BEFORE THE COMMISSIONERS ON BEHALF OF DUNEDIN CITY COUNCIL

IN THE MATTER	of Application for Resource Consent under Section 88 of the Resource Management Act 1991
BY	**NZ HORIZON HOSPITALITY GROUP LIMITED**
	LUC 2017-48 and SUB 2017-26

BRIEF OF EVIDENCE OF CHRIS WILKINSON

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INTRODUCTIONS

1. I am the managing director of First Retail Group Ltd, a Wellington based consultancy that operates internationally. The company works across retail, hospitality and tourism sectors helping organisations develop opportunity, drive commercial performance and manage risk. I have come from an entrepreneurial background, launching First Retail Group in 2002, and have developed a successful retail chain and other businesses in the service sector.

2. I have over thirty years in the retail sector and specialise in retail and service strategy, central business district and town centre performance and resilience. I have global experience delivering projects in New Zealand, Australia, United Kingdom and the United States.

3. I have previously been a Director of a council controlled company, *Wellington Tourism*. I have been recently been recognised as Wellington's business person of the year 2016 for work in support of the retail sector.

4. Some of the significant projects I have been involved with include:

   (i) Auckland Council / Auckland Transport – Retail strategy, Dominion Road

   (ii) Hamilton City Council – Inner City Revitalisation / Hamilton Gardens Commercial Strategy

   (iii) New Plymouth District Council – New Airport Terminal Retail Strategy / Puke Ariki Gallery Commercial Strategy

   (iv) Waipa District Council – Town Centre Strategy – Te Awamutu

   (v) Lower Hutt City Council – Civic Precinct Strategy

   (vi) Wellington City Council – CBD Strategy / OurCBD Programme Development

   (vii) Wellington City Council – Commercial support strategy and enablement – Kaikoura Earthquake Recovery

(viii) Wellington Regional Council – Public Transport Strategy – Integrated Fares

(ix) Nelson City Council – CBD Strategy / Investment Prioritisation

(x) Gore District Council – Town Centre Strategy / Economic Resilience

(xi) Queenstown Lakes District Council – Queenstown Town Centre Retail Strategy

(xii) Dunedin City Council – Performance Improvement Strategies – Commercial Property

(xiii) Invercargill City Council – CBD Strategy / Open for Business Strategy

(xiv) Venture Southland – Stakeholder Capability Building

(xv) NZ Police – Eyes On – Commercial and social guardianship programme development

5. Although this is a council hearing I have read the Code of Conduct for Expert Witnesses within the Environment Court Consolidated Practice Note 2014 and I agree to comply with that Code. This evidence is within my area of expertise, except where I state I am relying on what I have been told by another person. To the best of my knowledge I have not omitted to consider any material facts known to me that might alter or detract from the opinions I express.

Background

6. First Retail Group Ltd, have been asked by Developer, NZ Horizons Hospitality Group Ltd, to provide specialist perspective on commercial and social benefits the planned hotel and apartment complex will deliver to Dunedin's inner-city appeal, amenity value and economy. This report is in support of the development.

Report Authors

7. First Retail Group Ltd are commercial strategists that specialise in performance development and risk mitigation for consumer-facing sectors including retail, hospitality and tourism. The company is based in New Zealand but deliver projects internationally.

8. Currently the company is delivering city centre strategy, stakeholder support and economic resilience projects for Wellington City Council, Auckland Council and Invercargill City Council along with a diverse range of assignments for clients in the corporate sector. It also works with national retail chains, property owners, financial institutions and New Zealand Government.

9. In recent years First Retail Group have worked across a diverse range of property, retail and tourism projects in Dunedin.

