

# PROPERTY **E**CONOMICS



## **NIDO LIVING SUPERSTORE ECONOMIC ASSESSMENT**

**Client:** Magsons Group

**Project No:** 51784

**Date:** November 2018

## SCHEDULE

Code	Date	Information / Comments	Project Leader
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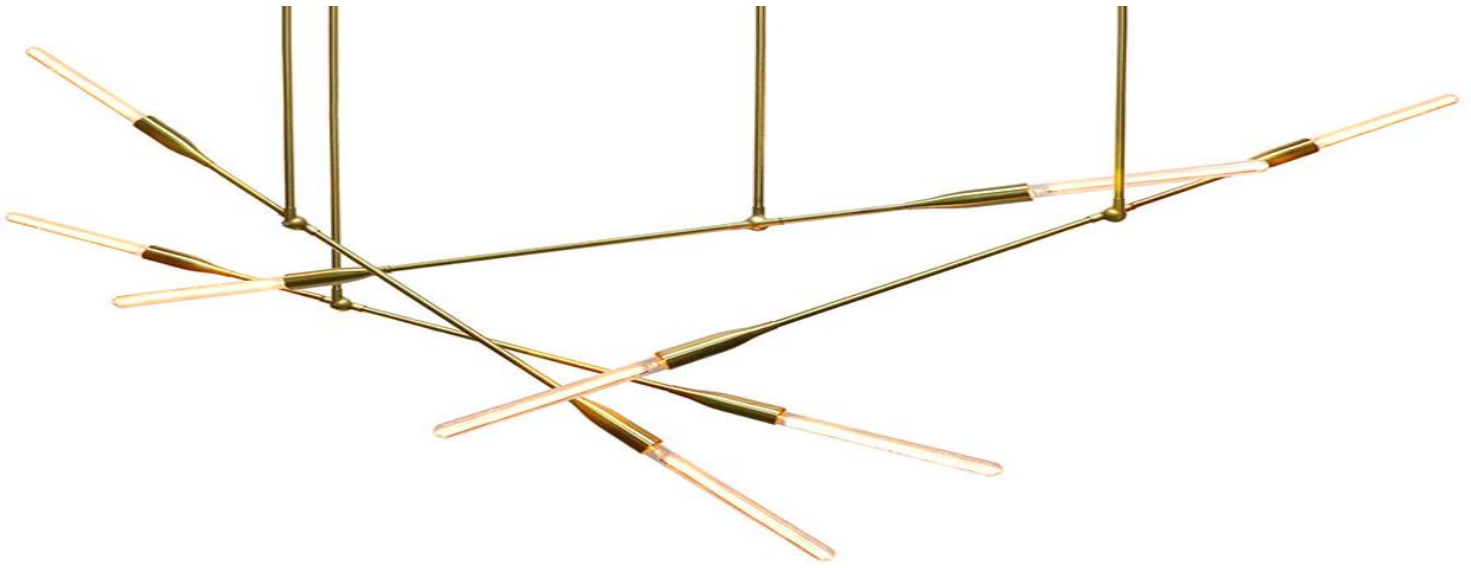
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## 1. INTRODUCTION

Property Economics has been engaged by Vinod Kumar of Magsons Group to update an earlier 2015 retail market assessment on the potential for the proposed new Nido Living Superstore (NLS) retail concept, located on Lincoln Road, Henderson, to generate significant adverse retail distribution effects on the wider commercial network of the city.

This update focuses on subsequent changes in the market in relation to economic and social demographics, market expenditure and population and household growth forecasts for the catchments, within the same superstore concept. The basis for this updated report is the inclusion of more recent population and household growth projections, and the effects these have on retail expenditure, sustainable GFA and potential for centre impacts.

The main purpose of this updated report is to provide information to Magsons Group as part of their evaluation process for the proposed NLS concept and assess whether there are likely to be any material planning impediments in the form of retail economic distribution effects in the context of the RMA generated as a result of the proposed development.

### 1.1. OBJECTIVES

The main objectives of this report are to:

- Identify and illustrate the geo-spatial extent of an indicative retail trade catchment for the proposed NLS and identify the surrounding retail network.
- Assess retail centre activity most likely to be affected by the proposed development, i.e. activity in closest proximity, albeit acknowledging that this is not where all the retail impacts will fall.

- Determine the population and household base of the identified catchments and forecast growth out to 2038 to provide a 20-year forecast horizon.
- Determine and forecast retail expenditure of the identified catchments and forecast this out to 2038, with a specific focus on the retail sectors of relevance.
- Translate forecast retail expenditure into sustainable retail floorspace and forecast this out to 2038.
- Determine the role and function of centres in the area and assess where retail distributional impacts will be felt.
- Determine the level of sales likely to be generated by the proposed concept store on an annualised basis.
- Assess whether there are likely to be any retail distributional effects on existing centres that are considered to be of material nature.
- Evaluate how the proposed store will function within the existing retail network.

## **1.2. INFORMATION & DATA SOURCES**

Information has been obtained from a variety of sources and publications available to Property Economics, including:

- Household and Population Projections – Statistics NZ
- Household Economic Survey - Statistics NZ
- Retail Trade Survey - Statistics NZ
- New Zealand Shopping Centre Directory - Property Council NZ
- Development Plan – Studio Gascoigne
- NLS Store Concept – Magsons Group
- Retail Centre Review 2013 – Property Economics

## 2. PROPOSED NLS CONCEPT

The proposed NLS is a brand new retail concept to NZ and can broadly be described as a 'home product' mega store selling a wide range of products across a broad spectrum of 'house' retail sectors, including, **Furniture, Floor Coverings, Houseware and Textile Goods Retailing** (i.e. furniture, manchester & textiles, home decorations, diningware and home furniture) with secondary retail sectors including **Electrical and Electronic Goods** (specifically retailing of small appliances and lighting fixtures) and will also sell prefabricated / modular kitchen sets.

It is similar in concept and offer to the Ikea and Index Living Mall stores operating in other countries around the world, albeit with an overall slightly higher pitch in terms of product and store fit out compared to Ikea.

The NLS design includes two level carparks with approximately 630 carparks, and three stores within a wider store. These stores include Inzpire for higher pitched designer items offering mid-high end furniture, as well as customised furniture (Columbini Casa) and commercial office stores, supporting a wide range of made to measure panel furniture and commercial office fitouts respectively.

