Retail and Market Assessment

For Wellington City Council

Colliers International and Sense Partners

30 November 2020

Colliers INTERNATIONAL

SENSE PARTNERS
DATA LOGIC ACTION

Executive summary

Commercial land demand affected by COVID-19

- Our initial assessment is that the short-term impacts of the COVID-19 pandemic will be likely to be dominated by population growth and economic growth in the medium and long run, but monitoring is critical to gauge the magnitude of COVID-19 impacts.
- Colliers International's June 2020 vacancy survey shows the COVID-19 pandemic increased the vacancy rate from 4.1% at the end of 2019 to 6.7% in June 2020 – just below the 10-year average of 7.2%.
- Sense Partners' updated forecasts – consistent with Treasury's PREFU estimates from September 2020 – suggest retail employment will take 4 years to recover.
- Some impacts of COVID-19 also extend to longer-term trends, including working from home and decentralisation of government services.

Retail and commercial trends suggest little need for additional land

- Right now, there isn't much vacant land limiting new large-scale developments.
- But new demand will be met by change of use, and brownfield redevelopment and refurbishment projects will drive new additions to office and retail stock.
- New office offering will be met by completion of properties currently under construction, and refurbishment should meet the majority of market requirements even if progress on several new projects in the pipeline is slowed by the pandemic.
- There is enough capacity to meet new demand, since much current use is inefficient.

Expect more conversions from office space to residential

- A growing housing shortage will make office to residential conversion projects increasingly viable.
- Low-grade office buildings, which have become financially unviable, are prime conversion targets, particularly in residential appeal areas such as Te Aro.
- Conversions improve land use efficiency, reducing the cost of residential space while increasing the viability of higher-quality new office developments.
- This will also drive resident population growth, which will provide a modest boost to demand for retail in the CBD.

Central city demand driven by daytime population

- Demand for floorspace in the CBD is driven by the population of people in the city.
- Retail in Wellington City is driven largely by the daytime population, which is much larger than the residential population.
- We expect the residential population to grow, but we expect some risk if some government services are decentralised in the next 2–3 years.
- Longer term, we expect the public service to grow and the benefits of agglomeration drawing back public service jobs back into the city. This will drive demand for both office and retail, particularly food and beverage services.

Decentralisation of government activity would hit retail hard

- Growth in the public sector has boosted growth in demand for office space in Wellington City for many decades (around half of all new demand in the last two decades). But working from home and a more decentralised approach to working, which might include relocations, could affect demand.
- For example, even a 10% reduction in CBD based public sector employment would reduce direct demand for office space by about 3.5%. But this would directly impact the retail sector, particularly for food and beverage services, during the week.

Demand for retail land looks weaker than 2 years ago

- Colliers tested the assumptions used to forecast demand for business land in the Housing and Business Assessment (HBA), completed in 2018. The identified demand drivers and information sources are sound.
- Updated statistical forecasts from Sense Partners, calibrated to national employment forecasts from Treasury's PREFU (from September 2020), show Wellington's retail employment will take 4 years to recover to the February 2020 level.
- Long-term employment growth is a more moderate 0.4% per year, similar to growth rates for Wellington over the past 20 years.
- But the COVID-19 pandemic will impact demand for retail space over the 2020–2027 period, factors not directly included in the statistical forecasts.
- Greater familiarity with online retailing during COVID-19 restrictions on business has likely accelerated the use and acceptance of e-retailing. Increase in demand for online shopping will further dampen demand for traditional physical retail space.

Broad implications for the District Plan review

- Our review of retail space across the district show the current retail hierarchy is meeting objectives with the CBD as a retail hub and three key retail nodes.
- Releasing business land will be important to maintain required growth, but careful control of land release that allows for necessary adjustment should be considered so that current retail hubs thrive.
- Ongoing discussions with business and community on land use that take account of the starting level of supply will continue to support projected future growth needs.

Specific implications for draft District Plan controls

- Rather than setting aside additional land to accommodate population growth, the District Plan can help by promoting efficiency of land use.
- The costs of maximum height restrictions will be increasing with the demand for residential land. We agree with the proposals to relax these constraints. We recommend a closer look at relaxing constraints in some industrial areas.
- Draft location controls are broadly appropriate, but the rationale for a small number of rules is not clear. For example, a 20% site coverage increases development costs and limits efficiency of land use without generating clearly negative externalities.
- Imposing minimum building heights could increase floorspace. But the impacts are complex and uncertain, depending on the state of the market, developers' risk appetite, the cost of capital and other factors. Since these rules could have the unintended consequence of reducing development in certain environments, we do not recommend imposing minimum height restrictions.

Key points summary for each stage

Stage A: Evaluating market data

Sense checking demand for retail land from the HBA

- To assess demand for retail space, Colliers International confirmed the methodology that assesses demand for retail land and floorspace in Wellington Region's 2019 Housing and Business Development Capacity Assessment (HBA) is robust.
- The report identified a requirement of 49,992 sqm of retail floorspace to 2047. Colliers International has been advised additional floorspace was based upon retail supply approximately balancing demand when the report was written.
- Recent events that include the impact of the COVID-19 pandemic may result in changes to forecasts that most likely moderate or delay the realisation of demand over a longer timeframe than in the HBA.

The current state and trends in occupancy and locational preference align with District Plan objectives

- There are approximately 2,131 retail properties comprising 609,975 sqm of total retail floorspace, the majority with floorspace of less than 200 sqm.
- Almost half of total retail floorspace is located in the central area. The south and east areas are other key geographical locations for retail.
- This aligns with District Plan objectives and goals for business land in the Wellington City Council District with the focus of commercial and retail activity in the city, supported by a network of spaces in suburban centres.
- Wellington's topography is an instrumental factor in the built environment, providing a natural form for current and future growth patterns but restricting supply.
- Analysis of the retail distribution network demonstrates planning controls that enable a variety of retail development, but viability and vibrancy of retail space also requires:
    - well-populated catchments
    - major transport networks
    - a supportive retail mix
    - a retail hierarchy across the district
    - shifts in consumer needs
    - retail with highly visible positions
    - high levels of patronage.
- There is sufficient business land for most retail activity, but there are some areas that need only small adjustments incrementally over time.
- A masterplanned approach that accounts for other business land goals will be beneficial. The mix of commercial, residential, community and recreational activities that drive prosperous catchments and vibrant retail space should also be assessed.

Land values and trends across the district

- Business zoned land values have increased steadily, supported by population and employment, as well as falling interest rates since 2014.

- Little land has been available to buy since 2007, both nationally and within Wellington. Demand has been robust, but in a low interest rate environment, owners are holding on to assets rather than divesting assets.
- Due to a low number of vacant land sites or sites with limited development or buildings with obsolescence, in business zones, there is limited sales activity/sample to assess land value rate changes appropriately.
- Under our alternative method of assessing land value changes, all business zoned land sales across all of the Wellington City Council District in 2019 typically ranged between an average of $1,546 per sqm and $4,654 per sqm (up 40–100% from 2007).
- This compares to an average of $738 per sqm and $3,362 per sqm in 2007 (the last cyclical peak) and $269 per sqm and $1,227 per sqm in 1988 when the time series began. There will be cases of vacant land sites selling outside of these ranges.

Stage B: Impacts of population growth

COVID-19 has shaken New Zealand's economic growth

- COVID-19 has caused a deep recession and will take time to recover. Output fell 12.2% in the June quarter.
- International tourism has practically stopped. Job losses and working from home have changed the economic landscape. We updated earlier demand forecasts for retail and business space. We benchmarked to actual employment data to February 2020 and translated New Zealand Treasury's pre-election forecasts for the national economy to local employment.
- Our models operate across labour market areas. We first estimate employment growth for our six sectors (commercial, retail, industrial, government, health-education-training and other) across Greater Wellington Region before using additional models to allocate activity to territorial authorities in the region.

Outlook for Greater Wellington Region shows the impact of COVID-19

- We expect employment in the commercial sector will take 3 years to recover from the pandemic-induced recession. In the medium term, growth rates are lower than in the previous HBA, down to about 0.4% growth (from 0.65% compound average growth).
- Industrial employment growth has been flat over history, but our revised forecasts show a 0.4% decline in industrial employment on average each year to 2050.
- Government employment – both central and local – will increase moderately to 2050, and employment in health, education and training will grow strongly, keeping up with and even outpacing population growth.
- Retail employment will take about 4 years to recover from the impact of COVID-19 and then grow at a rate of about 0.5% per year, down a little from the HBA numbers.

Outlook for Wellington City Council is strongly contingent on government employment

- Over the forecast period to 2050, government employment continues to grow as a share of employment in Wellington City. Unlike the other sectors, government employment holds up through the impact of COVID-19.
- Industrial employment falls by almost 0.5% per year, resulting in about 2,000 fewer jobs by 2050.

- Retail activity grows by about 0.4% per year, adding 2,811 jobs by 2050. This forecast is likely to be an upper estimate since our modelling does not account for reductions in retail activity due to the growth of online retailing or working from home.
- This increase in employment comes with modest increases in retail space to keep pace with space required for each worker.
- We also assess the distribution of population growth across the city. Given our assessment of capacity in many neighbourhood, local and town centres, there is little to suggest pockets of population growth that will be poorly served by retail offerings.

Stage C: Assessing viability

Viable retail is largely ground floor retail

- While there are exceptions, rarely is it commercially viable for above ground floor commercial space to be leased to retailers.
- Typically, only in high-density locations like the CBD and major shopping centres are vibrant and commercially successful retail properties situated above the ground floor.
- Increasingly, the ability to generate the highest returns, maximise density, reduce latent development potential, increase the rate of project viability and achieve Wellington City Council's long-term projected population growth is through mixed-use developments.
- These developments comprise a mix of retail, office and/or residential uses. There are limited examples of a mixed-use development employing all three uses, especially outside of the city centre, typically due to financial viability.
- Ground floor apartment development offers some advantages in specific locations. Mixed-use development adds vibrancy to both the development and streetscapes.

Viability of central city commercial office and retail market update

- The impact of COVID-19-enforced trading restrictions has become immediately apparent via the results of Colliers International's June 2020 vacancy survey.
- The overall vacancy rate was trending down from post-global financial crisis (GFC) highs recorded in mid-2013, falling to 4.1% at the end of 2019. This figure increased to 6.7% in June 2020 to sit just below the 10-year average of 7.2%.
- There is further evidence of a shift from durables and other discretionary retail towards food retailing and food and beverage sectors. However, this sector may experience a change in viability over the short term due to impacts from COVID-19.
- From an office sector perspective, Wellington's CBD comprises 1.41 million sqm of office space (approximately 70,000 sqm below the pre-Kaikōura earthquake total) with 318,089 sqm (23%) classified as prime quality (Premium and A-grade) with 77% comprising B and C-grade premises.

Government demand plays a key role

- Occupation by government departments strongly underpins the capital's office sector, occupying approximately 35% of the city's office space or just over 500,000 sqm.
- Since the 2016 Kaikōura earthquake, the overall vacancy rate decreased significantly, but in June 2020, the rate increased slightly to 6.4%.

- Colliers International forecasts overall vacancy to reach approximately 10% by mid-2023 due to additional supply and COVID-19 impacts.
- New development options within the CBD are limited as vacant land is scarce. Additions to total office stock will predominantly be driven by brownfield redevelopment and refurbishment projects.
- While there is potential for a number of projects within the city, the supply pipeline will progress at a slower rate than prior to the emergence of COVID-19.
- In the short term, the completion of properties currently under construction and under refurbishment should meet the majority of market requirements.

Market trends and distributional impacts on business areas and centres

- Retailing activities in business areas and centres across the Wellington City Council District are changing.
- The combination of population growth, higher residential, commercial and industrial property prices, higher land values and a structural shift in the increase in food retailing and hospitality services are all key drivers.
- Some distributional effect has been accommodated through appropriate planning changes and existing controls.
- Careful monitoring to allow for adequate distribution of these retail activities across the district will be required given population growth expectations that will require further residential accommodation and retail services.

Likelihood of conversions and impact on commercial floorspace

- Demand for inner-city apartment living is increasing driven by population growth and appreciation of property and rental values.
- Increases in central city resident populations are deemed to provide benefits such as increasing the vibrancy of the city and the viability of retail and hospitality providers.
- A shortage of vacant land constrains development and therefore conversion projects become more viable.
- Lower-grade office buildings that have become financially unviable or obsolete as offices are the prime conversion target, particularly if located in areas with residential appeal such as Te Aro.
- The impact of conversion on the office market could be positive as it increases demand for new higher-quality property, making development more viable.

Decentralisation of government and changing workplace trends will matter

- Coalition government policy following the 2017 election included exploring moving some government functions from Wellington to the regions.
- The policy remains in the planning phase. However, a two-stage roll-out is taking shape.
- The scale of any decentralisation is unknown, but a 10% reduction in CBD-based public sector employment would only equate to direct demand of 3.5% of office stock.
- The public sector workforce provides strong support for the retail sector, particularly for food and beverage services during the working week.
- Given ongoing growth of the public sector, shifting some government services to the regions is likely to have only a limited impact on this retail demand.

- Private sector firms are shifting their workplace strategies and the future level of CBD occupation. Arrangements will vary across businesses and teams and will change over time. Maintaining productivity, culture and collaboration levels will be key drivers.
- The office will retain a critical role as a meeting place and hub for collaboration.
- While businesses will pursue a number of options, it is likely staff will be encouraged to attend the office at least 3-4 days per week and permitted to choose whether to work remotely for the balance of the week.
- Staff who commute to the city choose to work from home 1 day per week, equating to an average 20% per day reduction in employees in the city. This would see a sizeable decrease in spending, especially for retailers providing food and beverage services.
- If this becomes a long-term trend, there would be a significant impact on the amount and level of all retail space required in the city centre, with more demand in outer suburbs as people work from home and require additional retail services. We still envisage greater retail requirement in the city centre.

Latent development potential of current city centre vacant land

- To accommodate the forecast population growth of 50,000–80,000 people over the next 30 years in the Wellington City Council District, a range of options will be required for developers to pursue.
- This includes the release of new land, increase in density of existing underutilised residential sites, brownfield redevelopment of commercial sites and office to residential apartment building conversions.
- The proposed Spatial Plan process for Wellington City Council, updated in September 2020, provides a 'realisable' capacity forecast for development that includes a range of market factors, such as changes in construction costs, land costs and availability of land as well as the willingness of property owners to redevelop/sell their sites.
- Current forecasts highlight that there is unlikely to be a significant level of latent development potential of current vacant land in the city centre.
- Flexibility in development, streamlined development processes and high levels of consultation with the development community will enable the most optimal outcomes for the council in reaching projected targets.
- Achievement in meeting these targets will need to be carefully and regularly monitored so that an imbalance between projected capacity and actual capacity does not defer too greatly, especially as time passes over the 30-year timeframe.

Expanding the city centre zone to Thorndon is testing, Adelaide road more promising

- The change in zoning would permit greater intensification and the development of a wider range of properties within Thorndon, including commercial and residential.
- The character of the area will change as a result given that heritage residences will be replaced through new development.
- But the primary inhibitor to development in the Thorndon extension area is the current pattern of fractured land ownership within the area and low foot traffic, challenging any large-scale development that needs to complete with development elsewhere in the city.
- Instead, proposed zoning changes for Adelaide Road that allow for more intensive development, will accelerate change from light industrial activities to high end uses.

- Expect mixed used development with ground floor retail to lift quality of the building stock in the area. Population growth will support existing and new retail development.

Stage D: Assessing District Plan controls

Wider district objectives and considerations

- While the business land release will be important to maintain required growth, it would be easy to release too much land, limiting retail hubs' ability to thrive.
- Wider Spatial Plan objectives that include amenity and viability should also be taken into consideration to maintain retail sector performance.
- A masterplan should identify all business and community use while taking into consideration current supply levels when projected future growth needs.
- The provision of a suitable allocation of mixed-use developments could be beneficial for council and key private sector stakeholder growth, taking advantage of density and intensity factors as well as pricing factors.
- Wellington's topography, seismic consideration, major transport networks and infrastructure act as a constraint for typical development and conversion activity.

A small number of specific draft controls could be improved

- Our review suggests demand for commercial and retail space will grow moderately.
- Rather than setting aside additional land to accommodate population growth and promote efficiency of land use, draft location controls are broadly appropriate.
- Vibrancy of outer centres is key. Draft controls on gross floor area (GFA) are mostly consistent with efficient use of land in town, local and neighbourhood centres.
- Some design controls (e.g. a 20% site coverage) would appear to markedly increase development costs and limit efficiency of land use. The evidence base on the benefits of design controls should help determine these draft controls.
- Increasing demand for residential land increases the cost of binding maximum height restrictions so we support relaxing maximum height restrictions. A closer look at height restrictions in industrial areas may be warranted. Council could also relax height restrictions a little by extending the city centre zone area.
- Minimum building heights may have some limited impacts on the efficiency of land use. But the impacts are complex, uncertain and contingent on the business environment. It is possible for minimum height restrictions to have the unintended consequence of reducing floorspace when developers delay construction. We do not recommend imposing minimum height restrictions.
- An alternative approach to improve efficiency of land use would be to charge rates on a land basis rather than capital basis. This would incentivise development and increase the costs of land banking. Such an approach would have winners and losers but would promote the efficiency of land use that Wellington City Council seeks.

Enable and monitor outcomes for success

- Collaboration and community discussion to enable suitable development activity will be critical. This will reduce latent development potential.
- Put in place annual monitoring of forecasts versus actual market progress to improve performance metrics and provide more successful outcomes.

Context

In August 2020, Wellington City Council commissioned Colliers International and Sense Partners to provide a retail and market assessment of central zones within the District Plan. This assessment needed to clearly show the current state of these markets and the future state based on expert analysis of supply and demand trends.

This assessment is to assist the evidentiary basis to set District Plan controls for business and commercial activity across Wellington City. Outcomes will inform review mechanisms, the methods and evidence base for each zone chapter of the District Plan.

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1. Evaluating market data

1.1. Sense checking data demand for retail land from the HBA

Context

The prime purpose of the HBA report was to quantify demand for business land within the Wellington Region over a 3-year, 10-year and 30-year horizon, having regard to the requirements of the National Policy Statement on Urban Development Capacity (NPS-UDC). The report assessed demand within each of the region's district council areas. This review is being conducted in relation to the data supplied for Wellington City Council.

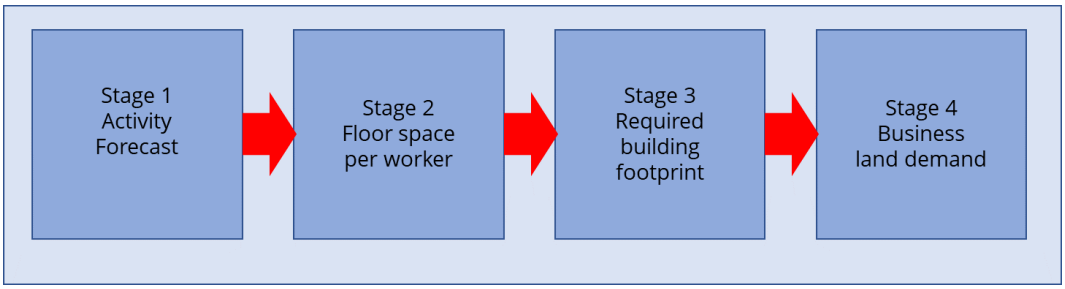
The approach adopted

Sense Partners adopted a four-stage approach in order to quantify business land demand. The first stage focused on the firms active within the district and the local business environment, setting out the key local business drivers highlighting local trends and the complexity of the local economy.

Following this stage, Sense Partners applied modelling to forecast future economic activity in terms of the number of workers across a selection of industries, including retail. The next stage translated the projections of economic activity into demand for floor area based on assumptions on the floorspace each worker would require in the future with ratios adopted from MBIE's NPS-UDC 2017. Local floor-to-area ratios were then applied to project future demand for land.

In addition to the baseline case, additional scenarios relating to population growth and the impact of improvements to local roading infrastructure were considered.

FIGURE 1: SENSE PARTNERS ADOPTED A 4-STAGE APPROACH TO FORECASTING BUSINESS LAND DEMAND



We use the assessment from chapter 2 of the HBA for our sense check

Variation was noted within potential commercial property supply figures quoted in the summary chapter and Wellington City chapter of the HBA report.

The redevelopment and infill floorspace figures shown in the summary chapter were 5,544,259 sqm and 501,929 sqm respectively. The Wellington City chapter adopted a

redevelopment figure of 6,317,913 sqm and an infill figure of 1,274,619 sqm. It was noted within the summary chapter that figures shown in subsequent chapters were subject to more detailed analysis. Having regard to this point and to conversations with Wellington City Council, the Wellington City Council (chapter 2) figures have been adopted for the purposes of this section of the report.

With regard to sense checking the demand figures, it is noted that there is consistency within the figures detailed within both the summary chapter and chapter 2.

HBA demand for retail land is robust

The chapter 2 of the HBA report set out forecast demand for retail floorspace and, as a result, for development land within the Wellington City Council District for the period 2017–2047. The forecast floorspace requirement was also inflated in line with NPS-UDC provisions. The final forecasts are set out in the table below:

TABLE 1: LAND AREA AND FLOORSPACE DEMAND (SQUARE METRES) FOR RETAIL ACTIVITIES, WELLINGTON CITY COUNCIL 2017–2047

	2017–2020	2020–2027	2027–2047	Total
Land area	28,604	8,638	29,414	66,656
Floor area	21,453	6,479	22,060	49,992
Floor area (inflated)	25,744	7,775	25,360	58,888

Colliers International has been advised that the demand figures were based upon the assumption that, as at the date of assessment, supply and demand of retail space across the district was well balanced and future demand for space reflected changes in the demand drivers identified.

Assessment

The criteria utilised to forecast demand, as outlined in the approach adopted above, was and remains robust with the demand drivers identified and base information sources sound.

The report detailed the key drivers of demand:

- Population growth – Stats NZ's medium population growth forecasts were adopted in order to create the baseline demand forecasts. The modelling also took account of other demographic trends such as changes in age profile.
- Economic performance – vector autoregressive (VAR) modelling was used to map the impact on demand for business land of shifts in the local economy.
- Employee count – forecast changes in employee counts impact floorspace requirements. The modelling incorporated MBIE figures, which suggest that retail workers require 30–50 sqm per worker.
- Transport infrastructure improvements (e.g. Northern Corridor).

Whilst Colliers International has not reviewed Sense Partners' model given that it is proprietary, we have assessed that the resultant point in time forecasts can be viewed as reliable.

Variations to be considered within updates

The COVID-19 pandemic will have a profound impact on retail demand over the forecast period, particularly over the 2020 2027 horizon, as it will materially affect most of the primary drivers:

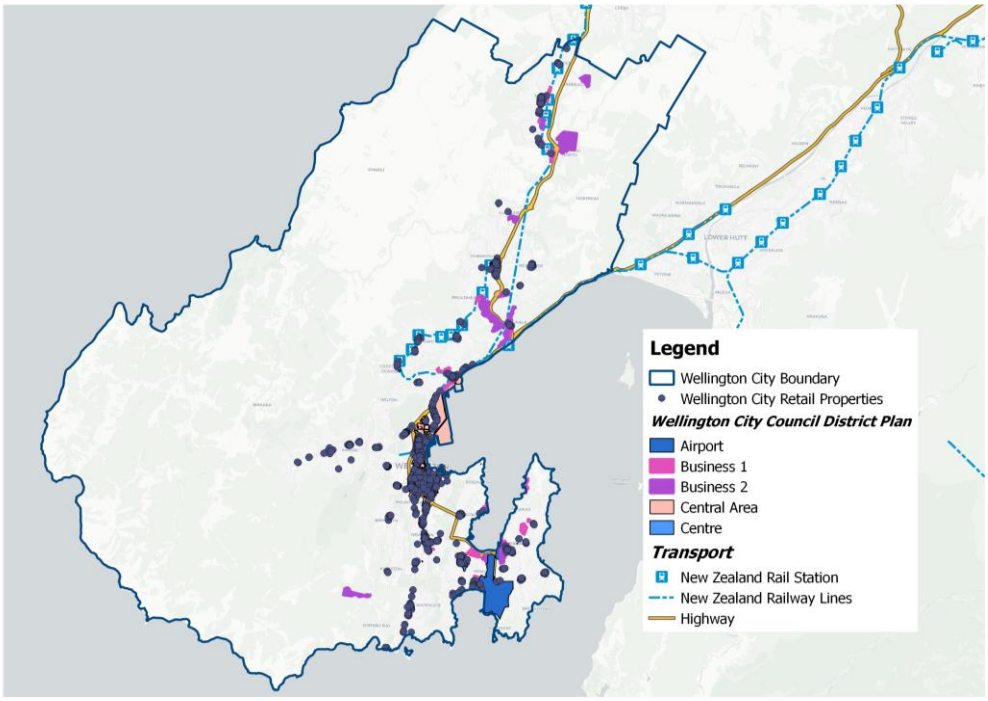
- Population growth will be constrained as migration is curtailed while strict border restrictions remain in play.
- Economic performance has been downgraded with GDP figures falling sharply in Q2 2020. While it is anticipated that New Zealand will move out of its technical recession quickly, GDP will remain below its pre COVID-19 level for an extended period.
- Employment within the retail and hospitality sectors will see some of the more significant decreases as a result of the pandemic, various restriction levels and the curtailment of overseas tourism whilst the borders are closed. Figures produced by Retail NZ show that, post the GFC, it took 6 years for the employee count within the retail sector to recover. Anecdotal evidence from Retail NZ suggests it may take longer on this occasion.
- In addition, the greater familiarity with online retailing due to COVID-19 restrictions on business operations and people movements has accelerated the increase and acceptance of e-retailing. The increase in demand for online shopping is likely to dampen demand for traditional physical retail space.
- Selected transport improvements referred to within the report are subject to the preferences of the new Parliament after the election. Others are progressing but have faced delays due to a number of factors including lockdown, whilst others are complete:
    - The Smart Motorway, Johnsonville to Wellington – complete.
    - Transmission Gully, progressing but completion delayed.
    - Mackays to Peka Peka Expressway – complete.
    - Peka Peka to Otaki – progressing but completion delayed.
    - Otaki to north of Levin – now included within the infrastructure project proposals for both Labour and National.
    - Mt Victoria tunnel duplication – may be brought forward under a National-led government.
    - Terrace Tunnel duplication – included within National Party infrastructure proposals.

1.2. Commercial trends in GFA occupancy and locational preference

Wellington City Council District's retail options

There is a wide variety of retail space that has formed across the Wellington City Council District over time. This expansion has been driven by population and business growth, facilitated by access to major transport and infrastructure networks and enabled by supportive planning controls.

FIGURE 2: RETAIL SPACE ACROSS WELLINGTON CITY COUNCIL BY ZONING



Source: CoreLogic, Colliers International Research

There is approximately 609,975 sqm of total retail floorspace across the Wellington City Council District with 48% of total retail floorspace located in the central area. This aligns with District Plan objectives and goals for business land in the Wellington City Council District with the focus of commercial and retail activity in the city, supported by a network of spaces in suburban centres.

TABLE 2: RETAIL FLOORSPACE BY BUSINESS ZONE

	Retail NLA	Retail NLA %
Business 1	64,068	10.5%
Business 2	9,158	1.5%
Central area	292,199	47.9%
Centre	214,739	35.2%
Airport	21,855	3.6%
Not zoned	7,956	1.3%
Total	609,975	

Source: CoreLogic, Colliers International Research

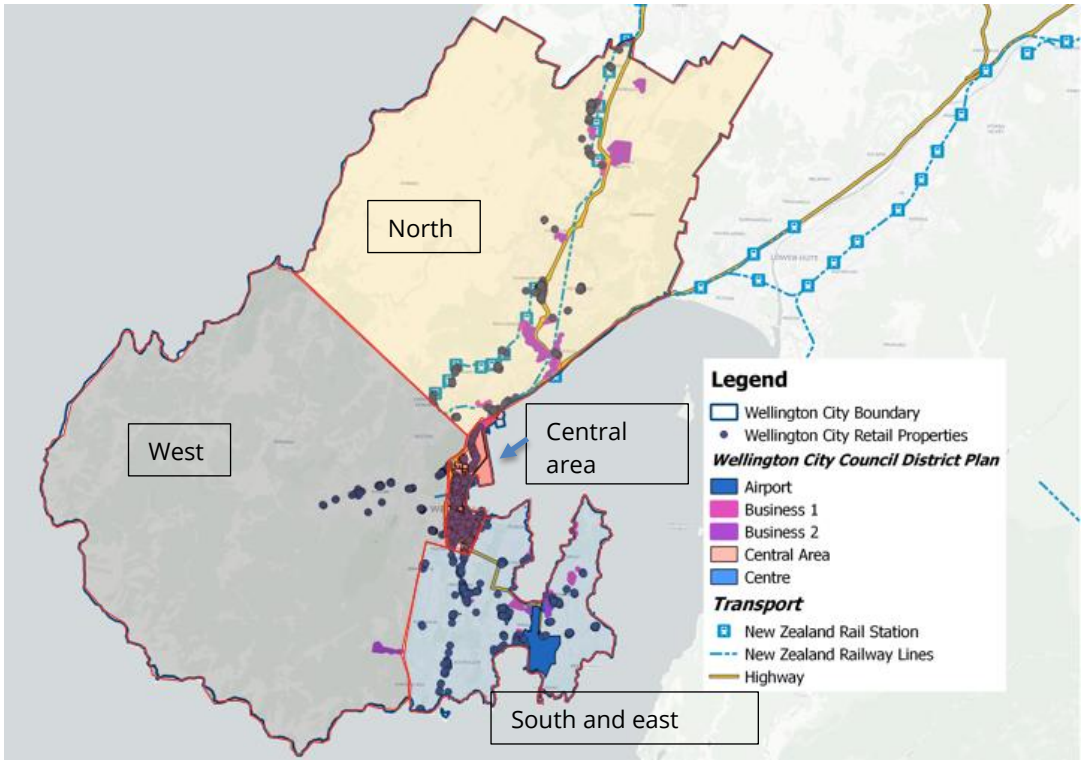
Wellington City Council retail space – an interconnected hub and spoke distribution

The spatial distribution of retail precincts and store hierarchy highlights the interconnectivity between retail that has been established across Wellington City Council district. The central area acts as the hub, while the three spokes extend to the north, south and east, and west nodes.

Outside of the central area, the spatial distribution of the three nodes is typically formed along major transport networks supporting established residential suburbs with future development opportunities.

The topography of the Wellington City Council District also plays an instrumental factor in the built environment and transport networks, limiting areas for development but also providing a natural form for current and future growth patterns.

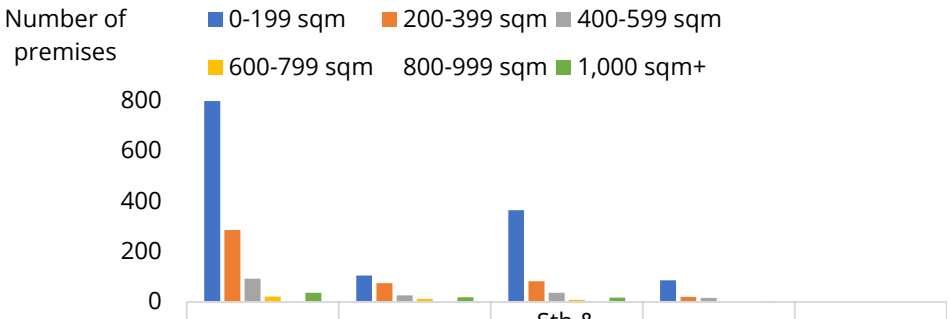
FIGURE 3: RETAIL HUB AND SPOKE ACROSS WELLINGTON CITY COUNCIL DISTRICT



Source: CoreLogic, Colliers International Research

There are approximately 2,131 retail properties across the Wellington City Council District, the majority with floorspace less than 200 sqm. The spatial distribution of retail space by segmented floorspace also highlights the south and east area as a significant retail node within Wellington City Council District's retail network.

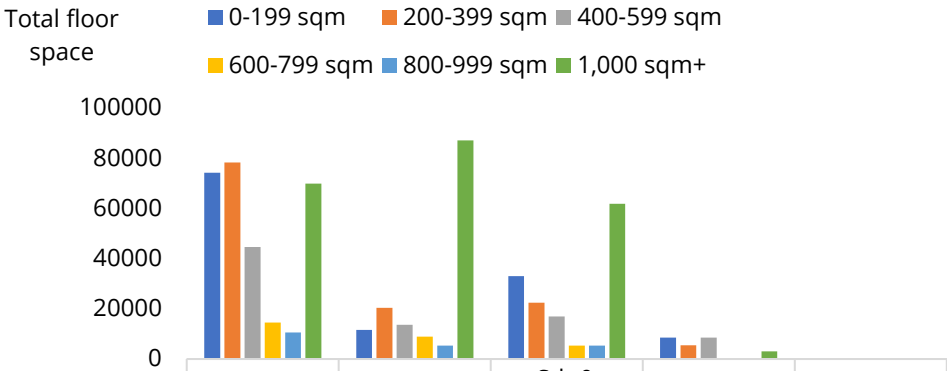
FIGURE 4: SEGMENTED RETAIL FLOORSPACE BY LOCATION: NUMBER OF PREMISES



	Central	North	Sth & East	West	Total
0-199 sqm	799	105	365	86	1355
200-399 sqm	286	75	83	20	464
400-599 sqm	93	27	36	16	172
600-799 sqm	21	13	8		42
800-999 sqm	12	6	6		24
1,000 sqm+	36	19	17	2	74

Source: CoreLogic, Colliers International Research

FIGURE 5: SEGMENTED RETAIL FLOORSPACE BY LOCATION: TOTAL FLOORSPACE



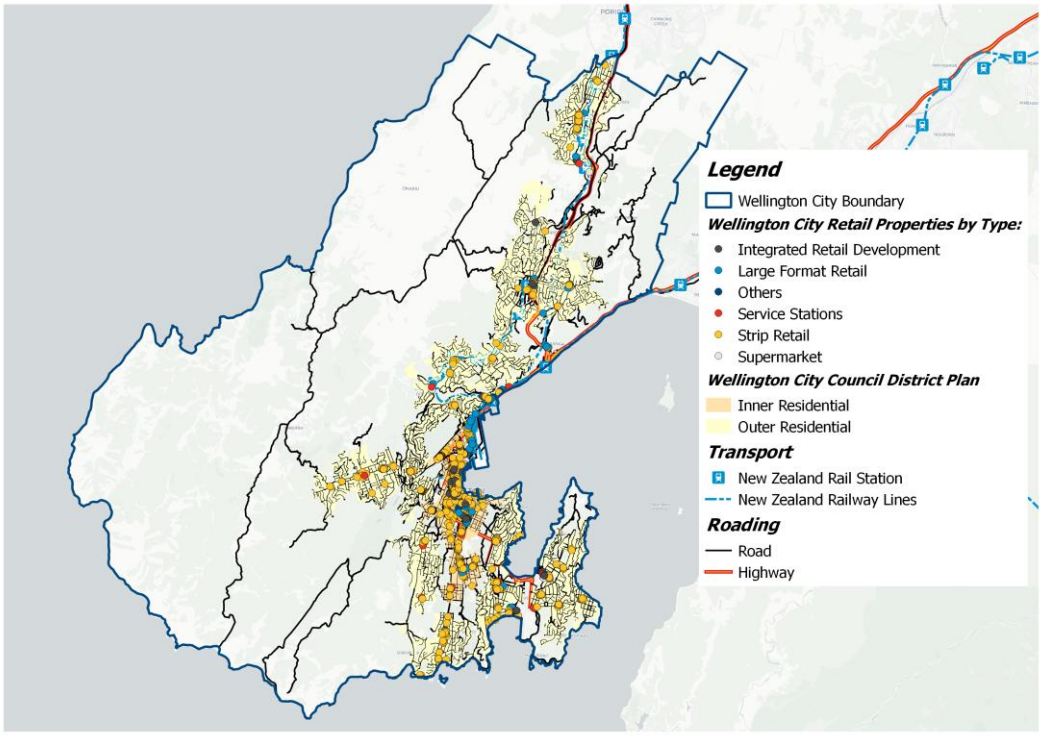
	Central	North	Sth & East	West	Total
0-199 sqm	74293	11595	32986	8484	127358
200-399 sqm	78295	20408	22451	5502	126656
400-599 sqm	44639	13663	16973	8594	83869
600-799 sqm	14550	8965	5377	0	28892
800-999 sqm	10527	5402	5367	0	21296
1,000 sqm+	69893	87190	61819	3000	221902

Source: CoreLogic, Colliers International Research

Residential catchments and major transport networks supporting out of centre retail space

The analysis of retail properties across the Wellington City Council District highlights retail in out of centre locations is a result of residential catchment growth supported by major transport networks. Greater levels of access and reduced travel times from high-density residential neighbourhoods to retail precincts also enables greater levels of retail viability and vibrancy.

FIGURE 6: WELLINGTON CITY COUNCIL'S MAJOR TRANSPORT NETWORKS, RETAIL PROPERTIES AND CATCHMENTS



Source: Colliers International Research

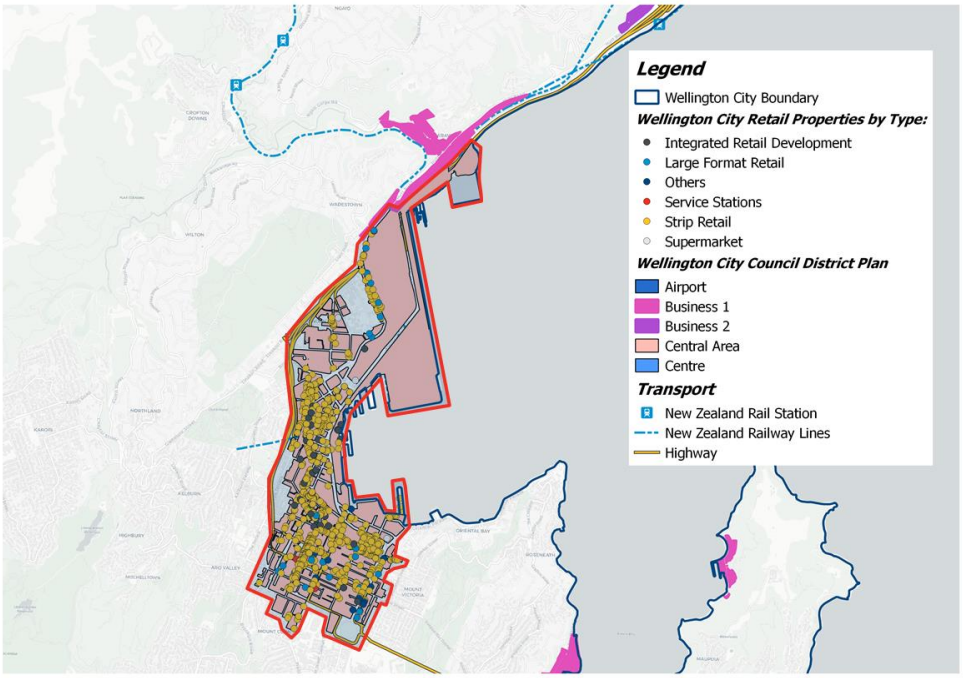
Central Area

In the central area, there is approximately 292,199 sqm of retail space, with the average tenancy size of 235 sqm. However, this is skewed due to integrated developments such as Top of Tory Mall and Capital Gateway. When floorspace is segmented, it is apparent that almost half of the retail properties in the central area have a floor area under 400 sqm.

Approximately 19.2% of all retail space was built between 1980 and 1989 with 20.0% of stock with a mixed build date indicating a period of refurbishment or remodelling since original construction.

A further breakdown of trends and analysis of the central area is provided in section 3 of this report.

FIGURE 7: CENTRAL AREA RETAIL PROPERTIES



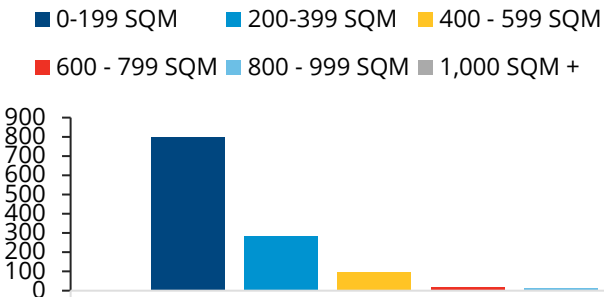
Source: CoreLogic, Colliers International Research

TABLE 3: CENTRAL AREA RETAIL SPACE BY DECADE CONSTRUCTED – TOTAL NET LETTABLE AREA 292,199 SQM

Building information (top three decades)	
1980–1989	19.2%
1970–1979	10.3%
1900–1909	7.3%
Mixed/remodel	20.0%

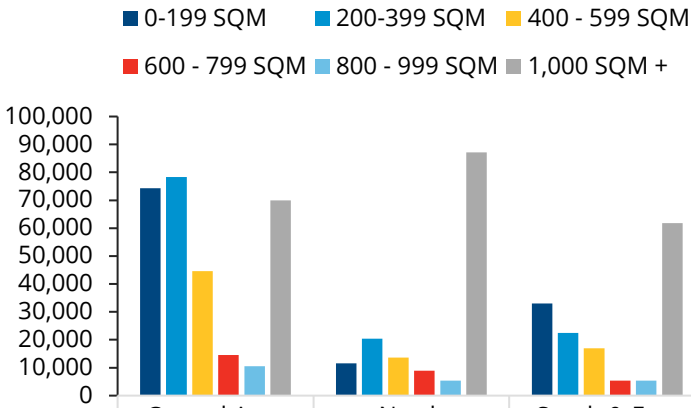
Source: CoreLogic, Colliers International Research

FIGURE 8: CENTRAL AREA SEGMENTED RETAIL FLOORZSPACE: NUMBER OF PREMISES



	Central Area
0-199 SQM	799
200-399 SQM	286
400 - 599 SQM	93
600 - 799 SQM	21
800 - 999 SQM	12
1,000 SQM +	36

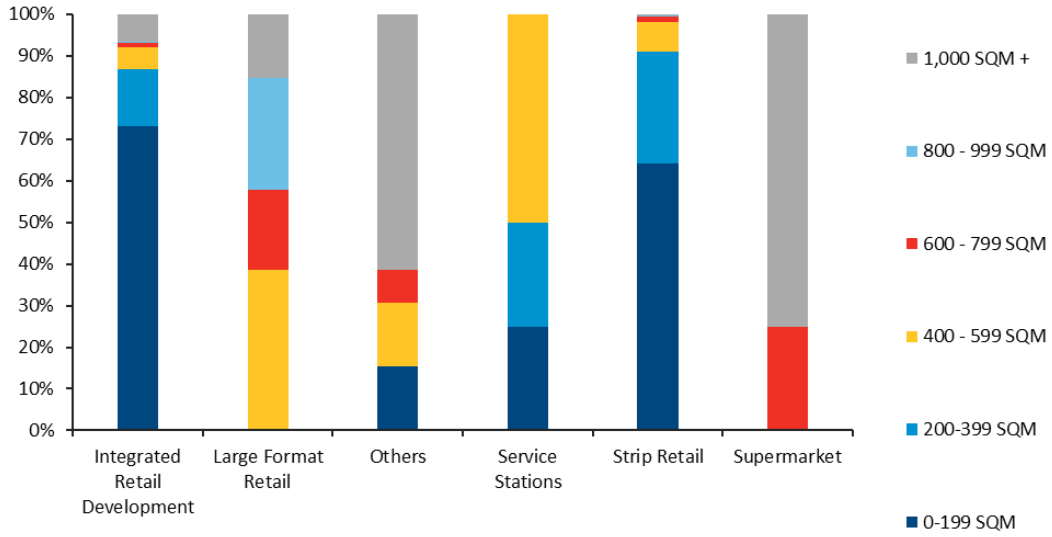
FIGURE 9: CENTRAL AREA SEGMENTED RETAIL SPACE: TOTAL FLOORSPACE



	Central Area	North	South & East	West
0-199 SQM	74,293	11,595	32,986	8,484
200-399 SQM	78,296	20,408	22,451	5,502
400 - 599 SQM	44,640	13,663	16,973	8,594
600 - 799 SQM	14,550	8,966	5,377	
800 - 999 SQM	10,527	5,402	5,367	
1,000 SQM +	69,893	87,190	61,819	3,000

Source: CoreLogic, Colliers International Research

FIGURE 10: CENTRAL AREA RETAIL SPACE SEGMENTED BY SIZE AND TYPE

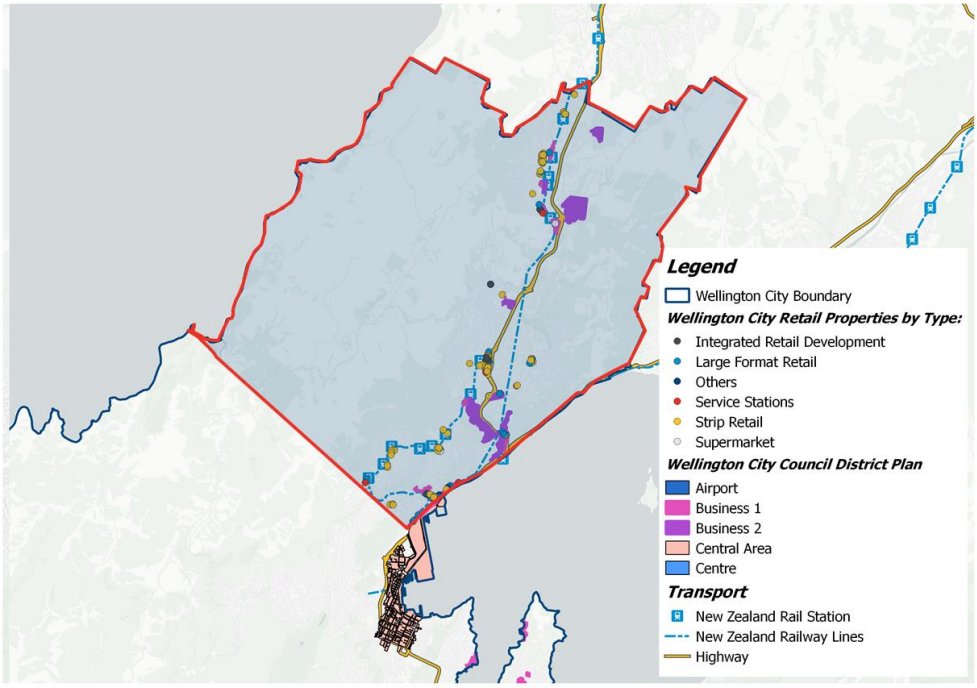


In the North

In the northern area of the Wellington City Council District, there is approximately 147,224 sqm of retail space. The average tenancy size in the north is 600 sqm. However, this is skewed by the Johnsonville Shopping Centre and Outlet City in Tawa. There is a high proportion of retail space in Tawa and also situated outside business zoned land primarily servicing nearby residential catchments and commuters along the Johnsonville Line train route.

