

PROPERTY ECONOMICS



WOONG TREE

FAST TRACK APPLICATION

ECONOMIC REVIEW

Client: Central Otago DC

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SCHEDULE

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1. INTRODUCTION

Property Economics has been engaged by Central Otago District Council (**CODC**) to undertake a review of the economic assessment submitted as part of the Wooing Tree Fast Track Consent Application (**WTCA**) which proposes to establish a new residential subdivision (with increased residential density than originally envisaged in Plan Change 12 (**PC12**)) and commercial centre (in a new location relative to PC12) adjacent to State Highway 8B (**SH8B**) in Cromwell, Central Otago.

The Fast Track Consent Application includes an economic assessment undertaken by Market Economics (**ME**) titled "Wooing Tree Fast Track Consent Application Economic Assessment" dated October 2020. This ME report is the focus of this review.

This review is not intended to provide an exhaustive outline of every economic matter raised in the ME report, but traverses matters where residual economic issues may arise and form an economic position on WTCA to assist the Expert Consenting Panel in framing a formal position on WTCA in their report.

At a high-level Property Economics considers there have some methodological approaches taken by ME that appear to 'roll over' the PC12 baseline to justify why the new location of the commercial centre would not generate any consequential retail impacts on the Cromwell Town Centre. This appears irrespective of whether the new location would amplify any impacts resulting from the Wooing Tree commercial centre being sited on SH8B. However, Property Economics is unaware of the scope of the brief to ME and whether a new impact assessment was deemed necessary to assess impacts of the new centre location.

Plan Change 12

Plan Change 12 (to the Central Otago District Plan) was a precursor to the current WTCA and is beneficial to understand as it establishes a useful baseline context on which to consider any additional impacts from the new Wooing Tree commercial centre location.

PC12 resulted in a new Policy 8.2.8 being inserted into the plan relating to the Business Resource Area (2) of the Wooing Tree Overlay Area. This policy was to provide for the development of high-quality travellers accommodation and associated "vineyard village" themed retail and commercial activities in a manner that complements other business areas at Cromwell.

There was also a new rule implemented (Rule 8.3.6(xiii)) which relates to the Business Resource Area (2) of the Wooing Tree Overlay Area. This new rule included a Maximum Floor Space within the Business Resource Area (2) within the Wooing Tree Overlay Area of 12,000m² divided as follows:

- No more than 6,000m² of the permitted Floor Space shall be used for Travellers Accommodation;
- (b) No more than 4,000m² of the permitted Floor Space shall be used for Shops;
- (c) No more than 2,000m² of the permitted Floor Space shall be used for any activities that than Traveller's Accommodation or Shops

Rule 8.3.1 (iii) (b) and (c) states:

In the Business Resource Area (2) in the Wooing Tree Overlay Area the following shops for the purpose of tourist oriented "vineyard village" themed retail and commercial activities (with provision for a convenience grocery store to serve the local community) shall be a permitted activity:

- (i) Shop (as defined) floor space limited to the following activities:
 - (a) Convenience grocery store (which may incorporate takeaway food services), specialised food retailing (including retail associated with on-site production), cafes, and restaurants;
 - (b) Camera (parts and accessory), souvenir, art gallery and craft good retailing, including retailing associated with on-site production;
 - (c) Sale of liquor - including cellar doors - with primarily a local product or tourist focus, bars and retail associated with on-site liquor production;
 - (d) Hairdressing and beauty services, florist and suit hire associated with function/wedding centre and travellers accommodation;
 - (e) Fruit and vegetable including: 1. fresh fruit and vegetables whether grown on the property or not. 2. processed fruit and vegetable products, including dried fruit and vegetables, jam, sauces, preserves, juices and other cold drinks (excluding alcoholic beverages). 3. nuts, honey and eggs.

(f) Clothing, pottery, glass, metal or textile product, jewellery and personal accessories retailing – primarily with a local/regional product or tourist focus, including retail associated with on-site production;

(g) Goods and equipment rental and hiring (with associated accessory retailing) – limited to bike rental, water sports equipment hire, snow sports equipment hire only;

(h) Tourism activity booking and information services– with primarily a local/regional product focus.

