

Stobo oral submission on Plan Change 50

Our family has been in Central Otago since the 1860s and has owned 28 Isle St since the 1940s. I have already submitted my concerns over the reasons for Plan Change 50 and am grateful that my neighbours the McDonalds can present this additional submission orally as I will not be in Queenstown this week. I was educated at Waitaki Boys High School, Otago University (BA Hons First Class in Economics) and Wharton Business School at the University of Pennsylvania. I am Chairman of the listed commercial office property company Precinct Properties and Chairman of the Local Government Funding Agency in addition to other business interests.

My concern for the Hearings Panel is that the problems identified by Council Planners are not solved by Plan Change 50.

The Planners problem

The overall intention of Plan Change 50 is "to address an identified shortage of land zoned as "Town Centre" and to provide an appropriate planning framework for a convention centre."

Flaws in the Planner's solution

1. The Hearings Panel should note that the existing land zoned Town Centre has not yet maximised height availability to accommodate more commercial businesses. It is notable that the new AMI building currently under construction is substantially only a ground floor. It would seem prudent for Council planners to first understand why the existing land use in the Town Centre is not maximised to height availability by owners/developers. I believe that it is currently uneconomic for landlords to provide commercial offices above ground floor retail space because the \$ per sq m rentals required to justify additional floors would be too high for current tenants who are only paying \$200-\$300 per sq m (source: real estate experts Colliers International).

2. Section 2.4 of section 3.2 evaluation report sets out resource management issues to be addressed by this plan change, namely

"-providing additional commercially zoned land to address the shortages of Queenstown Centre zone and to ensure Queenstown commercial centre remains the dominant tourist centre and the primary commercial centre for the district"

Unwittingly QLDC has committed a mea culpa by enabling the drift of commercial activity away from the Queenstown Town Centre by establishing plan change 19 to enable the development of mixed use land in the Frankton area. This includes the Five Mile retail centre at Frankton flats where construction of 25,000 sq m stage one has commenced. A further 60ha of mixed use land is due to be released. Related development activities are the Shotover Park industrial/commercial/bulk retail (Mitre 10 Mega and Pak n Save) extension and the Remarkables Park Town Centre developments.

These developments will continue to draw retail and commercial activity away from the Queenstown Town Centre due to the simple economics of current rents. Colliers International's latest publication "Market Review and Outlook 2014" notes the following commercial property rentals for Prime Retail space (Queenstown Town Centre) at \$1100-\$1500 per sq m per annum, vs Fringe Retail (eg Gorge Rd) at \$350-\$500 and Frankton Retail at \$250-\$700 per sq m per annum. When the latter two retail rents are combine with very good carparking it will be very hard to prevent the accelerating drift of new commercial and retail activity towards the airport precinct, and very hard to prevent the composition of Town Centre commercial activity changing from servicing the local population and towards servicing the needs of domestic and international tourists.

Plan Change 50 will not solve this commercial drift, as the identified area's land values and the associated drive for highest and best economic use will mean that Frankton will continue to sustainably attract retail and office clients.

3. Furthermore the third resource management issue to be addressed by Plan Change 50 in section 2.4 of section 3.2 of the evaluation report- "providing opportunities for greater diversity in housing options" -does not mean that Council will enable "affordable housing" to be realised. It is more likely that the diversity will skew to the upper end of housing prices. The higher land values which will eventuate from Plan Change 50 will drive the development of expensive apartments and town houses, not "affordable housing".

Summary

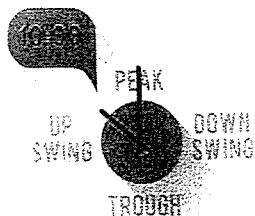
My conclusion is that Plan Change 50 does not address the fundamental economic issue of cheaper rents for retail, industrial and commercial tenants available in the Frankton precinct and this explains why existing Queenstown Town Centre land is underutilised (maximum heights not being used) and why prospective tenants are choosing to locate in cheaper locations such as the Frankton precinct. Plan Change 50 does not provide evidence that more competitive rental prices will result to justify expanding the Queenstown Town Centre zone. We may just end up with either no commercial development at all because economic rents remain above market rents or we suffer from expensive but vacant commercial space which would impact negatively on our neighbourhood.

Craig Stobo

17 November 2014.

QUEENSTOWN PROPERTY MARKET

OVERVIEW



The Queenstown property market has transitioned from recovery to growth and we are now seeing expansion occurring across key sectors.

This is the key change from the dynamics of 2013 and has been driven by four main factors:

- tourism industry growth
- residential construction activity
- commercial development at Frankton Flats
- increased investor confidence.

Tourism industry growth

Tourism continues to be one of the biggest forces driving the demand for property – both residential and commercial – in Queenstown. Positive sentiment around this tourism growth stimulates the construction and property sectors and tends to have a positive effect on prices.

Residential construction activity

Residential construction activity has stepped up significantly over the past year across all value sectors. One of the most notable growth areas for new construction is the Shotover Country subdivision, a 120ha development on State Highway 6 near Lake Hayes, which will eventually contain 700-800 entry-level homes (priced between \$400,000 and \$550,000).

Another key area of increasing residential construction activity is Jacks Point, where a number of locals have also now commenced building. The region also has a number of higher-end residential new builds underway.