Approximately 22.4% of all retail space was built between 1960 and 1969 with 23.3% of stock with a mixed build date indicating a period of refurbishment or remodelling since original construction. Johnsonville Shopping Centre accounts for 17.5% of total retail space in the north.

FIGURE 11: NORTH AREA RETAIL PROPERTIES



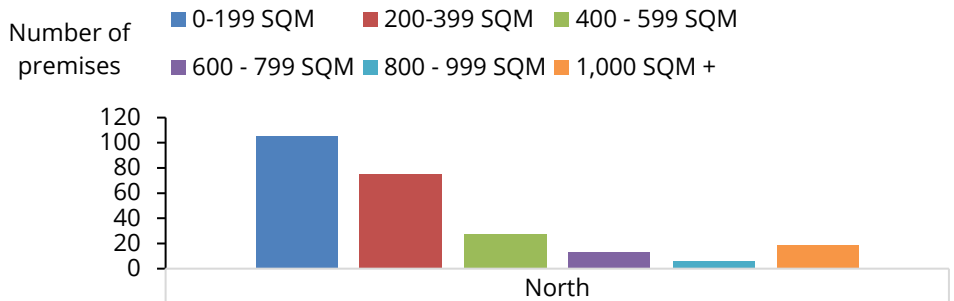
Source: CoreLogic, Colliers International Research

TABLE 4: NORTH AREA RETAIL SPACE BY DECADE CONSTRUCTED – TOTAL NET LETTABLE AREA 147,224 SQM

Building information (top three decades)	
1960–1969	22.4%
1950–1959	11.2%
1980–1989	7.7%
Mixed/remodel	23.3%

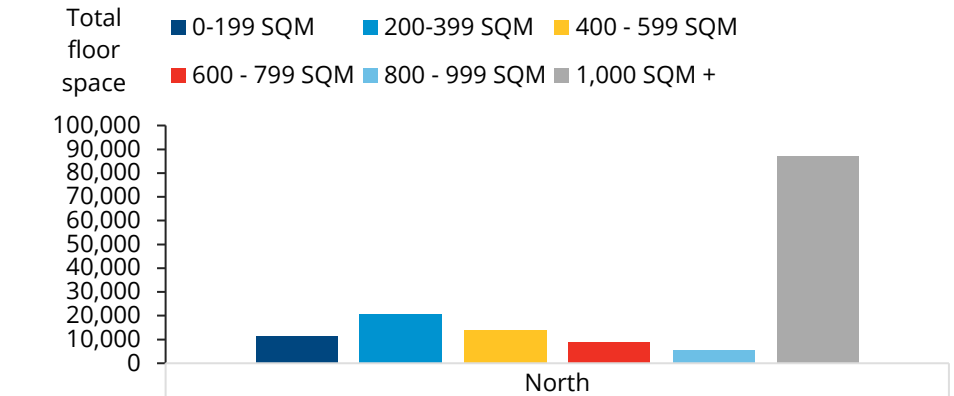
Source: CoreLogic, Colliers International Research

FIGURE 12: NORTH AREA RETAIL SPACE SEGMENTED BY SIZE: NUMBER OF PREMISES



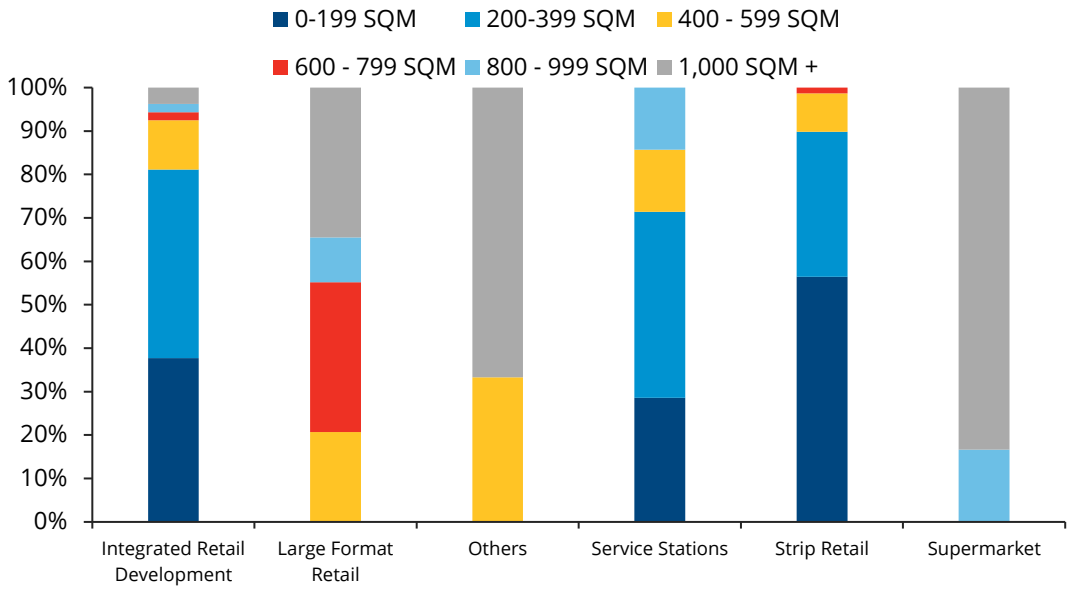
	North
0-199 SQM	105
200-399 SQM	75
400 - 599 SQM	27
600 - 799 SQM	13
800 - 999 SQM	6
1,000 SQM +	19

FIGURE 13: NORTH AREA RETAIL SPACE SEGMENTED BY SIZE: TOTAL FLOORSPACE



	North
0-199 SQM	11,595
200-399 SQM	20,408
400 - 599 SQM	13,663
600 - 799 SQM	8,966
800 - 999 SQM	5,402
1,000 SQM +	87,190

FIGURE 14: NORTH AREA RETAIL SPACE SEGMENTED BY TYPE

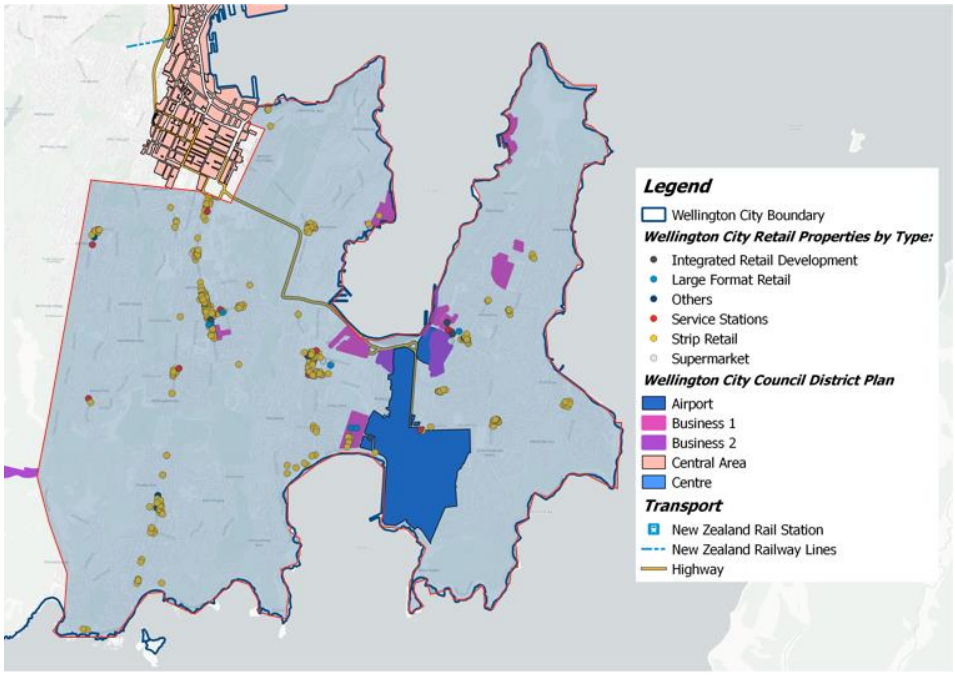


Source: CoreLogic, Colliers International Research

In the south and east

In the south and east areas of the Wellington City Council District, there is approximately 144,972 sqm of retail space. The average tenancy size in the south and east areas is 280 sqm. While there is a high proportion of smaller retailers in the area, there is also a high proportion of larger-format retail space situated near the airport. There is a relatively high proportion of pre-1930s building activity. Approximately 17.7% of retail properties have a mixed build date indicating a period of refurbishment or remodelling since original construction.

FIGURE 15: SOUTH AND EAST RETAIL PROPERTIES



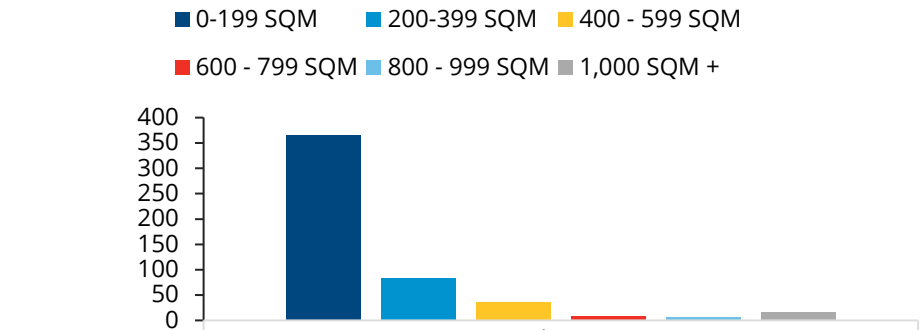
Source: CoreLogic, Colliers International Research

TABLE 5: SOUTH AND EAST AREA RETAIL SPACE BY DECADE CONSTRUCTED – TOTAL NET LETTABLE AREA 144,972 SQM

Building information (top three decades)	
1900–1909	18.4%
1920–1929	12.3%
1980–1989	9.0%
Mixed/remodel	17.7%

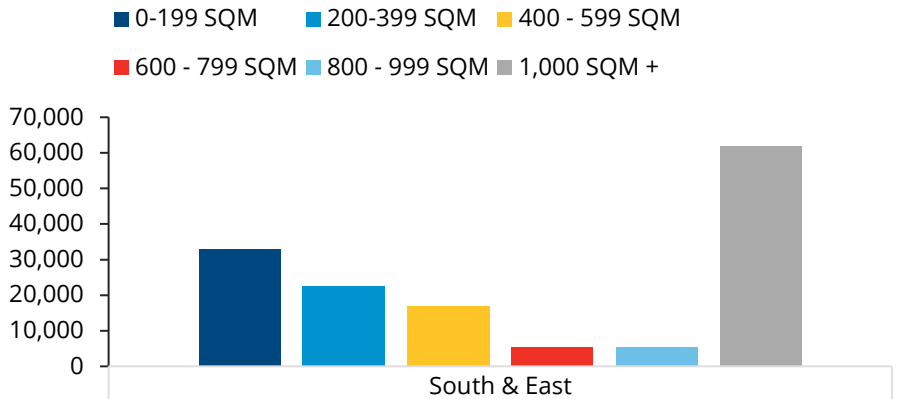
Source: CoreLogic, Colliers International Research

FIGURE 16: SOUTH AND EAST RETAIL SPACE BY SIZE: NUMBER OF PREMISES



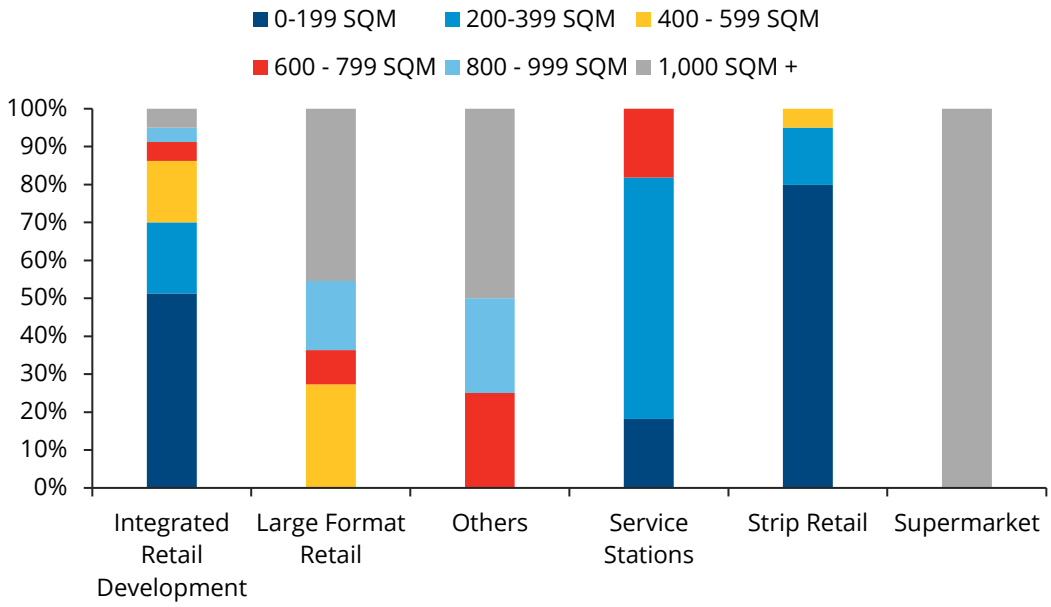
	South & East
0-199 SQM	365
200-399 SQM	83
400 - 599 SQM	36
600 - 799 SQM	8
800 - 999 SQM	6
1,000 SQM +	17

FIGURE 17: SOUTH AND EAST RETAIL SPACE BY SIZE: TOTAL FLOORSPACE



	South & East
0-199 SQM	32,986
200-399 SQM	22,451
400 - 599 SQM	16,973
600 - 799 SQM	5,377
800 - 999 SQM	5,367
1,000 SQM +	61,819

FIGURE 18: SOUTH AND EAST RETAIL SPACE BY TYPE

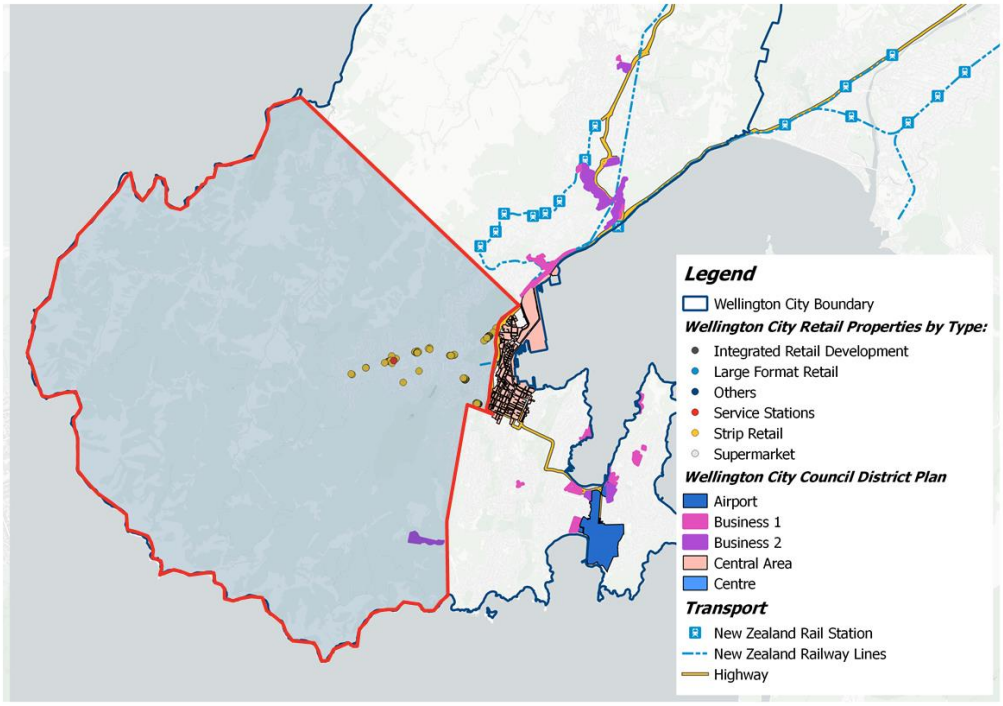


Source: CoreLogic, Colliers International Research

In the west

In the west of the Wellington City Council District, there is approximately 25,580 sqm of retail space. The average floor size of retail space in the west is 206 sqm. However, there is a high proportion of smaller-sized retail premises in the west area typically servicing Kelburn and Karori suburbs. Approximately 16.9% of retail stock was built between 1980 and 1989 with 15.7% of retail stock built between 1910 and 1919. Approximately 16.9% of retail stock has a mixed build date indicating a period of refurbishment or remodelling since original construction.

FIGURE 19: WEST AREA RETAIL PROPERTIES



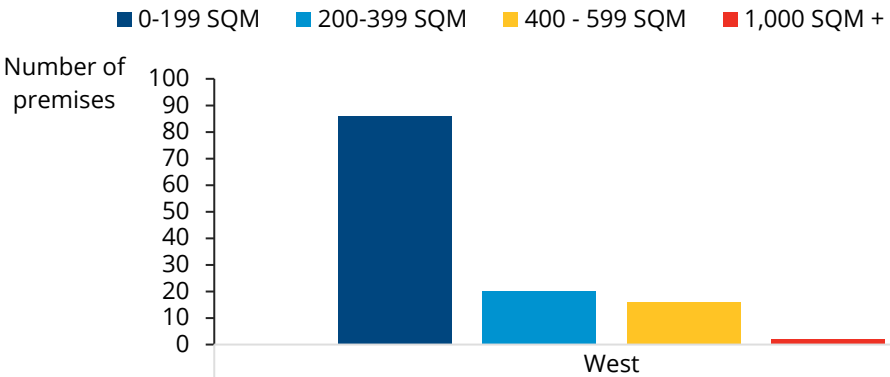
Source: CoreLogic, Colliers International Research

TABLE 6: WEST AREA RETAIL SPACE DECADE CONSTRUCTED – TOTAL NET LETTABLE AREA SQM

Building information (top three decades)	
1980–1989	16.9%
1910–1919	15.7%
1900–1909	14.6%
Mixed/remodel	16.9%

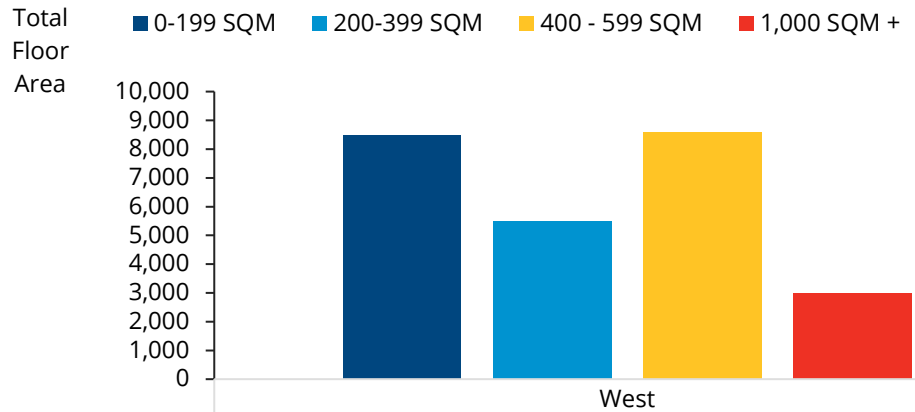
Source: CoreLogic, Colliers International Research

FIGURE 20: WEST AREA RETAIL SPACE BY AREA: NUMBER OF PREMISES



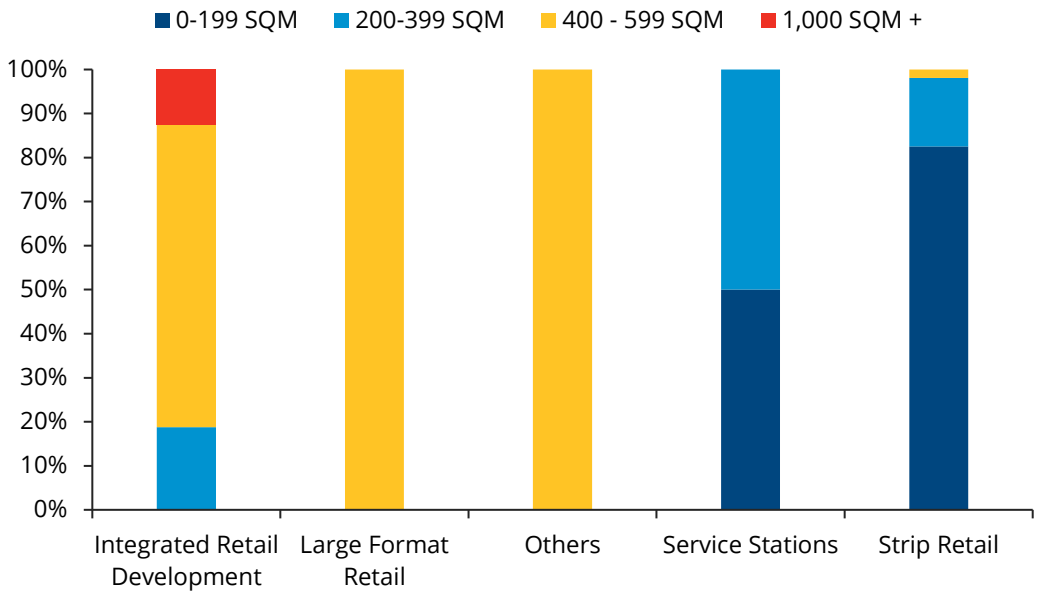
	West
0-199 SQM	86
200-399 SQM	20
400 - 599 SQM	16
1,000 SQM +	2

FIGURE 21: WEST AREA RETAIL SPACE BY AREA: TOTAL FLOORSPACE



	West
0-199 SQM	8,484
200-399 SQM	5,502
400 - 599 SQM	8,594
1,000 SQM +	3,000

FIGURE 22: WEST AREA RETAIL SPACE SEGMENTED AREA AND BY TYPE



Source: CoreLogic, Colliers International Research

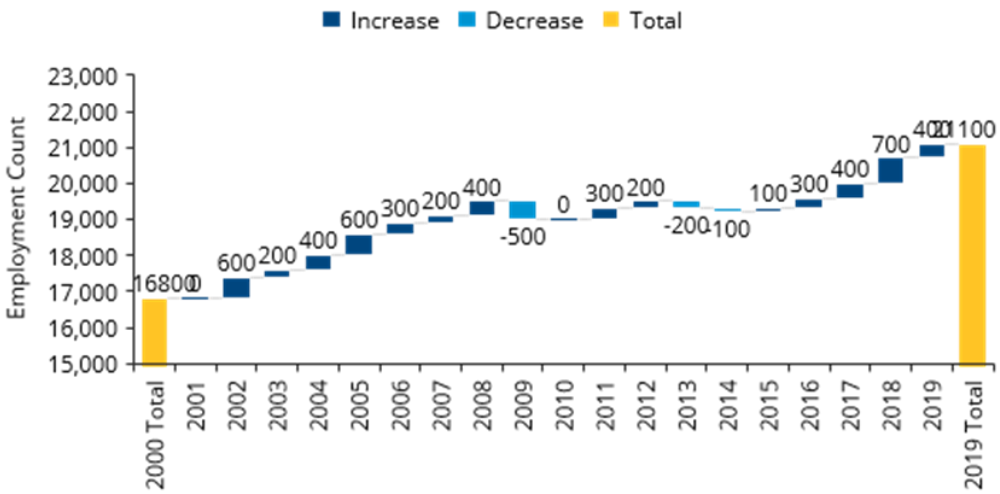
Structural and geographical changes in retail employment

Understanding the structural and geographical shifts in retail employment helps to explain current and future occupancy and locational trends in the retail sector.

In the Wellington City Council District, there were approximately 16,800 employees in retail trade and accommodation and food services sectors in 2000. While the number of employees reached 21,100 by 2019 (1.2% annual average increase), retail employment counts have not grown each year.

The GFC led to a decline and relatively flat retail employment environment between 2009 and 2014. Growth in retail employment counts has been steadier since 2015, emulating growth trends apparent between 2001 and 2008. While recent changes to retail employment counts arising from COVID-19 are currently unavailable, we expect total employment counts to decrease.

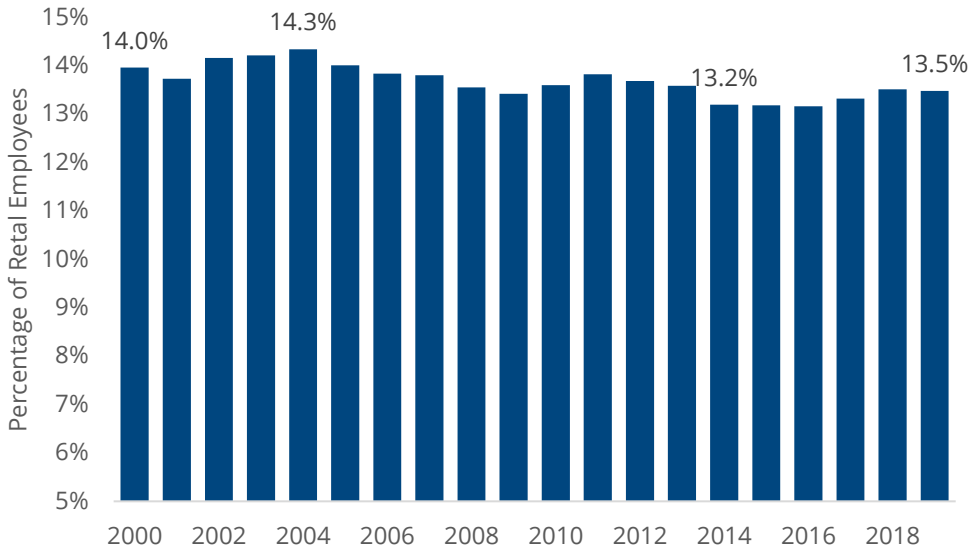
FIGURE 23: RETAIL EMPLOYMENT COUNTS GROWING OVER TIME BUT NOT EACH YEAR



Source: Statistics New Zealand, Colliers International Research

Wellington City Council's retail trade and accommodation and food services sectors have provided around 13–14% of total industry employment counts between 2000 and 2019. While this has been relatively steady over an almost two-decade period, the proportion of retail employment counts in Wellington has been slightly lower since 2014.

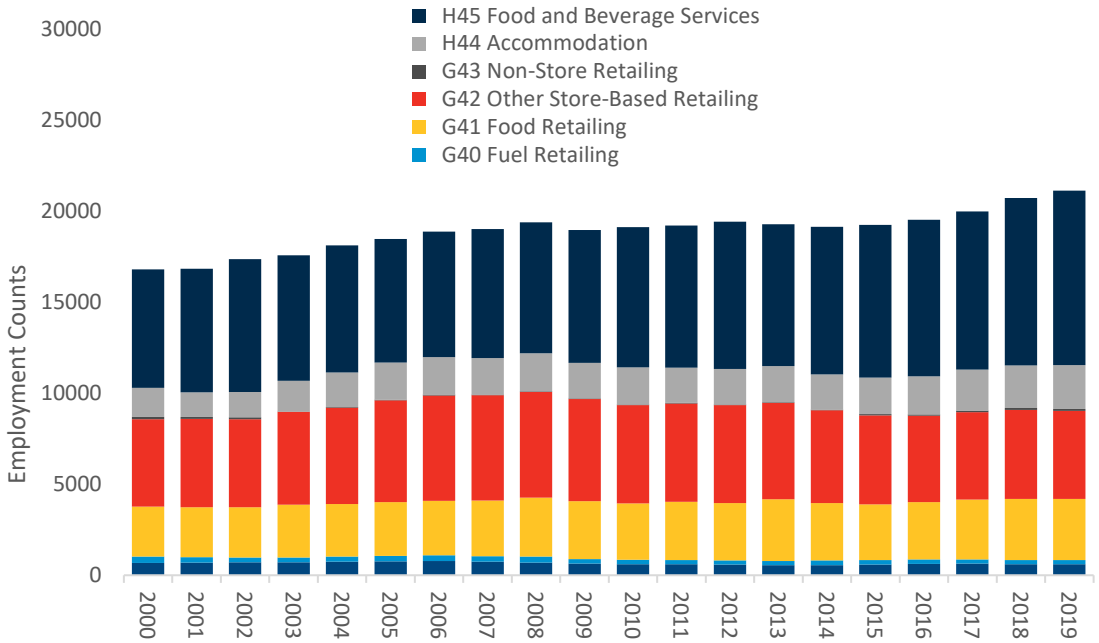
FIGURE 24: PROPORTION OF RETAIL EMPLOYMENT COUNTS RELATIVELY STEADY



Source: Statistics New Zealand, Colliers International Research

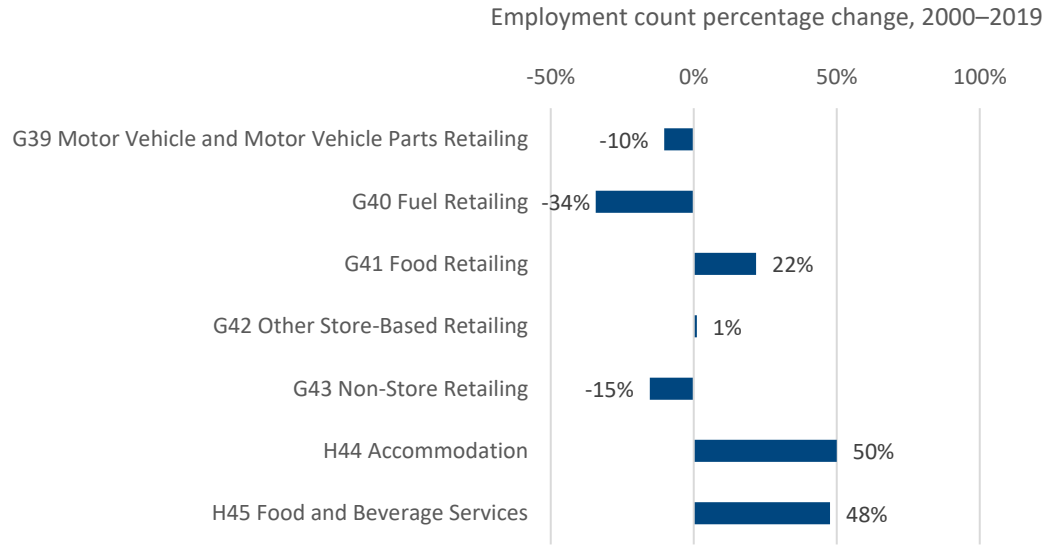
When breaking down the growth in retail employment counts by a lower level of ANZSIC group, we can see that the proportion of growth between 2000 and 2019 has been prominent in food and beverage, food retailing and accommodation services. Food and beverage retailing has accounted for 70% of employment count growth between 2000 and 2019.

FIGURE 25: RETAIL EMPLOYMENT COUNTS GROWING OVER TIME



Source: Statistics New Zealand, Colliers International Research

FIGURE 26: EMPLOYEE GROWTH STRONGEST FOR FOOD AND ACCOMMODATION

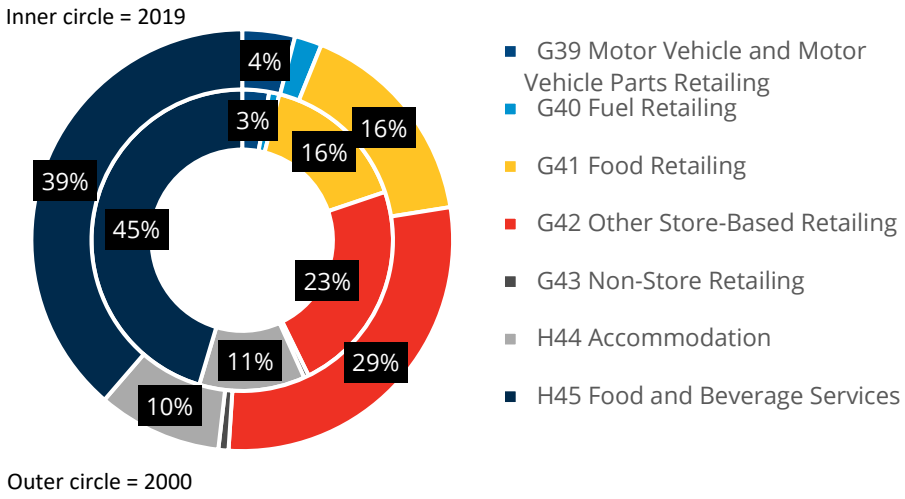


Source: Statistics New Zealand, Colliers International Research

When assessing the employment counts by sector as a proportion of retail employment overall in 2000 versus 2019, we can see growth has been strongest in the food and beverage services sector in the Wellington City Council District (45%). Other store-based retailing has

experienced a significant decline in employment counts as a proportion of overall retail employment between 2000 and 2019. Other sectors have remained broadly similar.

FIGURE 27: FRACTION OF EMPLOYEES IN FOOD SERVICES AND RETAILING EXPANDING

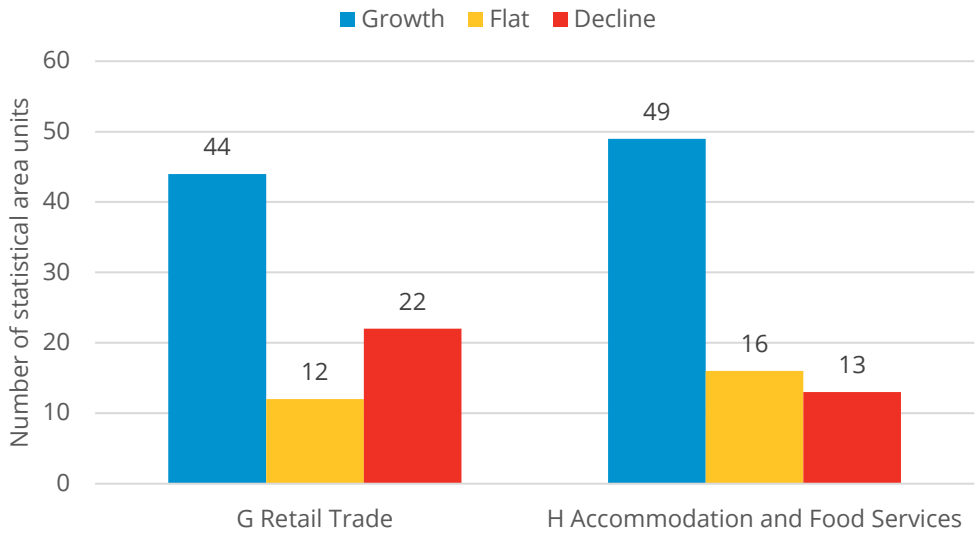


Source: Statistics New Zealand, Colliers International Research

Structural changes in retail employment by location

Geographic shifts in retail employment counts across Wellington City Council District are also apparent. In the 78 statistical area units (SAUs) identified from Stats NZ that comprise the Wellington City Council District, there were more locations of growth than flat or declining employment change between 2000 and 2019 for retail trade and accommodation and food services sectors.

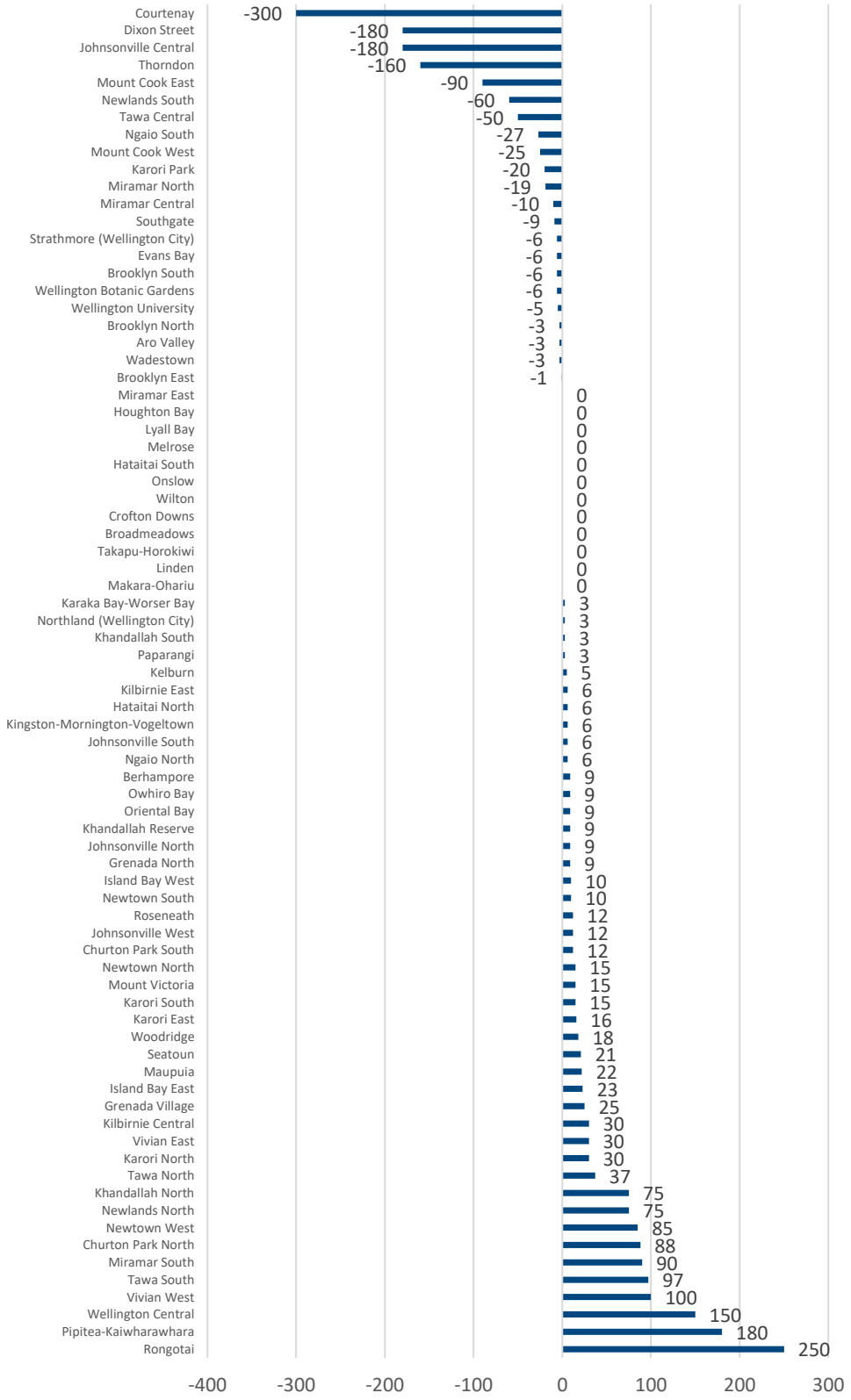
FIGURE 28: MORE AREAS OF GROWTH THAN DECLINE IN RETAIL EMPLOYMENT, 2000–2019



Source: Statistics New Zealand, Colliers International Research

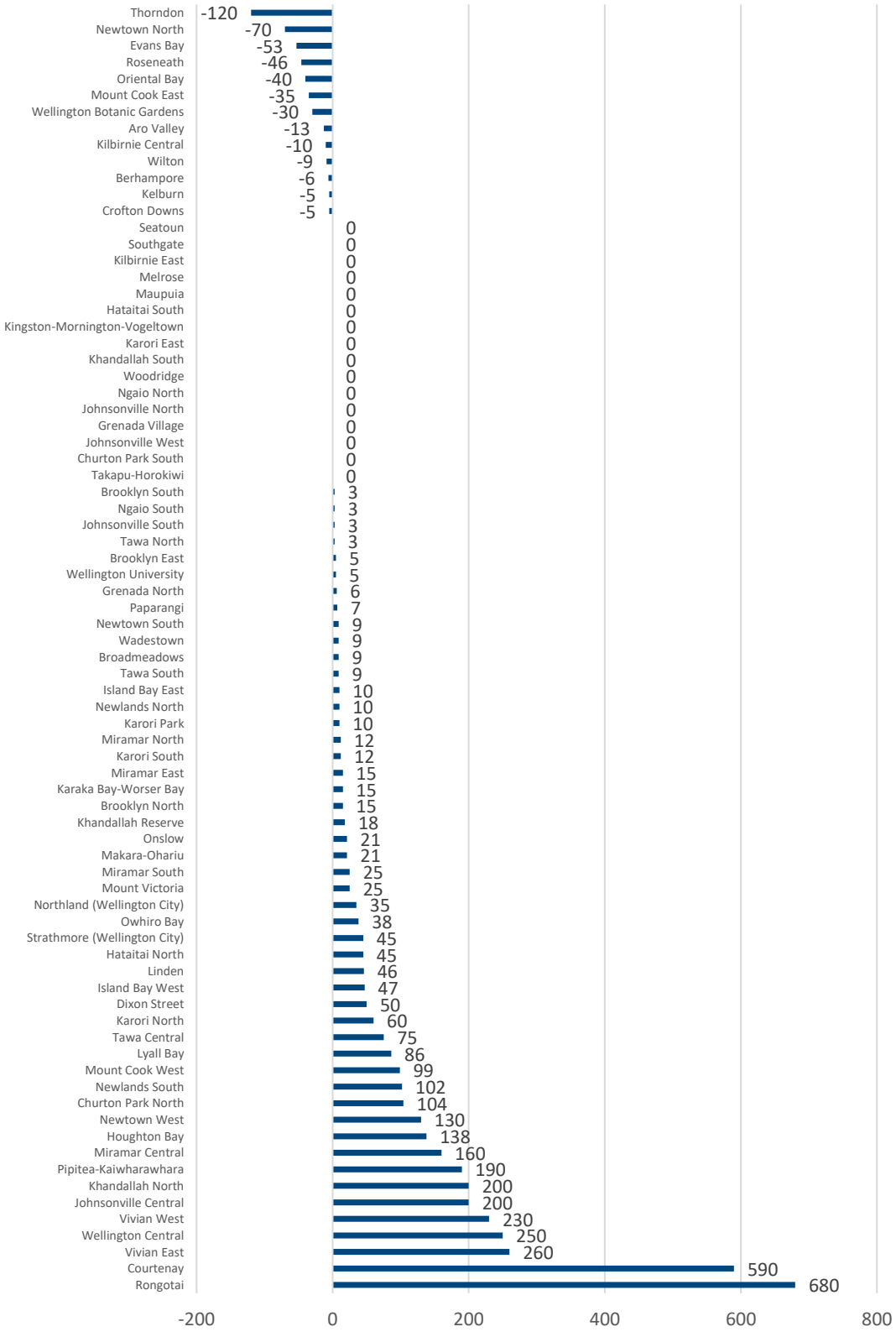
Key areas of growth and decline separated by retail trade and accommodation and food services across the Wellington City Council District are highlighted in the following two figures. While some locations show growth in both retail trade and accommodation and food services, there are differences. One example is in the SAU of Courtenay, which has experienced a significant decline in retail trade employment but a strong increase in accommodation and food service employment counts between 2000 and 2019.

FIGURE 29: RETAIL TRADE EMPLOYMENT COUNT CHANGE, 2000–2019



Source: Statistics New Zealand, Colliers International Research

FIGURE 30: ACCOMMODATION AND FOOD SERVICES EMPLOYEE COUNT CHANGE, 2000–2019



Source: Statistics New Zealand, Colliers International

What do commercial trends in GFA occupancy and location preferences indicate for future business land requirements and District Plan controls?

Analysis of the retail distribution network across the Wellington City Council District demonstrates planning controls enable a variety of retail development, but viability and vibrancy of retail space also requires:

- well-populated catchments
- major transport networks
- a supportive retail mix within integrated developments, shopping centres and strip retail whether in the CBD or in the suburbs
- a hierarchy of retail across the district
- shifts in consumer needs and store types
- retail with prominent, highly visible positions
- high levels of patronage.

This highlights that, in some locations across the district, there may already be a sufficient provision of business land for retail activity or only small adjustments incrementally over time are required.

Further, to meet key objectives of viability and vibrancy of retail space, the latency in the current use and its connectivity to other retail in the immediate area and/or across the wider district's retail network needs to be addressed before more business land for retail space is provided. Intensity and density should form a key component of the district's retail objectives.

Further, when taking into consideration the provision of suitable levels of business land required to support future retail growth, a masterplanned approach will be beneficial that is not in isolation of other business land goals.

The mixture of commercial, residential, community and recreational activities that drive prosperous catchments and vibrant retail space should also be assessed.

1.3. Land values and trends across the district

Wellington City business land values have been increasing steadily

Population growth and employment growth in Wellington have been key determinants of the demand for business zoned land enabling steady increases in commercial land values, especially since 2014 when interest rates declined and have remained low since.

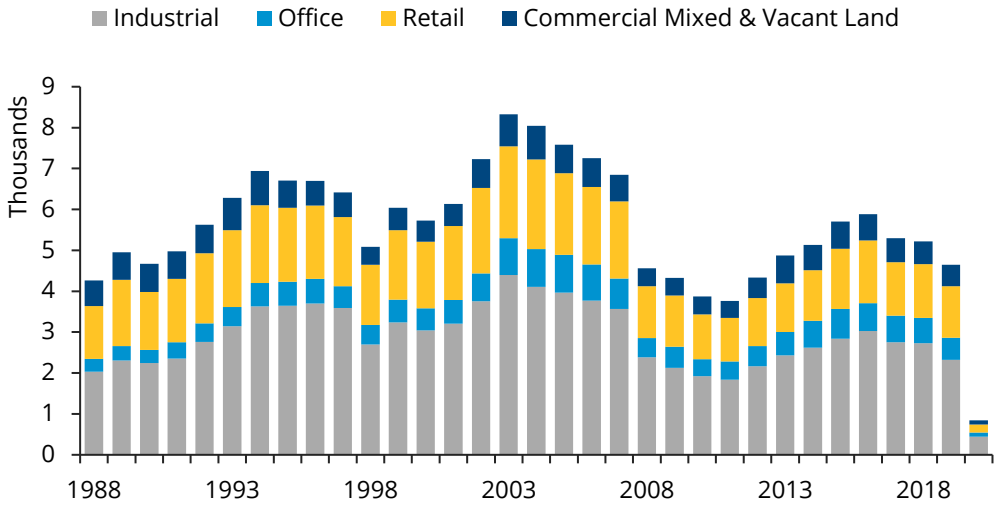
However, there has been a lower level of stock able to purchase since 2007 as highlighted in the charts below for New Zealand and Wellington. This is not a result of lower demand but a result of owners looking to hold their premises rather than divest in a low interest rate environment.