The level of retail (or ‘shop’) provision of 4,000m², which in my view goes beyond just vineyard village themed retail and would permit some store types that would directly compete with the Cromwell Town Centre and Cromwell Heritage Precinct, could result in a material number of retail stores in a Cromwell context and would duplicate many of the store functions (current and envisaged) in the Cromwell Town Centre and Cromwell Heritage Precinct. This increases with the new Wooing Tree commercial centre location elevating the ability of the Wooing Tree commercial centre to adversely impact the Cromwell Town Centre and Cromwell Heritage Precinct if developed to its maximum scale

(c) In the Business Resource Area (2) in the Wooing Tree Overlay Area the following other activities for the purpose of a function / wedding centre and tourism related activities shall be a permitted activity:

(i) Other floor space limited to the following activities:

(a) Function and / or wedding centre and associated activities such as catering services, celebrant services, wedding organisers and wedding chapel operation;

(b) Scenic and sightseeing transport;

(c) Professional photographic services;

(d) Cultural or heritage displays and exhibits;

(e) Tourist related recreation activities;

(f) Administrative services associated with any permitted activity.

Cumulatively, the breadth and scale of permitted activities in my view is likely to generate additional impacts on the Cromwell Town Centre and Cromwell Heritage Precinct above those generated if the Wooing Tree commercial centre remained in the original position identified in PC12.

Review

There are three substantive economic aspects addressed in the ME report. These are:

1. Analysis on the proposed residential component of the application and its increased dwelling provision;
2. Analysis of the proposed commercial centre and its new location (compared to PC12); and
3. Potential employment impacts as a result the WTCA.

ME Scope (Section 1.1)

The initial stages of the ME report outlines the current urban development potential of the Wooing Tree site through PC12 which enables up to 210 residential sites and a tourism focused commercial centre that is vineyard themed.

The ME report indicates there are two key aspects of the Fast Track application:

1. to increase the dwelling yield; and
2. move the location of the commercial centre to improve its economic viability and enhance the flow-on benefits for the Cromwell Town Centre opposite SH8B.

The ME report focuses on assessing, and quantifying, where practical, the economic costs and benefits of the Fast Track application relative to the permitted baseline and the alternative private plan change approval process.

In relation to the commercial centre specifically, the ME report indicates that Wooing Tree do not seek to change the nature, role or scale of the commercial centre and as such considers the net economic and social effects of a more consolidated commercial centre opposite the Cromwell Town Centre, and in particular the effects of the different location and shape of the centre on the site.

These last two points are important to my review, as given the current PC12 baseline around the commercial centre, the potential effects of the change in location, and to a lesser extent shape of the commercial centre zone from an economic perspective, are the key drivers of any consequential economic and social effects on the Cromwell Town Centre and Cromwell Heritage Precinct.

At the start of Section 1.2, ME indicate, as a result of the nature and role of activity on the Wooing Tree site not changing, their assessment is relatively high level. Property Economics are unsure of the scope of works ME were requested to undertake, but it is evident based on their view

nothing material is changing the ME assessment is more of a *'lighter touch'* than what might otherwise be undertaken for an economic impact assessment of the new location.

This is supported by ME indicating they comment on the economic effects of the new centre location (and form) relative to the Cromwell Town Centre, which suggests a more cursory consideration of potential effects rather than a more detailed quantified analysis of potential effects. Property Economics interpolate the basis for ME's high-level approach, as they articulate in the body of their report, is they consider there will be economic benefits or positive effects for the Cromwell Town Centre given the PC12 baseline, and therefore there was no need to delve any further into quantifying the effects.

There are a couple of points on the ME assessment worth noting at this stage:

- Property Economics consider the use of term 'adjacent' to represent the new location of the Wooing Tree commercial centre in relation to the Cromwell Town Centre is misplaced. In Property Economics view 'adjacent' needs to be carefully interpreted in this context as the proposed centre location does not abut the Cromwell Town Centre. The new Wooing Tree commercial centre location suffers from reduced walkability and connection to the town centre due to SH8B and the public green space between SH8B and Murray Terrace ('Bow Tie' area) creating a distinct separation between the two areas. In reality any commercial activity on the Wooing Tree site would function separately from the Cromwell Town Centre and be its own destination from a retail economic and a centre functionality perspective.