The store layout is such that it displays its goods in an 'actual room' format, e.g. bedrooms, lounges, kitchens, bathrooms, etc. The concept is such that it will not trade in one ANZSIC<sup>1</sup> retail category only, as is common place for many existing retail stores, but across a much broader spectrum of the ANZSIC categories. This means retail impacts will be spread across a large number of retail trades both 'in-centre' and in 'non-centre' locations currently. As such retail impacts are likely to be more diluted than that they would usually be, with impacts also being spread across many trade sectors as well, e.g. plumbing, electrical, paint.

The sale of kitchen components, bathroom fittings and lighting fixtures are technically classified under trade-based categories, but a portion of these product types are often sold by retailers within the **Hardware, Building and Garden Supplies Retailing** stores, i.e. Mitre10 Mega, PlaceMakers and Bunning's. Therefore, to a certain degree, the proposed NLS will essentially also compete with both trade-based and hardware home improvement stores, further distributing the retail impact across individual retailers. Likewise, office furniture is also part of the proposed offer, and therefore NLS will also operate within business to business trade sectors.

It is important to note that the retail sector of which a store is classified is based on their primary function. Stores may sell products outside of their primary offer but will only be classified under a single retail category, i.e. Department Stores often sell items across the majority of ANZSIC categories but has its own single classification.

A full floor plan of the retail Gross Floor Areas (GFA) of each floor of the proposed NLS concept and the current floor plan have been included in Appendix 1. A detailed list of the types of retail stores categorised in the relevant retail sectors has also been included in Appendix 2.

<sup>1</sup> Australia New Zealand Standard Industrial Classification

### 3. INDICATIVE CORE ECONOMIC MARKET

Given the unique 'Ikea like' retail concept and offer proposed by the NLS, combined with its sheer size, the interest and attraction of the store is likely to be considerable. In essence the NLS will offer a 'one stop home product shop' that will allow shoppers to purchase everything they need / want for their house under one roof. It will draw customers from not only the general public but trade professionals such as interior designers (commercial and residential), office fitout specialists, and lighting consultants among others.

The other key factor to consider when determining an appropriate economic market for the NLS is its size of around 26,000-27,000sqm GFA (approximately 20,000 sqm net retail trading area). This makes it the largest 'single store' in retail terms in NZ, and therefore has the ability to attract customers from a more extensive catchment than 'standard' retail stores in NZ. In this regard, its trade catchments will be more akin to a regional shopping centre, albeit recognising regional malls have similar offers whereas the proposed NLS concept is unique, and therefore likely to have higher penetration in distant markets comparatively.

Given the above, an appropriate core economic catchment for the NLS has been identified as the former Waitakere District (West Auckland market), with the balance of the Auckland Region as the NLS's secondary catchment. These economic markets have been split into Primary and Secondary trade areas to represent the higher propensity for capturing retail expenditure within the core economic catchment compared to the Secondary catchment due to proximity and accessibility reasons.

These areas represent where the proposed NLS is likely to draw the vast majority of its customers. A key driver of the delineation of these catchments is its proposed location on a major motorway interchange that will allow easy access to the store from shoppers across the region, and represents a location that has the capacity to shift high volumes of traffic comparatively to more internalised (suburban) locations within the city.

On top of this, as a unique and new retail format within NZ, the NLS will draw from not only from the region but across the country riding on back of Auckland's nationwide retail draw, and therefore the catchments identified in Figure 1 illustrates only the core economic markets for the NLS and considered conservative. Therefore, the catchments are not intended to represent the entire area from which the NLS is likely to generate sales, but the geo-spatial extent of where a significant proportion of potential retail expenditure can be captured due to the likely destination profile of the associated retail offer of the proposed development.

With any novel large retail concept there is a 'honeymoon period' of strong interest due to the intrigue factor. After a period, the market settles down and adjusts, but its unique and comprehensive offer and environment will ensure it maintains an ability to attract customers from an extensive area for a sustained period. This has been seen by other new, large retail developments such as The Base and Sylvia Park, which still attract significant custom from outside of their respective cities.



FIGURE 1: INDICATIVE CORE NLS ECONOMIC MARKETS



Source: Property Economics



## 4. SURROUNDING RETAIL NETWORK

This section of the report assesses the surrounding retail network, and the centres in which retail effects generated by the proposed NLS development are likely to have the greatest influence, primarily due to their closer proximity to the development. Figure 2 highlights the location of the proposed NLS site on Lincoln Road, Henderson and the relevant retail network in the surrounding Waitakere area.

Floorspace figures in this section of the report have been sourced from the NZSCD<sup>2</sup>, with the exception of Lincoln North which has been sourced from an earlier retail audit completed by Property Economics.

FIGURE 2: KEY COMPETING LOCALES WITHIN WAITAKERE



Source: Property Economics

<sup>2</sup> New Zealand Shopping Centre Directory

**Westgate / North West Shopping Centre** is a 'Metropolitan' Centre under the Auckland Unitary Plan and combined is currently in the order of 72,000sqm GFA, with around 160 retail stores and anchor stores including The Warehouse department store, two Countdown supermarkets, Farmers and Pak'N Save. Adjacent to the Westgate centre is a fashion outlet centre with 10 retail stores encompassing 1,900sqm GFA.

This retail destination is undergoing expansion (the North West Shopping Centre), extending the land area of the centre from 14ha to around 170ha. The expanded centre is likely to offer 250,000sqm of retail space as well as office, accommodation, entertainment, parks and civic amenities. A significant portion of the new retail provision includes large format and trade-based retailing and is likely to compete with the proposed NLS to varying degrees, but importantly does not have an individual store of the same size or scope of offer as the proposed NLS. In this regard there are no 'like' stores proposed at this destination as Property Economics understands.



**Lincoln North** located on Lincoln Road (closest to the subject site), is a supermarket-based neighbourhood centre, accommodating around 20 stores, with a range of specialty stores, food and beverage services and commercial services. Excluding the supermarket (Pak'N Save) and Mitre 10 Mega store, Lincoln North encompasses approximately 7,700sqm GFA and generally has stores that will not compete with the NLS or have product overlap with the NLS store. Across the road from Lincoln North, albeit the same retail node, is a Pak'N Save supermarket and Mitre 10 Mega store, while across Lincoln Road is a Countdown supermarket. Both these supermarkets will not be affected in trade terms, while Mitre10 Mega will compete in a small way with minimal product overlap.

The **Lincoln Centre** also located on Lincoln Road, operates as a Large Format Retail (LFR) based retail centre with anchor stores such as The Warehouse, Noel Leeming and Warehouse Stationary. All three of these identified stores are likely to incur some trade impacts by the development of the NLS. However, as the main function of each store is not totally aligned with the offer at the NLS and only a portion of retail offer will be duplicated, and therefore it is unlikely that the role and function of these stores, or their viability will be jeopardised by the development of NLS.