When assessing sales activity by sector, the industrial sector in New Zealand typically accounts for half of all sales activity annually. In Wellington, there is a lower percentage of industrial sales activity, representing the lower amount of stock in comparison to other commercial

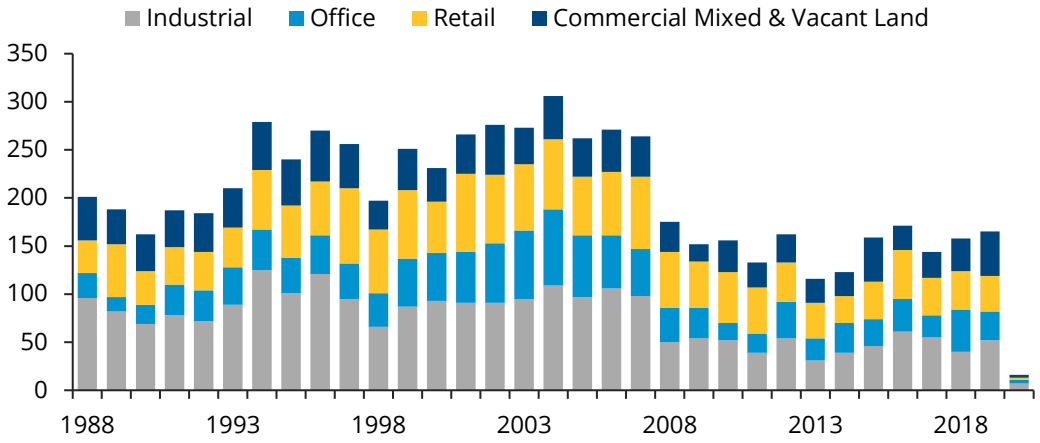
sectors. Retail accounts for approximately 26.1% of sales activity annually compared to 27.8% in New Zealand.

FIGURE 31: LOWER SALES VOLUMES SINCE 2007

New Zealand



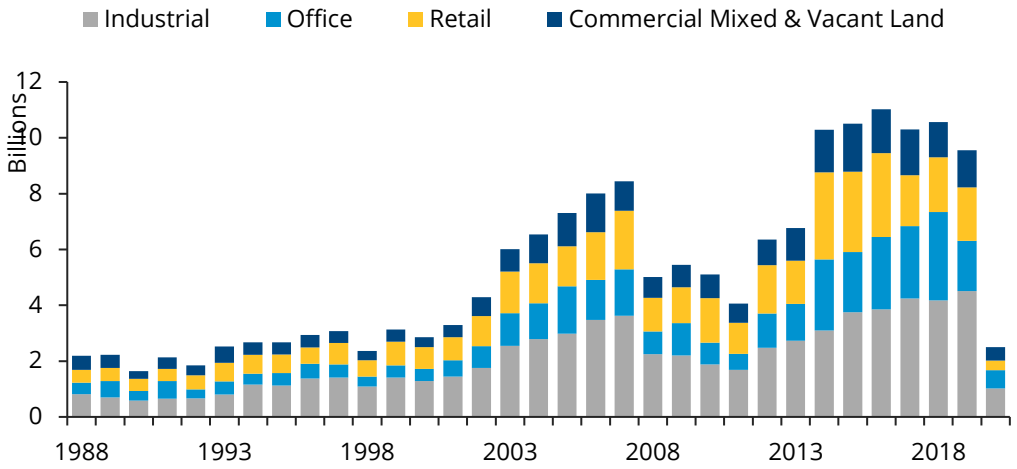
Wellington



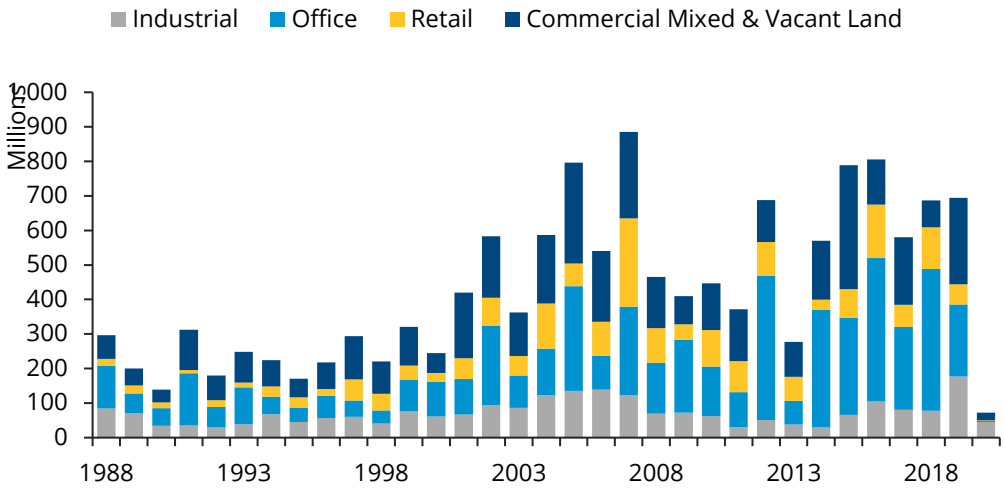
Source: CoreLogic, Colliers International Research

FIGURE 32: BUOYANT SALES VOLUMES SINCE 2014

New Zealand



Wellington



Source: CoreLogic, Colliers International Research

Limited vacant land sales activity

Due to the limited number of vacant land sites or sites with limited development or buildings with obsolesce in business zones, there is limited sales activity/sample to assess land value rate changes appropriately.

While there will be several assumptions and variances given the difference of each vacant land or development site, an alternative method for generating enough sales data for a sample to assess business land value changes is by analysing the underlying land values of all commercial sales activity.

In order to separate the land value element, we have:

- assessed the land rating value at date of sale as a fraction of rateable value
- applied this proportion to the purchase price at the time of sale
- divided the resultant assessed land value by the land area (sqm).

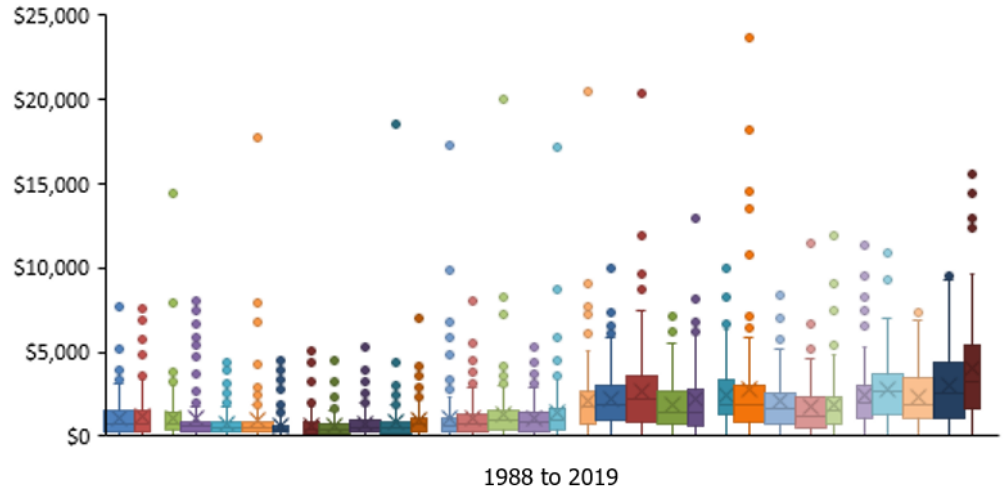
The equation is (LV/RV)*(PP)/A whereby LV = land value, RV = rating value, PP = purchase price and A = land area (sqm).

According to our analysis of commercial office, industrial, retail and commercial mixed & vacant land sales supplied by CoreLogic, there have been approximately 5,821 transactions between 1988 and 2019 in the Wellington City Council District Business zoned areas. A total of 4,150 transactions provided the required variables to undertake our underlying land value assessments. We have utilised all sales activity to increase the sample for assessment, but also to highlight the highest and best use of the property within its zone will be captured.

An indicative assessment of land values

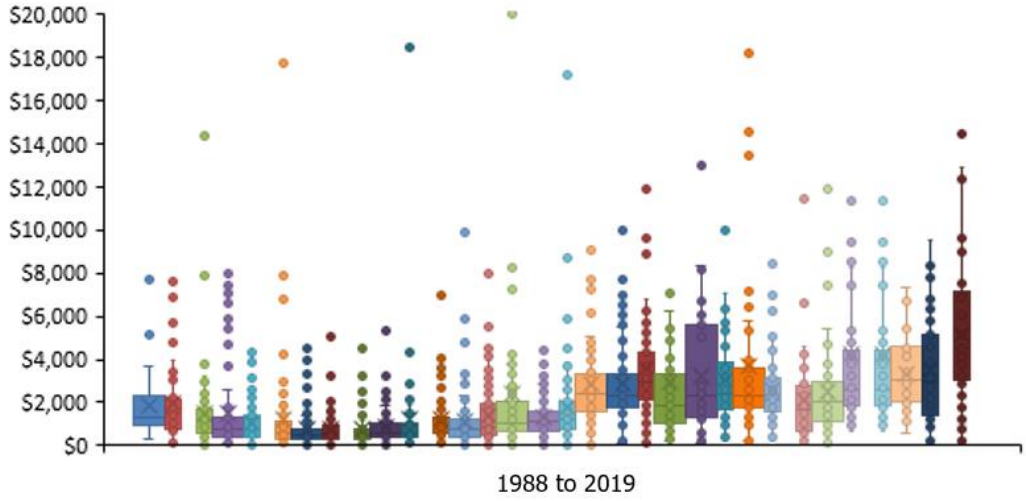
Figure 33 is a boxplot of our assessed land values between 1988 and 2019. This enables us to display the variation in the dataset each year without undertaking any assumptions on results while also providing an indication of the data outliers. By charting the five-number summary of the data with the minimum, maximum, median, first quartile (lower quartile) and third quartile (upper quartile) data points, the boxplot also provides a visual assessment of the dispersion of values over time.

FIGURE 33: ALL BUSINESS ZONED LAND SALE VALUE ASSESSMENT, WCC, VALUE PER SQM



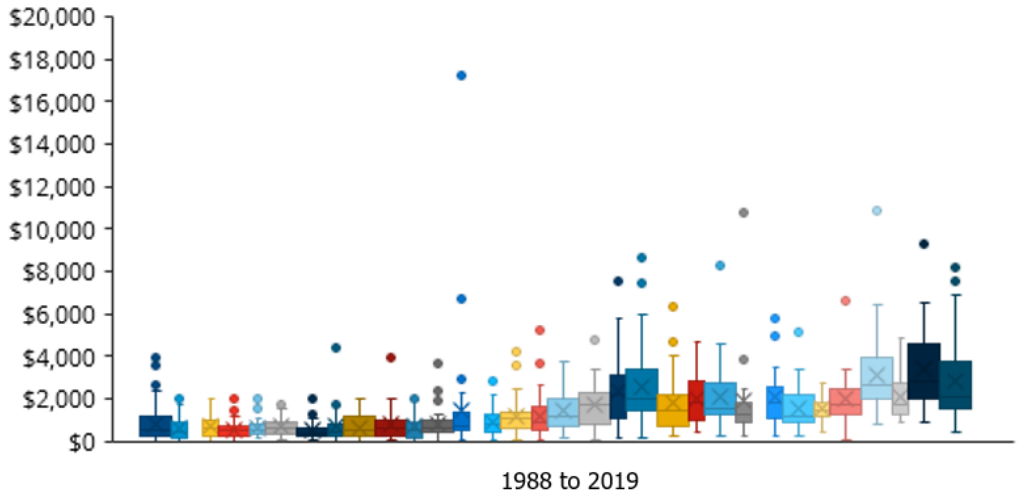
Source: CoreLogic, Colliers International Research

FIGURE 34: CENTRAL AREA LAND SALE VALUE ASSESSMENT, WCC, VALUE PER SQM



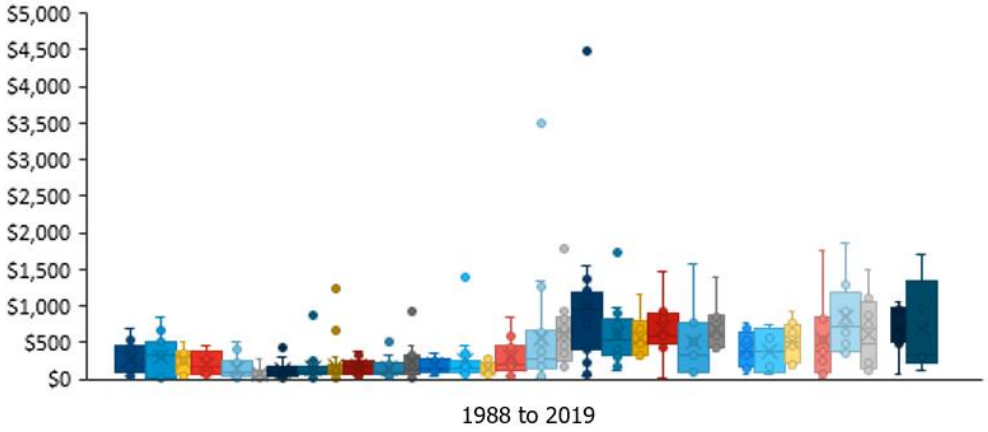
Source: CoreLogic, Colliers International Research

FIGURE 35: WCC CENTRES LAND SALE VALUE ASSESSMENT



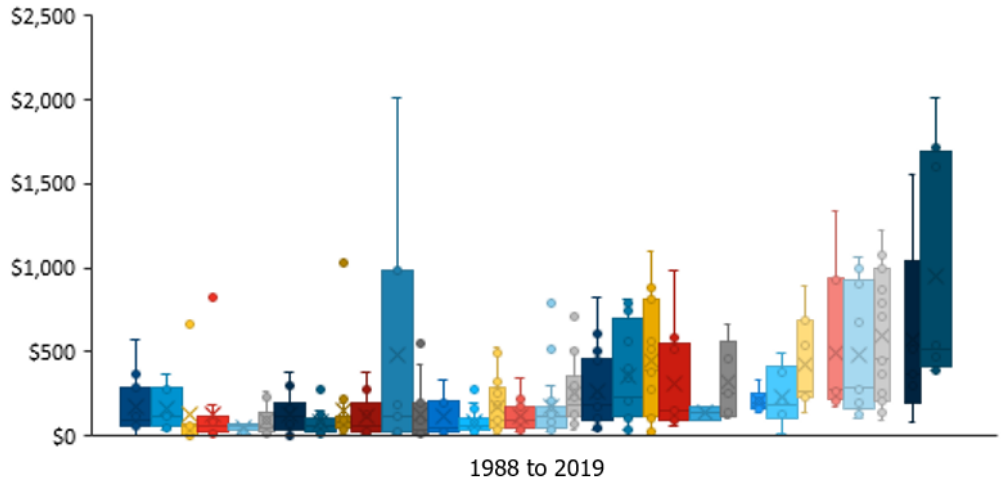
Source: CoreLogic, Colliers International Research

FIGURE 36: WCC BUSINESS 1 LAND SALE VALUE ASSESSMENT



Source: CoreLogic, Colliers International Research

FIGURE 37: WCC BUSINESS 2 LAND SALE VALUE ASSESSMENT



Source: CoreLogic, Colliers International Research

This assessment indicates that business zoned land values in the Wellington City Council District have been increasing, with a greater spread in values occurring in periods of market change, i.e. 2008 and the GFC. Also, that there are a number of outliers affecting the data and a relatively broad range in vacant land values. However, the assessment indicates that vacant land values have appreciated the most in the central area with centres providing the next highest level of values. B1 and B2 zoned land has the lowest assessed values, albeit land value growth is clearly evident between 1988 and 2019.

A range, average and median land values

When excluding the outliers in transactions generated by the previous statistical analysis, we can assess a range in vacant land values as well as an average and a median value. While this provides a broad range and indicative assessment of land values, it should be used with caution given each parcel of land will have specific development controls and potentially unique characteristics that can alter the property's underlying land value.

Under our assessment and despite the outliers that will be evident, all business zoned land sales in WCC in 2019 typically ranged between an average of $1,546 per sqm and $4,654 per sqm. This compares to an average of $738 per sqm and $3,362 per sqm in 2007 (the last cyclical peak) and $269 per sqm and $1,227 per sqm in 1988 when the time series began. There will be cases of vacant land sites selling outside of these average ranges.

FIGURE 38: WCC ALL BUSINESS ZONED LAND SALE VALUE RANGES PER SQM

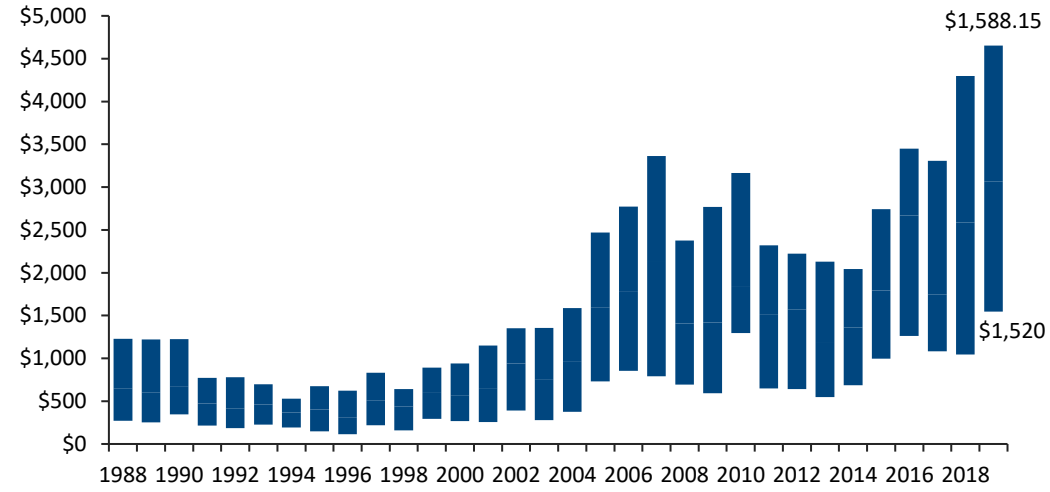


FIGURE 39: WCC CENTRAL AREA ZONED LAND SALE VALUE RANGES PER SQM

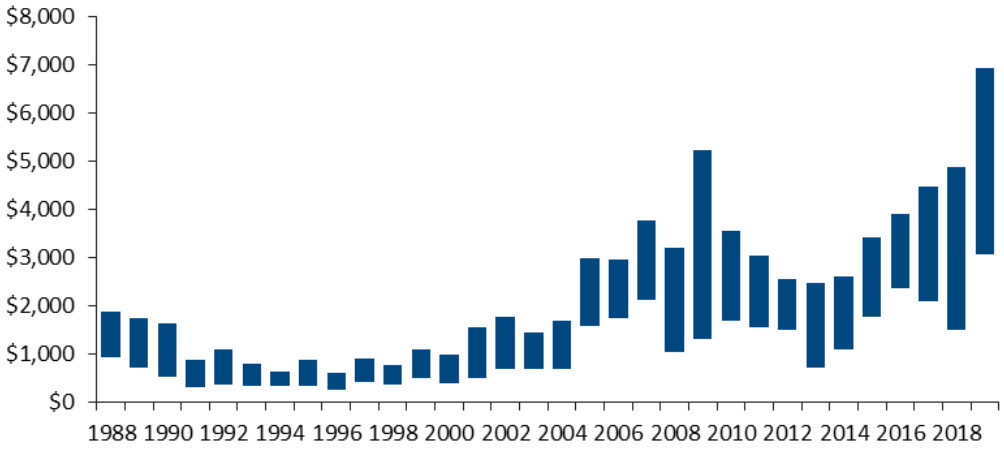


FIGURE 40: WCC CENTRES LAND SALE VALUE RANGES PER SQM

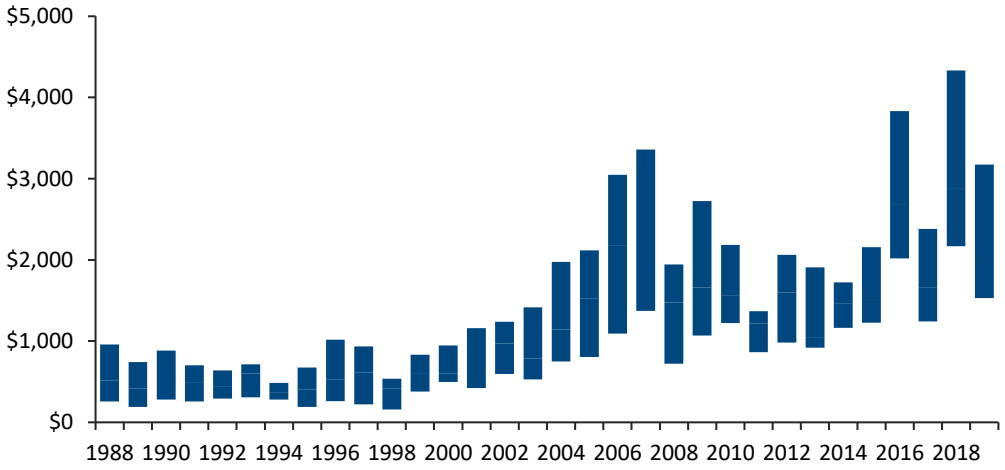


FIGURE 41: WCC BUSINESS 1 LAND SALE VALUE RANGES PER SQM

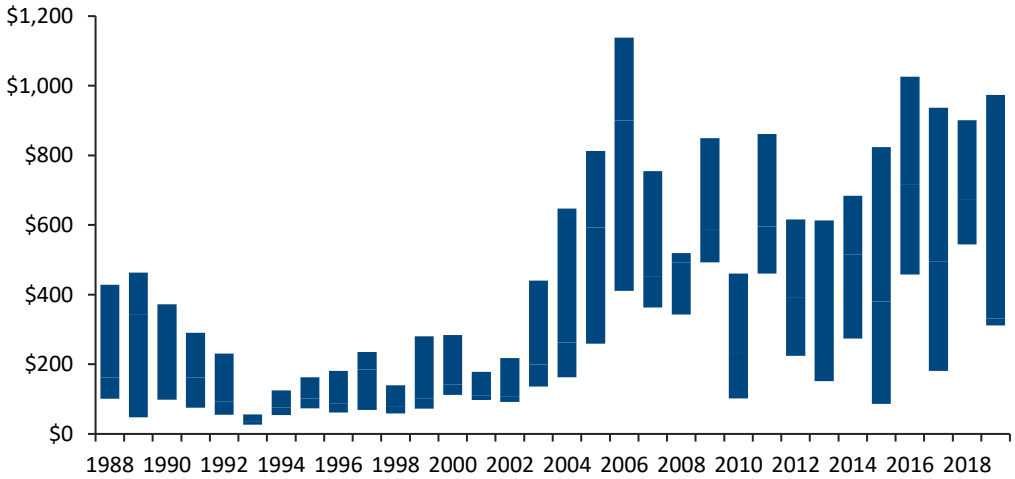
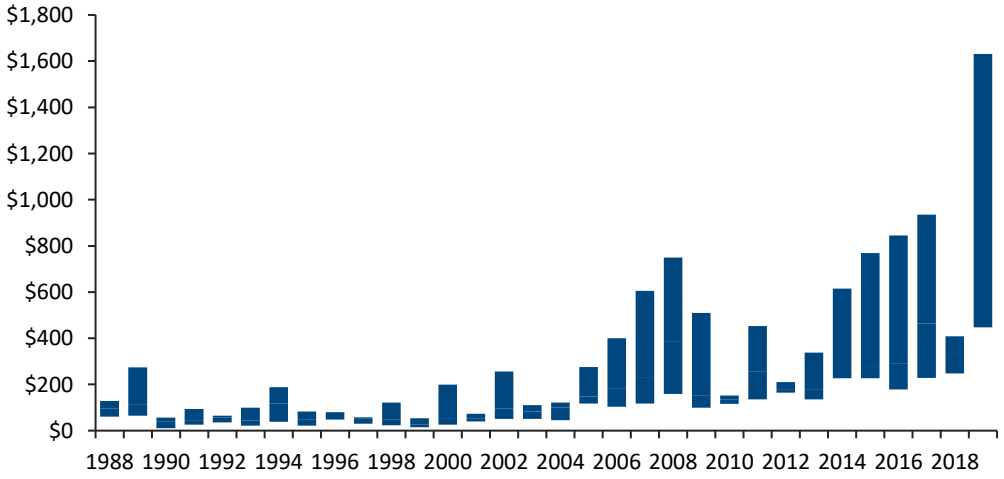


FIGURE 42: WCC BUSINESS 2 LAND SALE VALUE RANGES



When using the land value sales data ranges identified, median and average values can be assessed over time. The analysis shows that the median and average value growth of all Wellington City Council District business zoned land has increased by an average of 375% and 314% between 1988 and 2019 respectively. Since the last cyclical peak in 2007, the average increase was approximately 44.2% and 58.5% respectively.

FIGURE 43: WCC ALL BUSINESS ZONED LAND SALES (MEDIAN AND AVERAGE VALUES)

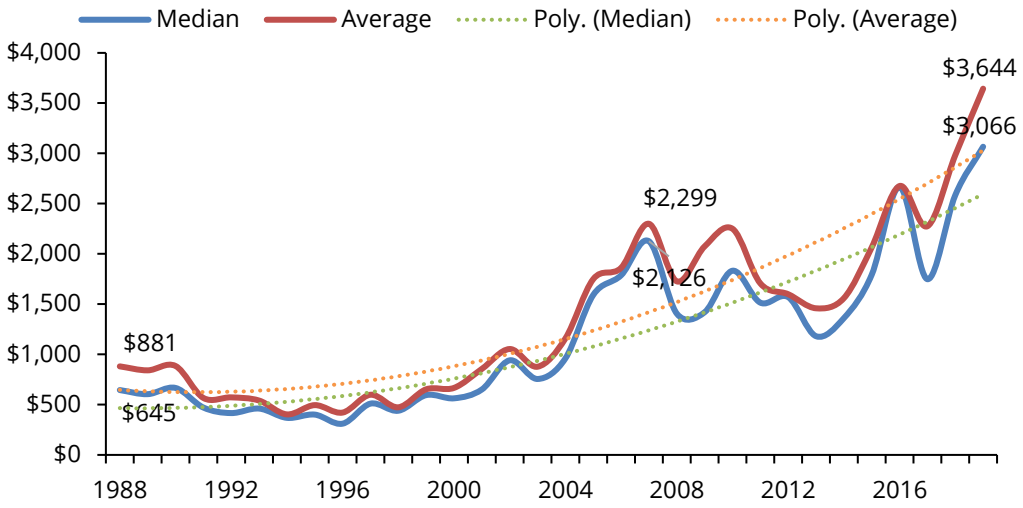


FIGURE 44: WCC CENTRAL AREA ZONED LAND SALES

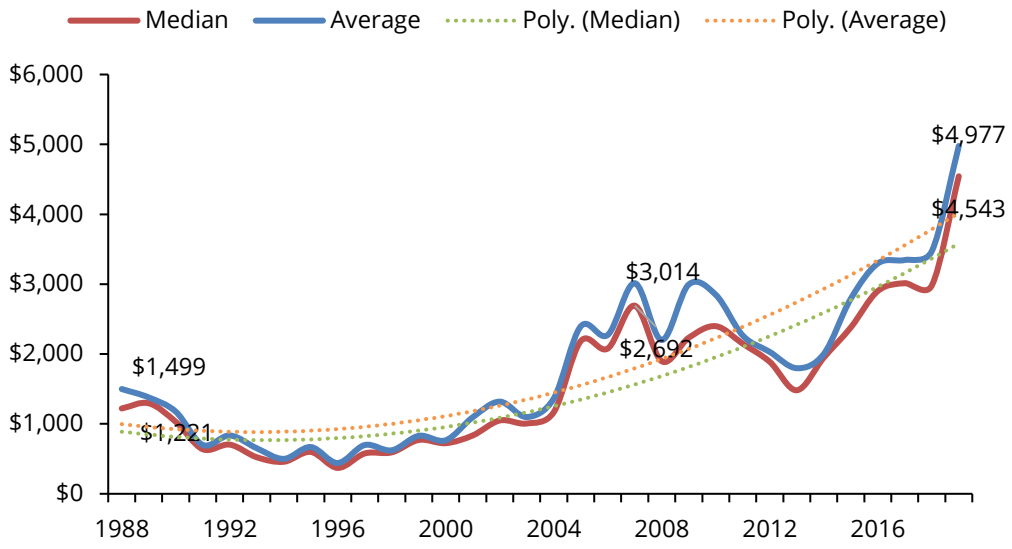


FIGURE 45: WCC CENTRES ZONED LAND SALES (MEDIAN AND AVERAGE VALUES)

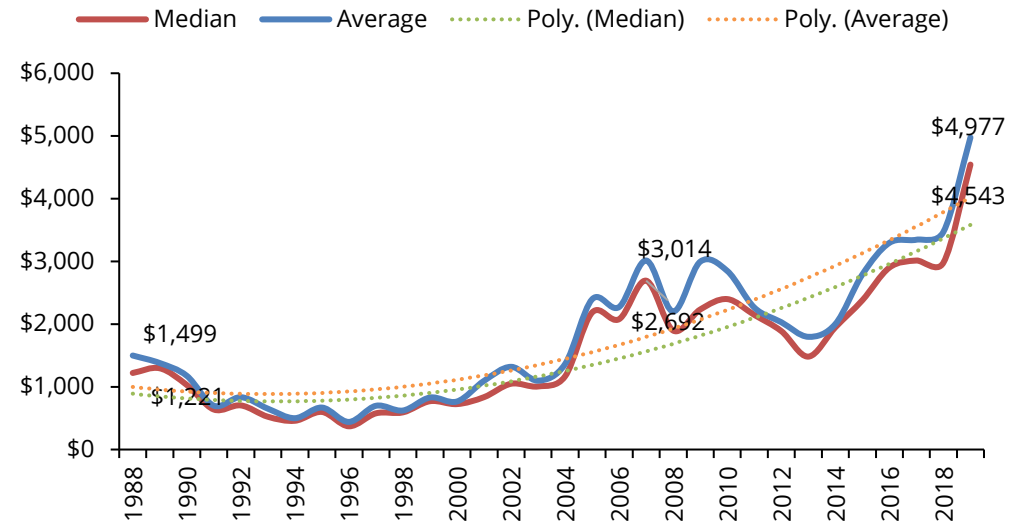


FIGURE 46: WCC BUSINESS 1 ZONED LAND SALES (MEDIAN AND AVERAGE VALUES)

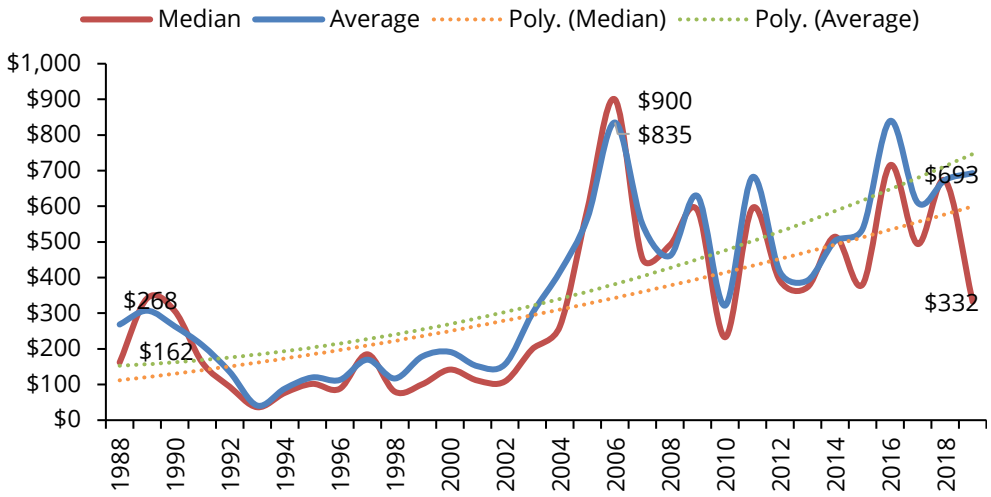


FIGURE 47: WCC BUSINESS 2 ZONED LAND SALES (MEDIAN AND AVERAGE VALUES)

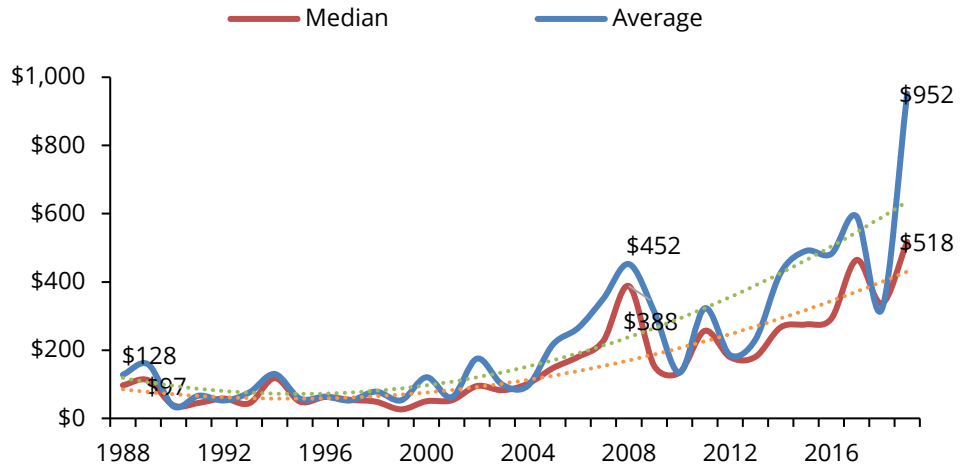


FIGURE 48: WCC MEDIAN LAND VALUE CHANGES

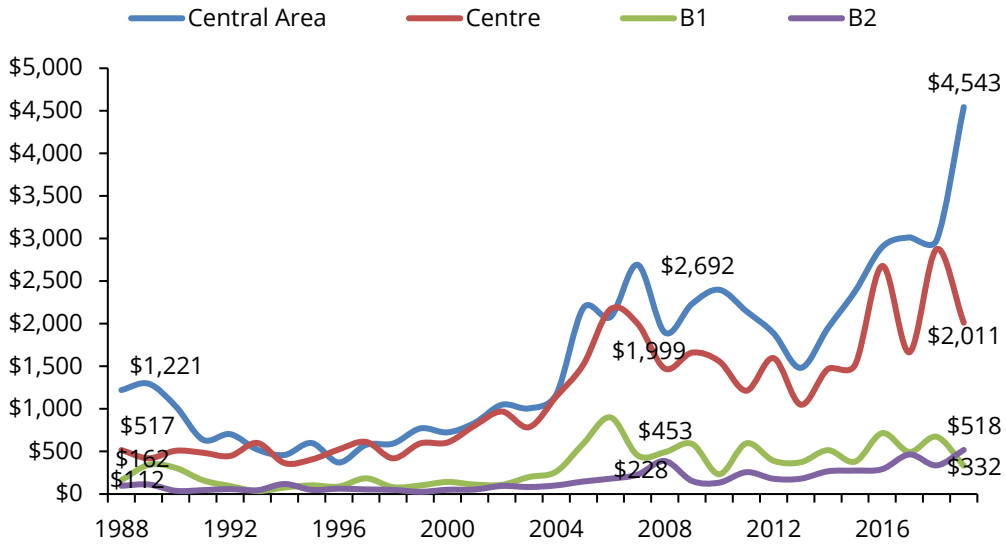
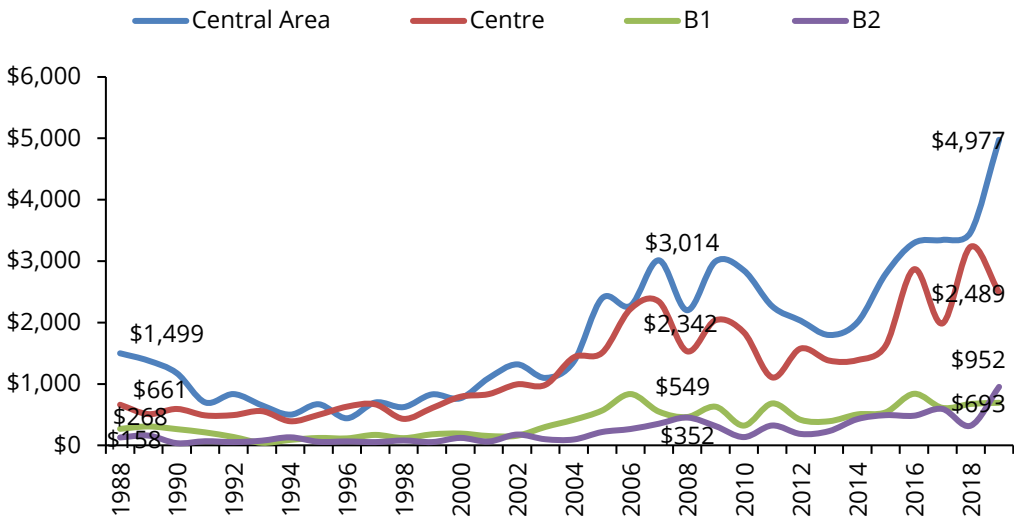


FIGURE 49: WCC AVERAGE LAND VALUE CHANGES



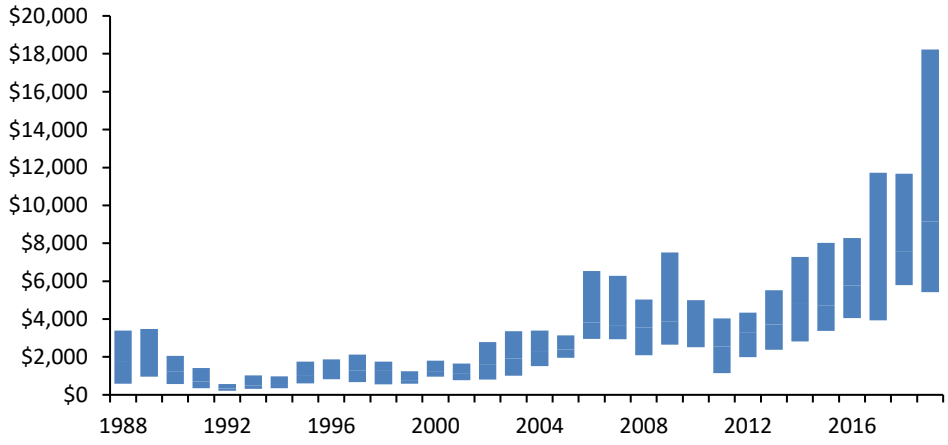
Source: CoreLogic, Colliers International Research

A comparison of vacant land values

For a comparative analysis, we have also undertaken a similar land value assessment of transactions that have taken place in Auckland CBD and metropolitan business zones between 1988 and 2019.

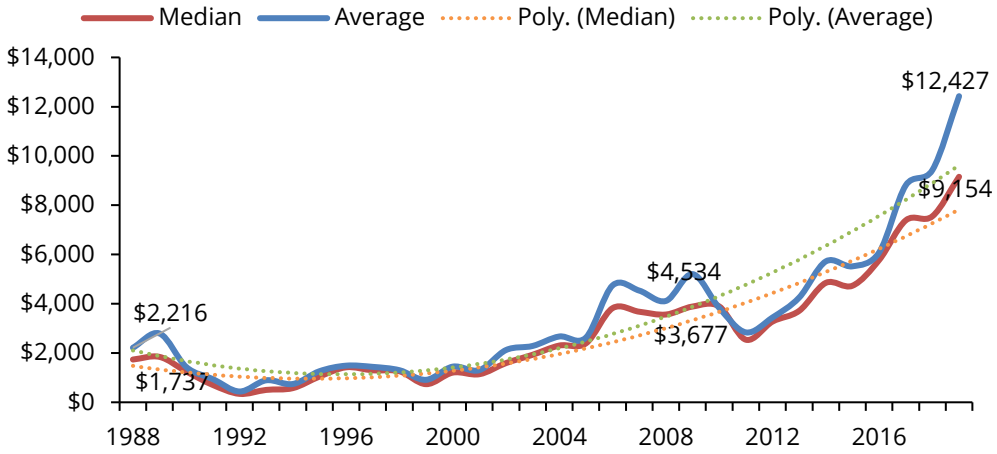
The analysis indicates a similar pattern in land values changes over time, however with a higher range, average and median values than in assessed land values than in Wellington. This is a reflection of underlying property prices as well as population growth expectations and demand and supply ratios. This also becomes evident when the Auckland city centre and metropolitan zoned land value assessments are compared. Some consideration can also be given to the lower development costs of projects in Auckland given the lower-rated earthquake risk zone in Auckland than in Wellington.

FIGURE 50: AUCKLAND CITY CENTRE (RANGE)



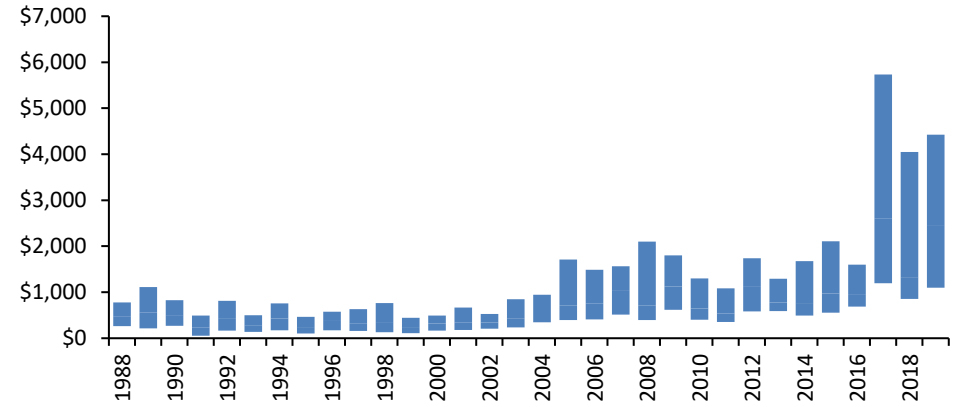
Source: CoreLogic, Colliers International Research

FIGURE 51: AUCKLAND CITY CENTRE (MEDIAN AND AVERAGE VALUES)



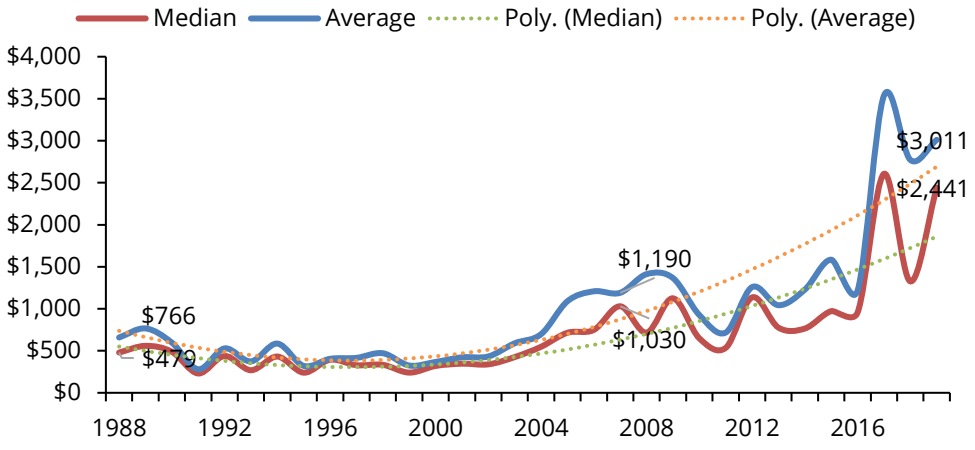
Source: CoreLogic, Colliers International Research

FIGURE 52: AUCKLAND METROPOLITAN (RANGE)



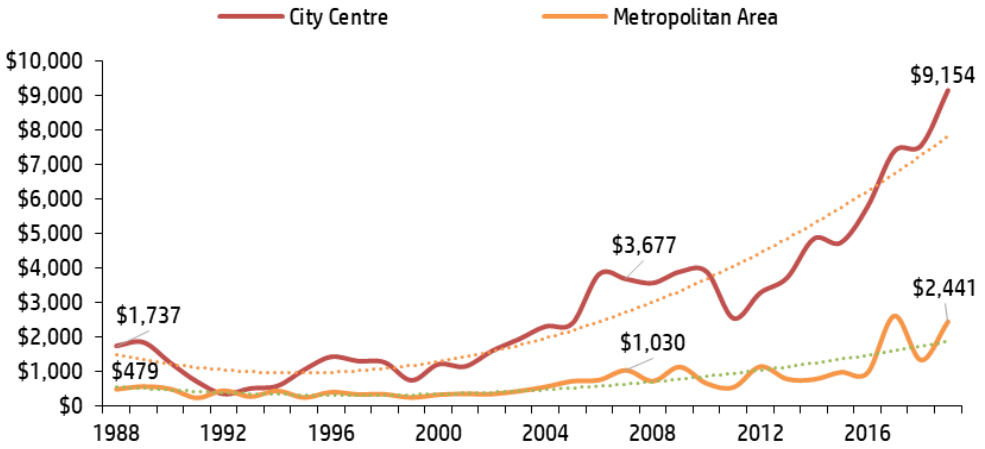
Source: CoreLogic, Colliers International Research

FIGURE 53: AUCKLAND METROPOLITAN (MEDIAN AND AVERAGE VALUES)



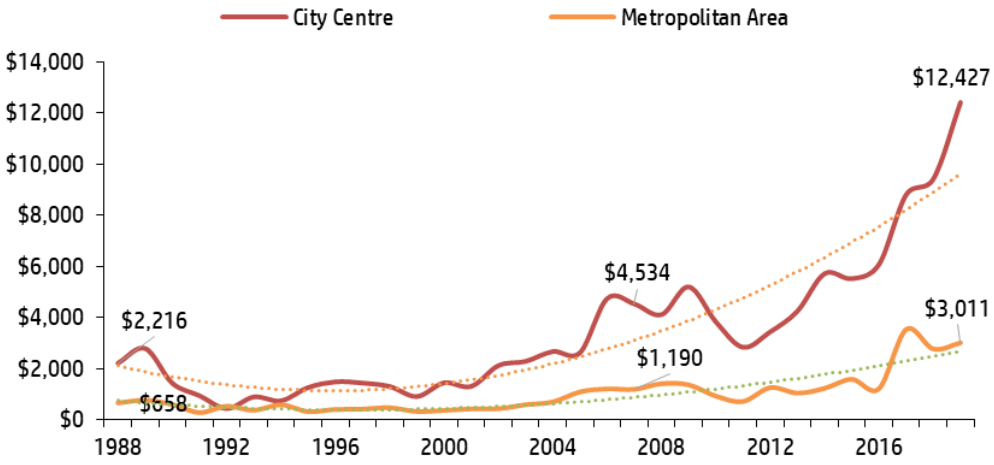
Source: CoreLogic, Colliers International Research

FIGURE 54: AUCKLAND CITY CENTRE VS METROPOLITAN ZONE (MEDIAN)



Source: CoreLogic, Colliers International Research

FIGURE 55: AUCKLAND CITY CENTRE VS METROPOLITAN ZONE (AVERAGE)



Source: CoreLogic, Colliers International Research

2. Impact of population growth

2.1. Methodology

Demographics and the sectoral composition of the Wellington economy will help determine supply and demand for retail and other commercial space across the city and wider region.