While the underpass (under SH8B) provides a pedestrian and cycle link, the reality around the amount of pedestrian flow between the Wooing Tree commercial centre and the Cromwell Town Centre is likely to be small and have no meaningful economic benefit to either centre.

- The term 'tourism focussed' has been used in the ME report to describe the commercial centre at Wooing Tree and the possible extent of commercial / retail activities. Additionally, while not its sole purpose, the Cromwell Town Centre also has tourism activities (or activities that rely on tourism and tourists to remain viable) as part of its composition. Furthermore, the Cromwell Heritage Precinct is almost entirely reliant on tourist visitation.

The ME assessment does not assess the potential impacts of Wooing Tree diverting tourists and tourist spend away from these two destinations in Cromwell based on the centre's new higher profile SH8B location. The level of potential overlap or duplication of tourist activities between these commercial areas is also not made clear, albeit Property Economics understands the Wooing Tree tourism destination is anticipated, however there is a notable number of small retail and services tenancies in the Wooing

Tree centre which have the potential to divert spend and activity away from the Cromwell Town Centre.

Property Economics does consider the PC12 commercial centre baseline as a relevant baseline consideration, but holds the view an internalised commercial centre at the northern end of the Wooing Tree site is a different proposition to the commercial centre locating where now proposed on SH8 in terms of potential effects on the Cromwell Town Centre.

There is no doubt the Wooing Tree commercial centre would add to Cromwell's tourism related activities and destinations, but at what cost. Would it simply result in the duplication of some other tourist activities / store offerings and divert spend away from current tourist stores (potentially in the Cromwell Town Centre) rather than growing the tourism market. This seems more pertinent in the post-COVID world where international tourism is heavily constrained by international border closures with an **uncertain timeframe around on when international travel may return to more 'normal' pre-COVID levels again.** These dynamics have not been reassessed in the ME report.

- The ME report makes it clear their view on the commercial centre impacts is based on there being no change to the development that can occur (under the PC12 decision) or the scale of commercial activity able to be developed changing. A such the primary economic rationale for the new location of the Wooing Tree commercial activity is to improve the economic performance of the commercial centre by having greater ability to draw trade from the SH8B passing traffic.

As retail economists, Property Economics agree with this prognosis, i.e., the relocation of the Wooing Tree commercial centre to the SH8B frontage as proposed would significantly improve the trading performance of the activity and stores in the centre.

However, the Cromwell Town Centre also currently relies on that same passing SH8B traffic to draw sales and expenditure. The Cromwell Town Centre is currently setback from SH8B making this a more difficult proposition. The proposed Wooing Tree commercial centre location will make the Wooing Tree centre more profiled and more easily accessible from SH8B, making the centre more likely to attract spend that might have otherwise been spent in the Cromwell Town Centre. This would represent simply a diversion of retail spend from the Cromwell Town Centre to Wooing Tree, particularly food and beverage expenditure.

The very reason for moving the Wooing Tree commercial centre (to improve economic performance) is the very reason Property Economics has concerns about increased impacts (relative to the PC12 commercial baseline). Without higher tourism numbers (as in the current and foreseeable environment), this increased economic performance can only realistically come from diverting spend away from other commercial and

tourist destinations in Cromwell. As a vineyard themed tourist destination, the Wooing Tree commercial centre should be able to be successful located anywhere on the site. The move to SH8B with improved profile and accessibility seems clearly targeted at increasing the ability of the Wooing Tree centre to draw more spend from the local market.

As such, the 'improved economic performance' of Wooing Tree by default may cause additional economic impacts / effects on the Cromwell Town Centre as a result of this new location. In essence this narrows the centre impact aspect of this review if activity extent and scale remain as enabled, it is the consequences and effects of the new location that is the primary focus.

