

File Ref: 2346

23 August 2012

The Strategic Planner
Hastings District Council
Private Bag 9002
HASTINGS 4156

Attention: Tracey Gray

Re: Omaha Road Plan Change

Thank you for your instructions to provide brief comment in relation to the following matters:

1. Industrial Demand Projections
2. Indicative Plains Land Value, disregarding speculative component relating to potential industrial plan change
3. Indicative Land Value post plan change

In addition to your instruction you have provided background information which covers work completed in relation to the above matters during 2008 to 2011. In addition you have referred us to the Logan Stone 2002 Industrial Land Demand Study which forms the basis of industrial demand projections and was updated by the writer in 2008. We have included some comments in relation to the industrial demand referring back to our update of 2008 and 2010 commentary.

Your request has been for a concise communication summarising the key issues for the consideration of Council.

1 Industrial Land Demand

- 1.1 In our letter to Council dated 15 January 2009 we identified the need to make an adjustment to the 2008 demand study from an expected demand of 105 hectares over the ensuing 10 (ten) year period to 77 hectares. That adjustment was the result of methodology reviews.
- 1.2 In that letter we also noted that the global financial crisis and subsequent recession was dampening demand and that the impact of reduced economic activity was likely to further dampen demand in the short term. We also noted that the economic recession was likely to be far longer than popular opinion of that time.

- 1.3 These comments have proved accurate. We remain in difficult economic times in spite of improving confidence in recent months.
- 1.4 We also refer you to our letter of May 2009 and the observations therein in relation to the potential risks around industrial land demand and identification of the fact that industrial demand is specific and that the re-zoning of Irongate may not match market demand nor would it suit wet industry.
- 1.5 That letter also included the comment that the expected growth in industrial demand would be mainly from the primary sector and be based around wet industry specifically post-harvest logistics and food processing. We remain firm in that view that the initial growth and demand in the current economic environment will be based around the primary sector. The key point of the two communications is summarised in the January 2009 letter and repeated below:
- "We also bring to your attention again, the issue of matching type of demand with space available. Of concern is the proposed staging of the industrial re-zoning to affect Irongate and Stage 1 Omahu within the coming 18 months. While that land will provide adequately for the expected demand it is not necessarily of the category and location to suit demand. Wet industry and industry associated with the processing and production of our primary produce is more likely to wish to locate in the Tomoana/Whakatu corridor than Stage 1 Omahu or Irongate."*
- 1.6 In 2011 Council completed the Irongate re-zoning project producing a further 35 hectares of land available for industrial development. This first stage of rezoning is required to be near full before the second stage of a further 33 hectares will be made available. Given the infrastructural inadequacies in Irongate the provision of infrastructure is on a staged basis contingent upon development of the land. It was expected at the time of the re-zoning that the Irongate land would begin to development during the 2013 and 2014 years. That remains likely, however, given the depressed economic environment there is a risk that initial development at Irongate may be delayed.
- 1.7 The Irongate re-zoning is the only increment in the supply of industrial land within Hastings District since the 2008 update.
- 1.8 Council will be aware of the private plan change hearing in relation to 16 hectares in Tomoana which is currently under consideration by the Hearings Committee. In our view the decline or approval of that application is immaterial to the Omahu re-zoning project as Tomoana is specific to wet industry and food processing and associated activities. Those activities are unlikely to locate in Omahu given the infrastructural constraint.
- 1.9 We are also of the view that if the Tomoana application is declined the expected industry will simply not develop, rather than occurring in an alternative location. Should the application be approved then we are also of the view that there will be little implication to the potential uses in Omahu as the driver for the Tomoana activities is site specific. Therefore it is our view that the Tomoana private plan change can be ignored in relation to the viability of the Omahu proposal.

