individuals to design and ‘print’ their own retail products in their own home. Like e-tailing, while unlikely to override the position of physical retail stores in the community, it’s yet another innovation that will ‘chip away’ at its market share by providing yet another new avenue for consumers to acquire retail goods.

4.2. PREVIOUS RETAIL ISSUES AND RECOMMENDATIONS

Issue 1: Over-Supply of Retail Floorspace

2008 Report

There is definitive evidence showing a current and on-going oversupply of retail floorspace in Tauranga. This will undermine the productivity, viability and vitality of all centres.

Recommendations:

1. Regulate total supply to within 10% of total estimated sustainable floorspace.

2. Undertake annual 'health checks' monitors of all retail centres.

2012 Re-evaluation

The supply and consented supply figures assessed in the 2008 report have not been revisited. However the result from the reassessed demand and the market trends outlined above would indicate that there is more than sufficient retail floorspace supplied and zoned for the next 20 years. There also represents a considerable opportunity under existing zoning provisions for (re)development of in-centre floorspace. This level of supply is, especially within a dynamic market, considered excessive as it is likely to have an adverse effect on the retail offer and quality for the community. Excessive retail floorspace typically leads to a reduction in retail rents, lower quality retail offer, higher vacancies, inappropriate retail provision, lower amenity for consumers and the community in general, reduced centre value and lower overall competitiveness. While any new retail application should be assessed on its merits at the time of lodgement, it is envisaged the only 'new' retail development is likely to be for convenience activities in areas where there is an undersupply or a net benefit to the community, like the recently proposed Bureta supermarket development.

Issue 2: Decentralisation of Retail Floorspace / Establishment of Centre Hierarchy

2008 Report

There are at least five major new / extended suburban retail developments consented and proposed across Tauranga including Tauriko, Bayfair, Bethlehem and Wairakei. International trends have shown growth in suburban shopping malls, lifestyle centres, large format retail centres, and stand-alone large format retail stores. This is resulting in broad ranging impacts, including; the performance of the CBD, the consolidation of activity

centres, the efficient use of the commercial land resource, the establishment of a functional centre hierarchy, and the reduced value of private and public sector investment in existing centres.

Recommendations:

1. Define retail centre hierarchy based on existing, consented and proposed centres.
2. Establish a set of sub-zones within the Commercial zones, that support the establishment of a retail hierarchy.
3. Evaluate the costs and benefits of subsidised public carparking buildings in the CBD.

<u>2012 Re-evaluation</u>

This remains a crucial recommendation. As competition for retail spend increases from other channels, such as the Internet, traditional retail floorspace becomes increasingly unable to compete in terms of price and offer as the comparison market has now expanded internationally (i.e. certain retail is now competing against much larger international suppliers).

Given that convenience retail should primarily remain locationally based for efficiency and community enablement reasons, for example supermarkets, the one competitive advantage that exists for the built-form retail is the public amenity and sense of community that is created by it. This fact escalates the importance of centres as places of social and economic wellbeing.

Out-of-centre retail often locates where it can due to price sensitivities. This restraint is likely to only worsen as on-line retail improves in terms of distribution, thus these locations that do not offer the public amenity and sense of community of centres are unlikely to be sustainable in the medium to long term. In order to provide the social value that is inherent in a retail centre it is imperative that this activity is not dispersed and thereby reduced in competitiveness and sustainability. Thus the prioritisation of centres in terms of retail location is crucial to the wellbeing of the community. Vibrant retail and commercial centres are an important ingredient in building strong communities at a localised level with often an intrinsic link between quality of centre and quality of the surrounding community. Therefore an undermining or lack of on-going investment in the commercial centre network has the potential to generate wider social implications in the surrounding areas.

For example large format centres / activity often locate in non-centre locations due to price competitiveness. However, with on-line retail driving prices down, as alluded to earlier, price will become less important from a retail location perspective which has the propensity

to undermine the competitive advantage of large format centres overtime. Therefore, from a strategic planning perspective caution should be applied when planning / consenting large format centres as in the long term their current competitive locational advantage may be seriously compromised significantly diminishing the value of the centre to the community in the future.

On top of this, based on the updated 'softer' growth profile for the SmartGrowth area, there appears little merit in rezoning additional land for LFR activities due to the capacity in the 'existing environment' and low trading productivity of some existing retail 'stock'. Therefore in terms of policy, the District Plans need to be firm and consistent in their approach (given TCC and WBOP effectively operate as a single economic market) that additional zoned provision for LFR activity is not anticipated until well into the future (i.e. post the next review of the District Plans) and until the existing capacity is better utilised.