Project	**Client**	**Project Details**
Meridian Centre	Oyster Property Group	Tenancy strategy, support and resilience advice
Golden Centre Mall	Golden Centre	Heart of the City strategy and programme support
Wall Street Mall	Dunedin City Council	Performance improvement strategies
Retailer Project	New Zealand Trade & Industry	Assisting a unique local business develop internationally

10. The company has delivered other projects in the Otago/Southland areas including:

    (a) Queenstown Town Centre Strategy for Queenstown Lakes District Council

    (b) Invercargill CBD Strategy for Invercargill City Council

    (c) Economic development and resilience strategies for Gore District Council

    (d) Heritage tourism projects for H.W. Richardson Group

City Centre Overview

11. Dunedin is undergoing a steady renaissance driven by a strong regional economy, increasing tourism and growth in both the technology and creative sectors. While economic momentum has gathered for the wider area, a number of factors are challenging city centre appeal and relevance for consumers, commercial tenants and investors.

12. Dunedin's retail offer is not delivering the range and offer shoppers expect or want. This is reflected in declining sales performance[1] for key categories in comparison with previous years. Spending attrition - where consumers are opting to spend outside of the city, has increased - demonstrating a trend in sentiment and goodwill.

13. The CBD is not presenting a compelling-enough proposition for businesses to consider locating there. Recent large leasing opportunities[2] have been lost because or retailers' longer-term concerns around commercial sustainability. Increasing vacancy of retail space around the CBD reflects the caution businesses have around committing to leases and investment.

14. Building resilience and suitability is another reason some sites are not occupied. Increasingly, tenants are looking for higher standards in structural integrity, spatial utilisation and street profile - typically afforded through the strengthening and overall improvement of older buildings. These investments are significant and require assurance in securing leases that will deliver sound commercial return and endurance.

15. Ambitious developments are catalysts for wider confidence and commitment. The planned hotel and apartment complex would stimulate regeneration in the surrounding area, inspire commitment from businesses and further demonstrate Dunedin as a progressive city people want to live, invest in and visit.

CBD Vulnerabilities

Seasonal Dependency and Sector Reliance.

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[1] Marketview Report - 2017
[2] A major European retailer negotiating to occupy a large site on George Street did not complete on the lease due to concerns around the Dunedin market.

16. Dunedin's inner-city economy is firmly based around the academic year, with its University population key contributors to the retail, hospitality and service sectors. The city is estimated to earn $881.1 million annually from students[3], staff and visitors alone.

17. While a significant contributor, the seasonality of this market delivers specific logistical and cashflow challenges for businesses when a major part[4] of the CBD audience is driven by the University's academic year.

Commercial Attraction

18. Seasonality impacts, unsuitability of space (modernity and structural integrity) and changing consumer behaviours have led to an increase in availability of retail units in the CBD. A proliferation of empty shops - particularly in areas adjacent to the Octagon are noticeable and increasing. Retail vacancy is a key indicator of a city centre's economic success and commercial confidence.

Spending Attrition

19. Local consumers are buying more online from businesses outside of the region. Online spending by residents lifted 19%[5] in the past year with each transaction representing one less visit to a local business. Shoppers typically spend online when the local offer fails to meet their needs or expectations. Dunedin misses many of the bigger or more unique brands because the city is often not seen as contemporary retail environment or able to deliver a suitable audience.

Major Infrastructure Work

20. While currently on hold, Dunedin City Council has planned major and necessary changes to the CBD streetscape and infrastructure. The long-term benefits of this to the city's appeal and experience are significant, however the project will be impactful for both performance and goodwill during construction.

Building Stock

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[3] University of Otago have 20,000 students enrolled in the Dunedin campuses
[4] 80% of University of Otago students are from outside the Otago region
[5] Marketview Report - 2017

21. Many of the characterful buildings in Dunedin's CBD require strengthening in order to deliver space and structural integrity suitable for commercial occupancy. The economics of undertaking this work requires assurance of securing sound, stable tenants and long-term confidence - likely demonstrated by economic growth and other major investment commitments in the Central City area.

Major Investments

22. It has been two years since a major development took place in Dunedin's CBD. Construction of the Distinction Hotel helped revitalise that city quarter and inspired regeneration of buildings between there and the George St precinct.

23. Since then, no icon projects have occurred - despite a relatively buoyant economy and in contrast with significant investments happening in other main centres. This lack of visible growth and redevelopment is noticeable and will have wider influence on commercial perceptions and appetite for investment.