Commercial development at Frankton Flats

Construction of stage one in the 25,000m² Five Mile retail centre at Frankton Flats has commenced. This is the first step in the release of a further 60ha of mixed use land that will comprise a mixture of larger scale industrial development, retail and some residential unit development. This land will become available following confirmation of Queenstown Lakes District Council's plan change 19 (PC19). This plan change is due to be finalised by the end of 2014.

Additionally the Frankton area will also see substantial construction and infrastructure development over the next cycle, including a new secondary school and expansion adjoining the Remarkables Park Town Centre on the south side of the airport. This, together with the ongoing capital investment by the airport in expanding its terminal facilities and associated infrastructure, provides a solid base for growth in the Frankton area.

Increased investor confidence

Queenstown investors are consistently among the country's most optimistic when it comes to the outlook for property investment. Colliers International's March 2014 investor confidence survey shows Queenstown investors are at a net positive 56%, just behind Auckland. Queenstown has remained among the three most optimistic centres in New Zealand in recent years, with positive sentiment driven by population and tourism growth.

Queenstown's

remains the region's largest
ECONOMIC DRIVER
and continued growth will

INTO THE FUTURE.



circa 2 million

QUEENSTOWN

28,000

32,000 off-peak. 57,000 peak

over \$1.2 billion a year



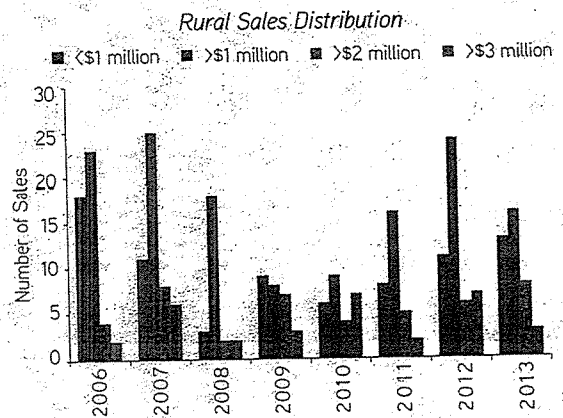
nearly 10%

ONE OF FASTEST-GROWING IN
AUSTRALASIA. IN PASSENGERS SINCE 2009.

Sources: Destination Queenstown, QLDC, NZ Hotel Council and Queenstown Airport Corporation figures.

Rural/lifestyle homes

- Transaction numbers for rural/lifestyle dwellings fell by 16% in 2013 compared with 2012
- However the 40 houses sold last year represents the second highest annual transaction count since 2007
- The market has had a strong start to 2014 with good sales activity over \$2m in value
- We expect increased sales volumes over the rest of the year.

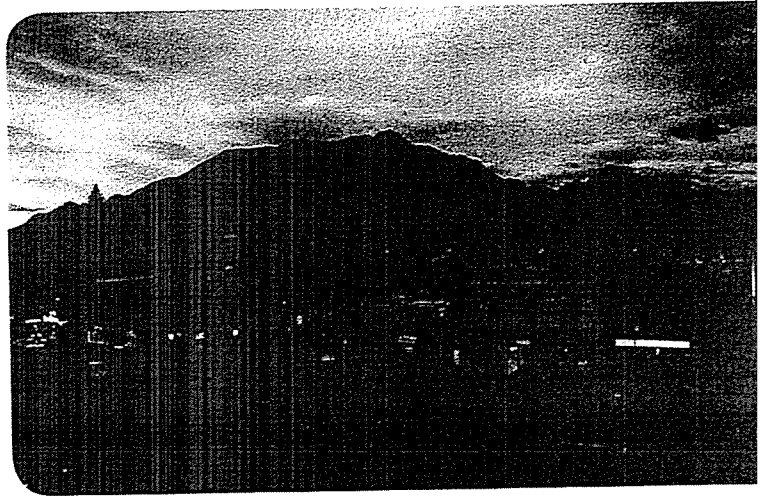


Source: Colliers International Queenstown

COMMERCIAL PROPERTY

Projections:

- Prime CBD property will continue to be scarce and trade at low yields
- Rental growth for prime ground floor retail CBD property
- Rents and capital gains will gradually increase in secondary locations as they become viable alternatives to the CBD with strong lease covenants underpinning capital gains
- Large developments such as Five Mile and further stages at Remarkables Park will cater to current demand from tenants
- Frankton Flats will provide the bulk of supply of new mixed use commercial stock.



Commercial Indicators

SECTOR	Rent (\$/m ²) p.a. net + GST	Average Yields	Supply	Demand	\$\$ Forecast
Prime Retail (100-120m ²)	\$1100 - \$1500	4.75 - 5.5%	Low	High	↑
Secondary Retail	\$500 - \$1000	5.0 - 6.5%	Low	Steady	↗
Fringe Retail	\$350 - \$500	6 - 7%	Low	Low	→
Offices	\$200 - \$300	5.5 - 6.5%	Low - Moderate	Steady	↗
Industrial	\$100 - \$150	6.5 - 7.5%	Low - Moderate	Steady	↗
Frankton Retail (large & small)	\$250 - \$700	6 - 7%	Moderate	Steady	↗