Issue 3: Poor Access to Convenience Retail in Suburban Locations

2008 Report

Residents in suburban and rural locations in Tauranga have poor access to convenience retail. This is because over half existing convenience retail supply is located on the central isthmus, particularly along Cameron Road.

Recommendations:

1. Regulate development of additional convenience retail along Cameron Road.

2. Rezone additional land suburban and rural convenience centres where required.

2012 Re-evaluation

As previously stated the provision of convenience retail is unlikely to experience significant competition from other channels (apart from potentially supermarket delivery, which is still generally housed within retail premises), so its provision in a suburban environment is ultimately important in terms of providing for community needs. This is still a recommendation with the assumption that the dispersal of population growth within these updated figures (albeit a slower growth assumption), at the finer grain level, is roughly on par with the previous report in terms of total numbers over the long term..

5. COMMERCIAL MARKET FEEDBACK

For this component of the review, Property Economics engaged with individuals and organisations in the local (SmartGrowth Area) development and property community whose opinions and views were considered would add value and provide a more commercial perspective. This is to ensure the long term strategic direction of SmartGrowth and the District Plans balanced commercial sector aspirations and considered achievable commercial development opportunities.

This section provides an assimilated overview of the feedback so no specific individual or organisation can be identified. In total 12 individuals / organisations were contacted (as identified by Priority One), and six responses were obtained by the time of compiling this report. Given the sample size, the responses should not be interpreted as necessarily being representative of the wider commercial sector, rather they provide a general 'flavour' of their views. Email was the first contact medium to allow individuals and organisations time to provide a more considered response, rather than an immediate 'top of mind' response. This approach was taken primarily to make sure individual views were not manipulated by a group setting. Those who requested a phone interview, the survey was conducted by that medium.

There was no obligation to take part in the survey or provide a response to the questions put forward for their consideration. No responses are attributed to any individual or organisation for confidentiality reasons.

The survey asked five 'higher order' questions in relation to the strategic direction of commercial and retail development in the SmartGrowth area, and where new commercial and retail opportunities should most appropriately be provided. There was purposefully a small overlap between some questions to validate the views expressed and obtain a clearer picture of each respondent's position.

The responses will follow the same order as the questions were asked for ease of reading, with the question first followed by the collated responses.

Question 1: Thinking about the future, where do you consider the opportunities for commercial growth in the Tauranga and WBOP areas are over the next 10 years or so – retail and commercial?

The Tauranga CBD was identified as a centre well placed to accommodate office and retail growth in the future with significant capacity and potential. Some noted it should be prioritised given its 'status' among the wider centre network as the pre-eminent commercial node of the region, and was acknowledged as a crucial centre in the economy of the region and an important component in driving future economic growth, i.e. the better the CBD in

terms of productivity, efficiency, amenity, quality, etc., the brighter the economic recovery in the SmartGrowth area is likely to be. Most indicated the recent economic downturn only amplified their aforementioned views and elevated the importance of the CBD to Tauranga's future.

Respondents identified no other areas of opportunity, with the CBD considered the primary focus for Council over the next 10 years.

Question 2: In your opinion, does the District Plan and / or SmartGrowth help identify and facilitate the delivery of these opportunities?

The answers to this question (which flow into Question 3 to some degree) were that the District Plans and SmartGrowth strategy identify areas of preferred development and articulate the strategic direction clearly, however beneath this upper layer there is a perception of Councils own views and philosophies 'take hold' among the policies and provisions of the plans which make commercial development difficult and sometimes improbable. Following on from this, the policy framework is considered too prescriptive with most respondents holding a view that this should be 'freed up' so the market can deliver the product according to market.

Another common thread identified was that while the policy framework in the District Plan is set (and no one identified any real concerns with this), the inconsistency in interpretation of the policy between planners was frustrating, and that the approach adopted during the assessment of an application was not commercial enough. An example raised that articulated the issue was the urban design controls in the CBD. While no one disagreed with such provisions being in the District Plan (and in fact agreed such provisions were important for creating better quality outcomes), it is not until an application is 'in the process' that personal views start to emerge and individual interpretations and preferences begin to hamper progress. In this regard, some suggested Council's desired outcome as per the District Plan gets 'bogged down' by planners dealing with quite specific and more commercial oriented details, adding time and cost to the development which some respondents felt the market is often more appropriate to and capable of addressing.

Some respondents also felt the Councils themselves have contributed to the dispersal of retail and commercial activity over the last 10 years through their own interpretations of the District Plans, but now greater emphasis should be placed on existing centres, and in particular the CBD.