Major Employment Centres

24. The CBD economy benefits from major employers' location in or near the city centre. Three of Dunedin's largest employers have recently announced changes that could affect audience potential for CBD businesses.

    (a) Cadbury recently announced it was closing its production plant in Dunedin with the loss of 350 roles.

    (b) Of the five options for Dunedin Hospital's future location, only two would retain this facility in the central city.

    (c) The University of Otago is one of the South Island's largest employers[6]. The organisation is reviewing staff numbers as some departments struggle with declining student numbers and look to achieve greater efficiency across academic and administrative

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[6] Economic impact report overview – University of Otago http://www.otago.ac.nz/news/news/otago618978.html

operations. Hundreds of roles are understood to be under review[7].

Development Benefits

25. The proposed hotel and apartment development is anticipated to deliver wider commercial and social benefits beyond the initial construction stimulus and eventual contribution to Dunedin's GDP.

Supporting Venue

26. The proposed hotel will enable Dunedin to secure more events such as conferences and concerts by delivering additional quality accommodation - enhancing both the standards and capacity available currently.

27. Concerts[8], sporting events[9] and conferences have helped drive destination value for visitors - specifically since Forsyth Barr Stadium[10] was completed. This enabled greater capacity and the unique benefit of an all-weather venue.

28. Whilst bigger events have taken place, the availability of sufficient, quality accommodation has compromised the city's destination value and reputation.[11]

Catalyst to Inner City Living

29. While older buildings in the Warehouse District have been converted into apartments there has been none of the new developments that other main centres have seen. Inner city living stimulates the wider retail and hospitality sector.

30. The development of apartments on the upper levels would become Dunedin's first premium[12] new-build inner city living. As in other city

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[7] ODT Reports – Cadbury Redundancies, Dunedin Hospital Options, University Looks to Shed Staff

[8] 22,000 attended the Rod Stewart concert with 68% coming from out of Dunedin bringing an estimated $7.2m to the city

[9] 28,000 attended the 2015 All Blacks test with 60% coming from outside Dunedin. Economic benefit to the city estimated at $8.15m

[10] Forsyth Barr Stadium has contributed an estimated $165m into the economy over the past 6 years

[11] ODT article – Capacity limits region's Growth / Stakeholder commentary - upcoming tourism industry (TRENZ) conference – 1200 delegates - Dunedin

centres - such as Wellington, Christchurch and Auckland initial developments become the catalysts for wider apartment projects - both new-build and where older buildings are repurposed and gentrification begins.

Strengthen the Hospitality Sector

31. Similar to other New Zealand city experiences a five-star hotel and increased resident population would have direct benefit to nearby cafes, bars and restaurants.[13] The planned location in delivers a natural flow through to the Octagon then Stuart Street with this area recognised as Dunedin's hospitality precinct.

Regeneration

32. City blocks surrounding the proposed development have seen a number of business closures as the area has lost appeal with consumers and favour with commercial occupiers. A new hotel and apartments are likely to stimulate investment in nearby properties and lease commitment from businesses able to leverage new audiences.

Social Change

33. Increased night-time activity, a more mature demographic and other benefits brought on by a quality destination and increased residential activity are likely to improve safety and ambiance of this area after dark. This is especially important as the Octagon and surrounding areas have been challenged by anti-social behaviour and criminal activity.

Shading Impacts

34. Greatest impact of shading is limited to mid-winter and recognised to fall on the Octagon and businesses surrounding the public space. These include cafes, bars and restaurants in Dunedin's hospitality precinct that centred on this area.

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[12] Dunedin's Warehouse district has already seen a number of older buildings developed for apartments, however the CBD has yet to see projects of scale
[13] A major European retailer negotiating to occupy a large site on George Street did not complete on the lease due to concerns around the Dunedin market.

35. Venue visitation data from Google[14] demonstrates peak shading periods are when most businesses are at their quietest. In the case of the two daytime cafes on Stuart Street, both are near closing time when any winter shading reaches their location.

36. The use of outdoor seating is infrequent during winter months - especially late afternoon, reflecting Dunedin's colder climate.