Rather than treat Wellington City as the target, we first look at the wider Wellington Region as a broad labour market. Flows of workers into the city centre from Lower Hutt, Upper Hutt, Porirua and Kapiti District are more significant than many other urban centres. We first scrutinise the sectoral composition of the Wellington regional economy before allocating activity to each local council and Wellington specifically. We focus on employment numbers to characterise the shape of the economy. This approach is useful since we can then apply assumption about the floorspace – and ultimately land – required to support each worker.

There are many difficulties with forecasting the structure of regional economies including understanding the impacts of structural changes to national policy (such as the impact on migration), regional policies (such as the introduction of new transport infrastructure) and local policies (such as new amenities such as parks, swimming pools, museums and art galleries).

The most challenging issue for thinking about the outlook right now relates to assumptions about the impact of COVID-19. To this end, we rely on the most recent forecasts provided by New Zealand Treasury in their 2020 PREFU from 16 September 2020. We use these forecasts to establish a baseline for both the long-run national labour force and the impact of COVID-19 on employment in the short term. We adapt models so that the forecasts from our industry share models are consistent with Treasury's PREFU forecasts. Figure 56 shows the five stages to our updated forecasts for the sectoral composition of the Wellington economy.

FIGURE 56: WE USE A FIVE-STAGE PROCESS TO FORECAST WELLINGTON'S ECONOMY

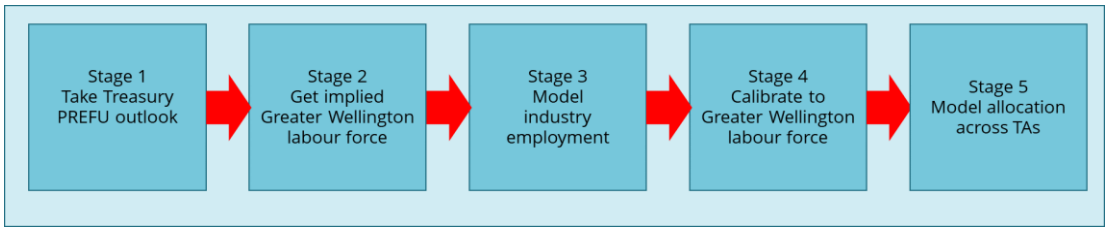
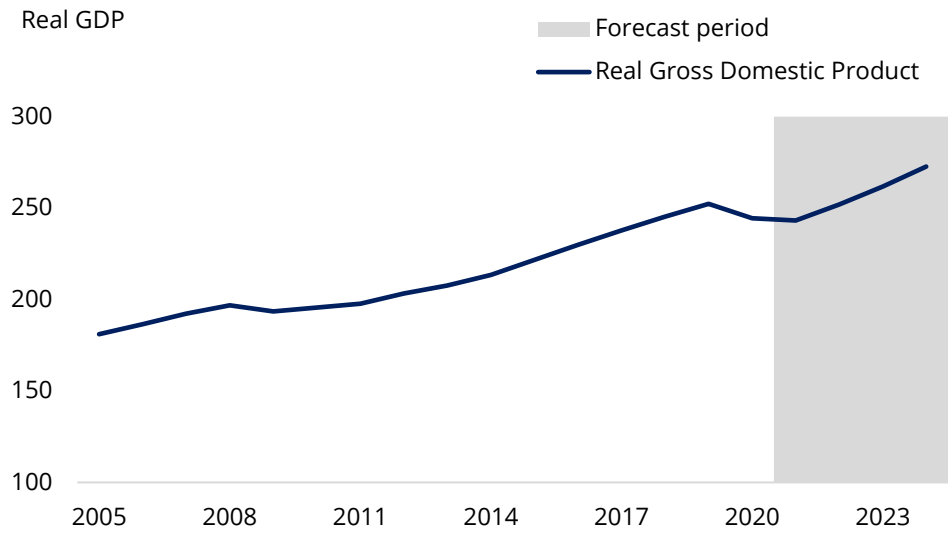


FIGURE 57: TREASURY PREDICTS A SIGNIFICANT FALL IN ECONOMIC ACTIVITY

Treasury PREFU forecasts, Real GDP, ($09/10 billions)



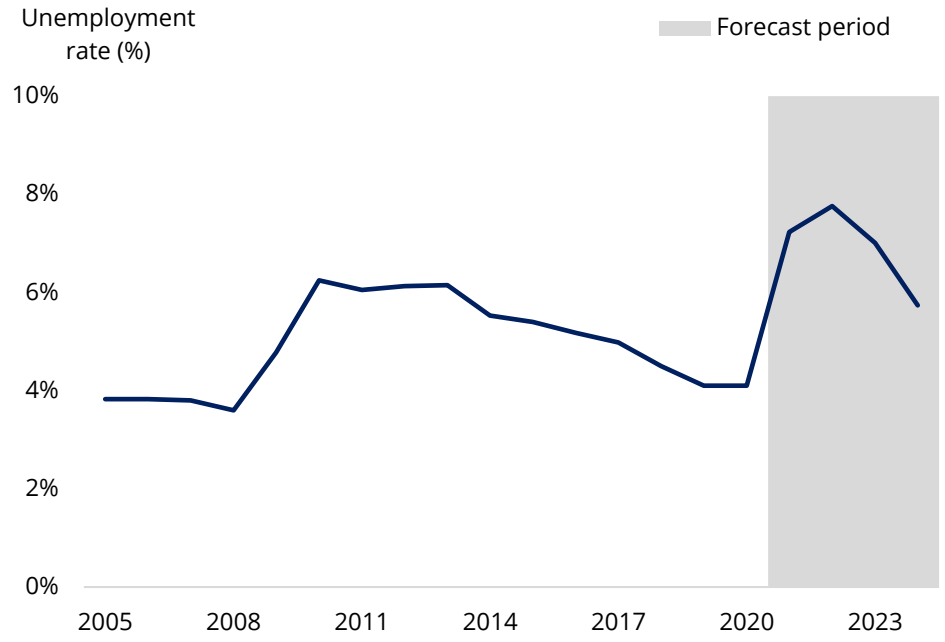
Economic activity dipped by about 12% in the second quarter of 2020. Treasury expects economic activity to be lower in the short term but also in the longer term, revising down estimates of economic growth.

This profile has a strong influence on the unemployment rate, offsetting the wage subsidy and other fiscal measures. Since our predictions of demand and supply of office space work through employment, we account for the impact of unemployment by calibrating our forecasts to the implied national level path for employment implied by Treasury's forecasts for unemployment (see Figure 58).

We then use Treasury's long-run labour force projection (see Figure 59) to pin down future employment numbers in the national level. We then use historical ratios to generate a long-run labour force projection for the Wellington Region (see Figure 60). Then we proceed by calibrating our industry-specific total to the projection of the labour force for the Wellington Region.

FIGURE 58: UNEMPLOYMENT WILL PICK UP IN THE MEDIUM TERM

Unemployment rate, New Zealand



Treasury PREFU forecasts, Real GDP, ($09/10 billions)

FIGURE 59: NZ'S LABOUR FORCE GROWTH WILL SLOW

Total labour force, New Zealand

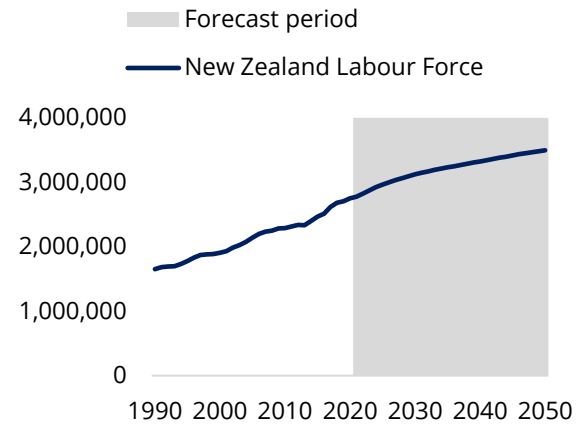
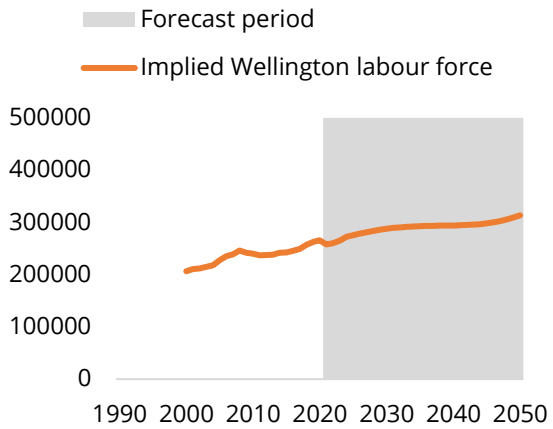


FIGURE 60: REDUCING WELLINGTON'S LABOUR FORCE

Total labour force, Wellington



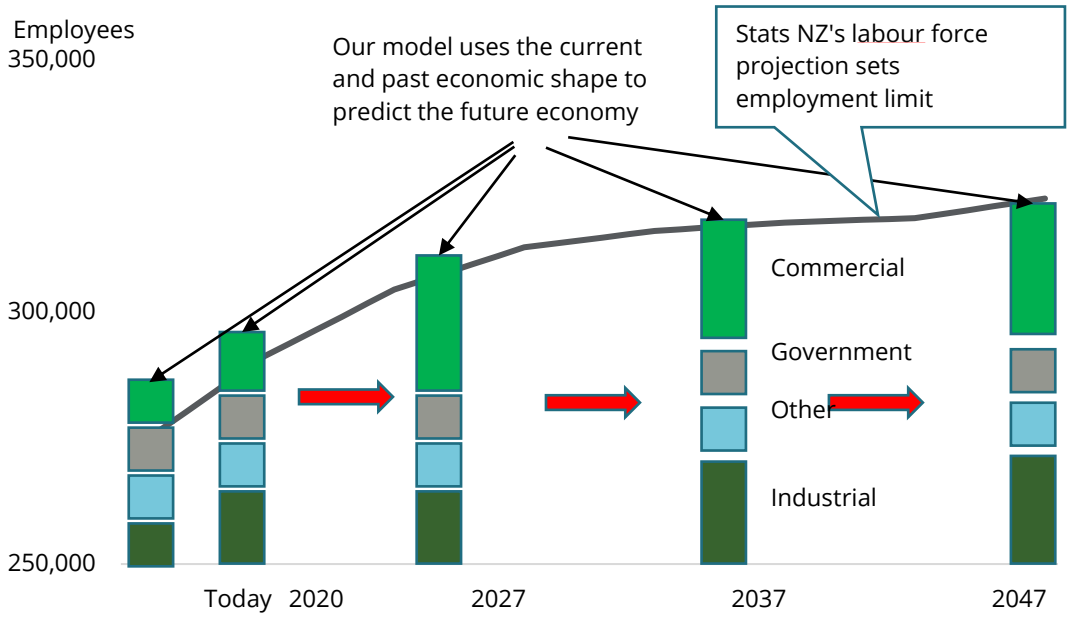
To model future economic activity, we use a VAR model of the shape of the economy. VAR models are a useful economic model for a variety of purposes including explaining economic data, making predictions about the future, generating scenarios and providing policy advice.

VAR models have a long history in economics,[1] so we are using a tool that is well understood and has been deployed across many applications. VAR models can address several questions including, for example, thinking about how changes in interest rates might impact on house prices or how immigration might impact on economic growth.

Our focus is to forecast the shape of the Wellington economy in the next 3 years, 10 years and 30 years.

To ensure the shape of the economy is useful to think about the demand for business land, we first corral Stats NZ's counts of employees into bins (such as industrial, commercial, government and other activity) that provide insight to demand for business land.

FIGURE 61: VAR MODEL PROJECTS THE INDUSTRY SHAPE OF WELLINGTON ECONOMY



To move from the outlook for the Wellington Region to the local outlook for each district, we need to allocate expected employment activity by industry throughout the region to specific districts. We allow the shares of each district to change over time by building simple single equation models of the industry share of each district. This allows the district share of employment by industry to change over time.

We choose to work with annual employment estimates from Stats NZ's business demography database. These annual estimates are available from February 2000 to February 2020.

Rather than work with a disaggregate framework, we instead allocate employment to six categories: government; commercial; retail; industrial; health, education and training; and other.

[1] For example, see the use of VARs for regional forecasting in Partridge and Rickman (1998), Anderson (1979) and the importance of VARs in macroeconomic literature in Sims (1980).

2.2. Outlook for Greater Wellington Region

We show the impact of COVID-19 and the weaker national growth outlook on commercial employment in the Wellington Region in Figure 62.

Commercial employment declines for the next 4 years but accommodates 10,000 new jobs by 2050. Government sector employment is less affected by COVID-19 and posts strong growth, adding 17,000 jobs by 2050.

FIGURE 62: PACE OF COMMERCIAL GROWTH SET EASES AFTER COVID-19 IMPACT
Forecast for commercial employment, Greater Wellington Region

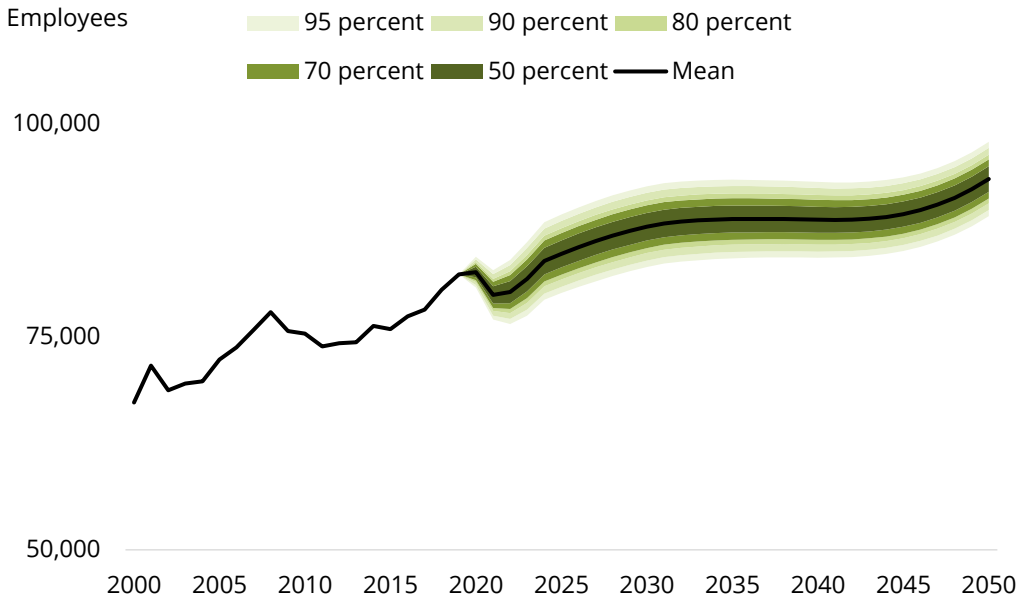


FIGURE 63: GOVERNMENT EMPLOYMENT EXPECTED TO INCREASE STRONGLY
Forecast for central and local government employment, Greater Wellington Region

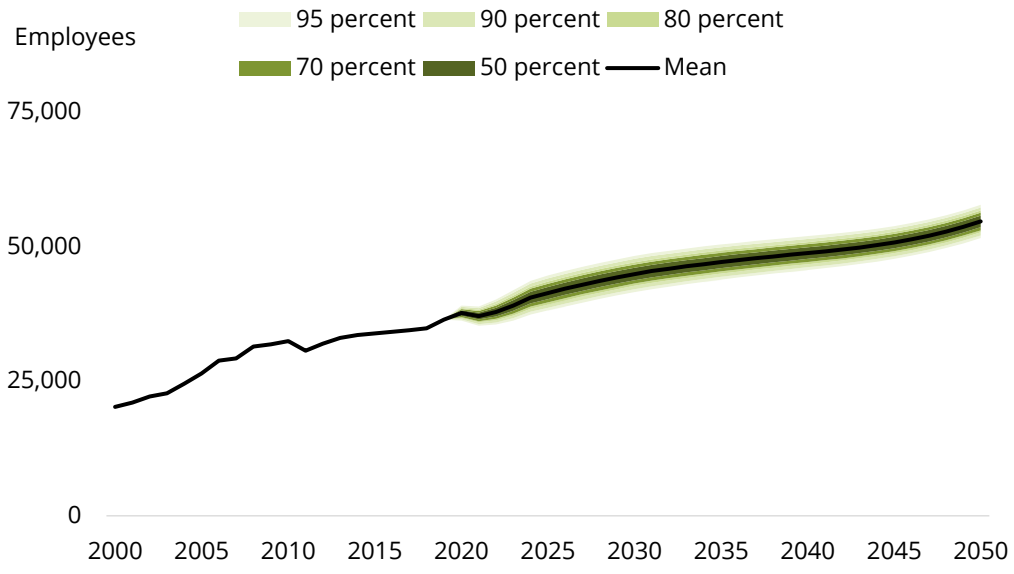


FIGURE 64 SHOWS HEALTH, EDUCATION AND TRAINING PROVIDING MANY JOB OPPORTUNITIES. IN CONTRAST, THE INDUSTRIAL SECTOR (SEE

Figure 65) sheds jobs to 2050, continuing decade-long trends in the New Zealand economy. Expect 4,000 fewer industrial sector jobs by 2050. Since traditional industrial employment requires large amounts of floorspace, this frees up much land area.

FIGURE 64: HEALTH AND EDUCATION CONTINUE TO PROVIDE EMPLOYMENT OPPORTUNITIES

Forecast for health, education and training, Greater Wellington Region

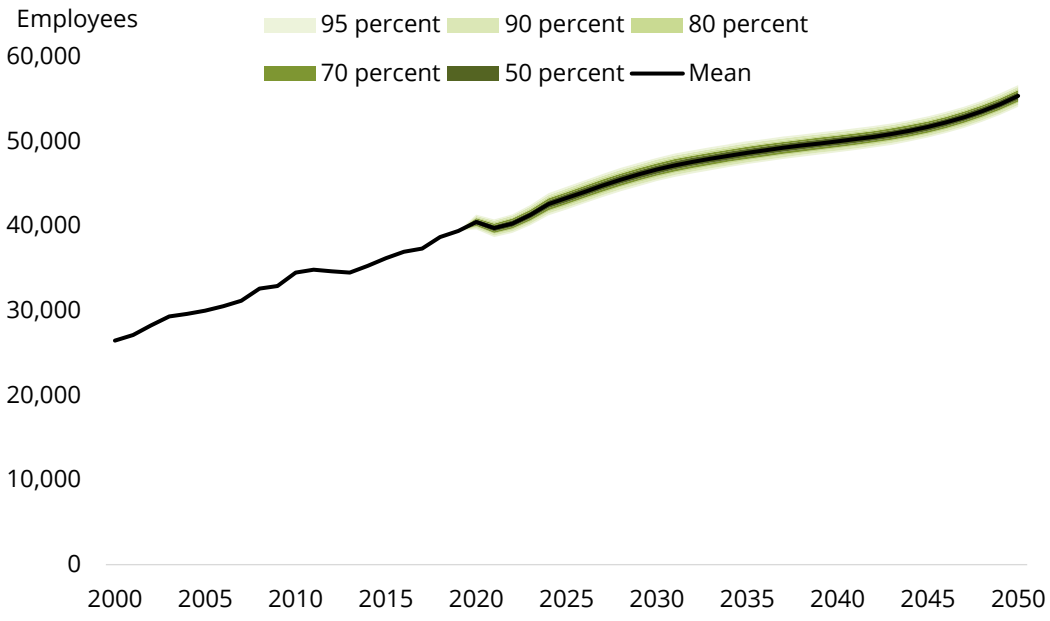


FIGURE 65: EXPECT INDUSTRIAL EMPLOYMENT TO DECLINE AND SHIFT TOWARDS SERVICES

Forecast for industrial employment, Greater Wellington Region

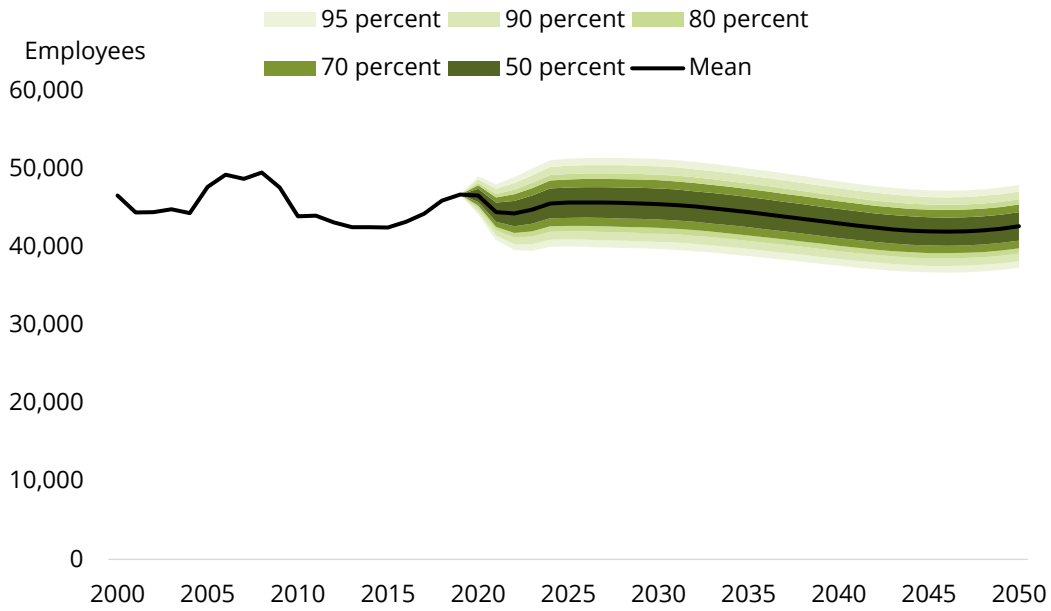


FIGURE 66 shows other employment in the region grows steadily at 0.5% per year, with health, education and training providing many job opportunities. Retail growth is a little stronger (see

Figure 67) posting an additional 6,000 jobs after recovering from COVID-19.

FIGURE 66: OTHER EMPLOYMENT POSTS MODEST GROWTH RATES AFTER COVID-19 RECOVERY

Forecast for other employment, Greater Wellington Region

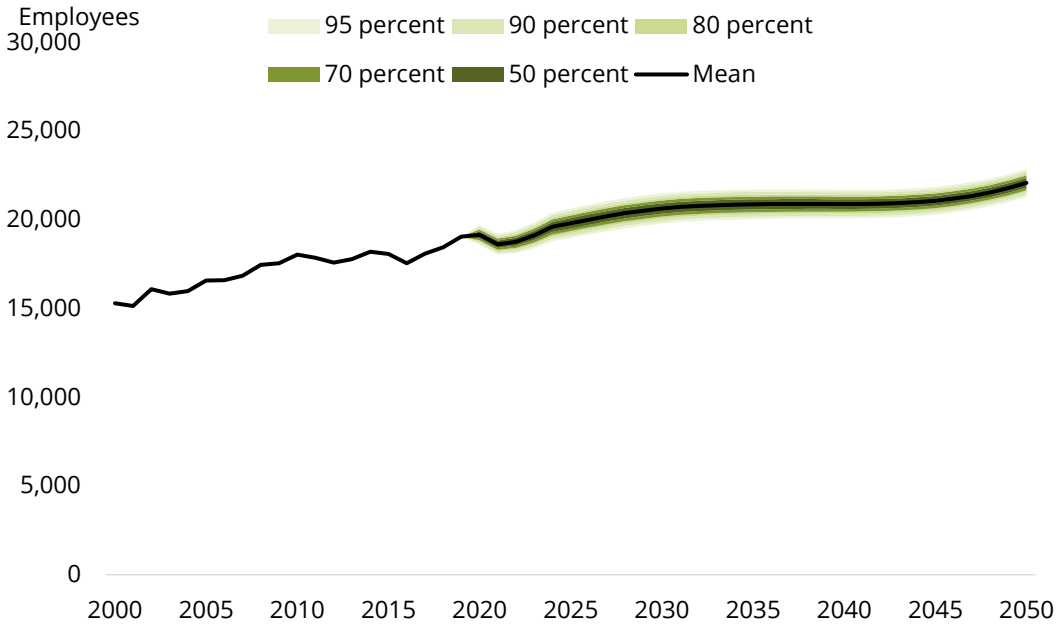
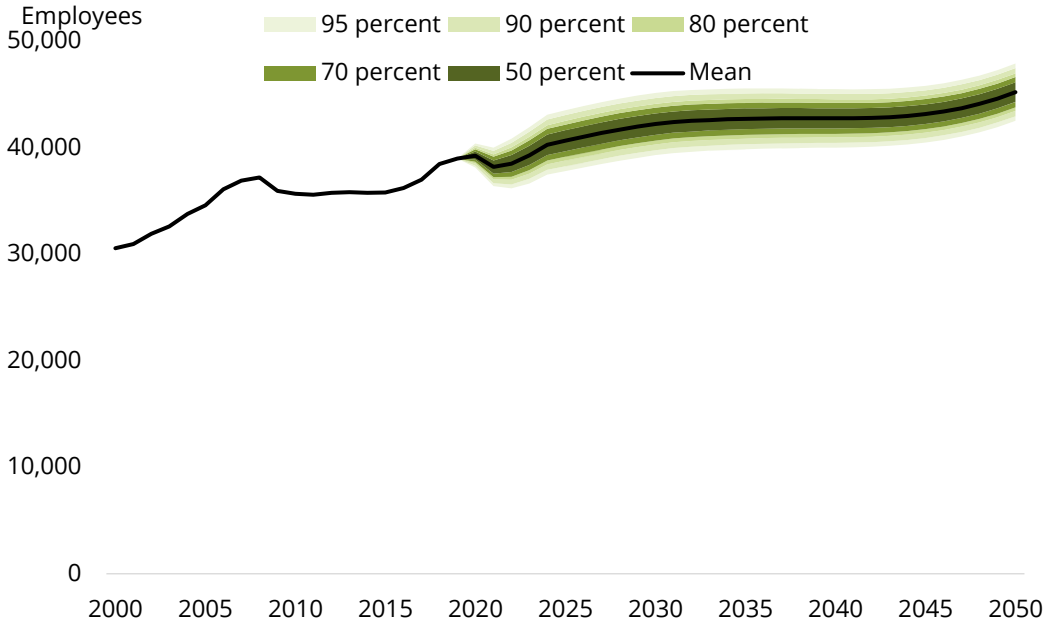


FIGURE 67: RETAIL POSTS MODEST GROWTH AFTER 3-YEAR COVID-19 RECOVERY

Forecast for retail employment, Greater Wellington Region


Employees
95 percent
90 percent
80 percent
70 percent
50 percent
Mean
50,000
40,000
30,000
20,000
10,000
0
2000
2005
2010
2015
2020
2025
2030
2035
2040
2045
2050

2.3. Outlook for Wellington City Council

With the outlook for the Wellington Region in hand we then allocate jobs across local councils based on trends in job location. Our modelling suggests strong growth in the commercial sector, with Wellington City outstripping others in the region. The government sector is predicting to remain strong, growing by about 50% to 2050.

FIGURE 68: COMMERCIAL TAKES 3 YEARS TO RECOVER THEN POSTS SOLID GROWTH

Forecast for commercial employment, Wellington City Council

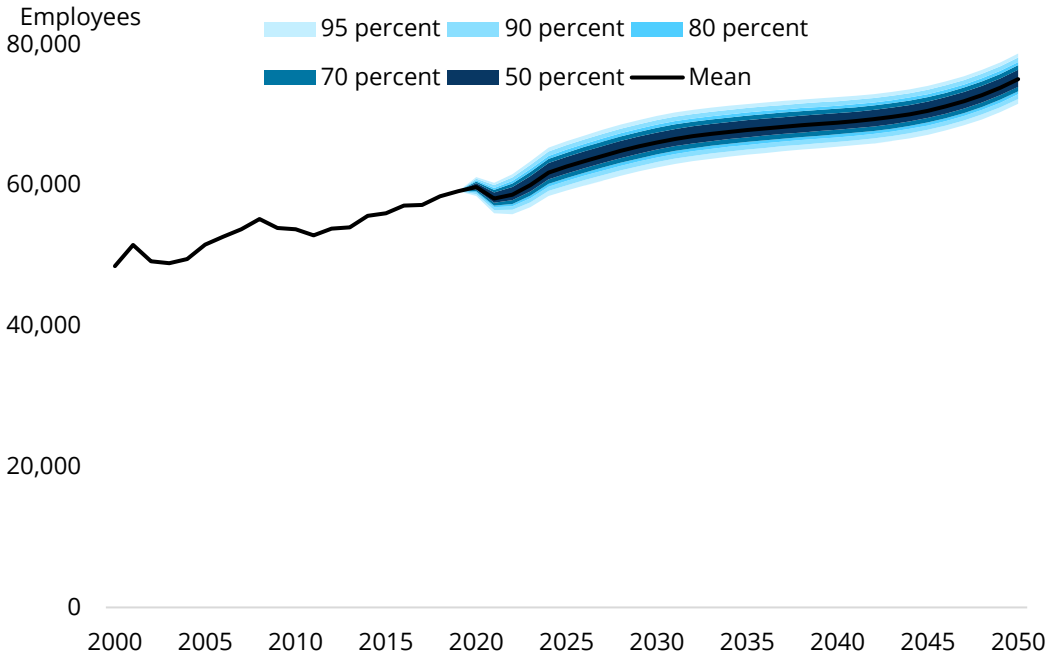
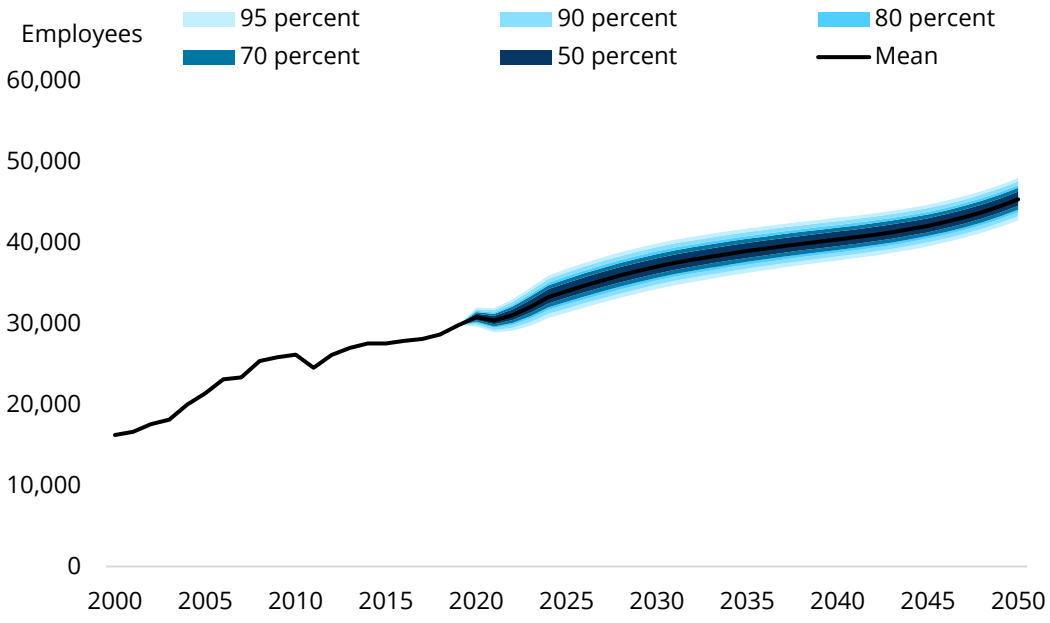


FIGURE 69: GOVERNMENT SECTOR LITTLE AFFECTED BY COVID-19, GROWS SHARE OF ECONOMY

Forecast for central and local government employment, Wellington City Council



Health, education and training jobs in Wellington city growth strongly, reflecting region-wide trends (see Figure 70). Industrial sector employment falls by about 0.5%, implying 2,000 fewer jobs by 2050.

FIGURE 70: HEALTH, EDUCATION AND TRAINING KEEPS PACE WITH REGION

Forecast for health, education and training employment, Wellington City Council

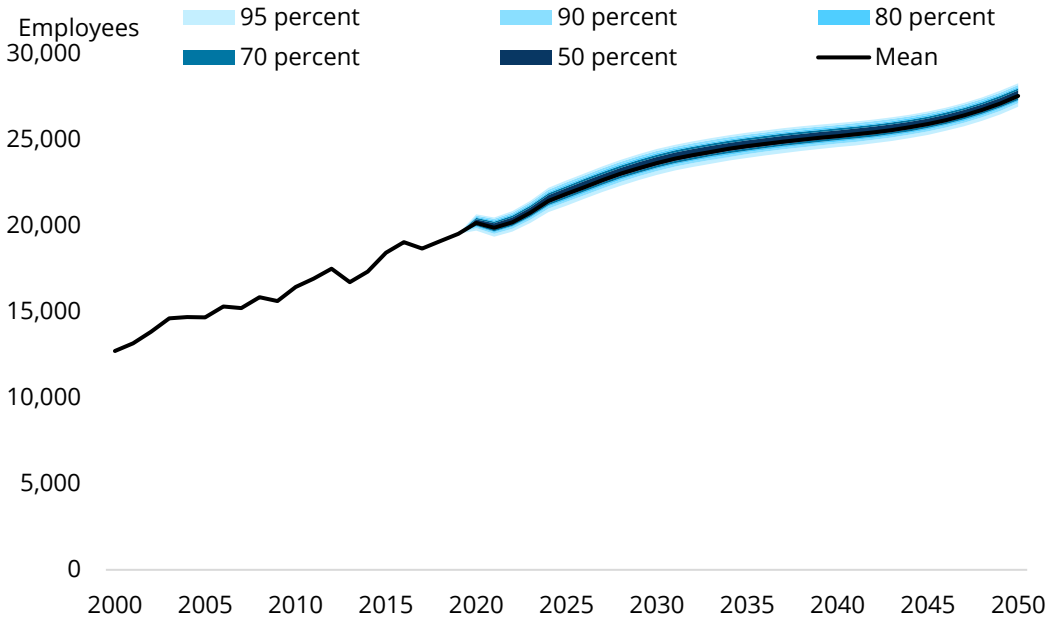


FIGURE 71: INDUSTRIAL SECTOR EXPECTED TO SHRINK IN ABSOLUTE TERMS

Forecast for industrial employment, Wellington City Council

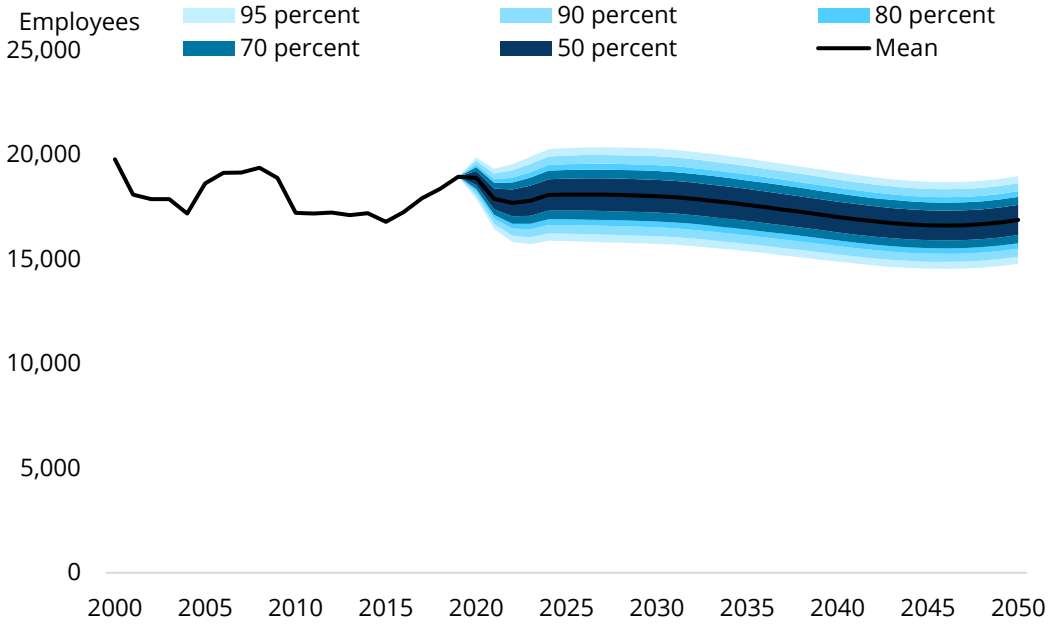


Figure 72 shows employment in Wellington City grows at modest rates. The outlook for retail is in Figure 73 that takes 4 years to recover from COVID-19 impacts based on this quantitative

modelling alone. Growth returns to moderate growth rates, and almost 3,000 jobs are added by the end of the period based on our quantitative modelling.

FIGURE 72: OTHER EMPLOYMENT SHOWS MODERATE GROWTH RATES

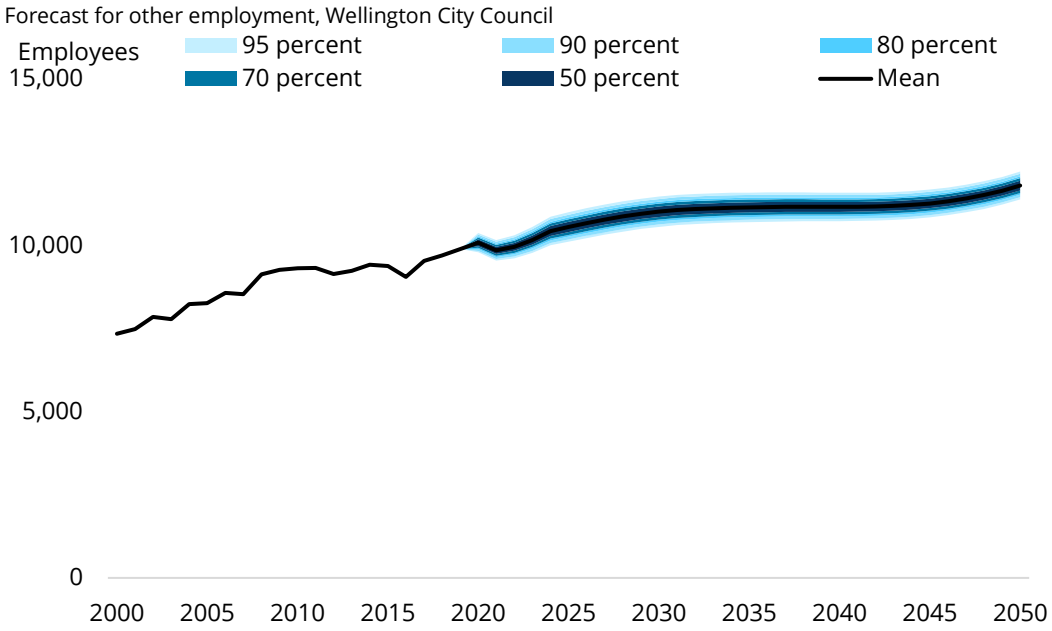
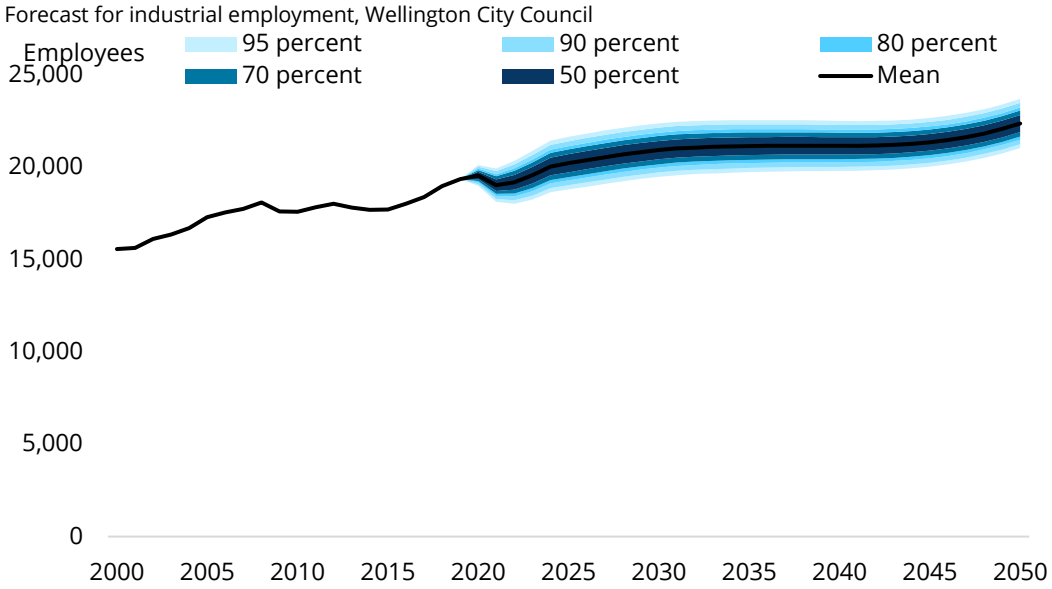


FIGURE 73: RETAIL TAKES 4 YEARS TO RECOVER FROM COVID-19 THEN HAS MODERATE GROWTH



These forecasts for employment growth are important since they translate to retail activity more broadly and demand for floorspace. The mix and type of retail employment is important for determining demand for land space. Figure 74 to Figure 79 shows traditional retail employment has been flat, falling or volatile in the Wellington Region, while Figure 80 to Figure 85 shows food and beverage employment, which requires a slightly smaller floorspace footprint, is making up the lion's share of employment growth in the region.