**Westfield WestCity**, which forms a major component of the Henderson commercial centre and is also defined as a 'Metropolitan' centre under the Auckland Unitary Plan, is located approximately 8-minutes' drive from the proposed the NLS store. This centre covers around 37,200sqm GFA and includes anchor stores such as Countdown, Farmers and The Warehouse. In total WestCity has around 105 specialty stores, a food court with around 10 tenants as well as an entertainment hub with 8 Cinema screens.

WestCity represents a 'full offer' retail shopping centre and draws customers from right across Waitakere. This is a significant contrast to the proposed NLS offer which will function primarily



as a 'home products' retail hub only. The differences in function and retail offer of the centres suggests that the NLS will have negligible if any impact on WestCity's role and function in the wider retail network. Some impacts may be felt on Homeware related retailers in WestCity but these are likely to be minor in effect, and negligible in terms of the overall impact to the WestCity centre as a whole.

An important distinction between the NLS concept and the larger regional shopping malls scattered around the city is that shopping malls are focused on 'personal' goods retailing targeting the individual needs of shoppers, particularly fashion, footwear, department stores and supermarkets. Whereas the NLS concept is focused less on individual needs and more goods required for the home (indoors and outdoors). In this regard, the NLS model has a completely different focus to 'standard' shopping malls.

**Waitakere Mega Centre** is a LFR centre in the order of 18,000sqm GFA with anchor stores including a 4,960sqm Kmart department store, 2,520sqm Rebel Sports store and 2,520sqm Briscoes. This centre has around 20 retail stores and is a destination centre drawing customers from a wide area. Given the location of Waitakere Mega Centre, it essentially operates as an extension to the larger and more comprehensive Westfield WestCity and wider Henderson Centre.

A few of the stores located within Waitakere Mega Centre will compete against the NLS, these including, L&V Furniture, Lighting Direct, Briscoes and Lighting Plus. These stores are likely to encounter some retail trading impacts as a result of diversion of spend, but this is likely to be minor in scale. A more detailed analysis of the impact of the proposed the NLS is outlined in Section 8.

**Kelston Shopping Centre** is a supermarket-based neighbourhood centre similar to Lincoln North, accommodating around 25 stores, with a range of specialty stores, food and beverage services and commercial services. The Centre has a supermarket anchor tenant (Countdown) of approximately 4,430sqm GFA and all-inclusive encompasses 10,120sqm GFA.

There are no potential competitors to NLS in Kelston Shopping Centre and therefore there is no propensity for the role and function of these stores will be jeopardised by the development of the NLS.

**LynnMall Shopping Centre** is an enclosed shopping mall of around 31,400sqm, represented by over 120 specialty stores, with anchor tenants such as Farmers, Countdown and Noel Leeming. LynnMall has recently opened a new \$36m expansion based around a new resultant strip and cinema complex future proofing it as a key shopping destination in the West Auckland area

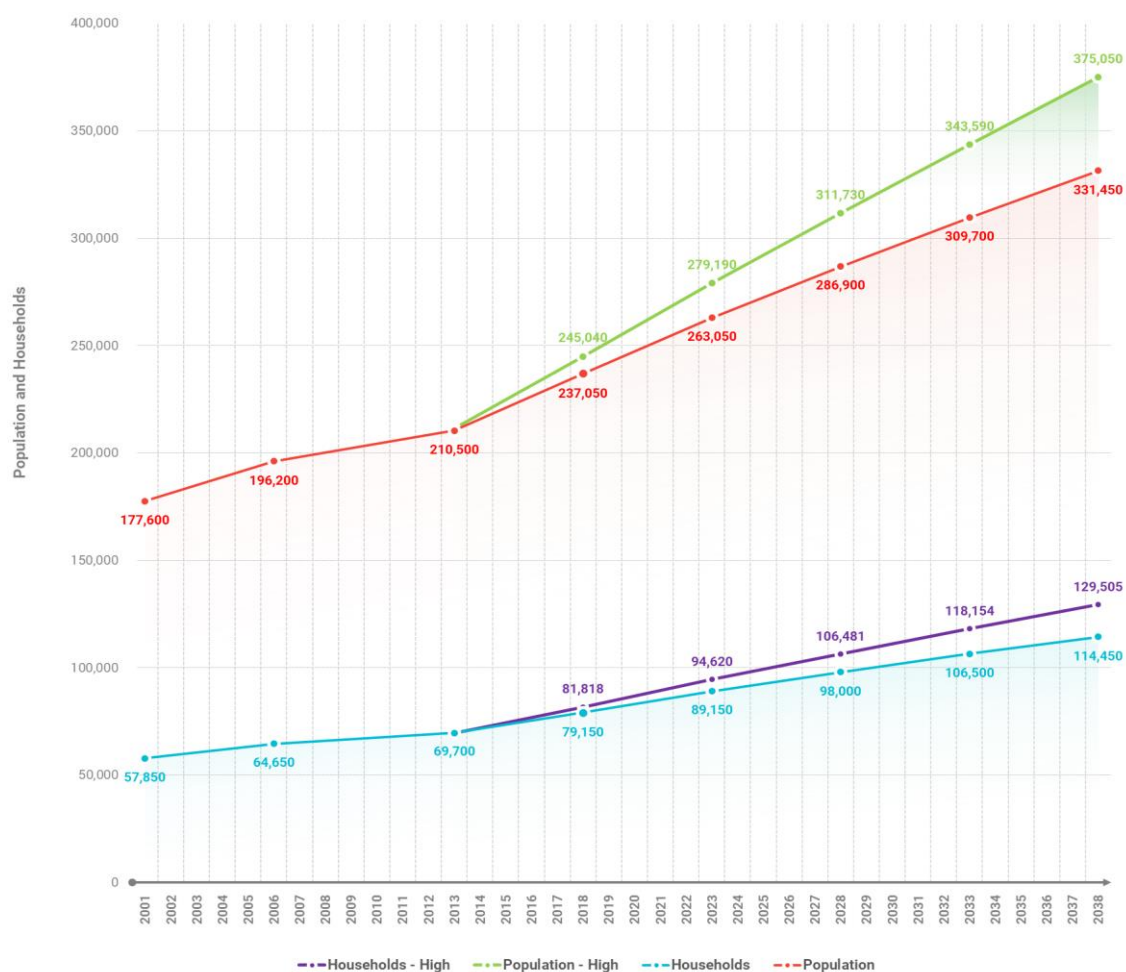


Similar to Westgate and WestCity, LynnMall is a 'full offer' 'Metropolitan' centre (under the PAUP), compared to the proposed NLS which will function as a homeware retail hub only. The differences in function and offer of the centres suggest a negligible impact (if any) on the role and function on LynnMall within the wider retail network. Again, some trade competition impacts may be felt on Homeware related retailers but are unlikely to be material in quantum.