Direct Tourism Impact (Section 2.2)

In section 2.2 of their report ME quantify some of the direct impacts of tourism to the District economy. Property Economics consider caution is required when applying pre-COVID data in a post-COVID context. The relevance of the pre-COVID data is significantly reduced and less reliable, while the post COVID-19 demand data remains in a state of flux and changing consistently with Trans-Tasman bubbles opening-closing-then opening again, and wider international borders remaining closed for a yet to be known period.

Additionally, ongoing Government monitoring and policy responses during this recovery phase from the pandemic is adding another layer of complexity on how the market will respond over time. This is not a criticism of ME, simply a comment that from an economic perspective the data in this section is less relevant than consideration of the recovery opportunity for Cromwell resulting from the WTCA.

Residential Development (Chapter 3)

Property Economics assessment of the latest growth data for the District indicates that Cromwell's usually resident population base has grown at a faster rate than the Stats NZ High projection series (Dec 2017) and well ahead of demand projections when PC12 was granted.

At the time of compiling this review, Stats NZ has not produced new population growth projections below territorial authority level for the Central Otago District, but by way of an example, at a territorial authority level (of which Cromwell is a key component), the current 2020 population estimate is around 10% above the anticipated 2017 High growth scenario population level for 2020.

When considering total dwelling demand (which includes holiday homes), Property Economics consider the total projected growth / demand for dwellings in ME's Figure 3.1 (pg.13) is likely to be conservative based on the updated growth data.

In terms of COVID-19 impacts on dwelling demand (Section 3.1.1) Property Economics agrees with ME that at this stage of the recovery it is simply too early to determine longer term impacts of the pandemic on demand, and current available metrics should be treated with caution as a predictor of longer term trends.

In terms of current estimates on dwelling capacity in Cromwell, Property Economics is not privy to ME's background reporting and supporting modelling exercise to critique this work and assumptions. However, based on the updated (higher) total dwellings for Cromwell over the longer term, and the capacity figures are around the levels identified, there would appear to be an adequate shortfall in the demand / supply capacity requirement to provide a level of comfort to conclude that additional residential capacity will more than likely be required over the long term to accommodate the future growth projected in Cromwell.

In terms of timing for any additional capacity required, Property Economics agrees with ME that capacity needs to be provided earlier than any mathematical demand / supply sufficiency date. Planning, consenting, construction, sourcing capital, infrastructure and development have long lead times, and if capacity is not provided ahead of when required then economic inefficiencies in the market can be generated and artificially driven price movements result. This could exacerbate affordability issues as it has done recently in many other areas of NZ.

Lastly, without getting into the finer details of the economic costs and benefits of the increased residential activity proposed (Section 3.4), on balance Property Economics agrees with ME from an economic efficiency and cost benefit perspective that the economic benefits would likely outweigh the economic costs of the residential component of the development on the Cromwell community.

Additional dwellings being developed on the site represents a more economically efficient use of the scarce land resource. Wooing Tree's close proximity to the town centre adds to the economic and social benefits, and efficiencies relative to alternative locations to provide additional residential capacity in Cromwell. A higher density residential development will also likely provide a broader range of dwelling typologies and price points for the market, which typically can be delivered to the market at more reasonable price levels.

Commercial Development (Chapter 4)

ME consider the concept of a tourist focussed village in Cromwell is new and as such would strengthen Cromwell's position in the tourist market and meet growing visitor demand. ME held this view for PC12 and still hold this view with the commercial centre's new shape and location.

A couple of points to consider here is a tourist focused vineyard offer is not a new attraction for Cromwell with numerous vineyard related tourist opportunities around the District. On this basis, Property Economics consider the likelihood that the Wooing Tree commercial centre

would attract a meaningful level of new tourists who would not have visited Cromwell without Wooing Tree as very low.

Also, Property Economics consider the term 'growing visitor demand' a diluted term in today's market (and from when PC12 was approved) as a result of the global pandemic and international borders closures. Like Queenstown and Wanaka in close proximity, it is likely to be many years before Cromwell achieves the pre-COVID 19 tourist levels again. Introducing a new commercial offering in Cromwell now is likely to have a more pronounced effect on the existing town centre which has multiple store vacancies and reduced trading levels relative to pre-COVID tourist volumes.