FIGURE 74: RETAIL EMPLOYMENT WCC

Wellington City Council, retail employment

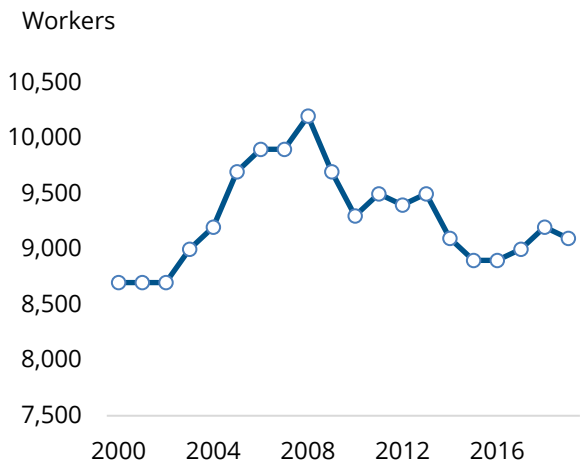


FIGURE 75: KAPITI RETAIL CAN BE VOLATILE

Kapiti Coast District Council, retail employment

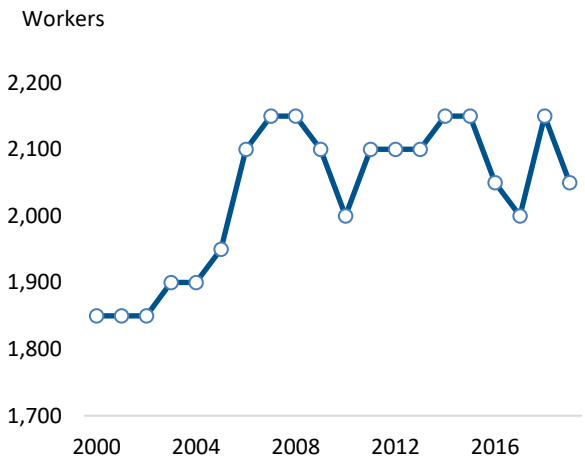


FIGURE 76: LOWER HUTT RETAIL STEADY

Lower Hutt City Council, retail employment

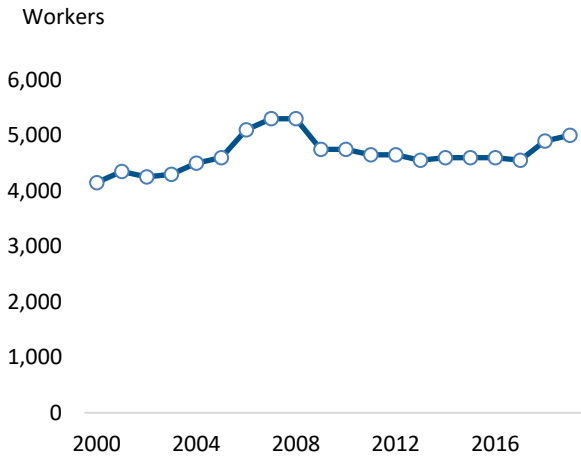


FIGURE 77: UPPER HUTT RETAIL FLAT

Upper Hutt City Council, retail employment

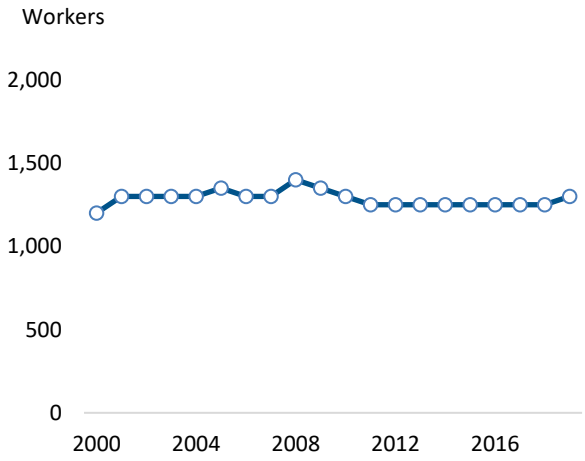


FIGURE 78: PORIRUA RETAIL PICKING UP AGAIN

Porirua City Council, retail employment

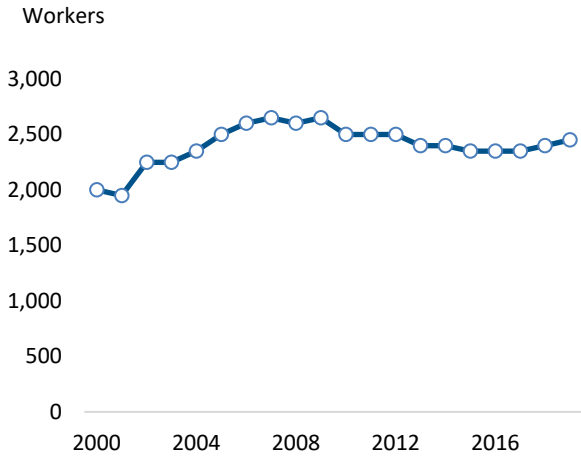


FIGURE 79: RETAIL IN OTHER DISTRICTS FLAT

Masterton, Carterton and South Wairarapa, retail employment

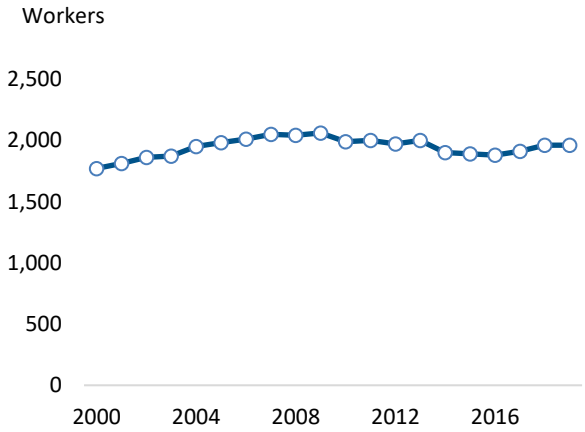


FIGURE 80: FOOD AND BEVERAGE JOBS, WCC

WCC, food and beverage employment

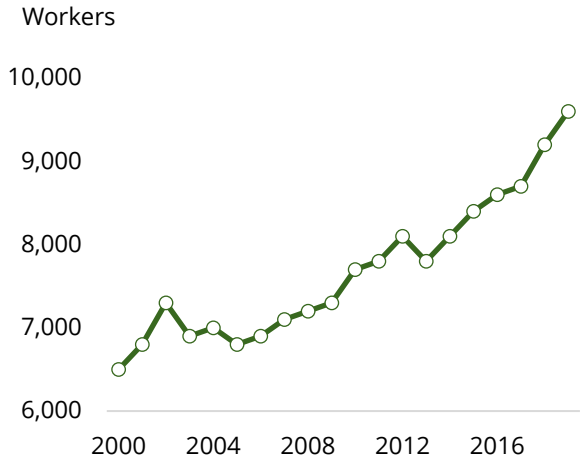


FIGURE 81: FOOD AND BEVERAGE JOBS, KCDC

Kapiti Coast District Council, food and beverage employment

FIGURE 82: FOOD AND BEVERAGE JOBS, HCC

Hutt City Council, food and beverage employment

FIGURE 83: FOOD AND BEVERAGE JOBS, UHCC

Upper Hutt City Council, food and beverage employment

FIGURE 84: FOOD AND BEVERAGE JOBS, PCC

Porirua City Council, food and beverage employment

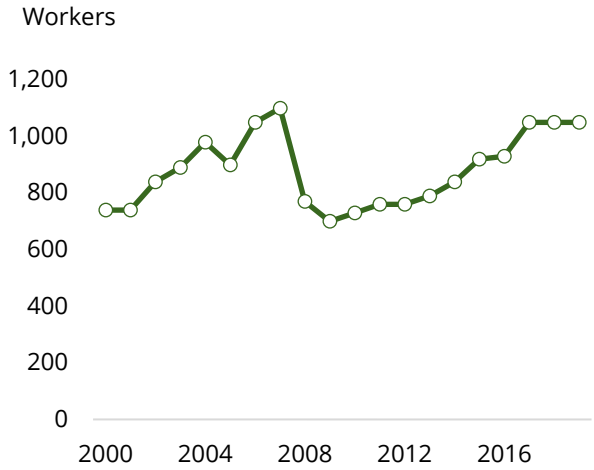
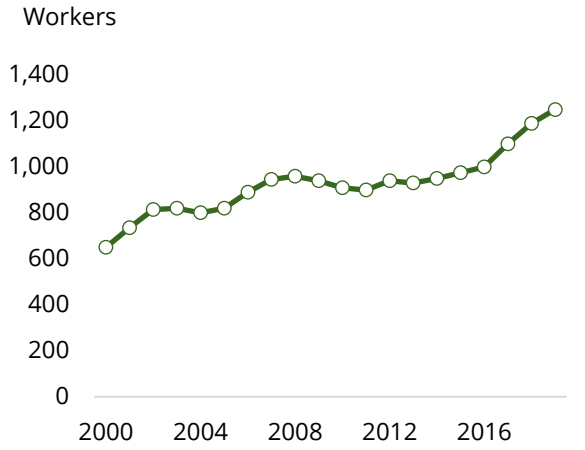


FIGURE 85: FOOD AND BEVERAGE JOBS, OTHERS

Masterton, Carterton and South Wairarapa, food and beverage employment



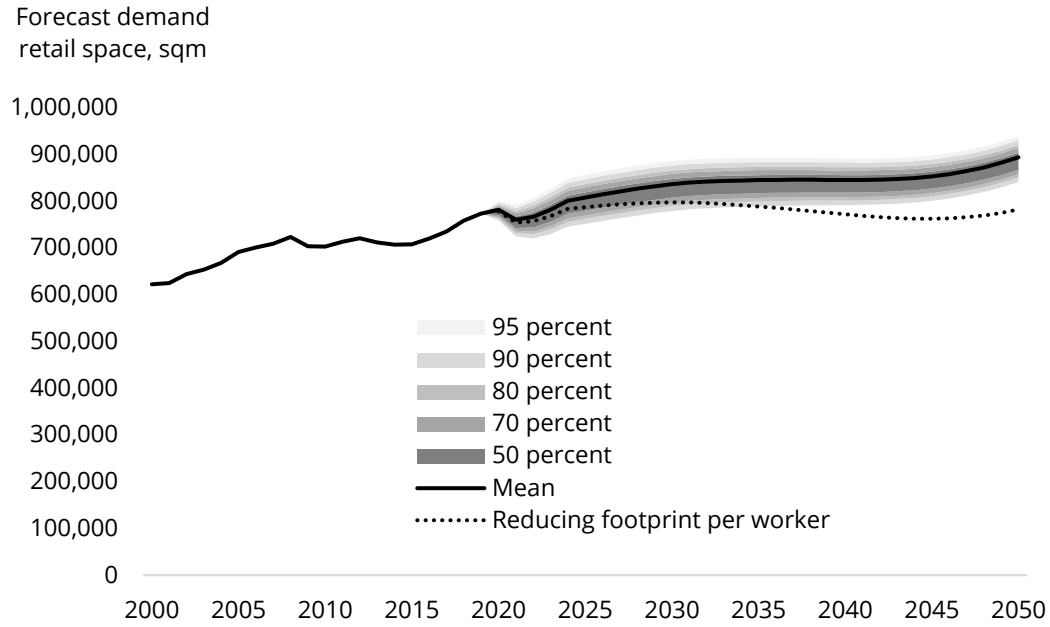
To translate employment demand into floorspace, we need an estimate of floorspace per worker. Several estimates or assumptions have been used to think about retail that we document in Table 7. MBIE's early guidance on retail space suggests using a band of 30–50 sqm, while MR Cagney suggests 35 sqm is appropriate for some Auckland suburbs. To account for reducing space requirements as the mix of retail employment changes, the HBA included an estimate of demand for retail floorspace where floorspace per worker shrinks from 37 sqm in 2017 to 25 sqm in 2047.

TABLE 7: ESTIMATES AND ASSUMPTIONS FOR RETAIL SPACE PER WORKER

Agency	Description	Space (sqm)
MBIE	NPS-UDC	30–50
MR Cagney	Shops, restaurants, bars	35
	Retail and personal services	33
Market Economics	The average food and beverage employee in the Auckland region requires nearly 39 sqm of floorspace	39–40
WCC HBA	Business land demand	37–25

Figure 86 shows estimates for retail space using 40 sqm requirements and an estimate that reduces space per worker from 40 to 35 sqm over the forecast period (the reducing footprint per worker line). The estimates show growing demand for retail space but no burning platform for setting aside additional retail space.

FIGURE 86: A VARIETY OF OUTCOMES POSSIBLE FOR RETAIL SPACE



We also scrutinised how population growth is likely to be distributed across the city based on estimates provided by Wellington City Council. While some local areas increase density more than others, growth can be largely accommodated within existing retail space and can be increasing efficiency of land use.

3. Assessing viability

3.1. Central area retail and office market update

Retail

Methodology

Colliers International has been instructed to update the findings of CBRE's Wellington Central Area Commercial Property Market Composition Report dated April 2017 that was prepared for Wellington City Council.

The update centres on four subject areas of:

- stock numbers
- vacancy rates
- classification breakdown
- average floor size (change over time, which stores are growing etc).

In order to quantify stock numbers, vacancy trends and classifications, Colliers International has relied upon the results of physical vacancy surveys, which it conducts on a 6-monthly basis, supplemented by property records derived from CoreLogic and other online resources.

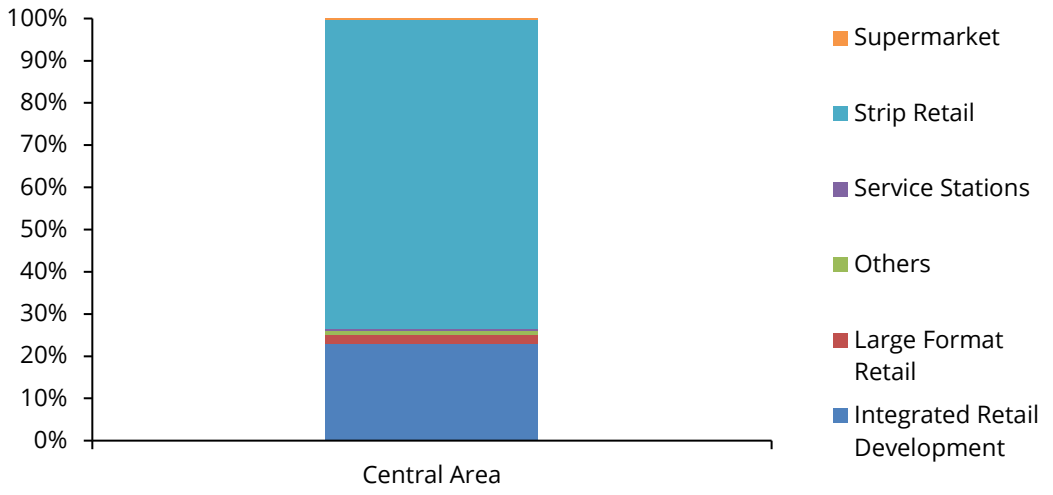
The vacancy survey is conducted over six precincts with results being provided on both an overall basis and by precinct. The latter allows a more granular analysis of results, which better highlights matters such as differences in the retail mix in various parts of the city (e.g. hospitality versus fashion) and the performance of local markets as illustrated by variations in vacancy trends.

Stock numbers

Overall stock within the central area (Colliers' vacancy survey data plus CoreLogic data) comprises 1,247 retail premises with a combined floor area of 292,199 sqm.

Strip retail premises provide the majority of stores, comprising 913 or 73% of the total. Stores located within integrated retail developments make up the next largest cohort with 287 tenancies equating to 23% of stock. The balance of stock comprises large-format retail, supermarkets, department stores, service stations and others, primarily trade retail outlets.

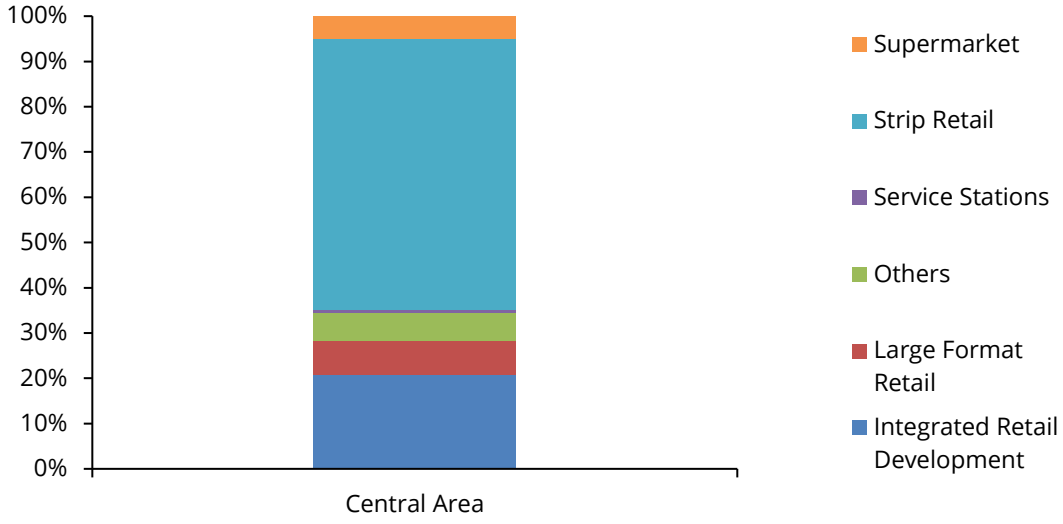
FIGURE 87: PROPORTION OF CENTRAL AREA RETAIL STOCK BY NUMBER



Source: CoreLogic, Colliers International Research

The proportions alter when analysed on a floor area basis as illustrated below.

FIGURE 88: PROPORTION OF CENTRAL AREA RETAIL STOCK BY FLOOR AREA



Source: CoreLogic, Colliers International Research

Vacancy rates

Central area trends – trading restrictions have immediate impact

The impact of COVID-19-enforced trading restrictions has become immediately apparent via the results of Colliers International's June 2020 vacancy survey.

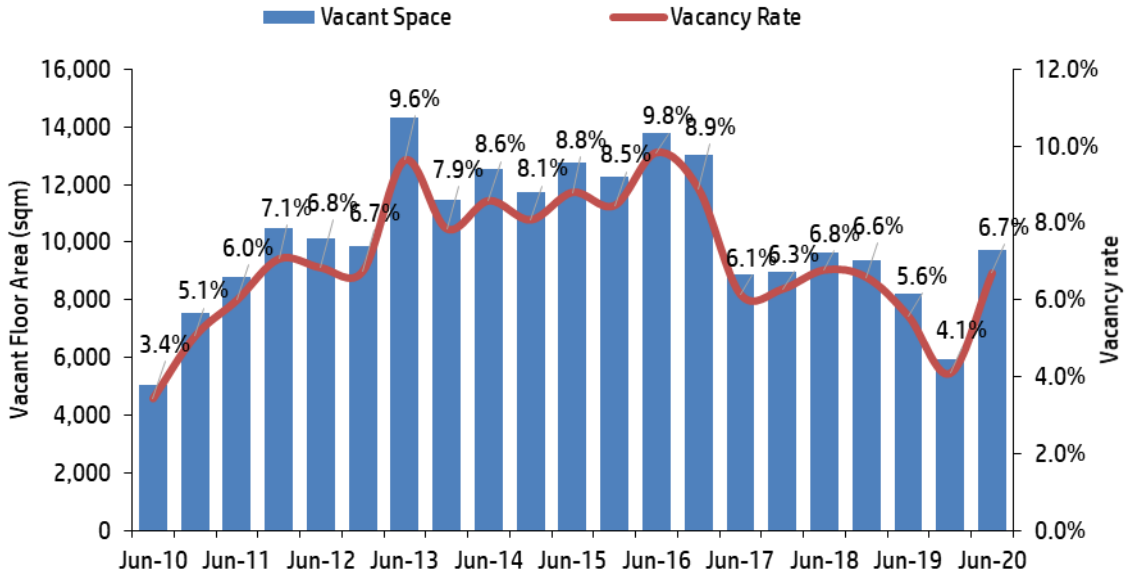
FIGURE 89: WELLINGTON CBD RETAIL SURVEY COVERAGE

Source: Colliers International Research

Vacancy rates across the city's central area was trending down from post-GFC highs recorded in mid-2013, falling to 4.1% at the end of 2019. This figure increased to 6.7% in June 2020 to sit just below the 10-year average of 7.2%.

The June result equates to 9,750 sqm of vacant retail space, up from the December 2019 total of 5,960 sqm (10-year average 10,480 sqm).

FIGURE 90: CENTRAL AREA RETAIL VACANCY TRENDS



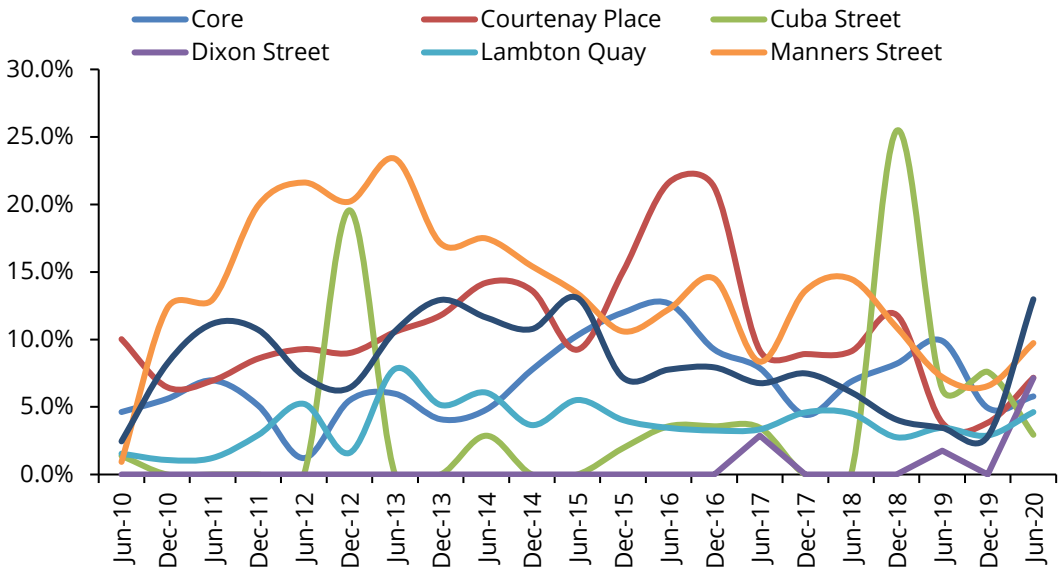
Source: Colliers International Research

General trend evident across most precincts

When vacancy rates for individual precincts are considered, the results tend to be more volatile given the smaller catchments, which can accentuate changes in the occupancy status of a small number of premises.

The general trend across all precincts, however, showed a high correlation with that of the central area as a whole. As at December 2019, vacancy rates within each of the precincts were at or close to the lowest levels seen for 5–10 years. The notable exception is Cuba Street, which has traditionally had very low vacancy rates.

FIGURE 91: RETAIL VACANCY TRENDS BY PRECINCT



Over the first half of 2020, the vacancy rate increased in six of the seven precincts, with Dixon Street and Willis Street seeing the largest increases.

The increase in Dixon Street's vacancy rate is due to the timing of the vacancy survey and the impact of COVID-19 trading restrictions. The precinct has a high proportion of hospitality outlets that have been heavily impacted by trading restrictions and border closures, which has resulted in the curtailment of international tourism.

The Willis Street precinct also saw vacancy rates rise over the first half of the year, impacted by the closure of a small number of larger premises such as Burger King and Flight Centre premises.

Classification breakdown

Cafés, restaurants and takeaways increasing in popularity

Analysis of the central area's retail stock by category of occupier is based upon Colliers International's vacancy surveys, allowing for changes and shifts in the composition of the market to be tracked.

Composition is analysed on both an overall floor area basis and by number of tenancies.

As at the June 2020 survey, the cafés, restaurants and takeaway food services category was the most common user of retail space under both floor area and number of tenancies. The category occupies 25% of the total floorspace (36,250 sqm) and 34% of tenancies (279).

Clothing, footwear and personal accessories retailing is the second most common occupier under both situations, occupying 28,800 sqm of space, equating to 16% of the total. Businesses in this category are located within 119 tenancies comprising 14.5% of the total.

While changes in occupancy are gradual, evidence of shifts are apparent when comparing the most recent survey results with those of 2016. This is illustrated within the following two graphs.

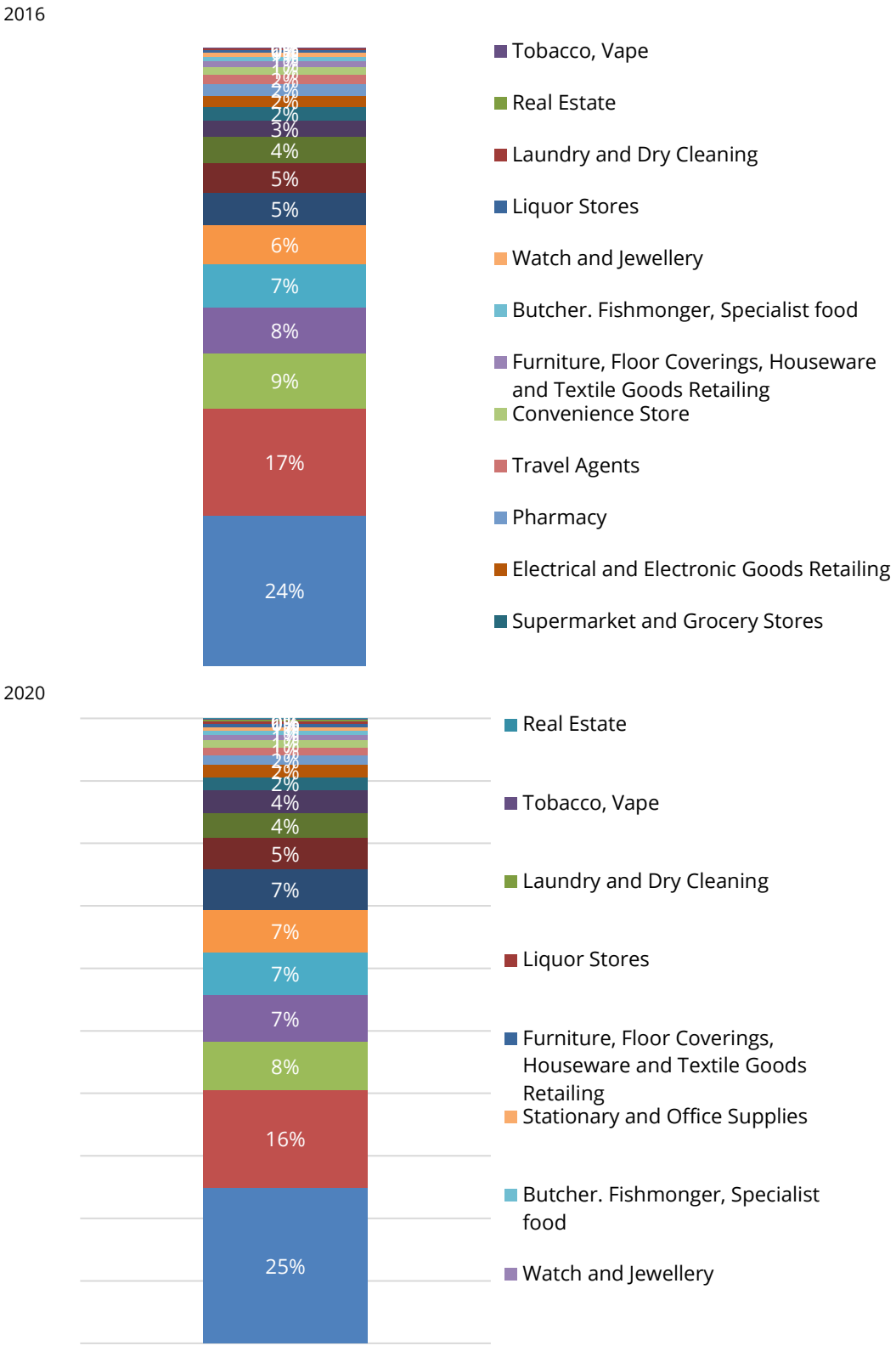
The share of floorspace occupied by cafés, restaurants and takeaways has increased while the share occupied by clothing retailers has declined.

Other sectors to see growth include pubs, taverns and bars, which now occupy approximately 1,000 sqm more space than they did in 2016.

Personal care services, primarily, barbers, hairdressers and beauty salons, have also increased their occupancy, up by 850 sqm.

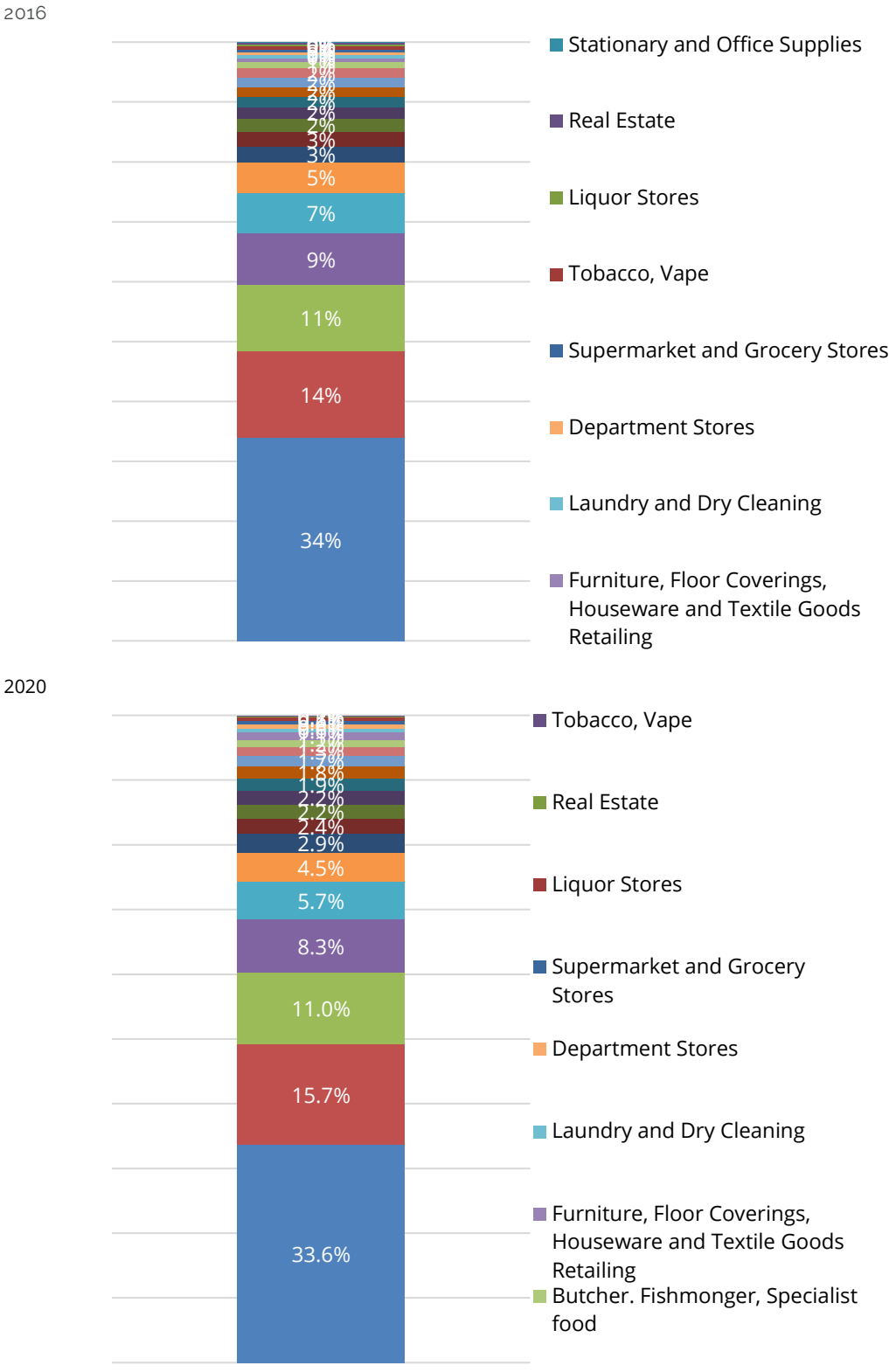
In contrast, furniture retailers occupy just 800 sqm compared with approximately 1,400 sqm in 2016.

FIGURE 92: COMPOSITION: CENTRAL AREA RETAIL OCCUPANCY BY FLOOR AREA 2016 VS 2020



Source: Colliers International Research

FIGURE 93: COMPOSITION: CENTRAL AREA RETAIL OCCUPANCY BY TENANCY 2016 VS 2020

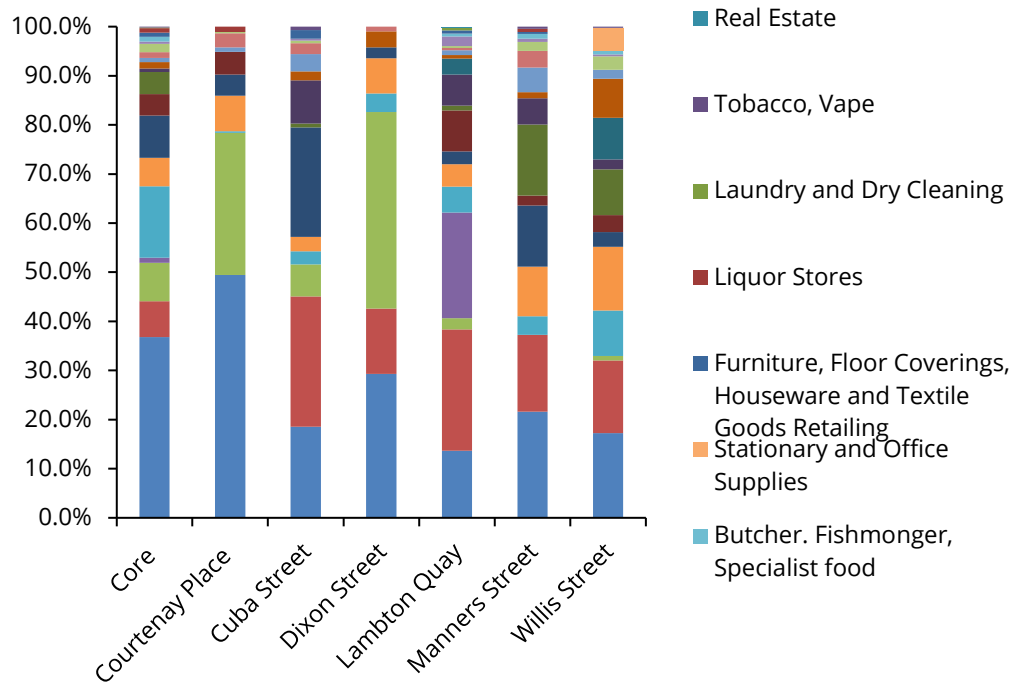


Precincts show variation in retail occupiers

As discussed in previous sections, hospitality providers have been increasing their share of retail space and tenancies across the city centre.

The following graph clearly illustrates where these providers are grouping and the areas within the city that continue to provide a greater mix of retail amenity.

FIGURE 94: COMPOSITION: CENTRAL AREA RETAIL OCCUPANCY BY FLOOR AREA BY PRECINCT



Hospitality providers are particularly prevalent in Courtenay Place where 78.5% of the total retail floorspace is occupied by cafés, restaurants, takeaway food retailers, pubs and bars.

Dixon Street is also well served by the sector, which occupies just under 70% of the total floorspace.

Lambton Quay, by comparison, provides a greater mix of retailers within the fashion sector, supplemented by department stores occupying 46% of the floorspace with banking and bookshops also well represented.

Cuba Street's fashion retailers occupy 26.5% of floorspace with the sector also well represented in Manners Street, Willis Street and Dixon Street.

Average floor size

Central area retail stores are dominated by units of under 200 sqm. Of the 823 retail tenancies included within Colliers International's survey area, 605 premises or 73.5% are located within units within this size bracket. A further 18.7% of the total is occupied within units of between 200 sqm and 399 sqm.

The most common occupier classification within the smaller units is cafés, restaurants and takeaways, with 80% of such retailers operating from units of less than 200 sqm. A high proportion of those offering personal care services are located within the smallest of the units.

Large-footprint stores are a rarity within the survey area, with only eight premises measuring over 1,000 sqm with 50% of these occupied by supermarkets and department stores.

TABLE 8: SMALL STORES DOMINATE CENTRAL AREA RETAIL SCENE – STORES BY AVERAGE FLOOR SIZE (SQM)

Classification	0–199	200–399	400–599	600–799	800–999	1,000+	Total
Banking	7	8	4	1		1	21
Butcher, fishmonger, specialist food	7	2					9
Café, restaurant, takeaway food	223	45	9	2			279
Clothing, footwear, personal accessories	82	24	10	2		1	119
Convenience store	10	3					13
Department store	1	1				2	4
Electrical and electronic goods retailing	19	1			1		21
Furniture, textiles and housewares	4	1					5
Laundry and dry cleaning	3	1					4
Liquor store	2	1					3
Newspaper, book, magazine retailing	4	6	1	1		1	13
Other	37	13	5	1			56
Personal care services	78	12	2				92
Pharmacy	8	4	1				13
Pub, tavern, bar	18	15	7	1	1		42
Real estate	2						2
Recreational goods retailing	11	3		2	1	1	18
Supermarket, grocery store	2					2	4
Tobacco, vape	4						4
Travel agent	11	3					14
Vacant	56	11	3				70
Watches, jewellery	16						16
Stationery, office supplies				1			1
Total	605	154	42	10	4	8	823

TABLE 9: TOTAL FLOOR AREA OCCUPIED BY CLASSIFICATION AND UNIT SIZE

Classification	0–199	200–399	400–599	600–799	800–999	1,000+	Total
Banking	722	2,510	1,991	799		1,145	7,166
Butcher, fishmonger, specialist food	444	482					926
Café, restaurant, takeaway food	18,380	12,104	4,287	1,478			36,249
Clothing, footwear, personal accessories	8,653	6,539	4,760	1,481	1,375		22,808
Convenience store			1,037	820			1,857
Department store			149	341	10,314		10,804
Electrical and electronic goods retailing	1,560	236			958		2,754
Furniture, textiles and housewares			506	294			800
Laundry and dry cleaning					116	210	325
Liquor store			265	313			578
Newspaper, book, magazine retailing	412	1,828	435	733		1,929	5,337
Other	2,711	3,580	2,612	657			9,560
Personal care services	6,040	3,086	988				10,113
Pharmacy	753	1,106	452				2,311
Pub, tavern, bar	1,775	4,398	3,477	626	828		11,105
Real estate	87						87
Recreational goods retailing	1,336	732		1,469	865	1,500	5,902
Supermarket, grocery store	264					2,789	3,053
Tobacco, vape	252						252
Travel agent	902	699					1,601
Vacant	5,194	3,204	1,351				9,749
Watches, jewellery	1,299						1,299
Stationery, office supplies	809						809
Total	52,857	42,482	20,352	7,243	3,460	19,052	145,445

While comprising 73.5% of units by count, units of up to 200 sqm comprise only 36.3% of the survey area's total floor area. The eight units measuring over 1,000 sqm occupy 13% of the total floorspace.

The trend is consistent across precincts

The prevalence of smaller retail premises is common across the city centre's precincts. Units of up to 200 sqm comprise between 70% and 80% of all tenancies in all but two of the surveyed areas.

In Dixon Street, the presence of some larger hospitality premises sees the share of smaller units sitting at 63%. The highest proportion of small retail units are located in the Willis Street precinct where they comprise 85% of the stock.

TABLE 10: PROPORTION OF RETAIL PREMISES BY FLOOR AREA (SQM) BY PRECINCT

Precinct	0–199	200–399	400–599	600–799	800–999	1,000 +
Core	79.7%	17.0%	1.4%	1.1%	0.4%	0.4%
Courtenay Place	72.9%	17.7%	8.3%	1.0%	0.0%	0.0%
Cuba Street	76.1%	13.4%	10.4%	0.0%	0.0%	0.0%
Dixon Street	63.0%	25.9%	11.1%	0.0%	0.0%	0.0%
Lambton Quay	73.8%	17.1%	5.0%	1.7%	0.4%	2.1%
Manners Street	70.5%	20.5%	8.0%	0.0%	0.0%	1.1%
Willis Street	85.1%	10.6%	0.7%	1.4%	1.4%	0.7%

Commercial office

Methodology

Analysis of market conditions is based upon vacancy survey data that has been compiled by Colliers International on a 6-monthly basis since the mid-1990s.

The survey collects data on overall stock across the CBD segmented by quality as well as precinct, as shown in the map below, and grade.

In 2011, the Te Aro precinct was added to the overall CBD office survey, adding approximately 328,000 sqm of office space to the survey.

FIGURE 95: WELLINGTON CBD OFFICE SURVEY COVERAGE

Source: Colliers International Research

Vacancy trends are tracked that highlight the balance between supply and demand across economic and development cycles. The vacancy rate also provides a clear indicator as to whether rental levels in the city are under upward or downward pressure.

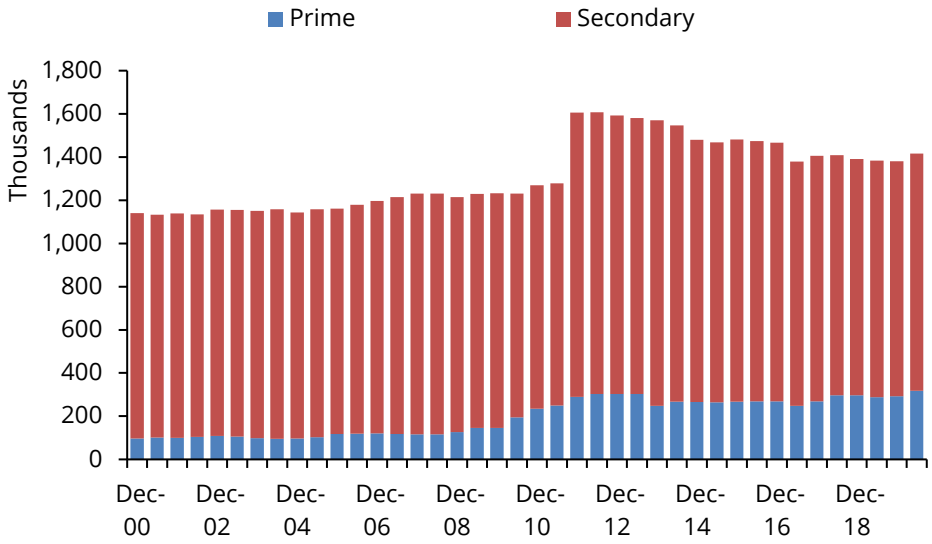
Survey data is supplemented by actual lease and tenancy information collated by Colliers International via the company's agency and valuation teams.

Stock numbers

Wellington's CBD comprises office stock of 1.41 million sqm, of which 318,089 sqm (22.5%) is classified as prime quality (Premium and A-grade).

The city's current level of inventory sits at approximately 70,000 sqm below the pre-Kaikōura earthquake total of 1.48 million sqm. The damage caused by the earthquake saw a number of significant and relatively modern buildings being demolished, including the Stats NZ building and the BNZ Bank's local headquarters.

FIGURE 96: WELLINGTON CBD OFFICE STOCK BY GRADE



Source: Colliers International Research

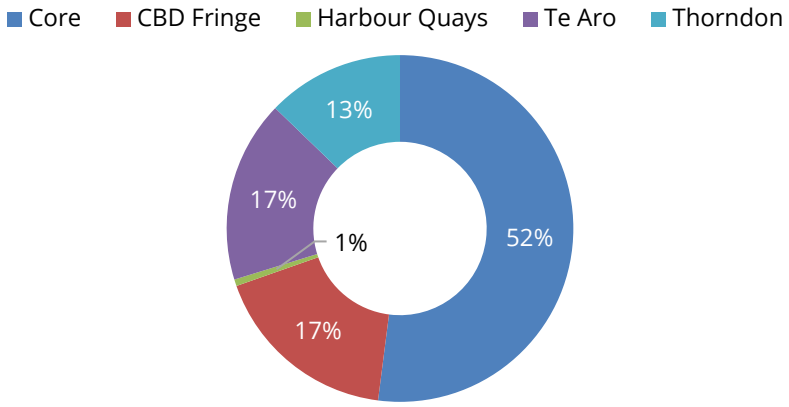
Stock concentrated within core precinct

Colliers International breaks the CBD into five precincts to allow for a more granular analysis of office market trends. The precincts are core, Thorndon, Te Aro, CBD fringe and Harbour Quays. Harbour Quays' share of inventory has been diminished by removal of stock post the Kaikōura earthquake as discussed above. The precinct is unlikely to see any additions to its office stock in the future because of seismic hazard issues.

The core precinct houses just over half of the city's office stock, approximately 51%, followed by the CBD fringe and Te Aro, with around 17% of the stock each. Thorndon comprises 14% of the total inventory but also houses a high proportion of government tenants given its proximity to Parliament buildings. Major occupiers include the Department of Internal Affairs, IRD, NZ Police and the Ministry for the Environment.

The core precinct also houses government departments. It is also the favoured location for the private sector with, for example, accountancy practices such as PwC and Grant Thornton occupying space as well as banking groups ANZ and Kiwibank. Government institutions include MBIE, the Ministry of Education and the Ministry of Justice.

FIGURE 97: WELLINGTON CBD OFFICE STOCK BY PRECINCT



Te Aro's office space is dominated by secondary quality space with smaller footprints occupied by a mix of smaller private companies. The area has become a hub for IT start-ups and media companies. Te Aro also houses a small number of listed groups such as Xero and Trade Me.

Classification breakdown

Stock dominated by secondary quality space

As the chart above illustrates, the city's office stock is dominated by secondary grade buildings. Grading takes into account a range of factors including, age, size, condition of the building's fabric and services, the building's performance in terms of sustainability and the property's seismic rating.

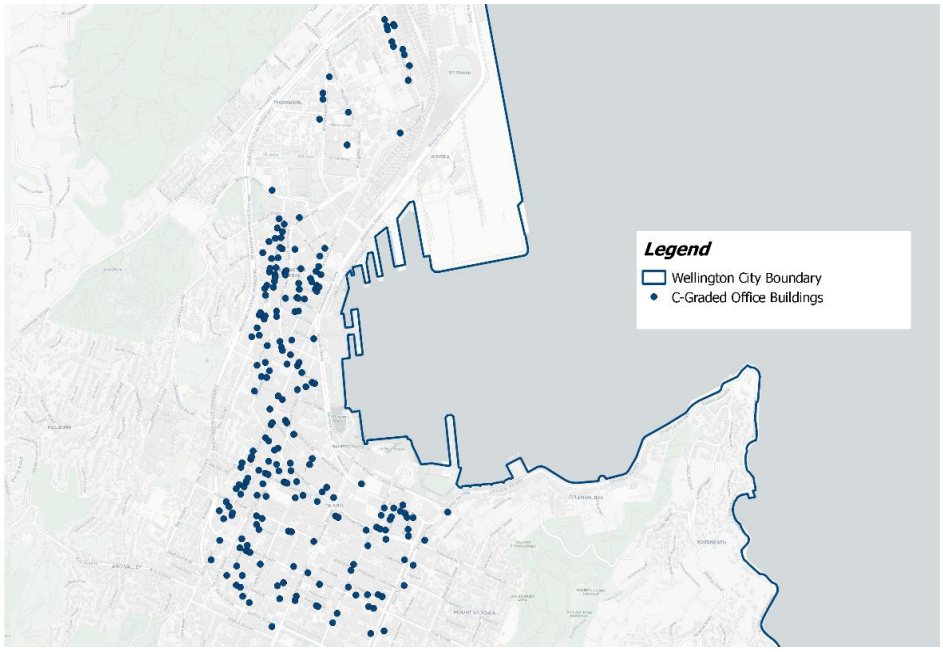
Prime quality space comprises buildings graded as Premium and A. Premium grade buildings are a recent addition to the city's inventory, with only two properties, the PwC and Deloitte buildings, currently included within the classification.

A-grade space therefore comprises a significant majority of the prime stock. B and C-grade premises comprise approximately 77% of total stock.

Demand for higher-grade premises has increased over recent years as illustrated by vacancy trends within the various grades. High-profile corporates have targeted higher-grade space in order to heighten profile and assist in attracting and retaining highly skilled staff. Government agencies have been looking to increase the quality of the space it occupies on the basis that the efficiencies that more modern premises can provide offsets higher rental costs to an extent.

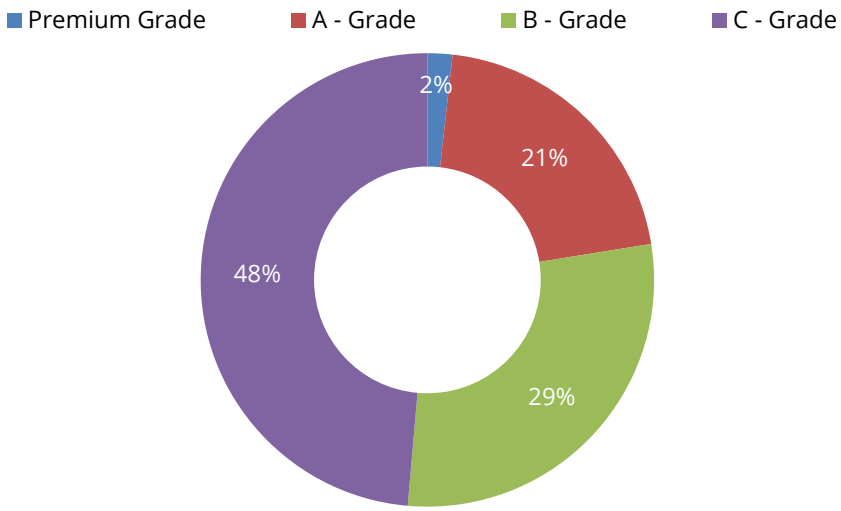
While C-grade premises comprise the largest proportion of stock, demand for lower-quality space is weak. As a result, vacancy rates within C-grade buildings are much higher than for higher graded space. Figure 98 shows the location of Wellington's C-grade stock. Most of the stock is located in three key streets: (i) the Terrace, (ii) Willis Street and (iii) Boulcott Street.