## 5. POPULATION AND HOUSEHOLD GROWTH

Figures 1, 2 and 3 display the population and household growth projections under the Statistics NZ Medium and High growth scenarios for the primary catchment, secondary catchment and total (Auckland Region) catchment respectively. These projections are derived from the most recent Statistics NZ census population and household counts in medium and high population growth scenarios.

FIGURE 1: POPULATION AND HOUSEHOLD GROWTH FOR PRIMARY CATCHMENT



Source: Statistics New Zealand, Property Economics

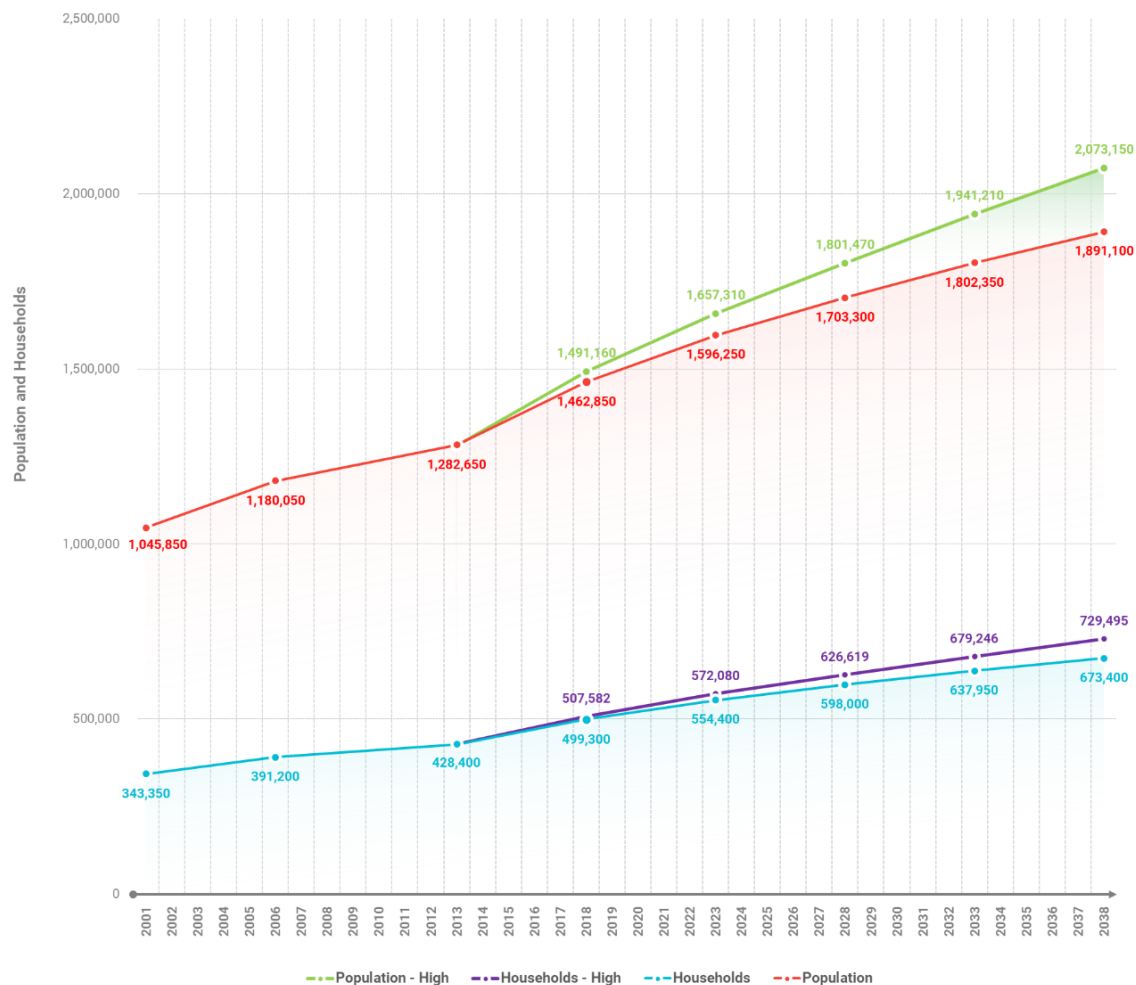
The Waitakere District is currently projected to have a population of 237,100 people and 79,200 households in 2018, with a balance of 1.46m people and 500,000 households in the wider Auckland secondary catchment. In total, the catchments are projected to have a population base of approximately 1,700,000 people residing in approximately 580,000 households.

These projections represent the 2018 population and household estimates in a Medium growth scenario. Following most recent household and population projections being greater than those

reported in the 2015 report, it is worth noting Auckland, in general, is forecast to be a high growth market in the future and has a predisposition to achieve growth rates higher than projected, hence high nominal growth population and household projections have been included in this report. In the current growth climate, it is plausible that the catchments achieve the high growth estimates displayed in figures 1,2 and 3.

If high growth estimates are realised, the primary catchment could see a population of approximately 245,000 people and 81,800 households in 2018, with a balance of nearly 1.5m people living in 508,000 households in the secondary catchment, totalling almost 1.75m people across the Auckland region.