In fact, there is potential for tourist related activity currently in the Cromwell Town Centre to relocate out of the town centre to the only centre in Cromwell with profile and direct SH8B accessibility (Wooing Tree) to better capture SH8B passing traffic. This outcome would adversely affect the ability of the Cromwell Town Centre to play its envisaged role and function in the community as supported by the Cromwell Masterplan Spatial Framework.

In Section 4.1 of the ME report outlines some of the primary reasons for the Wooing Tree commercial centre's change in location and shape. This included to help ensure the Wooing Tree centre become a commercially viable destination and visible for passing traffic on SH8B.

From an economic perspective, and being a tourist village / destination, the need to be located on and have exposure / visibility to SH8B diminishes. Linking the tourist village's location and accessibility from SH8B to commercial viability of the destination raises concerns the village is more extensive than can be sustained by tourists alone and its location means the village is better placed to draw sales away from the Cromwell Town Centre, i.e., as mentioned previously drive-by travellers that may have visited the Cromwell Town Centre may instead visit the commercial activity in the Wooing Tree development.

There is no doubt economically the SH8B location would be a higher productivity (\$sales / sqm) performing village centre with direct accessibility from SH8B. However, with reduced tourist volumes in Cromwell as a result of the global pandemic, the potential trade diversion of retail sales from the Cromwell Town Centre to the Wooing Tree commercial village as a result of the new proposed location has not been measured by ME.

Another benefit ME identified resulting from the proposed WTCA centre location was that it would help facilitate a flow of pedestrians between the Wooing Tree site and the Cromwell Town Centre. In Property Economics opinion, as mentioned earlier, given the distances between the centres and the SH8B barrier, the underpass connection is unlikely to see significant movement of pedestrian shoppers between the centres, and therefore is likely to have limited economic benefit to the Cromwell Town Centre. In my view the economic benefits are likely to be non-consequential in economic terms, albeit the underpass is considered better

than no pedestrian connection at all. It is **not considered to be a 'flow'** as termed by ME, but more a trickle at best.

Property Economics agree with ME, when on page 23, they suggest the benefits of the WTCA commercial centre is enhanced by the new location and shape of the proposed centre. However, an important question not appeared to be answered in the ME report is at what cost to the Cromwell Town Centre and community. The new location will make the commercial centre higher performing which will generate private sector benefit (to the developer / owner), but at what public sector cost to the community.

ME have, and rightly so based on their view, not assessed this as they consider the WTCA would result in a net benefit to the Cromwell community. Property Economics consider there is a real potential for an adverse outcome for the existing Cromwell Town Centre.

ME consider the aspirations of the Cromwell Masterplan Spatial Framework are supported by the relocation of the Wooing Tree commercial centre as it would add critical mass to the town centre in terms of built form and activity, and contribute to a 'sense of arrival' to the Cromwell Town Centre.

Property Economics hold a different view to ME on this matter and consider the proposed village centre a separate destination to the Cromwell Town Centre for reasons outlined earlier in my review and consider they will be competing commercial locations. However, it is important to acknowledge the original location of the Business Resource Area 2 in Wooing Tree at the northern end of the site would result in the same outcome of being a separate centre, but the Wooing Tree centre's new location on SH8B is considered to provide more competition to the Cromwell Town Centre than the original location.

ME note that the WTCA supports the Town Centre Precinct Spatial Plan which seeks mixed use buildings / development to assist reinvestment in the town centre and its recovery from the impacts of reduced tourism (result of COVID-19).

Property Economics consider the WTCA would likely weaken some of the commercial demand (and potential feasibility) of mixed-use development in the current open space area between Murray Terrace and SH8B. In practical terms this may delay any potential mixed-use development on this land or in other areas of the town centre, and therefore delay the fruition of the Town Centre Precinct Spatial Plan.