Marketview Report

37. I have referred to data supplied by Marketview, a company that analyses consumer spending patterns from reliable sources across all categories, allowing us gain a deeper understanding of how consumers behave. This information is central to understanding the behaviour of octagon users and what impacts a hotel within the vicinity may have on spending patterns and utilisation of the space.

38. The most up to date report is attached as **Appendix A**. This report provides a comparison of spending given a 12 month time interval, comparing spending in May 2016 with May 2017. The data can be segregated into several categories, including: Customer Origin, Merchant type, Location and Storetype grouping.

39. The key takeaways from this report are as follows:

    (a) Apparel retail is responsible for the majority of customer-facing tenancies in the Dunedin CBD and a big part of the major department stores categories (H&J Smith, Farmers, Warehouse and Kmart). The city needs to ensure this category strengthens in order to retain spending and maintain a vibrant and busy inner city environment.

    (b) In the 15/14 example clothing was down 4.9% and in the most recent comparison it was down 2.6% (off a continually declining base). Fragility for the apparel category is a major concern as it impacts such a large part of the inner city retail domain.

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[14] Google uses anonymous data from people that have Google Apps (such as Google Maps) enabled on their phones.

(c) Visitors to the city (both from the region, national/international) delivered the greatest spending growth at 6.5% and 5.8% respectively - outstripping the modest 2.6% gain from local cardholders. The visitor economy - assisted by the availability of quality of accommodation, is an important contributor to Dunedin's retail and hospitality market.

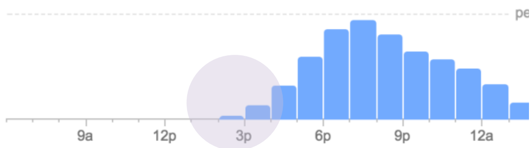
(d) Online transactions have increased to 10.2% from 8.3% reflecting continued growth in spending attrition and loss to Dunedin. Consumers typically spend online when their local offer fails to fulfil need or expectation.

(e) Dunedin is caught in a perfect storm, where the city is failing to inspire new or unique businesses to locate or remain there. This, in turn, means the retail proposition no longer meets consumers' needs or expectations and they spend elsewhere.

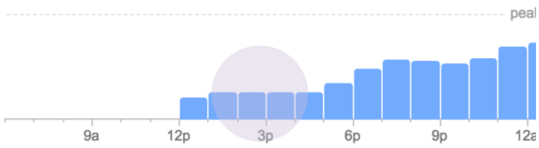
(f) Large scale developments, increased inner city living and more visitors staying close to Dunedin's retail heart will be catalysts for retail regeneration which is much needed.

(g) Separately, Hospitality (F&B) has grown 9.9% demonstrating the robustness of this sector

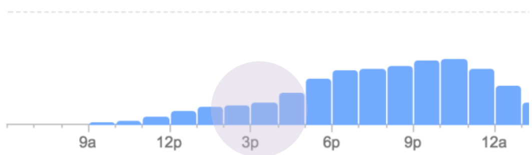
Octagon



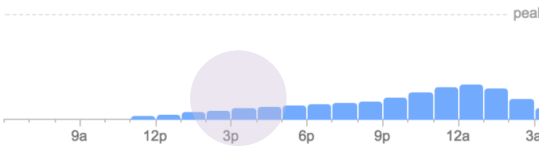
A. **Alibi Bar & Restaurant**, 1 Princess St (Recently Closed)