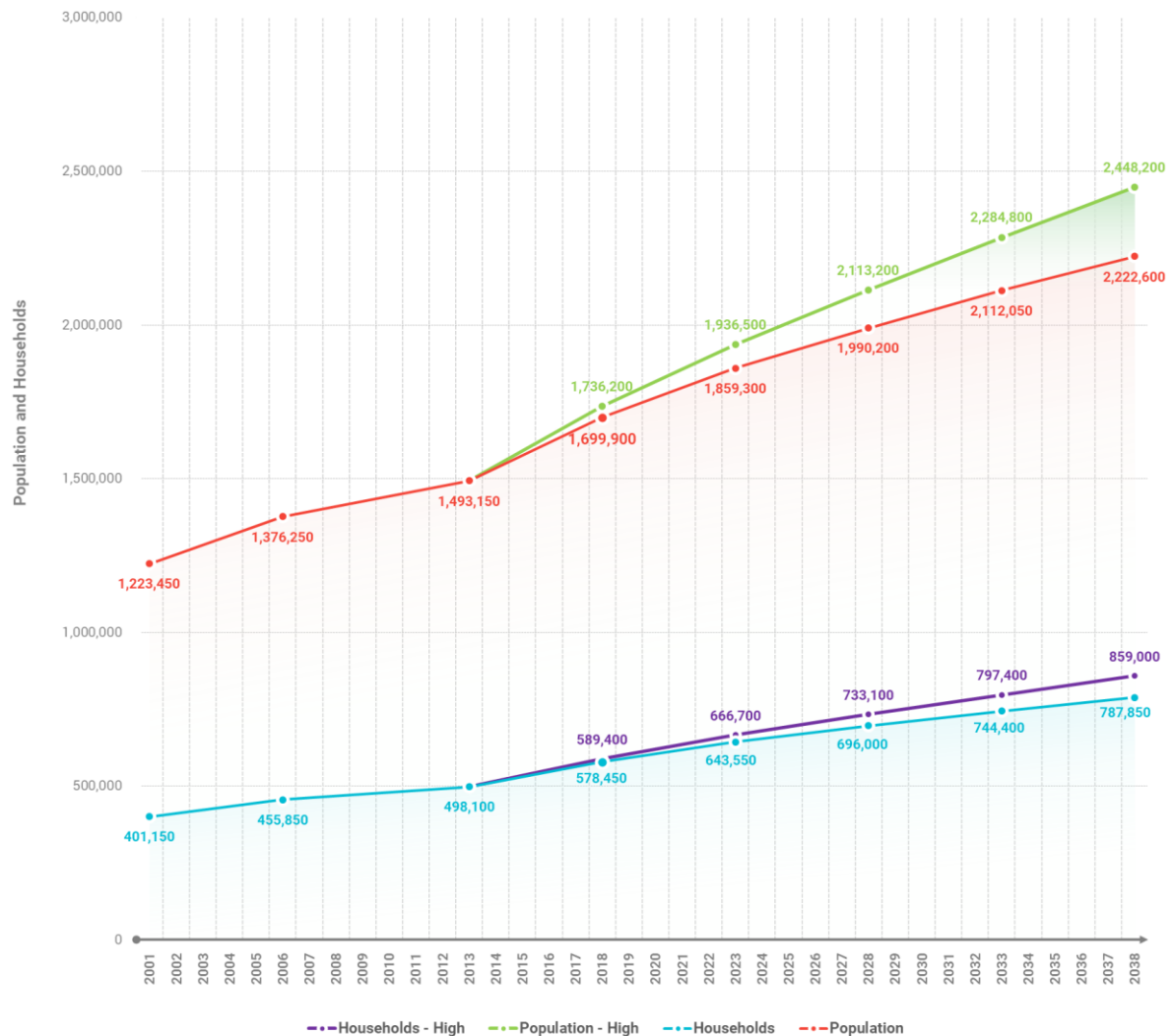
FIGURE 2: POPULATION AND HOUSEHOLD GROWTH FOR THE SECONDARY CATCHMENT



Source: Statistics New Zealand, Property Economics



FIGURE 3: POPULATION AND HOUSEHOLD GROWTH FOR THE AUCKLAND REGION



Source: Statistics New Zealand, Property Economics

Net population growth of the primary catchment over the forecast period is projected to equate to approximately 120,000 people, a 40% increase at an average growth rate of 6,000 people per annum. This outpaces both regional and national percentage growth significantly, with regional and national growth equating to around 30% and 19% respectively over the same period.

In the secondary catchment, net population and household growth are projected to be 428,300 and 174,100 respectively over the forecast period, equating to respective growth rates of 29% and 35%. A summary of population, household and growth figures for both catchments under a medium growth scenario can be found in Table 1.

Under High growth projections, the primary catchment is projected to experience net growth of 162,500 people, increasing 53% over the forecast period.

TABLE 1: POPULATION AND HOUSEHOLD GROWTH FORECASTS – MEDIUM GROWTH

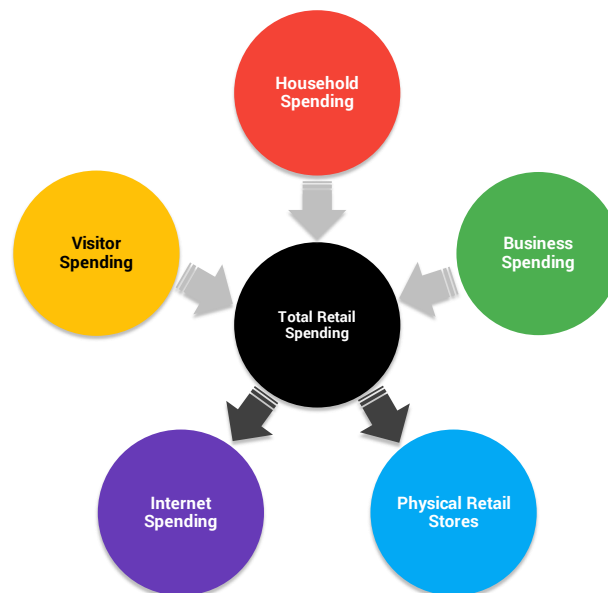
PRIMARY CATCHMENT	2018	2023	2028	2033	2038	Net Growth 2018-2038
Population	237,050	263,040	286,890	309,720	331,470	94,420
Households	79,151	89,162	98,020	106,486	114,459	35,308
Household Size	2.99	2.95	2.93	2.91	2.90	-0.10
Population Growth (p.a.)		2.10%	1.75%	1.54%	1.37%	39.83%
Household Growth (p.a.)		2.41%	1.91%	1.67%	1.45%	44.61%
SECONDARY CATCHMENT	2018	2023	2028	2033	2038	Net Growth 2018-2038
Population	1,462,850	1,596,250	1,703,300	1,802,350	1,891,100	428,250
Households	499,300	554,400	598,000	637,950	673,400	174,100
Household Size	2.93	2.88	2.85	2.83	2.81	-0.12
Population Growth (p.a.)		1.76%	1.31%	1.14%	0.97%	29.28%
Household Growth (p.a.)		2.12%	1.53%	1.30%	1.09%	34.87%
TOTAL CATCHMENT	2018	2023	2028	2033	2038	Net Growth 2018-2038
Population	1,699,900	1,859,290	1,990,190	2,112,070	2,222,570	522,670
Households	578,451	643,562	696,020	744,436	787,859	209,408
Household Size	2.94	2.89	2.86	2.84	2.82	-0.12
Population Growth (p.a.)		1.81%	1.37%	1.20%	1.03%	30.75%
Household Growth (p.a.)		2.16%	1.58%	1.35%	1.14%	36.20%

Source: Statistics New Zealand, Property Economics

## 6. RETAIL EXPENDITURE AND SUSTAINABLE GFA

This section sets out the projected retail expenditure and sustainable GFA forecasts for the identified catchments. Forecasts of retail expenditure and sustainable GFA have been prepared using the Property Economics retail growth model and have been based on the aforementioned population and household growth projections. Retail expenditure projections have been prepared using the Property Economics Retail Expenditure Model. A more detailed breakdown of this model can be seen in Appendix 3.