Question 3: How does the District Plan need to change (if at all in your opinion) to assist in realising long term development opportunities, or ensuring these strategic opportunities are embraced?

Most respondents answered this with the antithesis of the above, i.e. the planning interpretation of the District Plans should be more positive and seen in the light of enabling and embracing more flexibility. Most commercial operators felt they tended to encounter a 'stop' mentality within Council when putting forward a new development for consideration rather than an 'assist' mentality. This has the effect of discouraging rather than encouraging commercial development. In this regard, it is not considered so much a 'Plan' issue per say, but rather an 'interpretation' issue.

Building on this further, there was common agreement that the District Plans needs to be simple in the sense that there is clarity around interpretations. Also many considered there needed to be a better balance in the sense that some aspects of development are better left to the market to deliver and deal with, and some aspect best for the District Plan to manage. At a very basic level, some suggested the District Plan is to identify where the land uses should go with a few checks and balances (i.e. desired outcomes), and then the market should be left to deliver it.

Following on from this, respondents felt the District Plans should be more outcome focused rather than providing what is considered a rather heavy handed and detailed framework on how the market should deliver the desired outcome.

Question 4: Does the CBD and existing centre network offer the same opportunities, or have the ability to offer the same opportunities, to deliver the necessary commercial development opportunities?

There was universal agreement among respondents that the existing commercial centre network does have the ability to offer and accommodate the commercial development required to meet future market needs, particularly given the unimplemented consents which form part of the 'existing environment' from a RMA perspective.

The general thrust of the District Plans and SmartGrowth of a centres plus approach was roundly supported, albeit with the caveats outlined above.

Question 5: Overall, what long term strategic direction (or focus) do you think Council should have to accommodate future market growth and development opportunities?

Respondents agreed that there was a need to recognise that market growth and outcomes desired in the District Plan take time, with the pace of change typically driven by the rate of commercial development. Some suggested for specific key developments, incentives may be a useful tool for Council to facilitate such development, but the merits of such or the value of the incentive / contribution should be assessed on a case by case basis.

There was general agreement that Councils and their District Plans needed to be less forceful in getting a specific market outcome which has the potential to undermine the economics of a project, and adopt a lighter hand which encourages a market response.

Finally, there was also general agreement that there is ample retail provision in the 'existing environment' to satisfy foreseeable commercial requirements and deliver the outcomes sought in the District Plans and SmartGrowth. In this sense, no new large scale retail provision is considered necessary outside those already consented, and the CBD is the centre Council need to focus on to 'get right'.

6. CONCLUSIONS

The updated (2011) suite of SmartGrowth area population and household projections forecast a slightly lower and slower growth projectory (9% overall) for the next 40 years than the previous 2007 SmartGrowth projections. This has been fuelled by the slowdown in economic growth and the enduring effects of the Global Financial Crisis that has gripped the world in recent years and is envisaged to continue to have an influence over the market over the short-medium term. Critical to the SmartGrowth economy and area tracking above the new 2011 projections will be job creation stimulating local economic growth. Without this, the new projections will be more aspirational than realistic.

From a strategic planning perspective the thrust of the TCC and WBOP District Plan reviews of developing a more centres plus based policy is considered the appropriate and prudent approach to take given the existing market demand / supply dynamics, level of performance, quality, amenity, and functionality of the existing centre network, and the aforementioned lower growth profile for the SmartGrowth area which will have a dampening effect on the level of long term demand and subsequently retail provision required to meet the future community's requirements.

Based on the quantum of unimplemented consents for retail activity in the 2008 report, there is more than enough in the 'existing environment' to accommodate the required future retail provision. On this basis, from a District Plan and strategic planning perspective focus should be on improving the existing provision with strong supporting policies that do not enable new retail development that simply duplicates the existing resource and undermines the existing centre network giving rise to the propensity for existing tenants to repatriate rather than bringing 'new' stores to the region. Increasing the retail provision when the existing centre network has capacity and 'needs' a portion of retail expenditure growth to become more viable and vital centres, only serves to dilute the offer and potentially unduly undermine the position and status of some centres in the hierarchy.

In this regard, for WBOP the investment in the existing town centres of Te Puke and Katikati is considered appropriate with retail pressure for new centres in the future limited.

In TCC case, pressure is likely to come for new convenience centre activity to be developed, primarily in areas where their existing provision is light such as already experienced in Bureta. Other areas of potential additional growth for convenience activity includes Welcome Bay, Papamoa and Bethlehem over time, with any applications in these areas assessed on their merits at the time of lodgement. Higher order comparison retail should be channelled into the existing / consented commercial centre network to maximise the efficiency and benefit to the community. These centres are underperforming relatively and contain a significant amount of public investment that should be leveraged off to maximise the community return in the future.