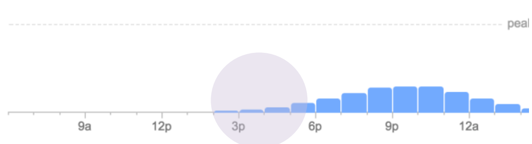
B: **The Vault 21,** 21 The Octagon



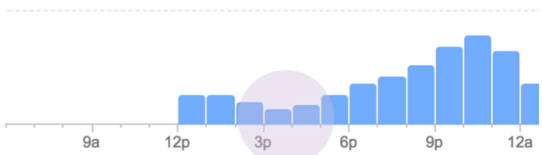
B. **The Craic**, 24 The Octagon



C. **Stuart Street Brew Bar**, 12 The Octagon

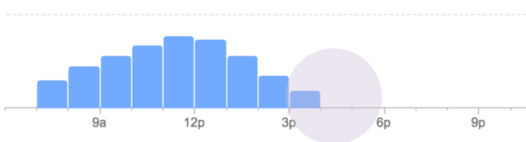


E: **Ratbags**, 11 The Octagon

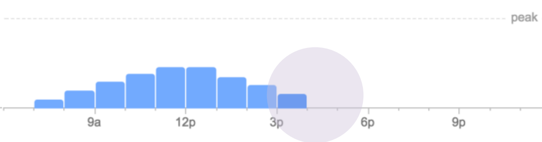


F: **Craft Bar**, 10 The Octagon

Stuart Street



G: **The Perc**, 142 Stuart Street



H: **Sugar Café**, 134 Stuart Street

Potential Risk	Mitigation
Late afternoon winter shading impact on businesses in the Octagon and Stuart Street.	Use of outdoor areas is limited during winter due to weather conditions and consumer preference for indoor dining. The commercial benefits 210 hotel rooms and 49 residential units will deliver to businesses are anticipated to outweigh negative impacts - if any.
Late afternoon winter shading impact on the Octagon	Late afternoon winter time use of the Octagon for public events and activities is already limited. Earlier investigations by Council of roofing the area reflect the influence weather has on the value of this space as an open-air community venue. Any shading is not anticipated to unduly affect public use of the area which is little used during late winter afternoons. Any risk is anticipated to be offset by wider area regeneration, gentrification and increased ground floor tenancy uptake – driven by new audiences and greater commercial confidence. Increased day and night time population is anticipated to restore the social balance of the Octagon which has become skewed toward a late-night drinking destination with associated issues around behaviour.

Chris Wilkinson

Date: 17 July 2017

=> Spending at Dunedin merchants, by customer origin (1) and storetype grouping (2)

Customer Origin	Distribution	Change in spending (YE May 17 v 16)
Dunedin	72.1%	2.6%
Rest of Region	9.1%	6.5%
All other	18.8%	5.8%
Total	**100.0%**	**3.4%**

	Dunedin		*NZ Equivalent*	
Key storetype groupings	Distribution	Change in spending (YE May 17 v 16)	Distribution	Change in spending (YE May 17 v 16)
Accommodation	3.5%	10.2%	4.0%	16.3%
Hospitality	8.6%	9.9%	7.5%	10.0%
Apparel	4.9%	-2.6%	4.8%	3.8%
Home-related	17.6%	1.2%	15.4%	2.0%
Fuel & auto	10.7%	6.1%	11.1%	5.1%
Other discretionary	13.7%	4.8%	10.8%	4.7%
Food Retailing	34.8%	3.1%	32.9%	4.5%
Total		**3.4%**		**4.2%**

=> Spending from Dunedin residents, by merchant type (1), merchant location (2) and storetype grouping (3)

Merchant Type	Distribution	Change in spending (YE May 17 v 16)
Physical	89.8%	3.4%
Domestic Online	5.4%	6.8%
International Online	4.8%	20.8%
TOTAL	**100.0%**	**4.3%**

Merchant Location	Distribution	Change in spending (YE May 17 v 16)
Dunedin	68.2%	2.6%
Rest of Region	5.4%	7.8%
Rest of NZ	16.2%	5.1%
Online	10.2%	13.0%
TOTAL	**100.0%**	**4.3%**

	Local merchants		*Non-local merchants*	
	Distribution	Change in spending (YE May 17 v 16)	Distribution	Change in spending (YE May 17 v 16)
Accommodation	0.6%	13.4%	11.7%	16.5%
Hospitality	7.1%	7.8%	10.5%	1.8%
Apparel	3.9%	-2.7%	6.8%	4.4%
Home-related	17.3%	0.0%	10.4%	3.7%
Fuel & auto	12.0%	5.2%	9.1%	12.3%
Other discretionary	8.3%	2.4%	14.0%	9.4%
Food Retailing	41.0%	3.5%	20.9%	14.1%
TOTAL		**2.6%**		**7.9%**