FIGURE 98: LOCATION OF WELLINGTON'S C-GRADE OFFICE STOCK



A prime consideration within the Wellington office market is a building's seismic rating. Clearly, older lower-graded buildings comprise a higher proportion of earthquake=prone premises, which have met resistance from occupiers. In order to increase the viability of their premises, landlords are left with the choice of strengthening and refurbishing the property in order to make it more attractive to office occupiers or to convert it to an alternative use such as apartments – a trend that is considered in section 4 of this report.

FIGURE 99: OFFICE STOCK BY GRADE

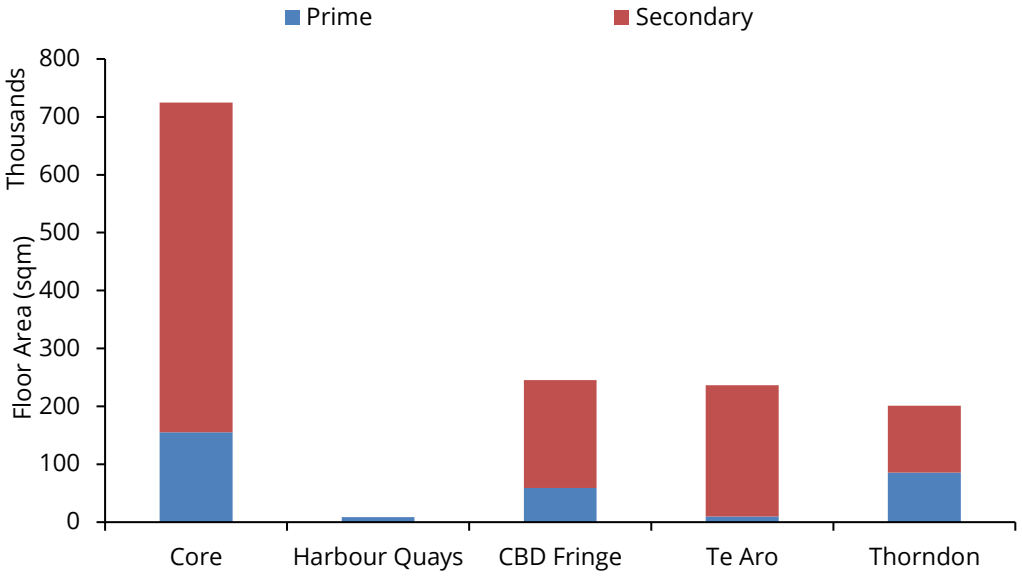


Prime grade space most common in the core

The core precinct houses the largest amount of prime grade office space at 155,000 sqm, which equates to just 21% of the precinct's total office stock. The precinct with the highest

proportion of higher-graded buildings is Thorndon where approximately 42% of the total inventory is classified as prime quality space. Note that Harbour Quays has no secondary quality space, but as mentioned above, it is now only a marginal precinct with no growth prospects.

FIGURE 100: OFFICE STOCK BY GRADE BY PRECINCT



Government occupation strongly underpins Wellington's office market

Occupation by government departments strongly underpin the capital's office market. Being in proximity to Parliament has traditionally been viewed as beneficial through aiding efficiency in communication and connectivity between government departments and related service providers.

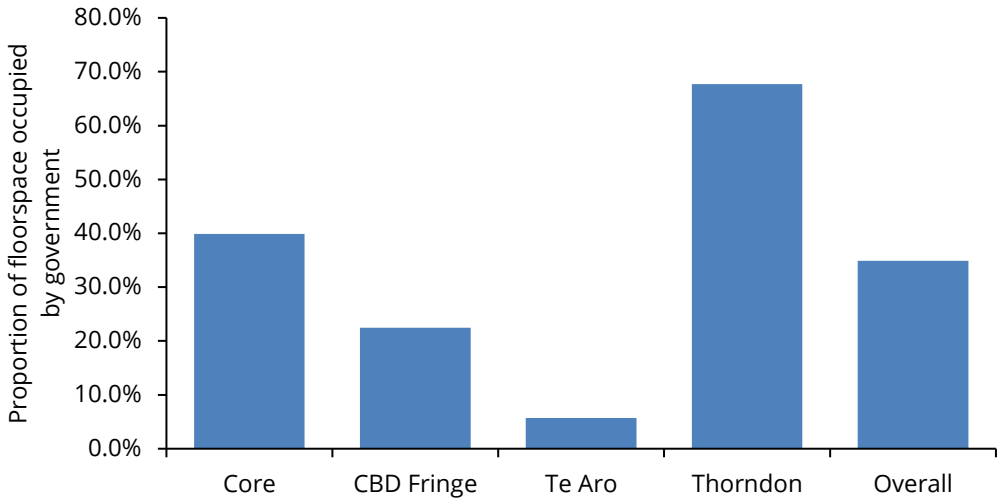
As discussed in section 4 of this report, a greater degree of decentralisation within the public sector is under investigation. This is, however, likely to be a long-term project. Government departments will collectively continue to be the largest single occupier of office space within the CBD.

As at June 2020, government entities occupied approximately 35% of the city's office space equating to a total floor area of just over 500,000 sqm.

Thorndon is the precinct most heavily influenced by government occupation with approximately 68% of total floorspace occupied by the public service sector.

The scale of occupation by government acts as an insulator within the market during economic downturns, moderating volatility in overall market vacancy rates.

FIGURE 101: GOVERNMENT OCCUPATION BY PRECINCT



Vacancy rates set scene for development and rents

The tracking of vacancy rates across the CBD provides insights into the balance between supply and demand and, as a result, influences on rental trends and the viability of new development.

In order to operate effectively, a property market requires a degree of vacancy in order to provide options for companies as they launch, expand or contract. As a result, very low vacancy rates give a strong signal to the development sector that new projects are more likely to be financially viable.

Conversely, as vacancy rates rise, the potential for rental levels to run flat or fall increases, and as a result, development becomes less attractive.

Colliers International tracks vacancy via physical surveys twice per year, breaking down results by precinct and by grade in order to analyse the performance of different sectors of the market.

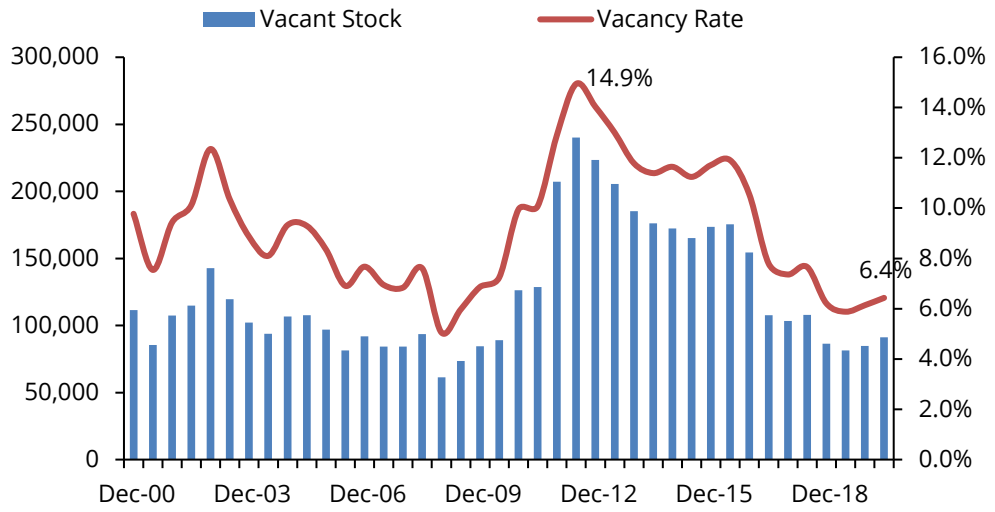
Vacancy rates rise from cyclical low

Overall vacancy rates fell significantly following the 2016 Kaikōura earthquake, which, as discussed above, saw a number of buildings removed from the city's inventory.

While the reduction in stock clearly exacerbated the situation, a trend of falling vacancy rates had been apparent since the end of 2012. At that time, vacancy had reached 14% with just over 223,000 sqm of space being available to the market.

Colliers International records indicate that vacancy rates of and in excess of 10–11% or more result in downward pressure being exerted upon rental levels.

FIGURE 102: CBD OFFICE VACANCY



Source: Colliers International Research

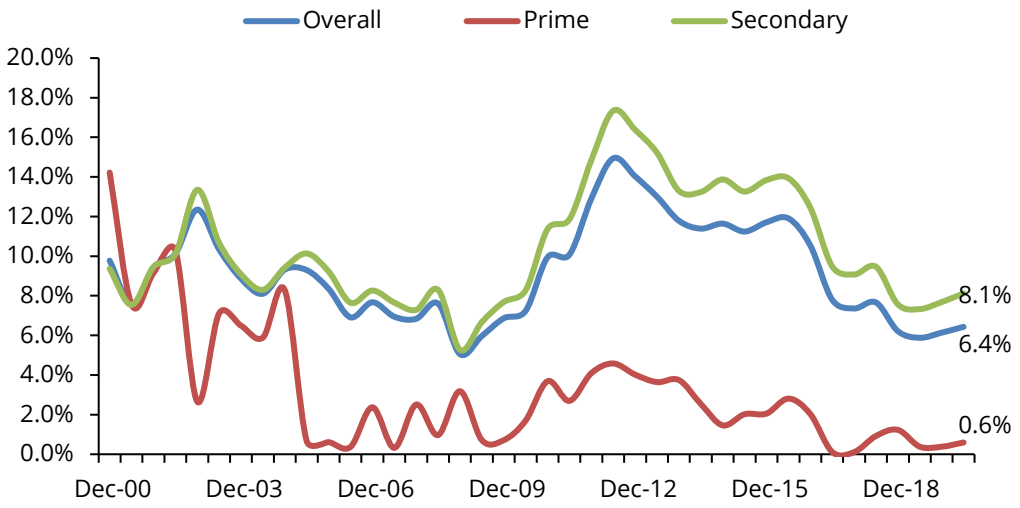
By mid-2019 the overall vacancy rate had fallen to a cyclical low of 5.9% equating to just over 81,000 sqm of vacant floorspace.

As at the latest survey in June 2020, the overall vacancy rate had climbed slightly to 6.4% reflecting a small increase in total stock and the completion of, for example, Defence House, but also a softening of demand occasioned by the impact of the COVID-19 pandemic. The latter will influence the market for some time, particularly as the total inventory is set to increase by approximately 42,000 over the next 5 years. Colliers International forecasts overall vacancy to reach approximately 10% by mid-2023 before declining as the economy recovers.

Vacancy rates vary by grade

As outlined above, demand for higher-grade office space has outpaced that for secondary offerings. The variance in demand is clearly illustrated in the graph below, which splits out vacancy across the prime and secondary grades.

FIGURE 103: WELLINGTON CBD OFFICE VACANCY: PRIME VS SECONDARY

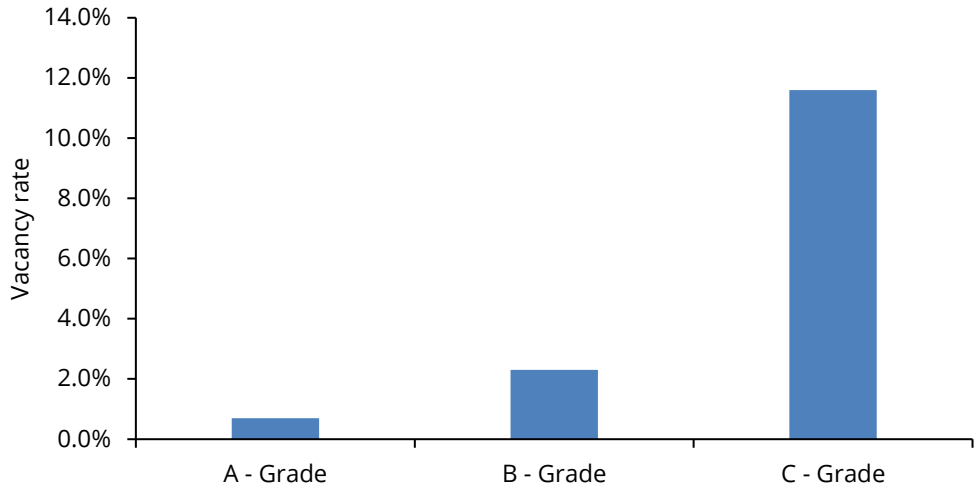


Source: Colliers International Research

While the overall vacancy rate as at June 2020 stood at 6.4%, there is a wide variation between that of prime grade space 0.6% and secondary at 8.1%.

The disparity is more clearly illustrated when vacancy by grade is analysed. As at June 2020, there was no vacant space within the Premium grade. A-grade office stock was also tightly held with a vacancy rate of just 0.6%. The proportion of vacant space increases within B-grade (2.3%) and C-grade offices, where vacancy stood at 11.6%.

FIGURE 104: WELLINGTON CBD OFFICE VACANCY BY GRADE



Vacancy rates set to climb over the short-term future

The combination of additions to stock and the economic impact of the COVID-19 pandemic will drive vacancy rates up over the short-term future.

Colliers International forecasts overall vacancy to peak in mid-2023 at 9.9%. The prime grade vacancy rate is set to remain at low levels, peaking at just under 3%. This reflects the fact that, while new development will increase prime grade vacancy rates, a majority of the new supply is being developed with significant levels of tenant pre-commitment.

Vacancy within the secondary market is projected to rise more sharply. Smaller companies, which occupy a higher proportion of secondary space, are generally more vulnerable to economic downturns, and therefore the impact of COVID-19 will be greater in this segment of the market.

In addition, some companies will take the opportunity to upgrade to better-quality space – an opportunity that has been rare over recent years given the very tight market conditions at the upper end of the quality spectrum.

TABLE 11: WELLINGTON CBD OFFICE VACANCY FORECASTS

Date	Overall vacancy	Prime grade vacancy	Secondary grade vacancy
Dec-20	6.9%	1.3%	8.5%
Jun-21	7.2%	1.0%	8.9%
Dec-21	8.1%	1.9%	10.1%
Jun-22	8.6%	2.8%	10.5%
Dec-22	8.9%	2.2%	11.1%
Jun-23	9.9%	2.0%	12.4%
Dec-23	9.2%	1.6%	11.6%
Jun-24	8.5%	1.3%	10.8%
Dec-24	8.5%	1.3%	10.8%
Jun-25	8.7%	1.5%	11.0%

Tight market conditions encouraged a development response

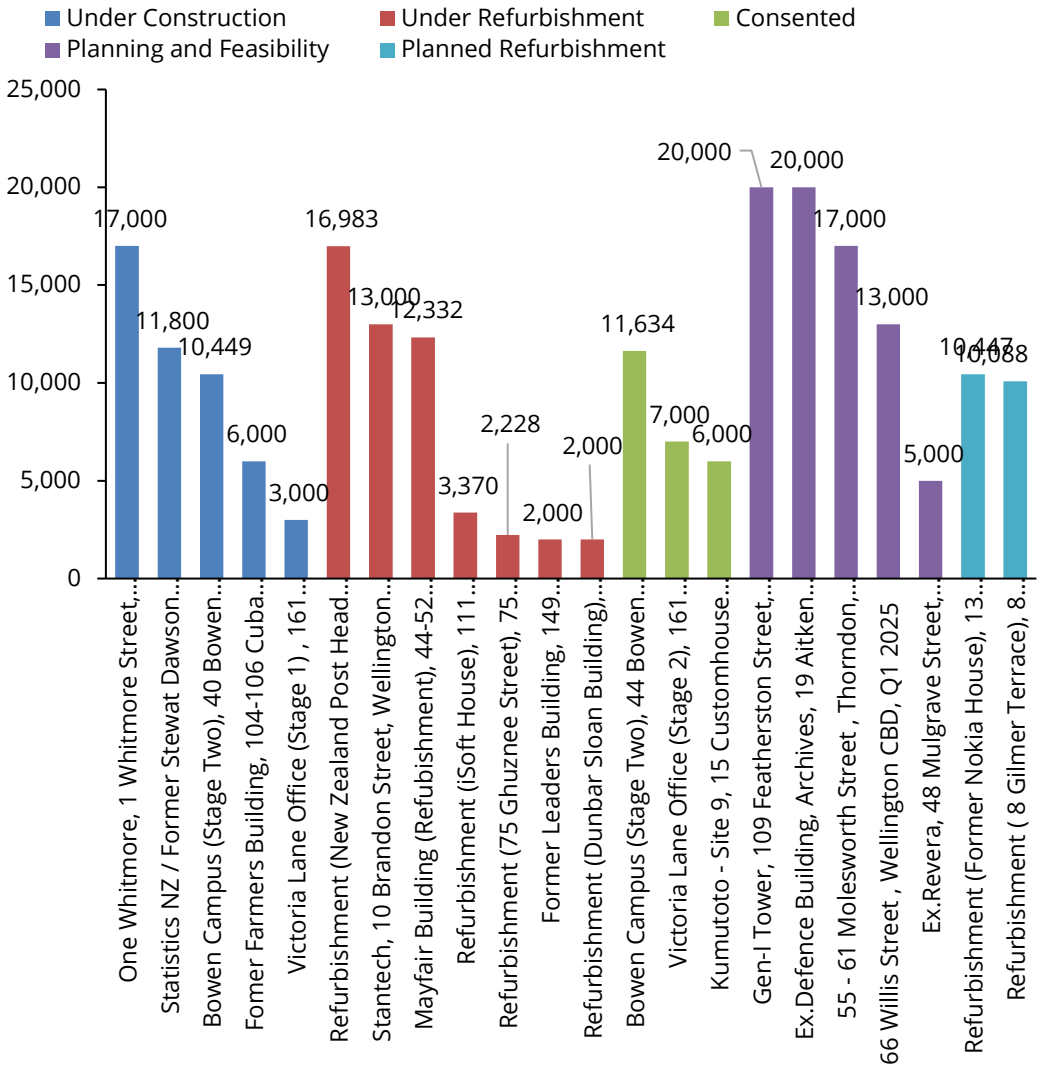
High levels of leasing demand and the enforced removal of stock from the city's inventory have driven vacancy rates, particularly within the prime grade sector of the market, to historical lows. The tight market conditions have elicited a development response that will see total stock figures trending upwards over the next 3 years.

The largest project currently under construction is 1 Whitmore Street, which, upon completion in 2023, will provide 17,000 sqm of office space leased to BNZ Bank. A new headquarters for Statistics New Zealand will see a further 11,800 sqm added at 8–14 Willis Street, while EY and Fujitsu's commitment to the Bowen Campus has triggered development of a new 10,449 sqm project due to complete in late 2022. Demand for additional prime grade stock is also being met via brownfield and refurbishment projects such as at 7 Waterloo Quay (NZ Post head office building).

New development options within the CBD are limited as vacant land is scarce. This shortage has been exacerbated by the removal of Harbour Quays land as an option given the

earthquake risk that is associated with it. Therefore, additions to total stock will predominantly be driven by brownfield redevelopment and refurbishment projects.

FIGURE 105: WELLINGTON CBD OFFICE VACANCY BY GRADE



Source: Colliers International Research

New project starts dependent on higher levels of tenant commitment

Developers have been encouraged by tight market conditions over the last few years to progress projects quickly. However, the backdrop has clearly been negatively impacted by the economic fallout of the COVID-19 pandemic and the uncertainties it has introduced to the office sector.

Tighter funding conditions mean developers will adopt a more risk-averse approach to development over the short term. Higher levels of tenant pre-commitment will need securing before major development or refurbishment schemes are commenced. While there is

potential for a number of projects within the city, the supply pipeline will progress at a slower rate than prior to the emergence of COVID-19.

Future outlook – a short-term easing of pressure

The tight market conditions that have been evident over recent years have resulted in an upward pressure on rentals, particularly within prime grade space. Between the third quarter of 2016 and mid-2020, average gross face rents for A-grade office space has increased by 16.5%.

The earthquake risk inherent with being located in Wellington has also seen significant upward pressure on insurance premiums, which has seen outgoings increase by just under 50% from an average of $94 per sqm to $139 per sqm between the third quarter of 2016 and mid-2020.

Along with extremely low vacancy rates, the above figures provide a strong indication that development of more prime grade space is required. The economic slowdown resulting from the impact of the COVID-19 pandemic and the completion of buildings currently under construction or refurbishment will, in the short term, reduce pressure on the market.

Whilst increases in prime grade vacancy is forecast to only reach just under 3%, leasing options will be supplemented by sublease options, which companies, forced to reduce employee numbers, will introduce to the market.

Therefore, in the short term, the completion of properties currently under construction and under refurbishment should meet the majority of market requirements. There are also a number of developments that can be brought to market should a specific requirement arise.

Growth in longer-term demand can be accommodated

Whilst the full extent of the economic ramifications of COVID-19 are currently unknown, prospects for a robust rebound in economic activity remain positive. This should see a resumption in demand for additional office space emerging within the next few years.

As detailed above, approximately 120,000 sqm of development and/or refurbishment potential has been identified via schemes that are either already consented, within planning and feasibility or planned.

Based on an employee to floorspace ratio of one person per 12 sqm, approximately 10,000 office workers could be accommodated if all of these projects commenced.

White collar employment within the Wellington City Council District has increased by an average of just under 900 per annum over the last 20 years.

Based upon these metrics, schemes already identified could accommodate a decade of growth as and when demand resumes, developers attain appropriate levels of pre-commitment and if the schemes reach financial viability.

3.2. Targeted expansion of the CBD

The Draft Spatial Plan for Wellington City (WCC, 2020) includes proposals for a targeted expansion of the city centre zone through the integration of several Thorndon inner residential zoned properties and the centres zoned area bordering Adelaide Road.

3.2.1 Thorndon inner residential zone change

Current character

The area comprises properties in the vicinity of Selwyn Terrace, Portland Crescent and Hobson Street/Hobson Crescent/Turnbull Street. The properties are predominantly residential with a majority of the stand-alone houses constructed in the late 19th and early 20th century.

There has been limited apartment and townhouse development along with occasional examples of conversion of larger homes to flats.

The largest individual landholdings are occupied by education providers Wellington Girls' College and Queen Margaret College.

The area's proximity to the government precinct has made it popular as a location for international embassies.

Expansion will align with the rest of the suburb but change character

The expansion of the city centre zone as proposed, would bring about an alignment of the currently residential zoned part of the suburb with the city centre zoned area to the south.

The change in zoning would permit greater intensification and the development of a wider range of properties within the area, both commercial and residential.

The character of the area will change as a result given that heritage residences will be replaced through new development.

Residential development drivers

The area is currently residential in nature with demand for housing in the area underpinned by its location, which provides easy access to the CBD and offers employment opportunities along with retail, hospitality and entertainment amenity.

The area is limited in scale and, as a result, sales activity is limited. However, prices of over $1 million have been achieved over 2019 and 2020 for a range of properties including an apartment at 28 Hobson Street, a townhouse at 32 Hobson Street and a heritage home at 14 Selwyn Terrace.

Projected population growth within the city will also bolster demand for residential property in the future.

Commercial office development drivers

Thorndon is one of the city's established office precincts. The proximity to Parliament buildings has led to many government departments leasing office space in the area. While government tenancies account for approximately 35% of the city's office market, the percentage of public sector occupation in Thorndon is approximately 68%.

Government departments also dominate occupation of the few significantly sized office developments located north of the Parliament buildings with, for example, ACC and the Ministry of Justice occupying premises in Aitken Street. The new national archives centre is being constructed on the site of the former Ministry of Defence building adjacent to the National Library.

Given the pattern of office occupation within the suburb, it is likely that demand for new office development within the central city expansion area would most likely be government based.

Demand inhibitors

Larger private sector tenants have shown little appetite to locate within Thorndon's established office sector. An expansion of the precinct is therefore likely to have limited appeal to this sector.

The primary inhibitor to development in the Thorndon extension area is the current pattern of land ownership within the area. As the area is predominantly residential in nature, land ownership is fractured and individual lots are relatively small in nature.

The largest land parcels are occupied by educational facilities which are unlikely to view relocation favourably, and therefore release of this land will be difficult to achieve.

As a result, site assimilation to allow for multi-unit development faces challenges. Such challenges are not insurmountable should sufficient demand for development exist, as has been illustrated in Auckland following the adoption of the Unitary Plan.

Multi-unit developments in the area would have to compete with those being progressed elsewhere in the city. Te Aro has become an established apartment precinct benefiting from its proximity to retail, hospitality and entertainment providers and access to inner-city beaches. While close to the central city, the Thorndon residential area does not have the same level of supporting amenity.

There is unlikely to be sufficient demand from occupiers to trigger large- scale office development within the area. As identified elsewhere in this report, medium-term demand for additional office space within the CBD can be accommodated through redevelopment and refurbishment schemes currently under way or in a position to be activated once tenant pre-commitment is achieved.

Boutique/character office space, however, is likely to be attractive to smaller-scale tenants.

Distributional effects are likely to be limited

There is little doubt that a rezoning of the subject part of Thorndon will result in increased levels of development, particularly within the residential sector. Given the inhibitors outlined above, the impact of intensification on land use is likely to occur over an extended period.

There will be limited significant impact on the existing pattern of commercial office development. Residential projects will be in addition to rather than replacing residential projects occurring elsewhere in the city. Existing patterns of land ownership preclude greater development levels. There will be growth in the local population, which will increase demand for retail amenity. This will likely take the form of smaller store-based convenience retail, given foot traffic in the area and fractured land holdings.

3.2.2 Adelaide road zone change

Adelaide Road zone change – current character

Adelaide Road, running south from the Basin Reserve, is a mixed-use precinct comprising a wide range of properties including secondary strip retail, trade wholesale, service stations,

auto trade outlets, industrial units, small offices and residential premises. To the west of Adelaide Road is Mount Cook – a suburb predominantly residential in nature. To the west of the proposed zone change area, there are large expanses of open land comprising school grounds and Alexandra Park.

Zone change will accelerate change of use

Industrial users close to the central city have become rare in recent years, replaced by higher-value end uses. The proposed zoning change allowing for more intensive development in the area will accelerate this process given underlying land values will increase to reflect additional development potential.

Mixed-use development drivers

Proximity to the CBD and projected population growth will underpin demand for increased residential development. Views to the east of Adelaide Road over parkland would add to the appeal of medium-rise apartment development in the area.

Changes in zoning will see increased development potential, which will provide increased opportunity for the repurposing of buildings that have become either functionally or financially obsolescent, particularly industrial buildings. Mixed-use development with ground floor retail with residential above will see a lift in the quality of building stock in the area.

Distributional effects will follow existing trends

The most likely consequence of the proposed change in zoning will be a reduction in the presence of industrial users in the area. As discussed above, however, this will merely reflect a trend that has been evident for some time. By way of example, the influence of industrial premises within Te Aro has declined over an extended period, replaced by higher and better users. An increase in the local resident population deriving from multi-unit development will increase demand for local services, which will both support existing retail businesses in the area and underpin the development feasibility for mixed-use elements within new development projects.

3.3. Business areas and centres

Viability of above ground floor commercial activities

Assessing the viability of commercial activities above ground level in Wellington City Council's centres and B1 and B2 zoned business land requires the consideration of the highest and best use of the development at multiple levels and the maximum returns achievable.

Bid rent theory and the relationship between location, popularity, access and the ability to achieve higher rental levels are the foundation for retail properties at ground floor level. These retail premises will typically command the highest rental rate within a multi-storey commercial or mixed-use development. For example, the greater the visibility, ease of access and potential customer base, the higher sales conversion rates and the higher rent payable. Conversely, the less visible or further the distance from these conditions, the lower the rent achievable.

While there are exceptions (e.g. gyms, online retailing capacity), rarely is it commercially viable for above ground floor commercial space to be leased to retailers in the Wellington City

Council District. Typically, only in high-density locations such as in the CBD and major shopping centres are vibrant and commercially successful retail properties situated above ground floor. Typically, the ability of an occupier to pay rent for above ground floor commercial activities will be office space users who do not need to be as visible or place as greater reliance on pedestrian and traffic counts for income purposes.

TABLE 12: WELLINGTON CENTRAL OFFICE FINANCIAL INDICATORS BY LOCATION – Q2 2020

	Gross face rents ($/sqm pa)		Outgoings ($/sqm pa)	
Precinct	Low	High	Low	High
		A-Grade		
Core	660	850	150	200
Core	550	660	150	200
Fringe	450	560	100	150
Thorndon	450	535	100	135
Harbour Quays	N/A	N/A	N/A	N/A
		B-Grade		
Core	385	535	100	150
Fringe	330	470	85	120
Thorndon	310	435	80	100
Harbour Quays	N/A	N/A	N/A	N/A
Te Aro	260	400	80	90
		C-Grade		
Core	285	390	80	90
Fringe	240	340	80	85
Thorndon	250	320	70	75
Harbour Quays	N/A	N/A	N/A	N/A
Te Aro	185	275	70	80

TABLE 13: WELLINGTON CENTRAL RETAIL FINANCIAL INDICATORS BY LOCATION – Q2 2020

Precinct	Gross prime rents ($/sqm pa)		Gross secondary rents ($/sqm)		Prime operating expenses ($/sqm)		Secondary expenses ($/sqm)	
	Low	High	Low	High	Low	High	Low	High
Lambton Quay	1,895	2,292	535	640	250	390	187	250
Willis Street	895	1,573	N/A	N/A	160	250	N/A	N/A
Courtenay Place	770	1,005	N/A	N/A	105	155	N/A	N/A
Cuba Mall	709	1,199	N/A	N/A	120	178	N/A	N/A

Assuming fully leased at market rates, 100 200 sqm shop.

Source: Colliers International Research

Increasingly, the ability to generate the highest returns, maximise density, reduce latent development potential and increase the rate of project viability is through mixed-use developments, comprising a mix of retail, office and residential uses.

The addition of residential use in multi-storey or mixed-use developments provides an alternative higher end use and potentially increases the pool of customers for the development's retail and office premises. The ability to sell individual residential apartments in the development also assists in the overall commercial viability of the project.

Mixed-use developments can also assist in efficiently accommodating long-term projected population growth, while taking advantage of existing infrastructure, amenities and services.

In the case of Wellington, mixed-use developments also assist with the limitations in easily developable land due to the high proportion of mountainous terrain across the district.

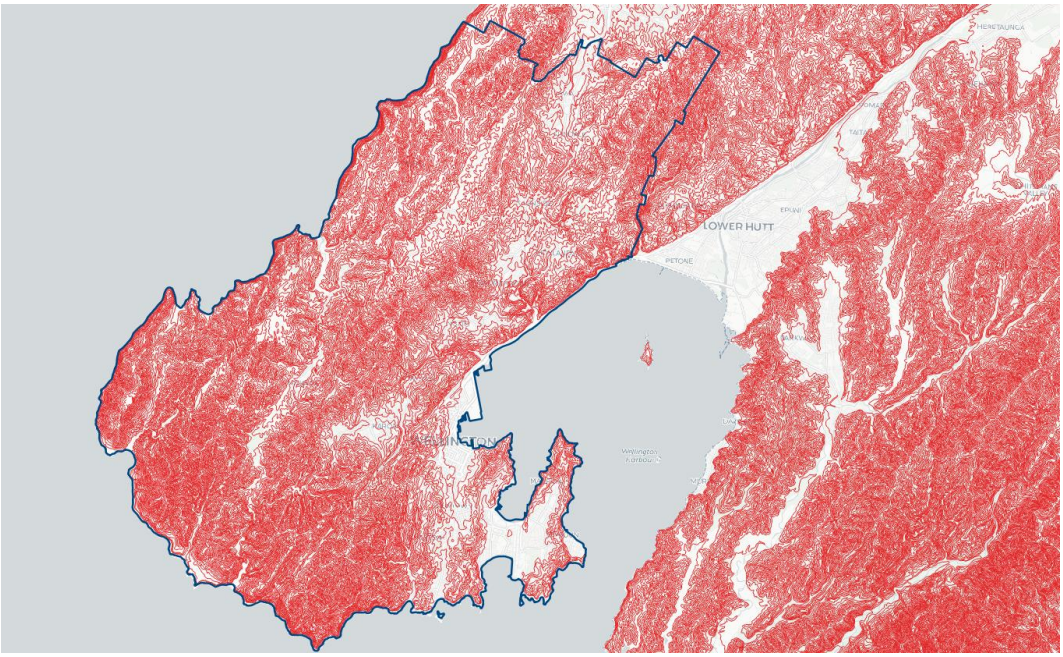
TABLE 14: WELLINGTON INDUSTRIAL FINANCIAL INDICATORS BY LOCATION – Q2 2020

	Seaview	Grenada	Miramar/ Rongotai	Ngaurang a	Petone/ Alicetown	Porirua	Naenae/ Wingate
Average gross prime rentals ($/sqm pa)*							
Office							
Low	147.5	137.5	125	150	150	132.5	127.5
High	172.5	167.5	145	180	175	147.5	157.5
Warehouse							
Low	112.5	105	95	122.5	120	107.5	97.5
High	132.5	130	110	142.5	140	117.5	117.5
Average gross secondary rentals ($/sqm pa)**							
Office							
Low	102.5	107.5	107.5	125	132.5	107.5	92.5
High	127.5	132.5	122.5	157.5	157.5	122.5	102.5
Warehouse							
Low	77.5	92.5	82.5	102.5	102.5	82.5	67.5
High	102.5	107.5	92.5	117.5	117.5	92.5	82.5
Prime outgoings* ($/sqm)							
Low	25	25	30	35	35	25	30
High	30	30	35	35	35	30	30
Secondary outgoings* ($/sqm)							
Low	22.5	22.5	27.5	27.5	27.5	22.5	22.5
High	27.5	27.5	32.5	32.5	32.5	27.5	27.5

* Assumes freehold where appropriate.

** Based on net combined rents of warehouse and office rents (assumes warehouse/office ratio of 80/20) and assuming fully leased at market rates.

FIGURE 106: MIXED-USE DEVELOPMENT ASSISTS WITH WELLINGTON'S TOPOGRAPHY



Source: Colliers International Research

Market trends and distributional impacts on business areas and centres

The combination of population growth, higher residential, commercial and industrial property prices, higher land values and a structural shift in the increase in food retailing and hospitality services have modified retailing activities in business areas and centres across the Wellington City Council District.

Trade retail, large-format retail and some customer-facing light industrial activities such as mechanics, repair workshop services and similar that operated in CBD fringe locations are progressively being priced out by higher and better uses for the land. Over time, we have seen a shift of these services into business areas and centres.

Some of this distributional effect has been accommodated through appropriate planning changes and existing controls. However, careful spatial planning and adequate distribution of these retail activities across the district will be required given population growth expectations that will require further residential accommodation and retail services.

This may require the additional release of business land for these retail activities in the future, concentrated in areas that complement existing activities and supported by strong transport networks and in proximity to existing or future highly populated suburban locations. These areas have in part already been clearly identified given the topography of Wellington, existing and proposed infrastructure and major transport networks, the Spatial Plan and recommended development objectives outlined in the NPS-UDC.

3.4. Conversions and impact on commercial space

What drives conversion projects?

The repurposing of buildings from an existing use to another use is common within established cities and reflects a wide range of market dynamics.

Changes in demand within localities is a key driver as is the ongoing suitability of a particular building for its traditional use. In respect of office buildings, a change in use becomes more likely when demand for office space of the quality provided by the existing building in the location it occupies declines. In addition, unless buildings are regularly updated and upgraded, they can become functionally redundant or obsolescent, leading to a reduction in the rental rates that the property can command.

Should these coincide with an increase in demand for residential accommodation, conversion becomes more viable.

Over recent years, various city councils have encouraged an increase in resident population in order to boost demand for the retail, hospitality and entertainment providers located within the city centre. Central-city living also reduces the strain on infrastructure with a lower number of people who have to commute to the city for work.

The demand for central-city apartment living has increased. However, a lack of vacant land acts as a constraint upon development of new properties so the prime development option is often conversion of existing uneconomic buildings to economic uses.

Demand drivers, population and escalating property values

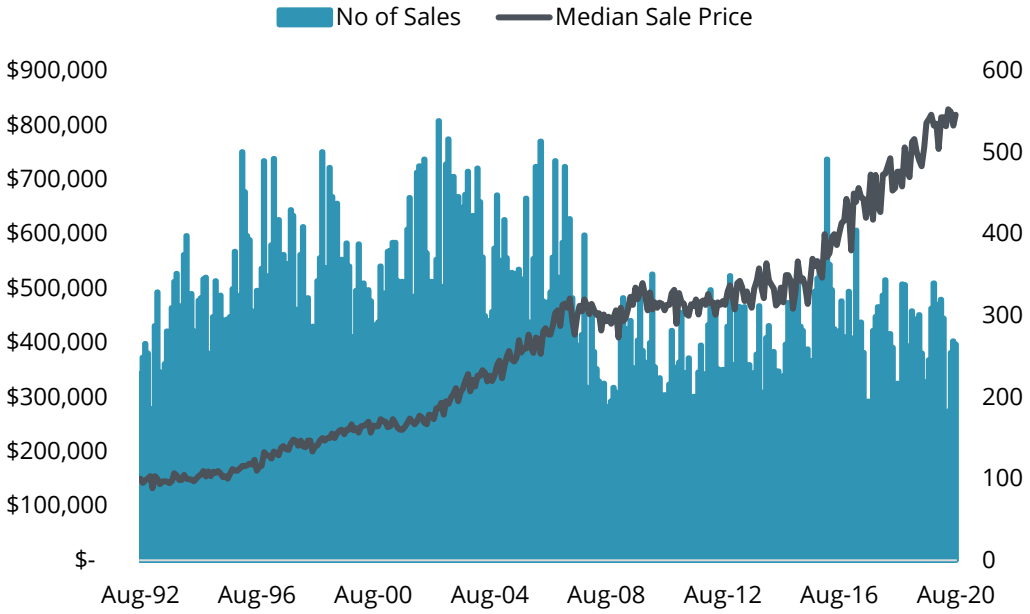
Wellington City Council is forecasting growth in population of between 50,000 and 80,000 people over the next 30 years, which will strongly underpin demand for housing within a district that has a housing shortage.

Ministry of Business, Innovation and Employment figures reported in 2017 put Wellington's housing shortage at just over 9,300 homes.

Population growth, the housing shortage, low interest rates and a long period of economic growth have fuelled residential house value appreciation within the Wellington City District.

Real Estate Institute of New Zealand (REINZ) statistics show that the district's median residential sales value had reached $825,000 as at the September quarter of 2020, up 37.5% over the last 5 years.

FIGURE 107: WELLINGTON CITY COUNCIL DISTRICT RESIDENTIAL SALES TRENDS

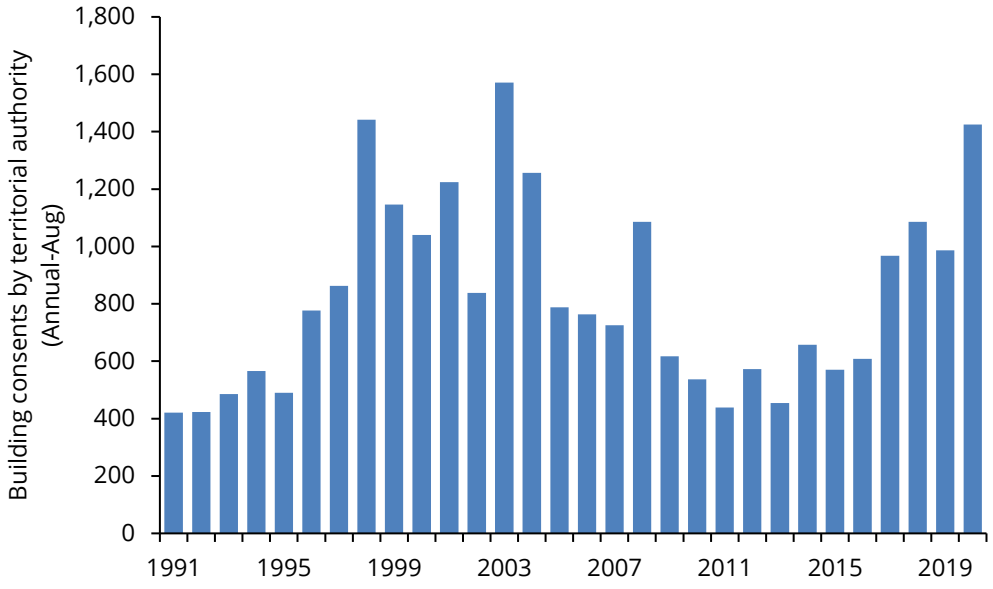


Source: REINZ, Colliers International Research

Apartment prices have also trended up over the last 5 years with the median sales value as at the end of the September 2020 quarter at $660,000.

The uplift in apartment values has increased the financial feasibility of conversion projects. The potential buyer pool has also expanded given the more 'affordable' housing option than suburban houses.

FIGURE 108: WELLINGTON CITY COUNCIL DISTRICT APARTMENT SALES TRENDS



Drive for affordable housing adds impetus

Escalating house prices and residential rents in the Wellington City District has raised concerns that key city workers such as government employees, nurses, teachers, police and hospitality sector workers were finding it increasingly difficult to secure affordable accommodation in or close to the city.

An increase in inner-city living options has been identified as a potential solution to the problem. In order to stimulate activity, Wellington City Council has partnered with private developer the Wellington Company to progress new projects.

A pilot scheme has been launched that comprises the conversion of previous office space (Freemason House) at 195 Willis Street, Te Aro, to 52 apartments over seven floors. Wellington City Council has taken a 15-year lease agreement over the apartments, which it will, in turn, sublease to occupational tenants. It is envisaged that further schemes will be progressed using the same business model.

Do such schemes signal viability for build to rent?

While the example of 195 Willis Street is a council-led initiative, high levels of demand for long-term rental accommodation within the city may prove attractive to private sector developers.

The build to rent (BTR) sector is in its infancy within New Zealand. However, it is established in many other international markets, particularly the UK.

BTR properties are typically owned by institutional investors and managed by specialist operators. Generally, BTR properties are only available as long-term rentals (3–7 years) and are purchased by investors who own shares in the development, meaning that you do not own an individual unit.

Shareholders are paid dividends based on the number of shares owned, with the units rented out to the public. Unlike a typical fixed-term tenancy, the tenant will be free to give notice when they choose. For tenants, this means they have long-term security without the fear of being ousted by the landlord.

Tenants will also have the benefit of living in tailored apartments where maintenance requests will be dealt with immediately rather than having to deal with a private landlord who doesn't want to spend the money and often takes the least expensive option available to them.

Therefore, the tenants in BTR accommodation will be living in a superior product, paying a set rent that increases usually in line with inflation, and they do not have to worry about dealing with landlords who refuse or who cannot afford to maintain the property.

The introduction of BTR development in Wellington could provide a new source of investment funding for residential development within the city.

Secondary grade stock the main target

As stated above, a decline in the demand for office accommodation is one of the prime drivers of conversion projects. As rental returns fall away, building owners are forced to assess what the highest and best use for the building is given current and likely future market trends.

As highlighted within the commentary on the city's office sector earlier in this report, tight market conditions have seen the rental values of prime grade buildings increasing significantly over recent years.

Secondary grade buildings have not experienced the same trend, particularly within C-grade premises where vacancy rates are the highest and set to trend upwards as the economy slows due to the impact of the COVID-19 pandemic.

It is not surprising therefore that it is C-grade office stock that has been the prime target for developers, particularly if it is well located for residential use.

While C-grade office premises lend themselves to conversion in a number of ways, not all will be suitable. Developers will consider a wide range of parameters including the layout of floorplates and whether these lend themselves to residential accommodation. For example, the building would preferentially have a central core with a central lift so apartments can be positioned around the outer position of the floorplates offering the best views and light.

Earthquake-prone buildings are clearly unattractive for residential purposes. Developers would need to budget for the additional cost of strengthening as part of the project.

Te Aro – a favoured location

The area's location at the southern end of the CBD, close to the inner-city beaches and benefiting from easy access to retail, hospitality and entertainment amenities, makes the area a desirable residential location.

Te Aro also provides apartment developers with a large number of redevelopment options given that a high proportion of the suburb's office stock is of poor quality and suffers from high levels of vacancy indicating a need for significant upgrading or conversion to better use.

The precinct's office stock is dominated by C-grade buildings. This part of the market comprises 91% of total floorspace. Vacancy within the sector is high at 12.6% as at June 2020.

The suburb has seen a number of conversion projects over recent years with further schemes either under way or proposed as noted below.

Current projects joining completed schemes

TABLE 15: EXAMPLES OF CONVERSION AND REDEVELOPMENT PROJECTS COMPLETED AND UNDER WAY

Address	Suburb	Development type	Floor area (sqm)	Status
219 Willis Street	Te Aro	Conversion	5,110	Completed 1986
7 Feltex Lane	Te Aro	Conversion	4,600	Completed 1997
152 The Terrace	Central	Conversion	4,300	Completed 1997
59 Boulcott Street	Central	Conversion	4,450	Completed 1987
185 Victoria Street	Te Aro	Conversion/expand		Completed 2001
33 Frederick Street	Te Aro	Conversion	2,464	Completed 2003
307 Willis Street	Te Aro	Redevelopment	1,870	Completed 2013
79 Taranaki Street	Te Aro	Conversion	4,960	Completed 2017
195 Willis Street	Te Aro	Conversion	6,800	Work in progress
45 Cuba Street	Te Aro	Conversion	728	Work in progress
267 Wakefield Street	Te Aro	Conversion	2,220	Work in progress

Impact on commercial property market likely to be positive

While conversion activity is set to become a long-term feature of the Wellington City property market, its impact on the office sector will not necessarily be negative.

As outlined above, conversion projects only become financially viable once residential accommodation becomes the highest and best use for the building. Given tight conditions in the Wellington office market, particularly for better-graded properties and the rents they can command as a result, there is typically limited incentive for building owners to look at change of use.

As a result, the primary source of stock for residential developers will be lower-graded offices that have become financially redundant or obsolescent with high levels of vacancy. Even at this stage, building owners are faced with the choice of conversion or refurbishing to a higher grade of commercial accommodation or a different use

The ultimate decision therefore will be based upon which of the options provides the highest return.

Given the high vacancy levels within C-grade buildings, their removal from commercial office stock will have limited impact upon the office sector. The movement of any remaining tenants to higher-grade space could ultimately result in a tightening of market conditions.

However, such pressure ultimately means that development of new office space becomes more viable. This will therefore lead to the emergence of new, higher-graded, more sustainable and efficient office buildings, thereby lifting the overall quality of the city's office stock.

3.5. Ground floor conversion to residential

The viability and desirability of utilising ground floorspace within multi-level developments for residential use as opposed to introducing mixed use could be dependent on a range of factors.