The following flow chart provides a graphical representation of the Property Economics Retail Expenditure Growth Model to assist in better understanding the methodology, key inputs utilised and assist in interpreting outputs.



### GROWTH IN REAL RETAIL EXPENDITURE

For the purposes of projecting retail expenditure, growth in real retail spend has been incorporated into the model at a rate of 1% per annum over the forecast period. This 1% rate is based on the level of debt retail spending, interest rates and changes in disposable income levels, and is the average inflation adjusted increase in spend per household over the assessed period.

### LAYERED RETAIL CATCHMENTS

It is important to note that the retail expenditure generated in the subject area does not necessarily equate to the sales within that particular area. Residents can freely travel in and out of the subject area, and they will typically choose to shop at retail destinations with their preferred range of stores, products, brands, proximity, accessibility and price points. A good quality offering will attract customers from beyond its core market, whereas a low-quality offering is likely to experience retail expenditure leakage out of its core market.

Therefore, the retail expenditure generated in an area represents the retail sales centres (or retail stores) within that area could potentially achieve and is the key influence on what the market can potentially sustain. This should not be interpreted as a negative for any retail activity in the primary catchment, but simply represents normal commercial market mechanisms (competition) and is a consideration that needs to be appropriately accounted for in any analysis.

## EXCLUDED ACTIVITIES

The retail expenditure figures below are in 2018 NZ dollars and exclude the following retail activities, as categorised under the Australia New Zealand Standard Industrial Classification (ANZSIC) categorisation system:

- Accommodation (hotels, motels, backpackers, etc.)
- Vehicle and marine sales & services (petrol stations, car yards, boat shops, caravan sales, and stores such as Repco, Super Cheap Autos, tyre stores, panel beating, auto electrical and mechanical repairs, etc.)

The above retail sectors have been excluded because they are not considered to be core retail expenditure, nor fundamental retail centre activities in terms of visibility, location, viability or functionality. Modern day retail centres do not rely on these types of stores to be viable or retain their role and function in the market as such stores have the potential to generate only non-consequential trade competition effects rather than flow-on retail distribution effects. Therefore, the retail centre network's economic wellbeing and social amenity cannot be unduly compromised.

Hardware, home improvement, building and garden supplies retail expenditure is typically excluded from Property Economics' retail assessments for similar reasons, however due to the nature of retail provision offered by the proposed store, it is considered appropriate this retail category remains in this analysis.

Trade orientated activities such as kitchen showrooms, plumbing stores, electrical stores and paint stores are also excluded from the model. This is not to imply that these activity types are not situated in centres, or will incur some minor trade impacts, but trade spend is additional to this analysis.

## SUSTAINABLE GFA

This analysis uses a sustainable footprint approach to assess retail demand. Sustainable floorspace in this context refers to the level of floor space proportionate to an area's retainable retail expenditure that is likely to result in an appropriate quality and offer in the retail environment. This does not necessarily represent the 'break even' point, but a level of sales productivity (\$/sqm) that allows retail stores to trade profitably and provide a good quality retail environment, and thus economic wellbeing and amenity.

It is also necessary to separate the Gross Floor Area into:

- Net retail floorspace (Sustainable Floorspace); and
- Back office floorspace that does not generate any retail spend (**Back Office Floorspace**).

A store's net retail floor area only includes the area which displays the goods and services sold and represents the area to which the general public has access. By contrast, the Gross Floor Area typically represents the total area leased by a retailer. Back Office Floorspace in a retail store is the area used for storage, warehousing, staff facilities, admin functions or toilets and other 'back office' uses.

These activities on average occupy around 25-30% of a store's GFA. It is important to separate out such back office floorspace from sustainable floorspace because back office floorspace does not generate any retail spend. For the purposes of this analysis a 30% ratio has been applied.

TABLE 2: RETAIL EXPENDITURE GROWTH AND SUSTAINABLE GFA

<b>Primary Catchment</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$'000,000)	\$2,561	\$3,008	\$3,482	\$4,026	\$4,459	\$1,898
Sustainable Net Retail Floorspace (sqm)	368,477	432,841	500,997	579,229	641,466	272,989
Sustainable GFA (sqm)	538,778	627,474	716,694	818,512	894,923	356,145

<b>Secondary Catchment</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$'000,000)	\$20,192	\$23,493	\$26,809	\$29,676	\$32,479	\$12,287
Sustainable Net Retail Floorspace (sqm)	2,905,351	3,380,295	3,857,498	4,269,863	4,673,297	1,767,946
Sustainable GFA (sqm)	4,150,500	4,828,993	5,510,712	6,099,805	6,676,140	2,525,639

<b>Total (Primary and Secondary)</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$'000,000)	\$22,738	\$26,498	\$30,309	\$33,761	\$37,023	\$14,285
Sustainable Net Retail Floorspace (sqm)	3,271,568	3,812,653	4,361,092	4,857,658	5,327,074	2,055,506
Sustainable GFA (sqm)	4,673,669	5,446,647	6,230,130	6,939,511	7,610,106	2,936,437

Source: Property Economics

Within the identified catchments, there is currently an estimated \$22.7b of retail expenditure generated annually in the assessed retail sectors, translating to a sustainable retail GFA of approximately 4.67m sqm. Growth in the market is estimated to elevate net annual retail expenditure to \$37b pa by 2038, representing an increase of over \$14b in annual spend by 2038 above the current 2018 base year. In terms of retail floorspace this equates to an increase in sustainable GFA of around 2.94m sqm over the forecast period.

Within the Primary Catchment, estimated annual retail expenditure generation is forecast to increase by an estimated \$1.9b by 2038, increasing annual retail expenditure generation to

nearly \$4.46b. In terms of sustainable retail GFA, 540,000 sqm is currently sustainable by the Primary Catchment's generated spend, with this forecast to increase to almost 900,000 sqm by 2038. This represents a net sustainable GFA increase of around 356,000 sqm by 2038.