- 1.10 Industrial land demand continues in spite of the current economic recession, as evidenced by the growth of dry industry activities in Omahu. Of significance to the demand for Omahu is the current and potential displacement of service industries from the new LFR zone applied in Karamu and the relocation of industrial or rural service activities from commercial service zones about the City, where many established some years ago.
- 1.11 In our view, industrial demand for the 10 (ten) year period commencing January 2013 is likely to be higher than the 77 hectares expected for the 10 (ten) year period commencing January 2009.
- 1.12 The specific logic for that statement follows:
- 1.12.1 The economic recession is now into its fifth year and we expect slow but positive recovering from late 2013 on.
 - 1.12.2 There is enhanced confidence at present particularly in relation to the post harvest sector.
 - 1.12.3 The relocation activity as a result of changed industrial demand and seismic design issues is presenting relocation opportunities.
 - 1.12.4 Improved roading infrastructure in Omahu is increasing the appeal of that locality to a number of industries that service the primary sector. We also expect the primary sector to increase it's spend in the coming period.
 - 1.12.5 We expect that overall industrial demand will recover quickly and on an exponential basis.
- 1.13 We remain of the view that Hastings District has a fundamental shortage in the supply of industrial land for the coming ten (10) year period.
- 2** In accord with the agreed methodology for the Irongate plan change we have stripped from the Plains zone indicative land value figures for Omahu, the speculative component which relates to the potential industrial re-zoning. The base land value levels that apply in Omahu at present reflect the fact that resource consent for industrial activities has a high chance of success and that Council continue to work on providing solutions to achieve the plan change. Most debate around the plan change relates to details in relation to the balance titles and the permitted and discretionary activities that will apply. There is a premium for Omahu land even after disregarding the speculative industrial component, due to its location and exposure to the Omahu Road frontage and the inherent potential that that provides for good utility of the permitted activities within the (Plains) zone.
- 2.1 Base land values remain dependant upon characteristics such as shape, frontage, contour, soil type and in particular size in addition to the availability of services and water consents.
 - 2.2 The appropriate land value range is between \$7 and \$10 per square metre or \$70,000 to \$100,000 per hectare.
 - 2.3 The above range reflects the land value component of properties and ignores any improvements to the land. In the event of re-zoning those improvements are of no value other than for salvage purposes. Application of the above rates to specific



properties will likely produce erroneous assessments and these rates are average indicative figures only.

3 Post Re-zoning Value

3.1 There is some pent up demand for industrial land in Omaha particularly in the stage 1 zoning area. Again industrial land value rates are heavily influenced by shape, services, size, accessibility and contour. Based upon a regular one hectare site with good frontage, accessibility and service connection potential, we are of the view that, the land value post zoning will range between \$130 and \$180 per square metre.

3.2 The quantum of development levies and specific onsite service costs will have some impact on the retail value of vacant land.

Viability Test

3.4 We have reviewed the viability model undertaken in 2010 and are comfortable that the assumptions adopted remain relevant. Because the model is a long term view of base land value without regard to the current economic environment, we do not consider that adjustment at this time is necessary.

3.5 The table and assumptions are summarised below. The key result is that there is a windfall to existing landowners as a result of the rezoning. This windfall is calculated based upon:

- Base land values without regard to speculative premiums as a result of the re-zoning intention.
- Adoption of base land values that ignore current short term position of property market.

Gross Realisation	\$49,630,000
Net Realisation	\$48,513,325
Outlay	\$41,505,349
Indicative Value	\$14,320,000
Block Value per Hectare	\$401,120
Block Value per sqm	\$40
Block Value per Lot	\$304,681
Base Rural Value per Hectare	\$100,000
Windfall Margin	\$301,120

Assumptions:

1. Block Value \$10 per sqm.
2. Developed Retail average value \$139 per sqm.
3. Profit & Risk 30%, excludes DCs.
4. Interest calculated as a low risk opportunity cost (4.5%) of the necessary equity over development and sell down period.
5. Uptake consistent with forecast.

6. No allowance made for anything other than basic on site subdivision costs i.e. no internal roading or servicing costs.
7. Have allowed for 47 sites of varying size with an average lot size of some 7,600 sqm.

We trust that these comments together with the appended table are adequate for your immediate purposes and look forward to providing more detailed update work as required by the plan change if it progresses to the next stage.

We invite you to contact the writer should you have further enquiries.

Yours faithfully
LOGAN STONE LTD



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