Prime considerations include an impact on development feasibility through end value, likely levels of purchaser demand and the impact on the desirability of the balance of the development.

Occupier demand is the key factor

Demand for ground floor apartments within city centre developments is heavily influenced by privacy, security and access considerations. In this respect, location within the development and the amenity provided are important.

Demand drivers

Ground floor apartments can provide advantages in terms of accessibility. Wheelchair access is enhanced without the need to use elevators.

Additional amenity such as a small garden as opposed to a standard deck is easier to provide and would prove attractive to some potential purchasers.

Demand inhibitors

Ground floor apartments fronting central city streets present drawbacks such as decreased privacy and, in some respects, compromised security.

Ground floor apartments facing streets are also impacted by street noise.

Ground floor retail often presents advantages

The overall appeal of an apartment development can be enhanced through provision of ground floor retail units. Having a café and/or a small restaurant on site are often seen as desirable, adding to the overall convenience that central city apartments provide.

Having service providers such as dry cleaners or hairdressing salons can also increase the appeal of projects.

Rental returns that can be derived from retail units are generally higher than those of residential premises. By way of example, MBIE residential rental data shows that the median rental for an approximate 100 sqm, two-bedroom apartment in Te Aro is approximately $600 per week, equating to an annual rental of $31,200.

CoreLogic data shows that the average sales value of a two-bedroom apartment in Te Aro, based on sales over the 12 months to September 2020, was $660,325. Sales values for apartments vary significantly dependent upon a wide range of influences such as the quality of the development, amenity and location.

When assessing similarly sized retail units, the rental for a new approximately 100 sqm retail unit within the same suburb is likely to be in the region of $600 per sqm, equating to an annual rental of $60,000.

The value of a 100 sqm retail unit, based upon assuming a yield range of 5–8% would fall between $750,000 and $1.2 million. Sales values will vary significantly dependent upon a wide range of influences such as the quality of the development, amenity, location and tenant covenant. However, under this scenario, it indicates that a fully leased retail unit could provide a more financially favourable outcome for the developer.

Streetscape vibrancy better served by retail

In areas where vibrancy and vitality are significant goals, the provision of street-facing retail units presents clear advantages over residential property. A mix of retail providers can activate streets or large public areas, such as squares or piazzas, in a way in which residential premises cannot.

Within ground floor areas that do not front public areas, however, the case for retail units is obviously far less compelling and a residential end use may well be preferable.

3.6. Decentralisation and changing workplace trends

Impact of decentralisation and remote working – the background

Coalition government policy following the 2017 election included a commitment to explore moving some government department functions from Wellington to the regions. The impetus has been ongoing growth within the public sector. Government employs approximately 55,000 full-time civil servants with around 44% of them located in Wellington.

The major benefits of the policy were seen as relieving accommodation pressures in Wellington's CBD and providing economic benefits to the regions.

Tight market conditions in Wellington's CBD has from time to time seen government departments competing for space with obvious consequences on leasing costs.

Locating government departments within regional hubs would, it was argued, share economic growth across the country with service industries and shops flourishing with more residents spending their money locally.

The policy is shaping considerations around procurement of office space

When looking to secure office premises, the public sector guidelines set out four major considerations, the first of which is clearly influenced by the above policy:

- Better connect with the community.
- Improve collaboration between departments.
- Locate within healthier, safer, more productive buildings.
- Value for money.

Progress remains in early stages

At this stage, the policy remains in the planning phase. However, a two-stage roll-out is taking shape. The first stage is likely to see government hubs opening across the Wellington Region. A number of requests for proposal (RFPs) have been issued to building owners in Hutt City and the Kapiti District.

If successful, the strategy will see buildings being leased within these district centres. In line with the second of the considerations listed above, these may be occupied by a number of departments as opposed to a single department, which has predominantly been the case in the past.

It is envisaged that stage two of the process will see greater regionalisation of the government sector with locations across the country being considered. As an example, Colliers International is aware of an RFP that has been issued to property owners in South Auckland. However, this is likely to be an exception to the rule as the emphasis of the policy is to locate within smaller cities and towns.

Impact on demand for Wellington City commercial space likely to be limited

Government occupies 35–40% of the Wellington CBD's office space and therefore underpins the city's market. Given the scale of occupation, it is unlikely that decentralisation will have a major impact on government's local office demand.

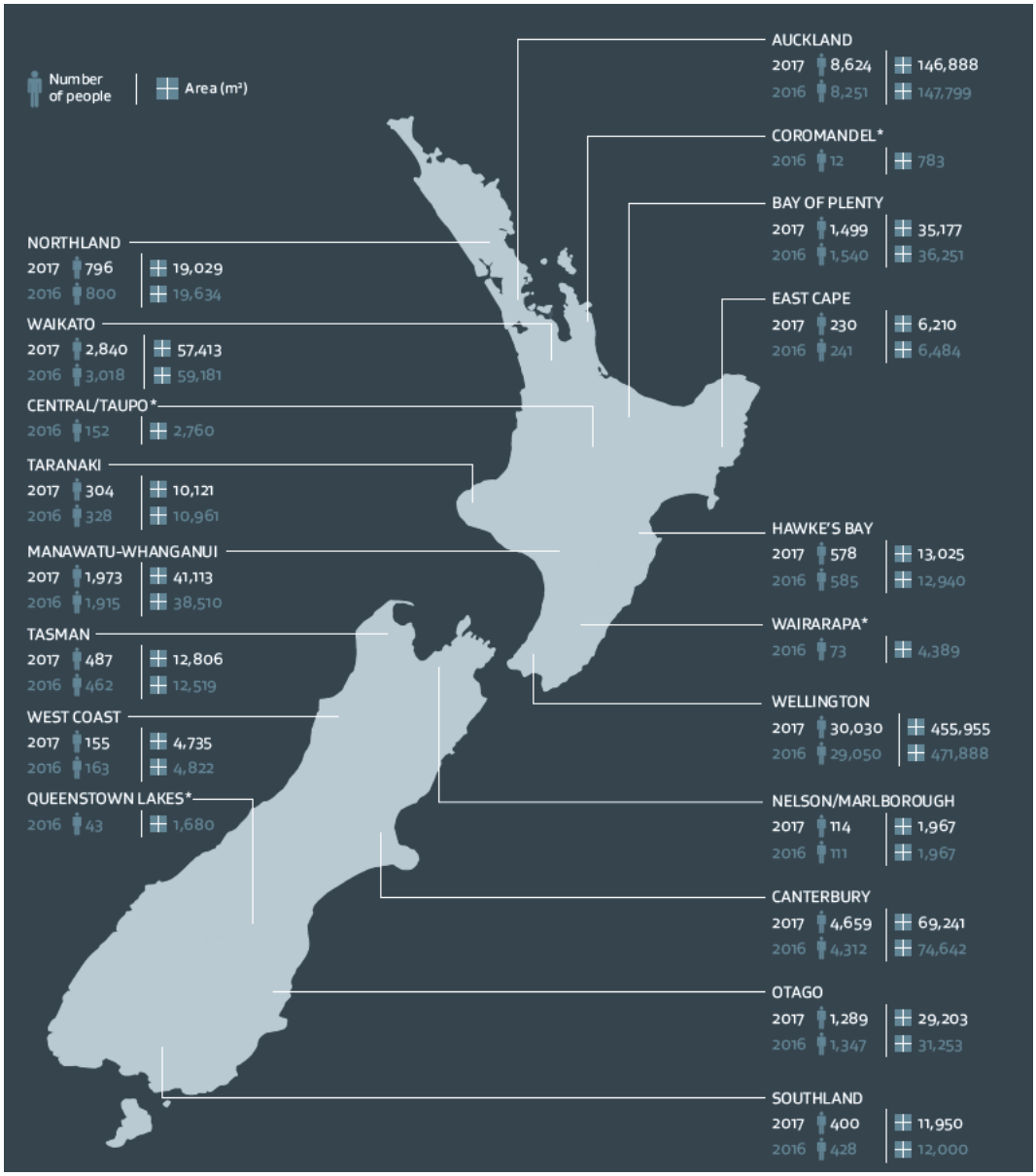
As stated earlier, one of the prime drivers behind a policy of decentralisation is the growth of the public sector. This growth is expected to continue, which will go some way to offset the impact of the decentralisation that will occur in the future.

While the ultimate scale of decentralisation is unknown, even a 10% reduction in CBD-based public sector employment would only equate to demand of approximately 3.5% of office stock.

The total floorspace occupied within Wellington has been falling, but this has been driven by improved efficiency as opposed to reductions in employment. Further efficiencies will flow from moving to more modern buildings. However, according to the Crown Office Estate Report 2017, the average floorspace per employee had fallen to 17 sqm, which was close to the target range of 12–16 sqm. This indicates that further reductions in floorspace from this workplace strategy will be limited.

The public sector workforce also provides strong support for retail amenity, particularly for food and beverage services during the working week. Once again, given ongoing growth of the public sector, decanting of some government services to the region is likely to have only a limited impact on this retail demand.

FIGURE 109: CROWN OFFICE AND PUBLIC INTERFACE AREAS



Remote working may reduce demand for retail services

COVID-19 enforced restrictions resulted in employees having to work remotely. While there have been some shifts in private sector organisations' views on their workplace strategies and the level of occupation required in the future, many are still contemplating their next steps. Further, no decisions have been made for the government sector yet as to the degree to which remote working will be permitted in the future. However, it is likely that staff will be allowed greater flexibility in both the private and public sector.

The office will, however, retain a critical role as a meeting place and hub for collaboration. While there will be a number of options that businesses pursue, it is likely that staff will be encouraged to attend the office at least 3–4 days per week and permitted to choose whether

to work remotely for the balance of the week. This will vary across businesses and teams and may change as time progresses. Maintaining productivity, culture and collaboration levels will be key considerations.

A move towards remote working and greater flexibility for staff would have an impact on the demand for retail services. Should a high number of staff that commute to the city choose to work from home 1 day per week, this equates to an average 20% per day reduction in employees entering the city. This would see a sizeable decrease in spending, especially for retailers providing food and beverage services.

While this may be a short-term occurrence, if this was to become a long-term trend, there could be a significant impact on the amount and level of all retail space required in the city centre. Conversely, there could be the opposite in outer suburbs as people work from home and require additional retail services.

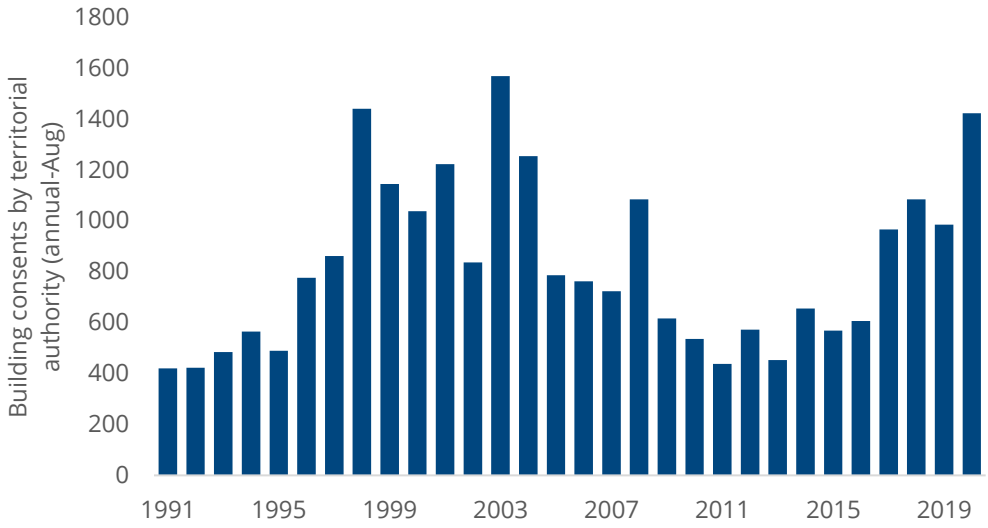
However, lower demand in concentrated areas or in similar types of premises could lead to longer periods of vacancy and lower rental rates, reducing the vibrancy and vitality of retail in the city centre. While flexibility for owners and developers will be important when planning for future activity and property use, an understanding of how much supply and the performance of each retail category currently provided could be taken into consideration to limit market impacts, increase diversity and increase overall market performance.

3.7. Latent development potential

To accommodate the forecast population growth of 50,000–80,000 people over the next 30 years in the Wellington City Council District, a range of options for developers to pursue will be required. This includes the release of new land, increase in density of existing underutilised residential sites, brownfield redevelopment of commercial sites and office to residential apartment conversions.

Census 2018 highlighted that there was an average of 2.6 people per private dwelling, indicating that approximately 19,230–30,769 dwellings will need to be constructed over the next 30 years or 641–1,026 dwellings per year. While this looks to be achievable given annual consents issued in the Wellington City Council District over the past 20 years, it does not take into consideration the current potential undersupply of dwellings.

FIGURE 110: WELLINGTON CITY RESIDENTIAL BUILDING CONSENTS



Source: Statistics New Zealand, Colliers International Research

Multi-unit developments account for just over 80% of dwellings in the CBD, according to Census 2018 data and a review of the Wellington City Council rates database. This is skewed due to single dwellings in Thorndon so would otherwise be in the vicinity of 90–95% of CBD dwelling stock. There is also a higher proportion of multi-unit developments in the Mt Cook and Newtown suburbs (approximately 40% and 60% respectively), while other suburbs across the district have approximately 80% of dwelling stock in separate dwelling configurations. Around 18% of the total dwellings in Wellington are in the CBD, according to the Wellington City Council ratings database.

This suggests that approximately 20% of the new dwellings required to meet the population growth forecast of 50,000–80,000 people in the next 30 years will be in the CBD, with over 90% in multi-unit developments. This would see around 128–206 dwellings in the CBD with 115–186 multi-unit project developments per year. Once again, this seems a reasonable expectation. However, the delivery of these projects in the central area will require suitable development capacity and a willingness from owners to redevelop their sites.

Under the proposed Spatial Plan process for Wellington City Council, city-wide estimated growth distribution figures have been provided, which were recently updated in September 2020. Rather than just District Plan settings providing a 'plan-enabled' capacity, the update takes into consideration a 'realisable' capacity including a range of market factors such as changes in construction costs, land costs and availability of land as well as the willingness of property owners to redevelop/sell their sites.

TABLE 16: SUMMARY: CITY-WIDE ESTIMATED POPULATION GROWTH DISTRIBUTION

Area		Growth potential if 100% of plan-enabled growth happened	Draft Spatial Plan projected growth figures where level of expected development uptake is applied	
City centre		*	8,182 dwellings	114 % increase on existing population
		*	18,000 people	
Inner suburbs (excluding areas that are proposed city centre zone)		7,797–12,217 dwellings	1,083–1,895 dwellings	7–12% increase on existing population
		19,431–30,441 people	2,720–4,731 people	
15 growth outer suburbs		58,205–80,022 dwellings	12,334–17,086 dwellings	26–36% increase on existing population
		153,460–210,725 people	32,424–44,890 people	
Remaining outer suburbs (infill)		1,869–2,028 dwellings	1,400–1,428 dwellings	10.8–11% increase on existing population
		4,751–5,181 people	3,452–3,527 people	
Greenfields	Upper Stebbings	500 dwellings	500 dwellings	N/A
		1,370 people	1,370 people	
	Lincolnshire Farms	1,000–2,000 dwellings	1,000–2,000 dwellings	
		2,800–5,600 people	2,800–5,600 people	
City-wide total (excluding Glenside)		69,371–96,767 dwellings	24,499–31,091 dwellings	29–37% increase on existing population
		181,812–253,317 people	60,766–78,118 people	

* As we do not yet have specific housing density types or building heights for the city centre, we do not have detailed figures for the plan-enabled growth in the city centre. The uptake figures are what we expect will be required for reasonable development. Further detailed analysis is required for the city centre.

Source: Wellington City Council

The 8,182 dwelling projected growth figure for the city centre indicates that housing capacity in the CBD is expected to be approximately 25–33% for the city-wide district, slightly higher than current ratios. While Wellington City Council is still completing modelling on the central city as well as the impact of the removal of the minimum parking requirement on expected growth distribution, it is likely that there will be a significant proportion of high-density, multi-unit developments. This development capacity will also reflect new NPS-UDC guidelines for minimum height requirements enabling development of at least 6 storeys within walking distance of the central city (Te Aro 10 storeys), metropolitan centres and rapid transit stops in the inner and outer suburbs. Some exceptions may apply due to hazard and character issues.

Given the above analysis takes into consideration market factors such as changes in construction costs, land costs and availability of land as well as the willingness of property owners to redevelop/sell their sites, it would suggest that there is unlikely to be a significant

level of latent development potential of current vacant land in the city centre. Given the rising cost of land values in the city centre, it is likely that developers will look to acquire, sell or develop land holdings when the time suits and returns can be maximised. Flexibility in development, streamlined development processes and high levels of consultation with the development community will enable the most optimal outcomes for the council in reaching projected targets. The achievement in meeting these targets will need to be carefully and regularly monitored so that an imbalance between projected capacity and actual capacity does not defer too greatly, especially as time passes over the 30-year timeframe.

While further office to residential building conversion in the city centre is likely to continue (as noted in section 4), there is a high proportion of secondary quality space and a corresponding high level of secondary quality vacancy in the office market. Current developments consented and planned provide around 10 years of potential demand. In the long term, the redevelopment of existing premises will enable higher and better use of CBD property over time, with a low likelihood of impacting commercial office and retail space requirements over the next 30 years under proposed District Plan controls.

3.8. The city centre hierarchy

Objectives

Within the operative District Plan, WCC has a Centres policy (see Table 17 for the hierarchy) that sets out a hierarchy for Centres based on their retail offer, catchment and function. The intent of the policy is to appropriately accommodate all types of retail, commercial, business and industrial activities within the city.

Vibrancy is a key objective. A successful hierarchy might also be expected to help sustain any interconnectivity between retail that has been established across the Wellington City Council.

TABLE 17: THE CITY CENTRE HIERARCHY

The Hierarchy	Locations
Sub-regional centres	Johnsonville, Kilbirne
Town centres	Karori, Miramar, Newtown, Tawa
District centres	Brooklyn, Churton Park, Crofton Downs, Island Bay, Khandallah, Newlands
Neighbourhood centres	Aro Valley, Berhampore, Berhampore-Rintoul Street, Broadway-Strathmore, Strathmore, Constable Street-Newton, Crofton Road-Ngaio, Darlington Road-Miramar, Hataitai, John Street intersection-Newton, Kelburn, Kingston, Linden, Marsden Village, Mersey Street-Island Bay, Island Bay, Newlands Road, Ngaio, Northland, Onepu Road-Lyall Bay, Oxford Street-Tawa, Roseneath, Seatoun, Shorland Park-Island Bay, Standen Street-Karori, Strathmore, Thorndon, Tringham Street-Karori

City centres are expected to accommodate significant growth over the next 30 years. We test the impacts of population growth on activity in the centres and their place in the hierarchy.

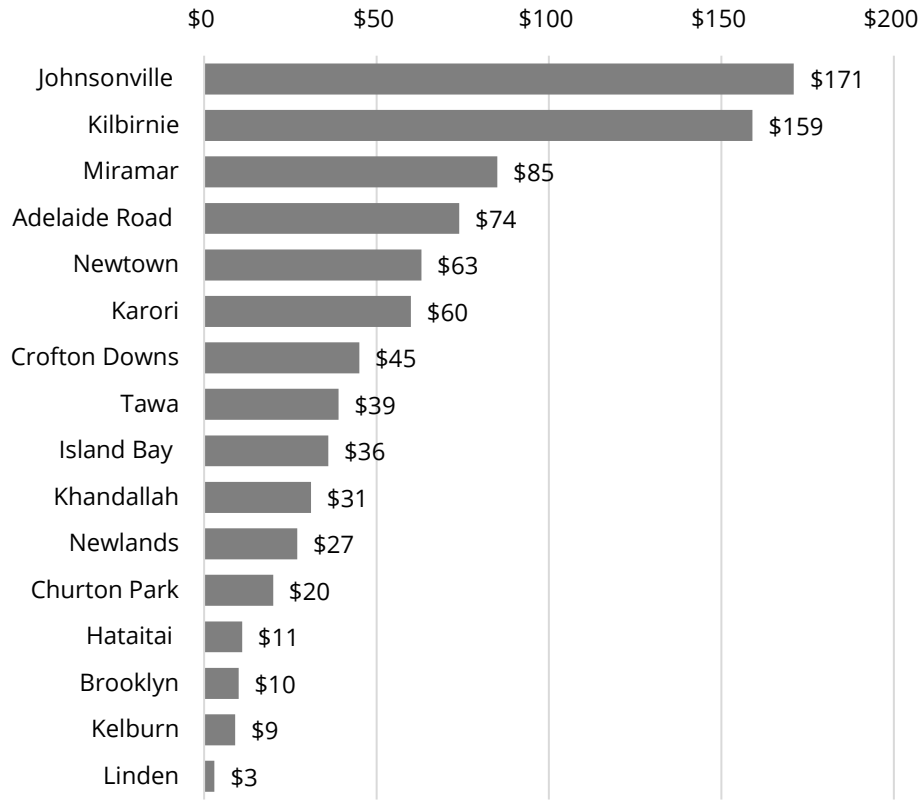
Three factors are relevant: residential demand for these locations: (i) the daytime demand for each centre (typically driven by commercial activity), the night-time population (driven by residential demand), and (iii) the quantum of population growth expected.

The current state

We use existing data on consumer spend and the number of stores to evaluate daytime activity within the hierarchy. Figure 111 shows that the sub-regional centres draw the highest retail spend across the centres. Crofton Downs captures the most spend of any District Centre, likely due to the presence of the large supermarket.

FIGURE 111: SUB-REGIONAL CENTRES ATTRACT THE HIGHEST RETAIL SPEND

Retail spend, 2018-19

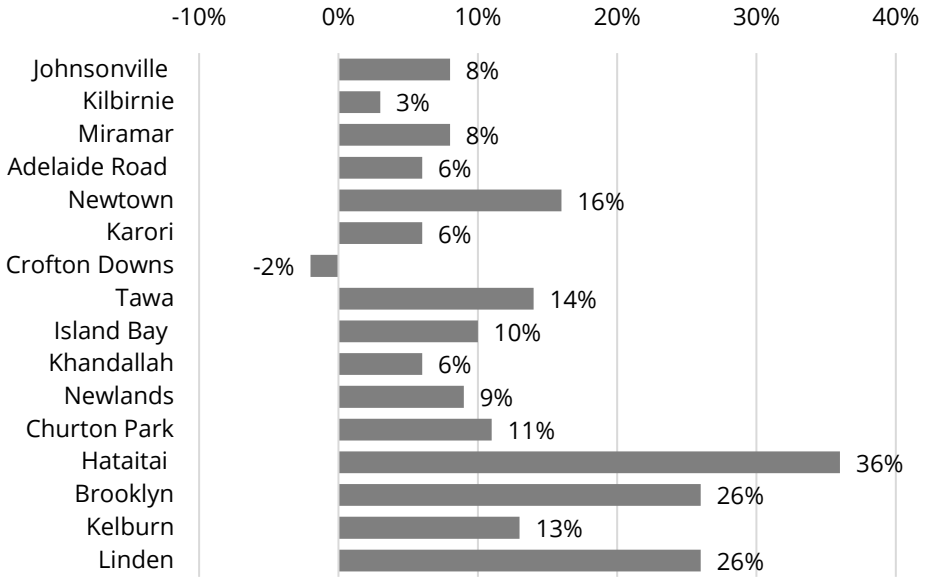


Source: Marketview

Figure 112 shows Newtown and a selection of some neighbourhood centres have posted strong retail growth over the past three years.

FIGURE 112: NEWTOWN AND SOME NEIGHBOURHOOD CENTRES HAVE GROWN STRONGLY

Growth in retail spend, three year trend to 2018-19, percent



Activity in consents – both building consents and resource consents – can help track growth areas. Figure 113 and Figure 114 reveal strong growth in Adelaide Road and Newton and to a lesser extent, Johnsonville and Kilbirnie.

FIGURE 113: BUILDING CONSENTS SHOW ADELAIDE ROAD AND NEWTON ARE ON THE MOVE

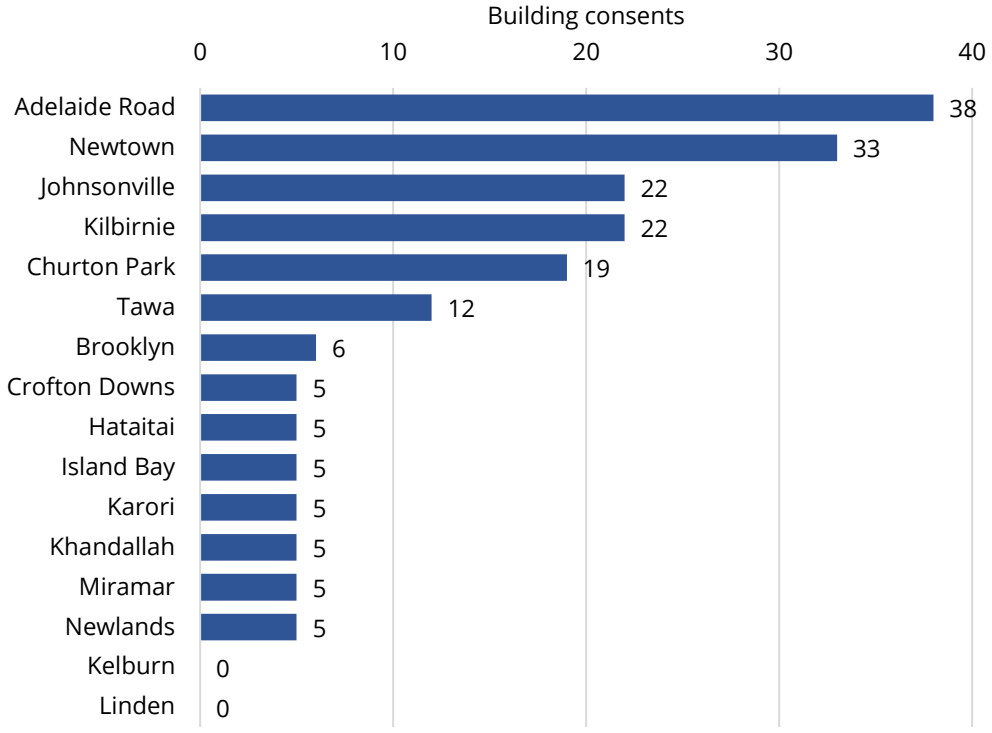
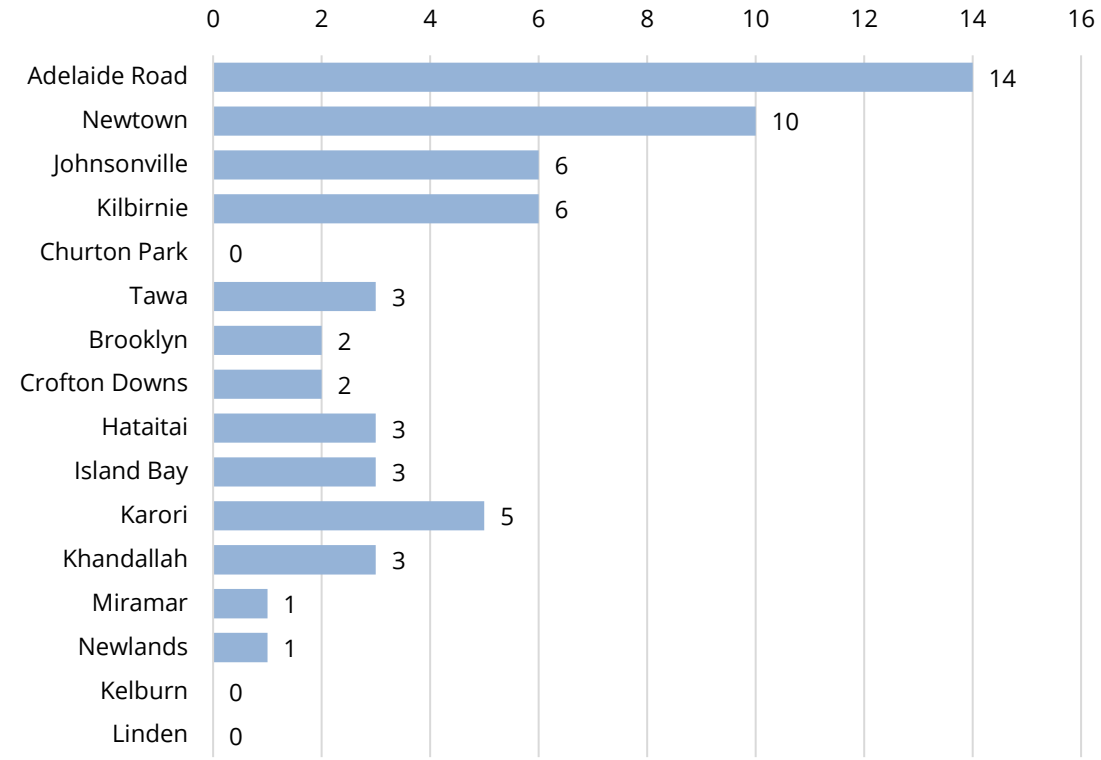


FIGURE 114 RESOURCE CONSENTS SHOW SIMILAR PATTERNS TO BUILDING CONSENTS



But there are relatively few new retail offerings coming to market in the regional centres. There is little change in the number of shops over time.

Informing the centres hierarchy

The zones within the District Plan must be consistent with the planning standards for zones revised in April 2019. Moreover, given the expected population growth, zoning of the centres should be fit-for-purpose as the city evolves.

To test the appropriateness of future zoning, we set up 5 criteria to assess each zone:

i. Total retail spend with each zone. We use Marketview data for 2018/19 to capture retail spend for each zone.

ii. The catchment area of retail for each zone.[2] We use out of zone spend as a measure of the strength of the centre to draw out of area residents to the centre.

iii. The range of retail activities in each zone. Vibrant centres have a range of retail offerings that can draw in a variety of people across different times of the day. We create a Herfindahl index of concentration of each centre based on the market share of each store types in each centre.

[2] National Standards gives explicit guidance that centres with material retail catchment outside the local zone should reside at the upper end of the hierarchy.

iv. Future population will drive opportunity for each centre to expand retail and attract out-of-zone residents. We include the level of the future population within our criteria set.

v. Density can be an indicator of where each zone should be positioned in the hierarchy with medium or medium to high building heights signalling higher positions in the hierarchy.

To ensure each measure is equally weighted and the units of measure do not bias our assessment (for example, population is measured in thousands while typical densities tends to lie between 20 and 100) we normalise each criterion to have a mean of zero and a standard deviation of one.

The approach is a quantitative one, designed to provide a guideline or cross-check to be complimented with detailed qualitative knowledge of each centre rather than a definitive answer to where each centre sits in the hierarchy.

We choose to weight each criteria equally but other choices are possible.[3] Figure 115 shows the current state of each centre, the normalised values of each criteria and the final score and ranking for each centre. We provide recommendations in the last column in the figure.

This quantitative exercise preserves Johnsonville and Kilbirnie as the top centres. Adelaide Road is ranked third, at least partially due to the high score on out of zone catchment. This is likely due to its proximity to the city , a characteristic that might be expected to support rather than hinder classification as a Metropolitan zone. Given the geographic closeness to Newtown, ranked sixth by our method, we support combining these two zones into a single Metropolitan zone.[4]

Miramar performs poorly relative to other potential centres but should be retained as a town centre. Although our method produces relative rankings, there appears a natural break between centres that score -1 or lower. We suggest Karori, Miramar, Tawa, Khandallah, Kelburn, Linden and Newlands should be town centres. The low scores we obtain for the other centres suggest Haitatai, Brooklyn, Crofton Downs and Churton Park are better suited as Local centres. We have insufficient data on Ngaio or Berhampore to make a recommendation. We suggest these centres remain neighbourhood zones.

[3] Moreover, geographic constraints and the time it takes to walk across each centre could be used as input variables or constraints on any assessment.

[4] We note that walking between Adelaide Road and Newtown takes up to ten minutes since this walk spans Wellington hospital. But the hospital should be seen as drawing people into the areas at different times of day rather than a feature that breaks up the centre.

FIGURE 115 OUR MULTI CRITERIA ASSESSMENT IS CONSISTENT WITH SOME UPZONING OF EXISTING CENTRES

Area	Hierarchy	Spend	Catchment	Activity range	Population	Future density	Assessment	Rank	Future zoning
Johnsonville	Sub-regional	2.36	0.49	0.95	1.14	0.41	1.76	1	Metropolitan
Kilbirnie	Sub-regional	2.12	0.82	1.11	-0.92	1.64	1.57	2	Metropolitan
Adelaide Road	Town	0.43	2.26	1.00	0.00	0.00	1.22	3	Town centre
Karori	Town	0.15	-0.75	0.61	2.17	-0.02	0.66	8	Town centre
Miramar	Town	0.65	-0.75	-0.56	0.29	0.31	-0.08	4	Town centre
Newton	Town	0.21	1.47	0.71	-0.14	-0.53	0.63	6	Town centre
Tawa	Town	-0.27	-0.23	0.91	1.93	-0.14	0.70	4	Town centre
Brooklyn	District	-0.85	0.69	-1.53	-0.25	-0.34	-0.81	13	District
Churton Park	District	-0.65	-1.28	-0.23	-0.30	-1.37	-1.33	16	District
Crofton Downs	District	-0.15	-0.88	0.87	-1.35	-1.32	-1.00	14	District
Island Bay	District	-0.33	-0.62	-1.71	-0.13	-0.53	-1.17	15	District
Khandallah	District	-0.43	-1.02	0.61	0.40	-0.42	-0.33	9	District
Newlands	District	-0.51	-0.95	-0.27	-0.05	-0.37	-0.77	12	District
Hataitai	Neighbourhood	-0.83	0.62	-1.59	-0.39	1.06	-0.42	10	District
Kelburn	Neighbourhood	-0.87	0.16	0.00	-0.77	1.99	0.13	7	Town centre
Linden	Neighbourhood	-0.99	-0.03	-0.87	0.00	-0.14	0.13	11	Town centre
Ngaio	Neighbourhood							No data	Neighbourhood
Berhampore	Neighbourhood							No data	Neighbourhood

* Combining Adelaide Road and Newtown into a single Metropolitan zone is supported by our analysis. We present results for each zone individually but melding the two centres suggests a ranking in excess of both Johnsonville and Kilbirnie.

Impacts of population growth

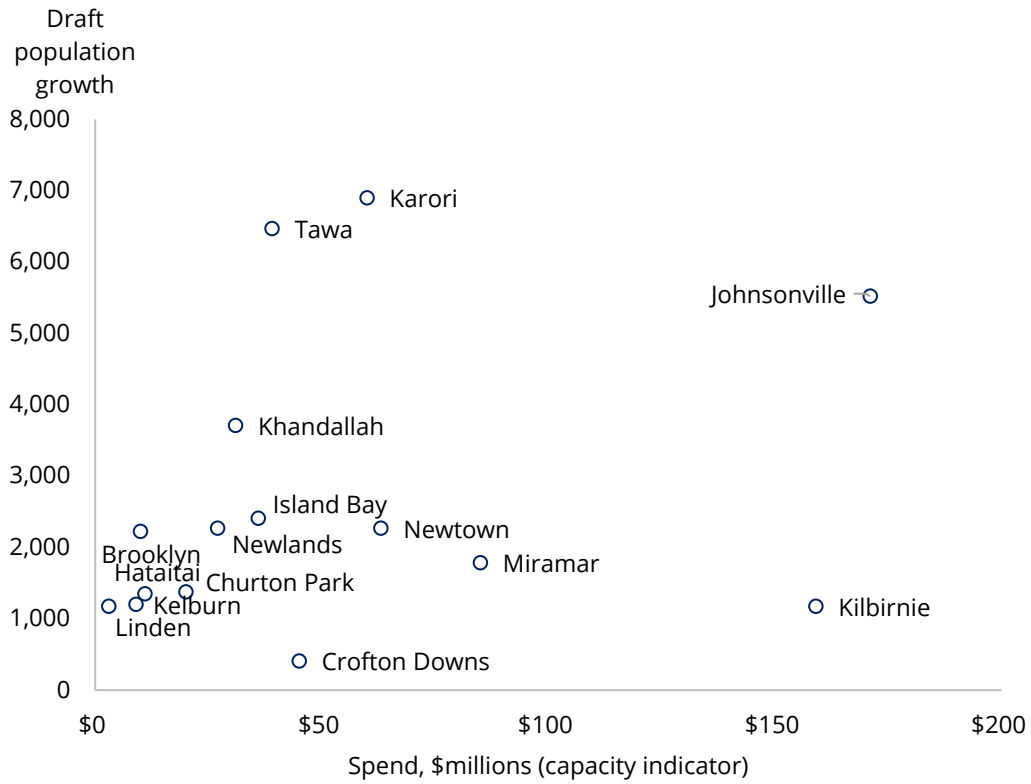
One approach to gauge any required additional space could be to use the rule of thumb of 7 square metres per household in the National Policy Statement of Urban Development Capacity (in effect to 20 August 2020).

But this approach has several drawbacks:

- the current state of spending patterns show sub-regional centres attract only a little over half their spend from local areas (57 percent for Johnsonville and 52 percent for Kilbirnie);
- bricks and mortar is increasing under pressure from online retail: a fixed rule of thumb is likely to severely miss trends in retail;
- some centres (for example Tawa and Johnsonville) already have existing retail capacity that should first be made more efficient rather than requiring additional retail floorspace.

Rather than provide a quantitative or cardinal number on retail space, we compare the average of the absolute growth across low and high population scenarios against current spend – a crude measure of existing capacity. Figure 116 shows that Karori and Tawa will add the most people relative to current spend in these centres. If any additional capacity is needed, it is likely to be in Karori and Tawa.

FIGURE 116 KARORI AND TAWA WILL HOST THE MOST PEOPLE RELATIVE TO CURRENT SPEND



Measure of success

To help measure vibrancy and success of any changes to the district plan, Wellington City Council might want to consider expanding the set of traditional indicators (such as the spend and the number of jobs) to include:

- tracing population movements across city centres;
- using more surveys to qualitatively capture what residents value; and
- increase in the range of activities businesses offer within walking distance of the city centre (using isochrones for example).

These measures are consistent with consumption benefits of density. Traditionally, economists have pointed to the production benefits of dense cities that come from the exchange of ideas between workers that are physically close to each other and the benefits of deep labour markets in big cities that facilitate detailed matches between firms and workers. For example, deep labour markets in cities can match firms that need a civil engineer qualified in specific manufacturing processes that smaller cities simply cannot provide.

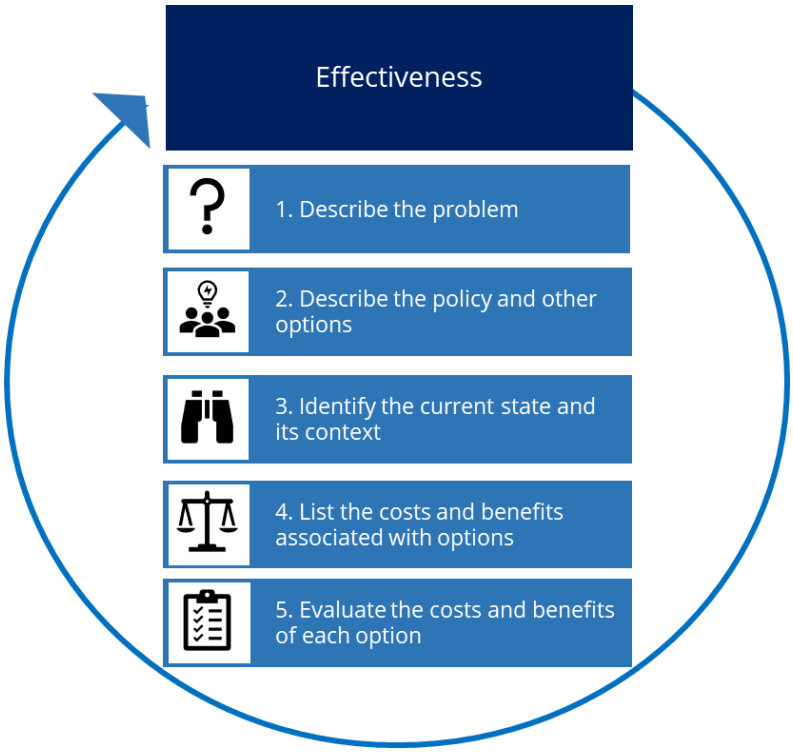
But consumption opportunities also matter. Using driving times, one US study suggests that a 10 percent increase in density comes with a 14 percent increase in the variety of goods and services available. At least for the case of the United States, research suggests a benefit of about $58 dollars per person per year – about one-third of the benefits that accrue from productivity and incomes (see Schiff 205 and Ahlfeldt and Pietrostefani 2019).

4. Assessing District Plan controls

4.1. Our framework for assessing effectiveness

We adopt a five-stage approach to assess effectiveness of District Plan controls and whether other policy options are needed. We lay out a general approach before drilling down to proposed and existing District Plan controls most pertinent to retail and demand for business land. Figure 117 shows the steps to our approach.

FIGURE 117: OUR APPROACH TO EVALUATING EFFECTIVENESS OF DISTRICT PLAN CONTROLS



4.2. Describe the problem

Big-picture context

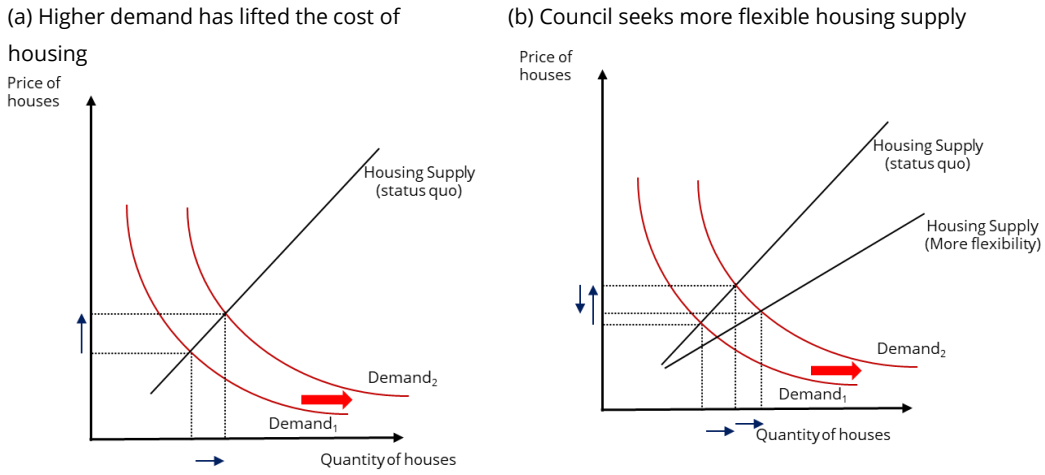
Wellington City Council's Planning for Growth programme includes a full review of the District Plan. As part of this process, Wellington City Council wants to understand whether current District Plan settings are effective, given the need to accommodate an additional 50,000–80,000 people over the next 30 years.

Recent National Policy Statements (in particular, the NPS-UDC) have required councils to increase supply by refocusing existing local authority efforts to ensure sufficient housing and business demand needs.

The prices of housing, and residential land in particular, have continued to increase in response to population growth and lower borrowing costs (see Figure 118, panel a). Many indicators point to the impact of controls on land use.

Proposed changes to District Plan controls seek to change housing supply, increasing the quantity of houses and reducing the cost of housing in the face of demand increases (see Figure 118, panel b).

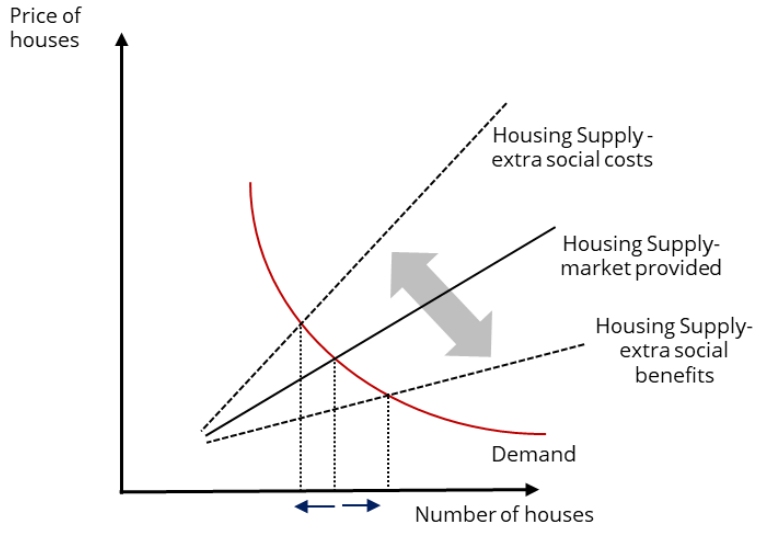
FIGURE 118: FLEXIBLE HOUSING SUPPLY ACCOMMODATES DEMAND



Impacts on retail and demand for business land

Local plans and regulations can either promote or inhibit the social costs and benefits of housing supply (see Figure 119). Some activities can carry local benefits while other activity can carry costs to residents. Within this context, a key component of this analysis is understanding the market supply, and demand trends could require changes to District Plan controls to business and commercial activity.

FIGURE 119: DISTRICT PLAN CONTROLS ADDRESS SOCIAL COSTS AND BENEFITS



Right-sized retail and business activity provides convenience of services and amenity to residents, but large-scale commercial and retail activities of particular types and in particular locations can compromise existing amenity value.

One overarching trend in the New Zealand economy is the shift from manufacturing and industrial activity towards services that can be expected to continue. This process has generated new opportunities for residential, retail and commercial activities.

Council will want to set controls to meet social benefits across business, retail, commercial and residential activities. Benefits from retail activities, include:

- preserving existing amenity
- generating diversity of goods and services
- creating vibrancy in the city centre and local communities
- providing convenience of locally provided services.

4.3. Describe the policy and other options

At least in principle, policies span the complete set of controls within the District Plan.

In practice, we examine controls that are pertinent to the business zones you seek clarity on, including Wellington centres, business area 1, business area 2 and the central area.