Development of commercial activity should follow a similar path. The projected number of commercial employees remain similar to that determined in the 2008 report, however the estimated commercial floorspace requirement is significantly lower as a result of the unyielding drive toward improved office efficiencies and technology trends that fundamentally change the way workers will utilise built form office space. The lower floorspace requirement heightens the importance of channelling this activity into centres, particularly the CBD, to improve the amenity and environment and complement the retail provisions. Commercial activity and employees are important components of centres and growing their presence in centres is important for the 'health' of the centres long term and improving the economic wellbeing of the centres as a whole.

TCC's recent Plan Change 48 supported this approach and was aimed at minimising the 'bleeding' of office activity into residential zones. This type of policy is considered a step in the right direction and will better maintain the integrity of the zones in the plan. There are also policies in the rural areas of each jurisdiction that focus on discouraging the development of LFR activity. This is considered appropriate with stand-alone LFR centres in rural areas considered unnecessary and against the thrust of a more centres based approach of the District Plans.

Policy around both this retail and commercial approach needs to be carefully embedded into the respective District Plans. This is to ensure that the associated provisions are not so prescriptive that their implementation is unlikely to be realised, are too restrictive / onerous for development to occur, or make commercial development in the appropriate zones unrealistic; but also not so permissive that unintended consequences eventuate such as an even greater commercial development out of zone.

In terms of proposed future centres and existing capacity the following views are noted.

Tauriko: Property Economics would not have supported the extent of retail development enabled in Tauriko given the 'state' of the existing centre network, capacity and residential growth patterns, however that is not up for discussion as part of this review and Tauriko now forms part of the 'existing environment', albeit with unimplemented consents at this point. The scale of enabled retail development in Tauriko is significant and goes well beyond servicing its localised market, and as such will rely on attracting shoppers from across the SmartGrowth area to varying degrees once developed and operational. This is an outcome fuelled by the previous more liasse faire District Plan at the time when the retail market (and economy in general) were significantly different to today (i.e. pre-GFC). Based on the current enabled provision in Tauriko, no further additional zoned retail provision is required in Tauriko.

Wairakei Town Centre: The Wairakei Town Centre (proposed and zoned) also forms part of the 'existing environment' and contains significant capacity to absorb retail market growth

well into the future. This town centre needs to be recognised and supported as such in the District Plan with the relevant policies both enabling the development of such and maintaining the integrity of the zone. The Wairakei Town Centre is well placed to meet the requirements of the wider Papamoa south areas where significant residential growth is envisaged overtime.

Te Tumu: In relation to Te Tumu, given the significant development capacity already zoned in the 'existing environment' (i.e. Bayfair expansion, Palm Beach expansion potential, Wairakei Town Centre and Tauriko to name a few larger ones) the realistic opportunity for retail development at Te Tumu is considered to be extremely limited and not required over the next 20 years. Given this, in my view there is no need to cement Te Tumu in the District Plan at this point as any material demand from the area falls well outside the District Plan period and it is considered more appropriate to reassess Te Tumu's potential in the next District Plan review.

Based on this high level review, TDC and WBOP should have a policy suite in their respective District Plans that encourages and facilitates retail development in the 'existing environment', with no new large retail centres required (LFR or town centres) in the foreseeable future outside of the existing centre network. No new non-'existing environment' LFR centres should be identified or enabled with ample capacity already zoned to meet future requirements. The only new centres that are likely to be required are a small scattering of local convenience / neighbourhood centres in areas of strong relative growth or where an under provision may currently exist.

APPENDIX : 1 BUSINESS CLASSIFICATIONS

Property Economics utilises the most up-to-date version of the Australian and New Zealand Standard Industrial Classification (ANZSIC) system as guidance, whereby businesses are assigned an industry according to their predominant economic activity.

For our reporting purposes we have divided these classifications into industrial, commercial and retail sectors. These three sectors correspond to the zoning of industrial, commercial and retail land by the local authorities.

Commercial activities generally refer to land intensive activities. It includes a large proportion of the tertiary sector of an economy, which deals with services; and the quaternary sector, focusing on technological research, design and development. The employees work for the following sectors are considered a commercial sector employee:

- 15% of Accommodation and Food Services
- Information Media and Telecommunications
- Financial and Insurance Services
- Rental, Hiring and Real Estate Services
- Professional, Scientific and Technical Services
- Administrative and Support Services
- 35% Public Administration and Safety
- 15% Education and Training
- 25% Health Care and Social Assistance
- 25% Arts and Recreation Services