## 6.1. NLS RELEVANT RETAIL SECTORS

As mentioned earlier in the report, the core retail sales within which the proposed NLS development will trade are the ANZSIC retail sectors of Furniture, Floor Coverings, Housewares and Textile Goods Retailing and Electrical and Electronic Goods retailing. In addition a small component of products also typically sold in Hardware, Building Supplies and Home Improvement stores will also be offered, as will the wholesale furniture sector in relation to office furniture.

Table 3 forecasts retail expenditure and sustainable floorspace for the identified economic markets, within the key retail categories (from a retail impact perspective under the RMA) of:

- Furniture, floor coverings, housewares and textile goods retailing
- Electrical and electronic goods retailing
- Hardware, building and garden supplies retailing

Given the generalised band of products to be offered by the NLS and its relationship to 'homeware' type goods, these are considered to be the relevant retail sectors the NLS would operate within and the appropriate sectors to assess for retail impact purposes. Based on the proposed store composition, the majority of retail expenditure captured by the NLS will be drawn from the Furniture, floor coverings, housewares and textile goods retailing, with smaller portions coming from the other relevant sectors. It is important to note that Table 3 represents the total expenditure and sustainable floorspace of the all stores classified in the relevant sectors, beyond what the NLS would offer.

Table 3 shows the 'pool' of retail dollars generated within the market in which NLS will trade is substantial in nominal terms currently. Forecast growth (and Auckland being a high growth market) means this 'pool' will expand rapidly over the assessed period quickly offsetting any impacts at the regional level, meaning any individual trade impacts generated as a result of the development would not be enduring.

Furthermore, the retail expenditure figures determined in this report exclude the net inflow of retail spend into Auckland from outside markets. This is not considered relevant to quantify for this assessment as determining the spend generated within the Auckland market alone is sufficient for the purposes of this analysis and understanding the development's potential RMA retail distribution effects. As such the retail spend figures in this report are conservative and likely to underrepresent the 'true' size of respective markets.



The identified catchments are estimated to generate approximately \$2.15b pa in retail expenditure within the identified sectors (excluding trade-based sales). This translates to sustainable net floorspace of approximately 656,300 sqm, or 938,500 sqm GFA. By 2038 retail expenditure within these sectors is estimated to grow to around \$3.4b pa, with the ability to sustain nearly 1.5m sqm GFA.

Table 2: NLS SECTORS RETAIL EXPENDITURE AND SUSTAINABLE GFA

<b>Primary Catchment</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$000,000)	\$261	\$304	\$350	\$404	\$446	\$185
Sustainable Net Retail Floorspace (sqm)	79,740	93,070	106,884	123,574	136,254	56,515
Sustainable GFA (sqm)	113,914	132,957	152,691	176,534	194,649	80,736
<b>Secondary Catchment</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$000,000)	\$1,889	\$2,176	\$2,454	\$2,717	\$2,953	\$1,065
Sustainable Net Retail Floorspace (sqm)	576,833	664,493	749,346	829,450	901,583	324,750
Sustainable GFA (sqm)	824,047	949,275	1,070,494	1,184,929	1,287,976	463,929
<b>Total (Primary and Secondary)</b>	<b>2018</b>	<b>2023</b>	<b>2028</b>	<b>2033</b>	<b>2038</b>	<b>Net Growth 2018-2038</b>
Retail Expenditure (\$000,000)	\$2,149	\$2,480	\$2,806	\$3,125	\$3,405	\$1,255
Sustainable Net Retail Floorspace (sqm)	656,269	757,498	856,566	954,097	1,039,378	383,109
Sustainable GFA (sqm)	937,527	1,082,140	1,223,666	1,362,995	1,484,826	547,298

Source: Property Economics

Within the Primary Catchment, estimated annual retail expenditure generated within the identified sectors is forecast to increase by an estimated \$185m by 2038, increasing annual retail expenditure generation to \$446m. In terms of sustainable retail GFA, 114,000 sqm is currently sustainable by the Primary Catchment across these sectors, with this forecast to increase to almost 200,000 sqm by 2038. This represents a net sustainable GFA increase of around 81,000 sqm by 2038.

## 7. ESTIMATED SALES

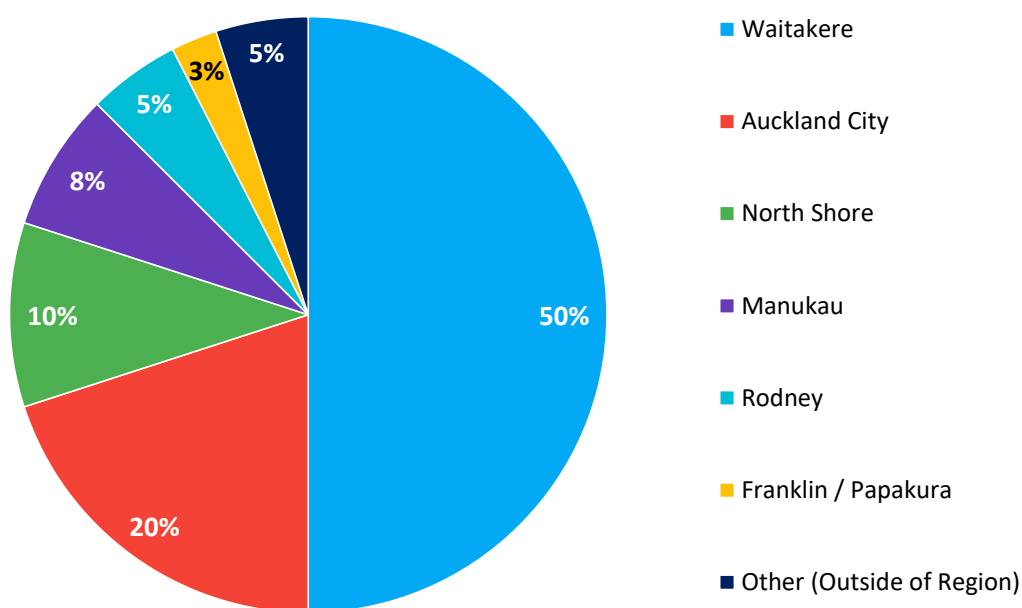
Sales for the proposed NLS store are estimated to likely range between \$60-\$70m per annum, drawing customers from not only across the Auckland region, but likely to attract some expenditure from other areas of NZ.

Estimating sales for a completely new retail concept and format to NZ requires some balancing of factors. The annual sales estimation has been derived off the performance of existing Large Format Retail (LFR) stores in Auckland, albeit recognising this is not a directly comparable offer, balanced against the size of the market and store proposed on Lincoln Road. The sales estimation gives a sales per sqm (\$/sqm) productivity of between \$3,000/sqm - \$3,500/sqm over a significantly larger store foot print to that previously seen in NZ.