There are numerous other options for controls. Given the large number of potential controls, we first place controls within broad categories to simplify the number of moving parts that require attention. Nunns and Rohani (2016) suggests most planning regulations can be placed into eight categories:

- Controls on the location of urban activities (such as residential or business use).
- Controls on floor area ratios (that restrict the quantity of developable floorspace).
- Controls on the density of buildings.
- Controls on the design of buildings sites.
- Controls on the demolition or alteration of buildings or sites.
- Controls on connections to public infrastructure networks.
- Controls that manage environmental quality.
- Development and financial contribution policies that internalise some (or all) development costs.

To better assess costs and benefits, at least in the first instance, we choose to work with broad categories of controls before detailing what types of specific controls, if any, might have benefits that outweigh costs:

- Controls on the location of urban activities (such as residential or business use).
- Controls on density and floor area ratios (that restrict developable floorspace).
- Controls on the design of buildings sites.
- Controls on the demolition or alteration of buildings or sites.
- Controls on connections to public infrastructure networks.
- Controls that manage environmental quality.
- Development and financial contribution policies.

To highlight with an example how these controls can impact on the shape of the city, Box A uses a stylised framework (the Alonso-Muth-Mills model) to show the impacts of maximum height restrictions.

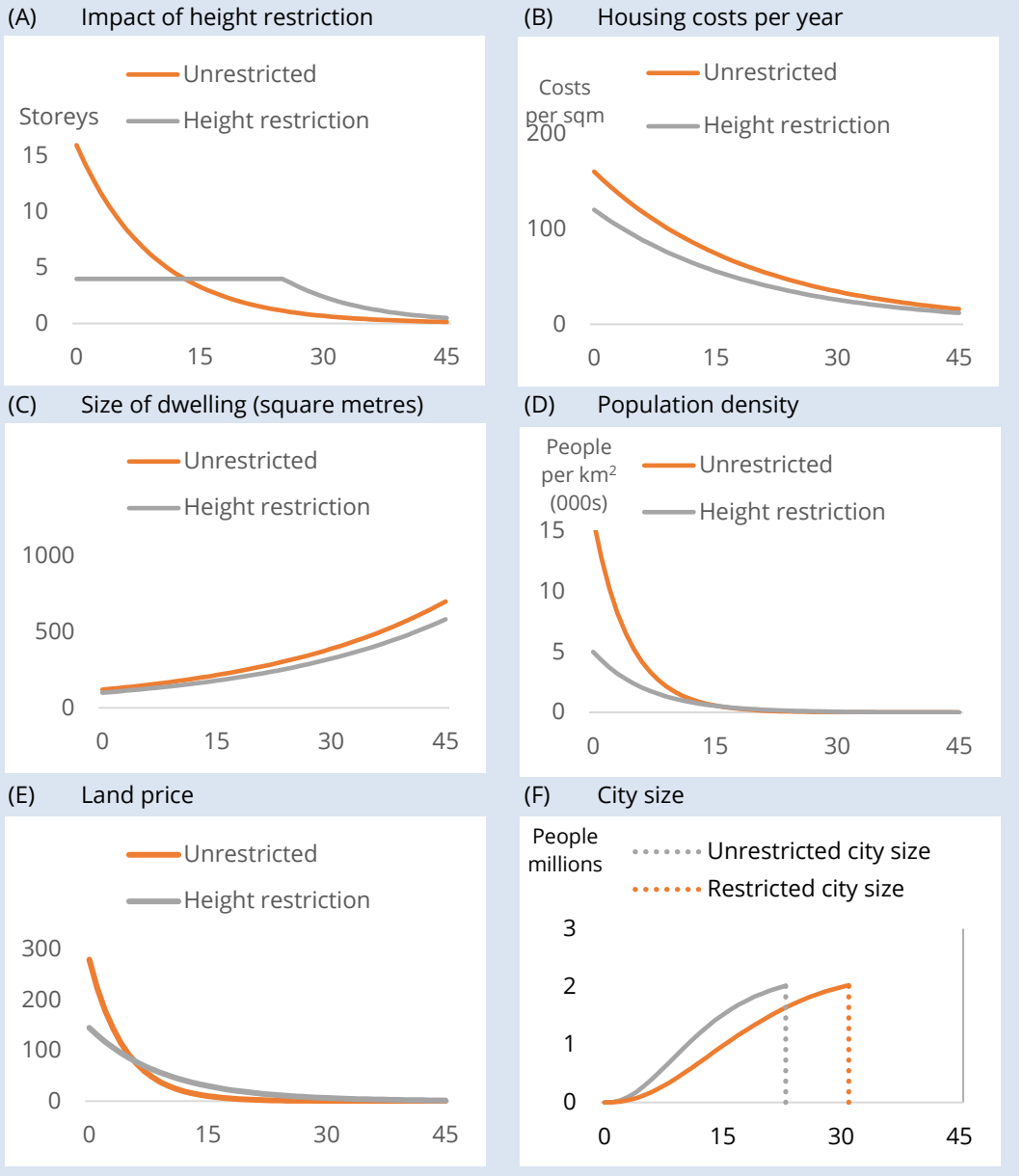
Box A: Assessing maximum height restrictions

Binding maximum height restrictions increase the cost of housing people and firms

When height restrictions bind, choices for development are restrained and costs for people to access where they live and work increase. Not only do costs increase, city size necessarily increases to accommodate people that no longer have the option to live at high density in inner-city apartments. These costs inhibit choices to live and work in proximity.

We show the implications of height restrictions in general using a stylised framework that Australian researchers have used to assess the impacts of height restrictions on a prototypical Australian city. Figure 120 shows the impact of height restrictions across six key variables.

FIGURE 120: HEIGHT RESTRICTIONS REDUCE DENSITY AND EXPAND THE CITY FOOTPRINT



Source: Kulish, Richards & Gillitzer, 2012

Costs and benefits of maximum height restrictions

One of the benefits of maximum height restrictions is mitigating the negative externality of blocking sunlight for existing residents, and maximum height restrictions give some certainty for existing residents on the form of zones.

Over time, increases in house prices and other indicators show housing markets that are distorted. It is increasingly difficult for housing supply to meet demand for housing.

This suggests the marginal cost of constraining supply is increasing while the costs of height restrictions will be flat or at most rising modestly with population growth.

Some increases in height restrictions are consistent with expected changes in costs

On balance, this suggests increasing maximum height restrictions since the marginal cost of retaining the existing policy setting are likely to exceed benefits.

We note the District Plan includes raising the maximum building height in Te Aro to 10 storeys and increasing building heights in areas on the edge of the central city to up to 8 storeys. These settings are consistent with the aims of the District Plan and promoting a compact city. The Alonso-Muth-Mills model suggests greater benefits from relaxing building heights in the centre of the city, since this release floorspace right at the peak of location demand.

4.4. Identify the current state and its context

The current state is a city centre that recently had high demand for commercial office space within the city centre but has been hit by the impacts of COVID-19.

The NPS-UDC directs Wellington City Council (and other high-growth councils) to allow building heights of at least 6 storeys in metropolitan city centres within a walkable catchment of existing and planned public transport zones unless there are listed specific reasons why development is not suitable.

The large investment signalled for the Let's Get Wellington Moving programme is directly relevant since this established a potential mass transit route from the CBD to the airport, proving opportunity to increase density along this route.

4.5. List the costs and benefits associated with options

We recommend taking a tiered approach, first identifying costs and benefits with the outcomes you wish to achieve. Then we evaluate the costs and benefits with the policies and District Plan controls to achieve the outcomes you specify. You are clear about the outcomes you want to achieve:

- There is a variety of land to suit business needs.
- Centres are enabled to be vibrant with a mixture of commercial, residential, community and recreational activities.

- Business land is not eroded by residential use and commercial floorspace in the central city is not compromised by residential conversions.
- The city centre is the focus of commercial and retail activity for the city, supported by a network of suburban centres.

4.6. Evaluate the costs and benefits of each option

Cities are complex. Many of the costs and benefits of specific District Plan controls are hard to quantify with any degree of surety. Nevertheless, we make a broad assessment of costs and benefits across categories of District Plan controls in Table 18 to Table 24.

We make assessment against each of the zones: commercial zone, mixed use zone, general industrial zone, town centre zone, local centre zone, neighbourhood centre zone and city centre zone.

One of the themes of our assessment is that additional land for retail space is not required. Instead, council could promote greater efficiency of existing floorspace rather than adding new retail space. We find fine-grained controls that set maximum GFA for each zone are not required. At least from a retail perspective, differences between neighbourhood and local centres and between local centres and town centres are likely to be small.

Minimum height restrictions are a new control relative to the existing operative plan. Rather than provide a case-by-case assessment across each zone, we provide discussion in Box B.

Minimum building heights may have some limited impacts on the efficiency of land use. But the impacts are complex, uncertain and contingent on the business environment. It is possible for minimum height restrictions to have the unintended consequence of reducing floorspace when developers delay construction. We do not recommend imposing minimum height restrictions.

Instead of imposing constraints, Wellington City Council could calculate rates on a land basis rather than capital basis. There would be winners and losers from such a policy, but such as policy would incentivise creating floorspace on land available for development.

Box B: Assessing minimum height restrictions

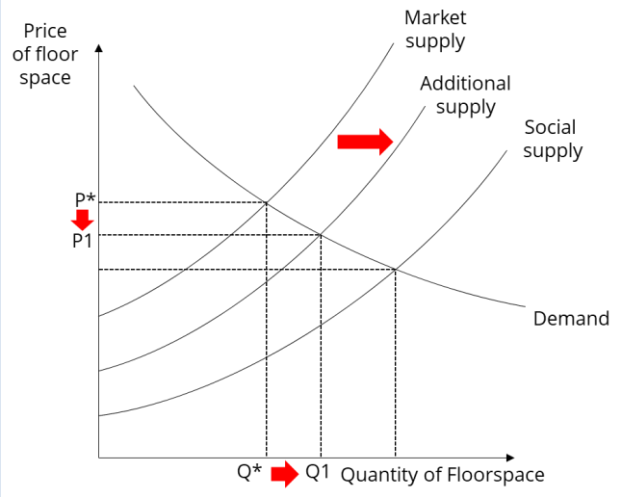
Minimum height restrictions aim to increase supply of floorspace

The Draft Spatial Plan includes minimum height restrictions in the central city area:

> "A minimum building height of 6 storeys to ensure land can be used efficiently and to best use."

The intent is to encourage developers to construct higher buildings that would provide additional floorspace on the same land parcel. If floorspace is undersupplied by the market, if successful, minimum height restrictions would increase floorspace closer to socially optimal supply and reduce the price of floorspace. Figure 121 illustrates.

FIGURE 121: MINIMUM HEIGHT RESTRICTIONS TRY TO INCREASE FLOORSPACE SUPPLY



Minimum height restrictions are rare relative to maximum height restrictions. Observations of market development of small buildings on what might be considered too small and suboptimal from a social perspective have led to minimum height restrictions appearing in a small number of jurisdictions internationally.

Minimum height restrictions need to test viability of additional supply

Minimum height restrictions can be appealing – increasing floorspace with little cost while realising what could be higher profits over the long run (see Figure 123).

But initiating minimum height restrictions may not bring about additional capacity. It may simply not be economically viable for developers to build a large building rather than a small building, leaving land parcels vacant. The relative profitability of three options matter: vacant land, constructing a small building that would not satisfy the minimum height restriction or constructing a large building that meets the minimum height criteria.

Figure 122 shows the possible cases. If constructing a large building is already more profitable than a small building, the minimum height restriction does not bind and has no impact. If leaving land vacant is more profitable, the policy does not bind and has no impact.

For case 2, where the profitability of a small building is higher than a large building, which is in turn more profitable than leaving the land vacant, the policy increases floorspace.

If case 6 applies, where constructing a small building is more profitable than leaving the land vacant, which is in turn more profitable than constructing a large building, the policy will have the unintended consequence of reducing floorspace, decreasing social welfare.

FIGURE 122: OUTCOMES OF HEIGHT RESTRICTIONS BY RELATIVE BUILD PROFITABILITY

Case	Relative Profitability			Outcome
	Low	Medium	High	
1	Vacant	Small	Large	No impact
2	Vacant	Large	**Small**	Lift floorspace
3	Small	Large	Vacant	No impact
4	Small	Vacant	Large	No impact
5	Large	Small	Vacant	No impact
6	Large	Vacant	**Small**	Reduce floorspace

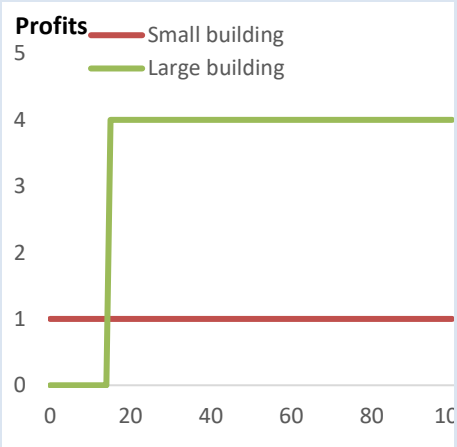
Larger buildings will sometimes be more profitable than small buildings in the long run

Large buildings will typically be more profitable in the long-run than small buildings. The OECD (2018) contrasts the profit stream from a single-storey family home (a small building) versus multi-family housing (apartments). Returns are considered zero for vacant land.

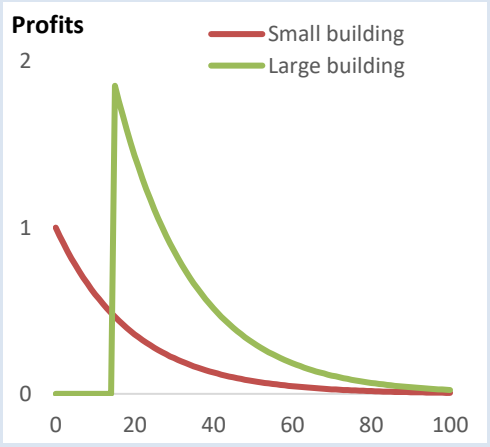
Initially, preferences for apartment living may be too low to support the economics of constructing a large building, but after time, the developer expects preferences to change and support the higher profits from the large building (see Figure 123).

FIGURE 123: LARGER BUILDINGS WILL USUALLY REAP HIGHER LONG-RUN PROFITS

(A) Undiscounted gross profit streams start higher for small buildings but returns are higher for large building once constructed



(B) Discounted gross profit streams for both small and large building fall over time



The OECD suggests development can be postponed when three factors are present:

- Developments that maximise present value of profits in the short and long run differt.
- The long-run development type is not profitable in the short run.
- Conversion costs are high enough to rule out planning to develop and maintain the short-run type with a view to being demolished and then replaced by other types in the long run.

Assessing outcomes depends on many factors – a real options framework can help

Profitability alone will not determine what gets built. The state of the market can be impacted by events, developers can have different risk preferences and the cost and access to financing can all influence what gets built when.

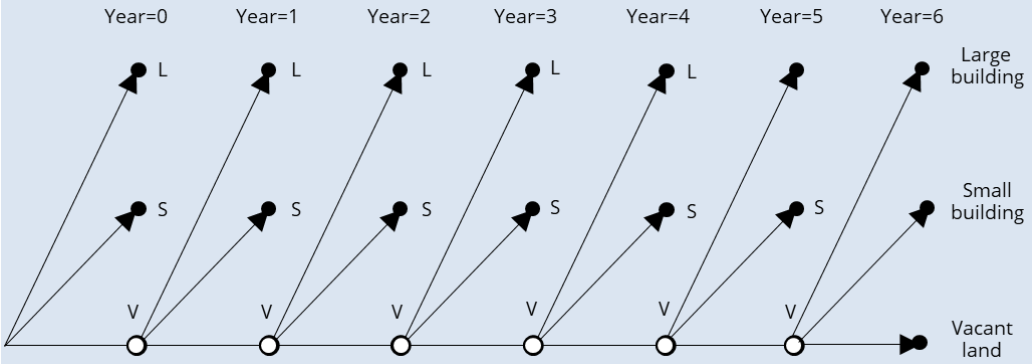
Real options analysis – a framework to assess decision making on investments when the future is uncertain – provides a useful basis for testing minimum height restrictions.

Real options analysis reveals the investment strategy that maximises market value of an asset recognising that investors have options to delay or take advantage of other investment opportunities over time. By explicitly recognising the dynamic natures of investor decision making, real options analysis can frame many real-world problems.

On the surface, since we might expect a large building to be initially unprofitable in the short run but profitable over the long run, real options analysis might on the surface suggest support for minimum height restrictions, but this is not necessarily the case as the following example illustrates.

Our example comes directly from Guthrie (2009) who considers a land development problem where, every year, a developer can either build a small building (lower than the minimum height limit), build a large building (that meets the minimum height limit) or wait and leave the land vacant. The process proceeds until the end of year 5 when the development option expires (the analysis can easily be extended to longer timeframes). Figure 124 shows the decisions the developer faces at each year.

FIGURE 124: AT EACH YEAR, DEVELOPER CAN WAIT, BUILD LARGE OR BUILD SMALL



To calculate what the developer should do, Guthrie (2009) calculates the return from each option using a backward induction method. He assumes the following about the development environment for this simple example. It costs 100 to build a small building and 250 to build a large building. Land sells for 125 if it has a small building on it. Each year, the market is equally to grow by 15% or fall by 15%. The risk-free cost of capital is set at 2%.

We show the outcomes with and without a minimum height restriction that prevents building a small building in Figure 125. Columns show outcomes for each year while each row shows outcomes for the market state. The top row shows the best case, when the market improves year on year. Each subsequent row shows draws that move the market conditions down.

Panel A shows the land value under no minimum height restriction. In the initial years, the developer delays construction until market conditions are revealed. In year 3, conditions favour a large building, denoted by the dark grey box. Weaker market conditions, associated with lower values for land with an office, favour a small building in years 4 and 5.

Panel B shows a minimum height restriction that prevents development of a small building. In this case, large buildings are optimal in years 3, 4 and 5 in good states of the market. Relative to Panel A, this opens up additional floorspace in three states of the world but loses floorspace relative since leaving the land vacant is optimal in the third market state. Minimum height restrictions imply trade-offs, gaining or losing floorspace depending on conditions. Reductions in floorspace could be an unintended consequence of imposing minimum height restrictions.

FIGURE 125: CONSTRUCTION DEPENDS ON MARKET STRENGTH AND DELAY OPTIONS

Legend					
	Large building		Small building		Vacant Land

Panel (A): No minimum height restriction							
Land value	Year						
Market state	0	1	2	3	4	5	6
0	31.72	51.33	80.70	122.76	178.68	242.98	0
1		15.85	27.71	47.14	77.44	122.76	0
2			6.12	11.85	22.55	40.93	0
3				1.36	2.99	6.56	0
4					0	0	0
5						0	0
6							0

Panel (B): Minimum height restriction							
Land value	Year						
Market state	0	1	2	3	4	5	6
0	27.68	47.16	77.70	122.76	178.68	242.98	0
1		11.78	22.37	41.43	74.14	122.76	0
2			3.02	6.63	14.53	31.86	0
3				0	0	0	0
4					0	0	0
5						0	0
6							0

TABLE 18: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: COMMERCIAL ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the commercial zone is to provide for a range of commercial activities in Wellington's suburban employment areas in order to meet demand for such activities over the short, medium and long term. Like the mixed use zone, the commercial zone enables light industrial activities and community facilities to establish and operate alongside commercial activities. In contrast to the mixed use zone, however, the commercial zone generally does not anticipate residential activity.				
Locations	The commercial zone covers existing business areas at Tawa, Ngauranga, Rongotai and Miramar. They are characterised as areas where people work, play and conduct business but with fewer day-to-day conveniences than may be available in the central city and other centres.				
Controlling location	Only allows residential activities when: • ancillary to the primary use of the site for non-residential activities or are located above the ground floor level of buildings • no net loss of available floorspace for non-residential activities • designed and constructed to provide reasonable on-site amenity • avoid reverse sensitivity effects on non-residential activities.	Manage activities in a specific location to minimise externalities.	Housing affordability.	Low-medium.	Retail offerings in Tawa, Ngauranga and Rongotai are unlikely to require additional retail or commercial space so no need to set aside additional business land. Land prices suggest demand for residential outstripping retail in these areas. Marginal social benefit of housing likely to be higher than additional retail. Consider removing clause 3 that prevents no net loss of available floorspace for non-residential activities. Keep restrictions on primary use and ground floor use to preserve amenity.
	Only allow new retail developments and large supermarkets if they will: • not result in significant adverse impacts on the viability, vitality, role and function of other centres • not undermine existing investment in infrastructure	Manage activities in a specific location to minimise externalities.	Housing affordability.	Medium-high.	Retail offerings in Tawa, Ngauranga and Rongotai are unlikely to require little additional retail or commercial space so no need to set aside additional business land. Land prices suggest demand for residential outstripping retail in these areas. Marginal social

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	• not result in significant adverse impacts on the transport network from trip patterns, travel demand or vehicle use • be compatible with adjoining land uses.				benefit of housing likely to be higher than additional retail. Recommend removing clause 3 that prevents no net loss of available floorspace for non-residential activities but keep restrictions on primary use and ground floor use to preserve amenity.
	Permitted, where the activity is: • a supermarket <1,500 sqm GFA • an integrated retail development with large-format retail activities <10,000 sqm • an integrated retail development with no large-format retail activities <2,500 sqm cumulative total GFA • not any other commercial activity. Discretionary, if compliance with the above cannot be achieved	Manage activities in a specific location to minimise externalities.	Housing affordability, amenity.	Medium-high.	Retaining existing settings is consistent with District Plan objectives of promoting well-functioning zones from neighbourhood to the central area. Not clear that any additional land is needed to facilitate retail, including supermarket and large-format retail. Recommend allowing other commercial activities rather than setting aside land for retail.
	Industrial activities are permitted if: • activity is not heavy industrial activity • any ancillary residential activity • achieves compliance with COMZ-S10 • is located above ground floor level.				Relative land prices and decline in industrial employment suggests take-up of industrial activities is likely to be low. Industrial activity continues to move towards lighter types of activity including printing and bespoke food manufacturing. Expect industrial activity in commercial zones to be increasingly dominated by retail and even residential activity. Recommend retaining existing settings to accommodate any location-specific demand for

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
					industrial activity noting that heavy industrial areas should be prohibited.
	Residential activities permitted: • where compliance with COMZ-S10 is achieved • if the activity is located above ground floor.				Retain existing clauses given shift up in relative price of residential land. Recommend removing clause 3 that prevents no net loss of available floorspace for non-residential activities but keep restrictions on primary use and ground floor use to preserve amenity.
	Community facilities and educational facilities are generally permitted.				Permit these activities.
Regulating density	Maximum height limits: • Tawa: Tawa Street – 21 m • Tawa: Tawa South – 21 m • Takapu Island – 21 m • Ngauranga: Malvern – 27 m • Rongotai South – 21 m • Miramar: Camperdown Road – 21 m • Miramar: Park Road – 21 m • Miramar: Ropa Lane – 14 m • Miramar: Miramar South – 14 m	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and reducing city footprint, see Box A	Low.	Not clear that strong externalities exist in these non-residential areas near good transport links, e.g. Tawa Street, Malvern Road. Assume Rongotai South is Tirangi Road. No clear need to manage height to city centre or harbour edge. Likely that development is not currently constrained. Consider enabling greater maximum building heights.
Controlling design	Design of new development that promotes a high standard of built form and amenity, while enabling innovation and choice in the design of new built development to respond to the functional and operational needs of activities in the commercial zone.	Increase amenity.	Raise construction costs.		Not clear that construction costs of new builds are material problem in these areas. Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	Minimum ground floor to first floor height of 4 m.	Increase amenity by preserving streetscape. Maintain building flexibility.			Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
	Minimum yard setback for buildings, structures and impervious surfaces.	Increase street amenity.			Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
Controls that manage environment quality	Discourage activities that have noxious, offensive or objectionable qualities from locating in the commercial zone.	Manage externalities.			No new information – keep existing controls.
	Ensure use and development of the commercial zone provides reasonable amenity for adjoining residential zones or other sensitive uses.	Preserve amenity.			Material since retail and job opportunities could change amenity in near residential areas. Given relative land prices between retail and residential, not clear that additional retail is needed. Expect trend towards services to increase job density. Recommend keeping control.

TABLE 19: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: MIXED USE ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the mixed use zone is to provide for the continuation of the long-standing approach of enabling a wide range of compatible activities in Wellington's suburban employment areas. The zone anticipates commercial activities of various types and sizes coexisting with light industrial activities, entertainment and community facilities. Residential and other activities that might otherwise be sensitive to the level of effects generated by the anticipated employment activities will also be authorised where appropriate.				
Locations	The mixed use zone covers existing business areas at Tawa, Glenside, Kaiwharawhara, Newtown, Greta Point and Kilbirnie. They are characterised as areas where people can live, work, play and conduct business but with fewer day-to-day conveniences than available in the central city and other centres.				
Controlling location	*Managing larger-scale retail activities* Only allow establishment of integrated retail developments and large supermarkets in the MUZ if it can be demonstrated that they will: • not result in significant adverse impacts on the viability, vitality, role and function of the central city or any metropolitan, town, local or neighbourhood centres • not undermine existing investment in infrastructure in the central city or any metropolitan, town, local or neighbourhood centre • not result in significant adverse impacts on the sustainability, safety or efficiency of the transport network from trip patterns, travel demand or vehicle use • be compatible with adjoining land	Manage activities in a specific location to minimise externalities and promote vibrancy.	Access to convenience and variety of consumption options.	Low.	Control is consistent with first making efficient use of existing retail and business land in town, local and neighbourhood centres.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	Only allow new retail developments and large supermarkets if they will: • not result in significant adverse impacts on the viability, vitality, role and function of other centres • not undermine existing investment in infrastructure • not result in significant adverse impacts on the transport network from trip patterns, travel demand or vehicle use • be compatible with adjoining land uses.	Manage activities in a specific location to minimise externalities.	Housing affordability.	Medium-high.	Control is consistent with first making efficient use of existing retail and business land in town, local and neighbourhood centres.
	Permitted, where the activity is: • a supermarket <1,500 sqm GFA • an integrated retail development with large-format retail activities <10,000 sqm • an integrated retail development with no large-format retail activities <2,500 sqm cumulative total GFA • not any other commercial activity. Discretionary, if compliance with the above cannot be achieved.	Manage activities in a specific location to minimise externalities.	Housing affordability, amenity.	Medium-high.	Retaining existing settings is consistent with District Plan objectives of promoting well-functioning zones from neighbourhood to the central area. Not clear that any additional land is needed to facilitate retail, including supermarket and large-format retail.
	Industrial activities are permitted if: • activity is not heavy industrial activity • any ancillary residential activity • achieves compliance with MUSZ-S9				Relative land prices and decline in industrial employment suggests take-up of industrial activities is likely to be low.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	• is located above ground floor level.				Industrial activity continues to move towards lighter types of activity including printing and bespoke food manufacturing. Expect industrial activity in commercial zones to be increasingly dominated by retail and residential activity. Recommend retaining existing settings to accommodate.
	Residential activities permitted: • where compliance with COMZ-S10 is achieved • if the activity is located above ground floor.				Retain existing clauses given shift up in relative price of residential land. Recommend removing clause 3 that prevents no net loss of available floorspace for non-residential activities but keep restrictions on primary use and ground floor use to preserve amenity.
	Community facilities and educational facilities are generally permitted.				Permit these activities.
Regulating density	*Comprehensive redevelopment* Enable site amalgamation and comprehensive redevelopment in the mixed use zone where the resulting scale, type and form of development: • enhances the efficient use of land and the quality of the local environment • does not undermine the role and function of the central city and other centres.	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and reducing city footprint see Box A	Low.	Could be useful enabling change in District Plan but little to incentivise concrete change as the controls stand. Consider removing consent fees for site amalgamation that meets criteria. If anything, strengthen this control to increase efficiency of land use and residential in particular.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	Maximum height limits: • Tawa: Tawa Junction – 21 m • Tawa: Redwood Ave – 21 m • Glenside – 14 m • Kaiwharawhara – 27 m • Sar Street – 21 m • Newtown South – 21 m • Greta Point – 14 m • Kilbirnie North – 14 m	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and reducing city footprint see Box A	Low.	Consider enabling greater building heights. Increase in price of residential land suggests benefits from enabling.
Controlling design	*Design of new development* Promote a high standard of built form and amenity while enabling innovation and choice in the design of new built development to reflect the diverse neighbourhood context of the mixed use zone.	Increase amenity.	Raise construction costs.	Raise constructio n costs.	Not clear that construction costs of new builds is a material problem in these areas. Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
	Minimum ground floor to first floor height of 4 m.	Increase amenity by preserving streetscape. Maintain building flexibility.			Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
Controls that manage	Discourage activities that have noxious, offensive or objectionable qualities from locating in the mixed use zone.	Manage externalities.			No new information – keep existing controls.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
environment quality	Ensure use and development of the mixed use zone provides reasonable amenity for adjoining residential zones or other sensitive uses.	Preserve amenity			Material since retail and job opportunities could change amenity in near residential areas. Given relative land prices between residential and business land, not clear that additional business land is needed. Recommend keeping control.

TABLE 20: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: GENERAL INDUSTRIAL ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the general industrial zone is to provide sufficient supply of industrial activities in order to meet the short, medium and long-term demand for such activities. The zone also allows for a limited range of non-industrial activities where they are ancillary to industrial activities or are compatible with the zone and support the role and function of the central city and other centres.				
Locations	The general industrial zone covers existing business areas at Tawa, Glenside, Grenada North, Newlands, Ngauranga, Rongotai and Miramar. It also includes land adjacent to the Southern Landfill. These areas are primarily utilitarian working environments in locations where industrial activities can operate without having to compete for land with or be interfered with by non-industrial activities requiring higher amenity standards.				
Controlling location	*Heavy industrial activities* Manage heavy industrial activities in the general industrial zone to ensure adverse effects on other activities are appropriately avoided, remedied or mitigated.	Manage activities in a specific location to minimise externalities.	Maintain standards across noise, pollution.	Potentially high.	Retain control.
	Sensitive activities Avoid the establishment of sensitive activities in the general industrial zone, except where such activities are: • ancillary to a permitted or consented activity on the same site • sufficiently insulated from noise effects of existing activities or other activities permitted in the zone.	Manage activities in a specific location to minimise externalities.	Maintain standards across noise, pollution.	Medium-high.	Retain control – consistent with managing externalities by avoiding reverse sensitivity.
	Industrial activities are permitted where: • any ancillary retail activity within some % of the GFA of all buildings on site and is limited to the display and sale	Manage activities in a specific location to	Manage noise and pollution.	Medium-high.	Retaining existing settings is consistent with District Plan objectives of promoting well-functioning zones from neighbourhood to the central area.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	of goods produced, processed or stored on the site • any ancillary office activity is located on the same site as the industrial activity it relates to • the activity is not a heavy industrial activity.	minimise externalities.			
	Industrial activities are permitted if: • activity is not heavy industrial activity • any ancillary residential activity is located above ground floor level.			Medium.	Relative land prices and decline in industrial employment suggests take-up of industrial activities is likely to be low. Industrial activity continues to move towards lighter types of activity including printing and bespoke food manufacturing. Expect industrial activity in commercial zones to be increasingly dominated by retail and even residential activity. Recommend retaining existing settings to accommodate.
	Commercial activities permitted if the activity is trade supply retail, a wholesaler, a building improvement centre, service retail, yard-based retail or a gymnasium.	Retain flexibility of site use while managing externalities.		Medium.	Retain existing clauses.
	Community facilities and educational facilities are generally permitted.				Permit these activities.
Regulating density	Maximum GFA site adjoining any residential zone of highway 4,000 sqm.	Preserve amenity.	Sunlight, views.	Low.	Expect evidence base on benefits of new design characteristics to drive decision on design controls.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
					Insufficient evidence to make recommendation.
	Maximum height limits: • Tawa: Collins Avenue – 15 m • Grenada North – 18 m • Southern Landfill – 12 m • Glenside – 18 m • Miramar: Burnham Wharf • Newlands – 15 m • Ngauranga – 18 m • Rongotai East – 12 m	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and reducing city footprint see Box A	Low.	Building height restrictions unlikely to be binding but impacts are likely to be low. Consider enabling greater building heights to allow for increased efficiency of land use.
Controlling design	*Design of new development* Promote enhancements to local neighbourhood context and amenity, while enabling innovation and choice in the design of new built development and recognising the functional and operational requirements of industrial activities.	Increase amenity.	Raise construction costs.	Medium.	Expect evidence base on benefits of new design characteristics to drive decision on design controls. Suspect the impact of existing local amenity is low in existing industrial areas. Insufficient evidence to make recommendation.
	Minimum ground floor to first floor height of 4 m.	Increase amenity by preserving streetscape. Maintain building flexibility.			Unlikely to bind for industrial activity. Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Controls that manage environment quality	Discourage activities that have noxious, offensive or objectionable qualities from locating in the industrial zone.	Manage externalities.			No new information – keep existing controls.
	Ensure use and development of the general industrial zone provides reasonable amenity for adjoining residential zones or other sensitive uses.	Preserve amenity but more likely jobs close to housing.			Unlikely general industrial zone provides amenity. General industrial zone could provide job opportunities. Clarifying the focus of the control could help implementation.

TABLE 21: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: TOWN CENTRE ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the town centre zone is to ensure that these areas will continue to be used for a range of commercial, community, recreational and residential activities and to provide support to the other centre zones by offering key services to the immediate and neighbouring suburbs of Wellington City.				
Locations	The town centres are located in Wellington City's inner suburbs (Mt Cook and Newtown) and outer suburbs (Miramar, Karori and Tawa).				
Controlling location	*Commercial activities* • Large-format retail ≤under some sqm GFA • Integrated retail ≤under some sqm GFA • Supermarket ≤under some sqm GFA • Not yard-based retail or trade supply retail • Any other commercial activity	Provide access to goods and services for consumers and employment opportunities. Enhance vibrancy.	Impacts on traffic and residential amenity.	Medium-high.	Retail and market assessment suggest sufficient space for retail in the town centres. Relative prices do not show clear case for promoting or preserving retail space even with forecast population growth for town centres. Recommend retaining existing operative District Plan controls (integrated retail developments in centres with a GFA >20,000 sqm). Additional controls are not required.
	Matters of discretion are restricted to: • whether it is more appropriate to locate the activity within a business zone • consequential effect on the range of services available to visitors and any resulting loss of economic activity to Wellington • compatibility with other activities provided for in the zone • effect on the visual quality of the streetscape and the function of the transport network.	Preserve and promote vibrancy, variety of consumption opportunities, preserve streetscape and well-functioning transport network.	Consumption opportunities, vibrancy.	Medium.	Relative price of retail land versus residential and commercial space favours facilitating flexibility across town centre zone, business zones – where amenity can be preserved. For retail, no clear evidence to support appropriateness of business vs town centre zone. Town centres generally require additional development to increase vitality. City centre has vibrancy. Favour allowing development in town centres if streetscape and transport function can be preserved. Population growth in and near town centres will help facilitate retail. Not clear that additional

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
					controls are needed to ensure retail offerings. Additional population growth will enhance efficiency of existing retail space without the need to allocate/control for additional space. Retain controls of streetscape and transport network to preserve existing amenity Recommend clarifying loss to Wellington – is this absolute, i.e. any loss or net loss to Wellington City? Recommend clarifying visitors. Are these residents that are visitors to the town centre or visitors to the city?
	Industrial activities are restricted discretionary where: • it is more appropriate to locate the activity on the fringe of a centre or in a business zone • the consequential effect on the range of services available to visitors and any resulting loss of economic activity to Wellington • compatibility with other activities provided in the zone • the effect on the visual quality of the streetscape and the function of the transport network • the activity is not a heavy industrial activity.	Manage activities in a specific location to minimise externalities.	Manage noise and pollution.	Medium-high.	Retaining existing settings is consistent with District Plan objectives of promoting well-functioning zones from neighbourhood to the central area.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	Industrial activities are permitted if: • activity is not heavy industrial activity • any ancillary residential activity is located above ground floor level.			Medium.	Relative land prices and decline in industrial employment suggests take-up of industrial activities is likely to be low. Industrial activity continues to move towards lighter types of activity including printing and bespoke food manufacturing. Expect industrial activity in commercial zones to be increasingly dominated by retail and residential activity. Recommend retaining existing settings to accommodate.
	Commercial activities permitted, if • the activity is trade supply retail, a wholesaler, a building improvement centre, service retail, yard-based retail or a gymnasium.	Retain flexibility of site use while managing externalities.		Medium.	Retain existing clauses.
	Community facilities and educational facilities are generally permitted.				Permit these activities.
Regulating Density	Height restrictions for town centres generally bind	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and	Low.	Building height restrictions unlikely to be binding but impacts are likely to be low. Consider enabling greater building heights to allow for increased efficiency of land use. Expect higher benefits from enabling greater building heights in central locations, like the centre of the CBD, than fringe areas (such as Te Aro), since CBD sites will place a higher premium on location.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
			reducing city footprint see Box A		Relaxing maximum height restrictions in these locations will likely add more additional capacity.
Controlling design	*Design of new development* Promote enhancements to local neighbourhood context and amenity while enabling innovation and choice in the design of new built development and recognising the functional and operational requirements of industrial activities.	Increase amenity.	Raise construction costs.	Medium.	Expect evidence base on benefits of new design characteristics to drive decision on design controls. Suspect the impact of existing local amenity is low in existing industrial areas. Insufficient evidence to make recommendation.
	Minimum ground floor to first floor height of 4 m.	Maintain building flexibility.	Increase amenity by preserving streetscape.		Unlikely to bind for industrial activity. Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
Controlling building alterations and demolition	Construction, alteration, and addition of buildings and structures is permitted if: • the activity is an alteration or addition that does not alter the external appearance of the building or structure or relates to building elevations below veranda level or is not visible from public spaces • the construction of any building is not located on sites with frontages to primary or secondary streets and will have GFA <100 sqm and will result in a total coverage (together with other	Preserve streetscape.	Environment.	Medium.	Town centres are identified in section 2 and 4 as areas without strong demand for retail space (revealed in land prices). District Plan controls could help by assisting development and vibrancy in these areas. We have not conducted formal modelling of the impact of these controls on development costs, but they appear to severely limit development opportunity, raise construction costs and reduce efficiency of land use. Impacts will be to reduce opportunity for vibrancy in town centres, reducing amenity value and increasing travel times since less variety of

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	buildings) of no more than 20% of the site.				consumption choice will be located close to housing choices for residents. Of course, there is some trade-off between development and preserving the amenity that comes from the existing streetscape, but Wellington City Council may wish to explore whether these controls provide balance across these trade-offs.

TABLE 22: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: LOCAL CENTRE ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	Local centres meet the needs of communities, residents and businesses in the surrounding residential catchment in a manner that supports Wellington City's compact urban growth objectives and its role and function in the city's hierarchy of centres.				
Locations	The local centre zone includes the commercial centres of Brooklyn, Churton Park, Crofton Downs, Island Bay, Khandallah and Newlands that provide a local centre function in the city's hierarchy of centres.				
Controlling location	There is no additional allocation for retail space.	Preserve and promote vibrancy and variety of consumption opportunities.	Consumption opportunities, vibrancy.	Low.	No requirement for additional location controls. Existing retail space best utilised to maximise land use efficiency.
Regulating density	Maximum height of 21 m (6 storeys).	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity within zone, increasing density and reducing city footprint see Box A	Low.	It is difficult to understand the hierarchy of height restrictions and what in practice can and can't be built. Is there a schema/flowchart that can be developed to show what can be built where and under what circumstances?
	New buildings or structures or additions to the frontages of buildings and structures along any primary or	Increase capacity.	Sunlight, views.	Medium.	Minimum building heights may have some limited impacts on the efficiency of land use, but the impacts are complex, not straightforward and not

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	secondary street frontage shall have a minimum height of 7 m.				necessarily realised within a real options framework. More work should be completed to understand impacts across time and space.
Controlling design	*Compliance with standards* Local zone standard is achieved, and the activity is an alteration or addition that: • does not alter the external appearance of the building or structure • relates to building elevations below veranda level • is not visible from public spaces.	Increase amenity.	Raise construction costs.	Raise construction costs.	Not clear that construction costs of new builds is a material problem in these areas. Expect evidence base on benefits of new design characteristics to drive decision on design controls. Insufficient evidence to make recommendation.
	The construction of any building or structure: • is not located on sites with frontages to primary or secondary streets • will have a GFA <100 sqm • will result in a total coverage (together with other buildings) of no more than 20% of the site.	Increase amenity by preserving streetscape.		Medium.	Controls appear very restrictive for permitted activities. GFA <100 sqm is very small. 20% coverage increases costs of development. Expect land prices to increase. Appears at odds with increasing efficiency of land use.
	Building height exceptions include Aro (heritage area) and Thorndon – 14 m (4 storeys).	Preserve amenity.	Heritage.	Medium-high.	If Aro and Thorndon remain in the local area, recommend a full CBA of the costs and benefits associated with different policies (control options, e.g. 4 storeys). Being clear on standing (whose costs and benefits matter) is critical in such as CBA.

TABLE 23: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: NEIGHBOURHOOD CENTRE ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the neighbourhood centre zone is to ensure that these areas will continue to be used predominantly for small-scale commercial and community activities that service the needs of the immediate residential neighbourhood and support the role and function of other centre zones in the hierarchy of centres.				
Locations	Mixed-use development will transition from 1–2 storeys up to 6 storeys in the neighbourhood centre zone generally with 3–4 storeys anticipated within character areas and smaller centres such as Lyall Bay, Berhampore, Thorndon and Aro Valley. 3–4 storey apartment buildings are also facilitated adjacent to the larger neighbourhood centre zones such as Aro Valley, Berhampore, Hataitai, Kelburn, Linden, Mersey Street (Island Bay), Oxford Street (Lyall Bay) and Thorndon and 2–3 storey terrace houses adjacent to smaller neighbourhood centre zones such as Ngaio, Onepu Road (Lyall Bay), Roseneath, Shortland Park (Island Bay) and Park Road (Miramar).				
Controlling location	*Commercial activities* Permitted where the activity is: • not yard-based retail, trade supply retail, integrated retail development, large-format retail or supermarket • any other commercial activity. Restricted discretionary where the activity is: • large-format retail <under some sqm GFA • integrated retail development < under some sqm GFA • supermarket < under some sqm GFA • yard-based retail • trade supply retail.	Preserve and promote vibrancy and variety of consumption opportunities.	Consumption opportunities, vibrancy.	Medium-high.	Our analysis suggests sufficient capacity for retail. Indicators of the current market state such as prices and trends suggest increasing demand for residential rather than retail land. Discretion might be appropriate in these conditions to promote variety of opportunity for consumption of local goods and services. One metric to help set GFA restrictions could be the variety of consumption opportunities experienced by local residents. Use GFA and type to rule out very large homogeneous suppliers. This might establish a hierarchy to store types, perhaps (i) integrated retail development, (ii) supermarkets, (iii) large-format retail.
Regulating density	Maximum height of 21 m (6 storeys).	Preserve views/sunlight	Relaxing maximum height restrictions,	Low.	It is difficult to understand the hierarchy of height restrictions and what in practice can and can't be built. Is there a schema/flowchart that can be

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
			increases capacity within zone, increasing density and reducing city footprint see Box A		developed to show what can be built where and under what circumstances?
	New buildings or structures or additions to the frontages of buildings and structures along any primary or secondary street frontage shall have a minimum height of 7 m.	Increase capacity.	Sunlight, views.	Medium.	Minimum building heights may have some limited impacts on the efficiency of land use, but the impacts are complex, not straightforward and not necessarily realised within a real options framework. More work should be completed to understand impacts across time and space.

TABLE 24: ASSESSMENT OF KEY DISTRICT PLAN CONTROLS: CITY CENTRE ZONE

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
Purpose	The purpose of the city centre zone is to enable and reinforce the continued primacy of the Wellington central city area as the principal commercial and employment centre servicing the city and metropolitan region.				
Locations	The city centre is the commercial heart of Wellington.				
Controlling location	*Central area location specification* Demand for residential floorspace across the city centre increases the marginal cost of constraints or controls that bind. To reduce these costs, Wellington City Council could relax controls on density (such as maximum height restrictions). An additional approach is to extend the central area zone, implicitly applying more flexible zoning restrictions (with respect to height for example) to additional areas. This floorspace is not needed for retail. *Mixed use controls* There are few reasons to control mixed use development in the city centre based on externalities. To increase residential capacity mixed use development should be facilitated.	Increase capacity. Preserve amenity	Sunlight, views, amenity. Vibrancy	Medium Low to medium	A closer look at Te Aro and the Adelaide Road could be warranted. *Location of retail* A mix of retail providers can activate streets or large public areas, such as squares or piazzas, in a way in which residential premises cannot. This supports retail at the ground level. Large Format retail is likely to be cost prohibitive for the city centre, including service stations and large supermarkets. Expect any development to occur on the city fringe Council could promote greater efficiency of existing floorspace first, rather than allocating additional land for retail activities only.
Regulating density	A second approach to increasingly costly controls is to relax controls on what can be built. Maximum height restrictions help preserve sunlight, views and open space.	Preserve views/sunlight	Relaxing maximum height restrictions, increases capacity	Medium – many height restrictions	Relax maximum height restrictions across much of the city centre zone.

Regulation classes	Regulations	Potential benefits	Amenities affected	Impact scale	Assessment
	There are existing rules that protect sunlight (see 13.6.3.4 for example), views (see 13.3.8.6) and open space within the District Plan, suggesting a 'belt and braces' approach to maintaining sunlight, views and amenity. WCC could relax maximum height restrictions across parts of the city centre zone.		within zone, increasing density and reducing city footprint see Box A	will not bind.	
	Creation of vacant, open space or parking areas is not a permitted activity in the operative District Plan. The intent promotes development, but the policy could have the unintended consequence of reducing competition and increasing the cost of land for development in the central city.	Increase competition, reduce cost of land, increase capacity.	Expect additional carparks in the short run.	Small-medium.	Review policy benefits and consider allowing the creation of open space/vacant land/parking as a permitted activity.
	Minimum height restrictions	Possible increases in capacity under certain conditions	But impacts are uncertain – capacity could fall in some cases	Low	Minimum building heights may have some limited impacts on the efficiency of land use. But the impacts are complex, uncertain and contingent on the business environment. It is possible for minimum height restrictions to have unintended consequence that reduce floorspace when developers delay construction
Development and financial contribution policies	Rates are applied on the capital value rather than the land value of property. Applying rates on land value would increase incentives to use land more efficiently.	Increase land use efficiency, increase capacity. Encourage intensification.	Little impact on amenity – there would be financial winners and losers.	Medium.	Consider applying rates on a land basis outside of the review of the District Plan.

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