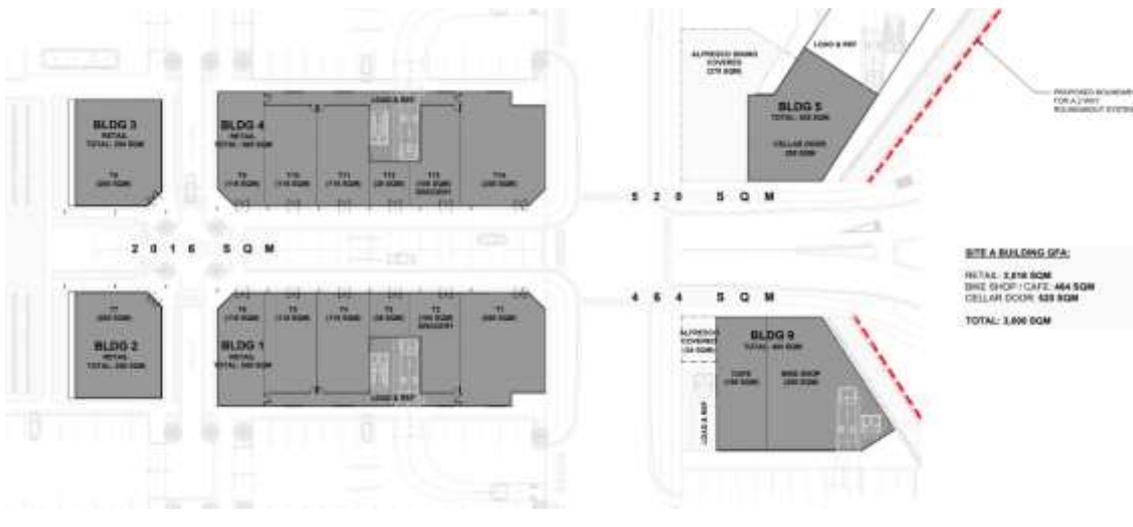
Furthermore, under Section 4.2 of their report, ME suggest the tourist accommodation within the WTCA would increase the opportunity for town centre business to attract tourist expenditure. Property Economics agrees with this point, however this benefit would still be in place with the tourist village centre in its original location as identified in PC12 at a more northern end of the subject Wooing Tree land.

The following plans (Plan 1¹ and Plan 2²) of the proposed Wooing Tree commercial centre raises some additional concerns about the intended centre in terms of scale, form and layout. The plan to develop a main street indicates a function and offer broader than 'vineyard themed'. Combined with at least 16+ individual ground floor tenancies and the retail enablement discussed earlier in this review, the potential to generate increased adverse effects as a result of the new location is heightened.

Plan 1



Plan 2



¹ <https://www.epa.govt.nz/assets/Uploads/Documents/Fast-track-consenting/Wooing-Tree/N4-Business-Signage-Plan.pdf>

² <https://www.epa.govt.nz/assets/Uploads/Documents/Fast-track-consenting/Wooing-Tree/D-Hospitality-Centre-Plans-FDA.pdf>

Employment Impacts (Chapter 5)

This section in the ME report assesses the employment benefits of the WTCA development. The section follows a fairly standard approach to economic impacts and is considered to provide a useful depiction of potential economic impacts based on a number of high-level assumptions which have to be applied at this point.

Overall the proposed development would make a significant contribution to the Cromwell and Central Otago District economies in terms of capital injection and employment. Many of these economic benefits are not site specific and could be garnered anywhere in the District where a development of this scale and type is proposed

CONCLUSION

In terms of the increased residential density proposed in the WTCA, from an economic perspective Property Economics consider this would result in additional economic efficiencies and economic and social benefits to the community.

In terms of the proposed relocation of the Wooing Tree commercial centre, given the range and scale of retail and service activity permitted within the PC12 provisions moving the Wooing Tree commercial centre closer to SH8B has the potential to increase the effects on the Cromwell Town Centre and Cromwell Historic Precinct at a time when smaller town centres around the country, including Cromwell, are more vulnerable as a result of the COVID-19 pandemic.

The WTCA and proposed commercial centre was formulated at a time (pre-COVID) when tourism numbers and growth for Cromwell and the District were a lot more optimistic. The current level of uncertainty in the tourism market and lower tourism visitation in Cromwell suggests the primary reason for relocating the Wooing Tree centre to front SH8B to improve economic performance of the centre would be to the detriment to the Cromwell Town Centre.

Tim Heath

30 June 2021