It is anticipated approximately 50% of sales will come from within the Waitakere District, where as assessed earlier there is a significant shortfall in Furniture, Floor Coverings, Housewares and Textile Goods Retailing offer i.e. a lack of competitors and retail provision currently. A significant portion of these sales will be drawn from existing expenditure in this sector currently leaving this district internalised by an offer that meets the requirements of Waitakere residents.

Figure 3 illustrates the composition of the proposed NLS estimated sales based on its origin location.

FIGURE 3: NLS ESTIMATED SALES COMPOSITION BY AREA



Source: Property Economics

As a unique retail offer within NZ, an estimated 5% of sales will originate from outside of the Auckland region. This is not unusual and factors in the commercial realities associated with trading patterns and the extensive gambit of the offer in one location. By way of example, in some recent research, Property Economics found regions as far as Nelson / Tasman (South Island) made around 5% of their Furniture, Floor Coverings, Houseware and Textile Goods Retailing sector spend within the Auckland region, primarily due to the attraction of wider choice, competition and price.

Excluding Waitakere, the area where the most significant level of sales will be drawn from is Auckland City (20%), followed by North Shore (10%). These are areas that border Waitakere and given the recent and proposed roading developments in the Auckland Motorway network, they have improved the level of accessibility and lowered drive times to the site, making shopping at the NLS a more viable and realistic proposition.

Table 4 illustrates the composition breakdown of the NLS's estimated retail sales and their origins.

TABLE 3: NLS ESTIMATED SALES COMPOSITION

Area	Estimated Sales		
	%	Low (\$m)	High (\$m)
Waitakere	50%	\$30.0	\$35.0
Auckland City	20%	\$12.0	\$14.0
North Shore	10%	\$6.0	\$7.0
Manukau	7.5%	\$4.5	\$5.3
Rodney	5%	\$3.0	\$3.5
Franklin / Papakura	2.5%	\$1.5	\$1.8
Other (Outside of Region)	5%	\$3.0	\$3.5
<b>Total</b>	<b>100%</b>	<b>\$60</b>	<b>\$70</b>

Source: Property Economics

With estimated sales of between \$60-\$70m per annum, approximately between \$30 - \$35m pa is estimated to originate from Waitakere (Primary Catchment), the balance of which between \$27 - \$32m is estimated to come from the balance of Auckland Region (Secondary catchment), and \$3 - \$3.5m from outside of the region.

The areas of Auckland City and North Shore are estimated to contribute around 30% of sales in the NLS. These are areas not only in close proximity to development but of generally higher density population bases with higher average household incomes. The NLS will provide a range of price points across the product ranges it sells, from the more budget end through to higher end / higher priced products. The latter will be more attractive to the more affluent areas in Auckland and North Shore.

## 8. TRADE COMPETITION EFFECTS VS DISTRIBUTION EFFECTS

In terms of assessing potential effects under the RMA there is a need to differentiate between trade competition effects and flow-on retail distribution effects. Trade competition effects are the direct effects generated on one particular store operating in the same sphere in terms of products and sector, and are typically generated by almost any new retail development to varying degrees. By themselves, trade competition effects are not justification for declining a retail consent application under the RMA, unless they are of a level that generates significant adverse flow-on retail distribution effects on the existing centre network of the area. It is within this broader context that the relative merits of this private plan change, in terms of retail impacts, needs be considered under the RMA.

Retail distribution effects are generated by, and are the result of, consequential trade competition effects. These effects can range across the spectrum (positive and negative) depending on the level of effects generated, which are heavily dependent on the scale, type and location of the proposed activity, among other attributes. Where the patterns of support and commercial activity within an existing centre would not change dramatically within a locality as a consequence of a proposed activity, then the retail distribution effects are not considered to be significant.

Put another way, retail distribution effects would occur where a new business (or cluster of businesses) affects an existing centre to such a degree that it would erode a centre's viability, causing a decline in its function and amenity, and disenabling the people and communities who rely upon those existing (declining) centres for their social and economic wellbeing.

Many of the stores which the NLS will compete with will be LFR stores located outside of centres i.e. large furniture and homeware stores such as Freedom Furniture, Harvey Norman and Briscoes, and diluted across a wide range of sectors. These activities are often not 'typical' town centre or main street store types in today's retail environment and as such existing retail centres do not rely on these store types to remain viable, vibrant centres and therefore do not pose the risk of generating any material effects on existing retail centres in a RMA context. Any retail distributional effects within this context are regarded as trade competition and therefore not relevant within a RMA context with no loss of access, amenity or wellbeing to the community or market.

As a development that spans multiple retail categories, the NLS will compete against a throng of specialist furniture, homeware and to a lesser extent, electronic goods retailers as well as department and home improvement stores. Retail distributional effects of the NLS will differ from traditional competitors as it does not represent a direct alternative to any other one store, but a specialised megastore for everything 'home' related. Given the breadth of the development, while significant in terms of floor area, the retail distributional effects on individual stores are likely to be minor. In effect, the retail distribution impacts will be absorbed

by stores across multiple retail sectors and a multitude of locations (both within Waitakere and other parts of Auckland).

As a proportion of the Primary and Secondary Catchments, the NLS would only represent 2.8% of the sustainable GFA in the relevant sectors. In a strictly supply vs. demand analysis, the overlapping nature of the offer and extensive customer draw means the catchment is comfortably able to sustain the development in the current market, with growth in the Primary Catchment alone, offsetting any trade impacts relatively quickly.

To contextualise the 3% figure in more detail, by 2023 (i.e. within 5 years) the catchments are estimated to increase 16.5% in terms of retail expenditure, and 45.4% by 2033. This means in the relevant retail sectors market growth alone would be able to absorb the proposed development within 1 year. Therefore, a detailed assessment of existing supply is considered unnecessary in the evaluation of the development as the market will be able to maintain the existing provision within 1 year, and any individual retailers affected (trade competition) are likely to take a short term 'hit' rather than a sustained or fatal downturn.

Also, in terms of the 'existing environment' Massey North has a significant level of retail provision consented that is likely to be rolled out over the next 10 years or so. A practical approach in my view would be to consider the 'existing environment' demand / supply analysis in the light of projected growth over the next 10 years as well and not simply the current market.

The development of the proposed NLS would in my view generate net positive flow-on benefits to the consumers in the identified catchments and the wider market the store would service. These include the benefits associated with a retail product clustering, albeit within a single store, and provide a central 'one stop shop' hub for 'home' related retailing.

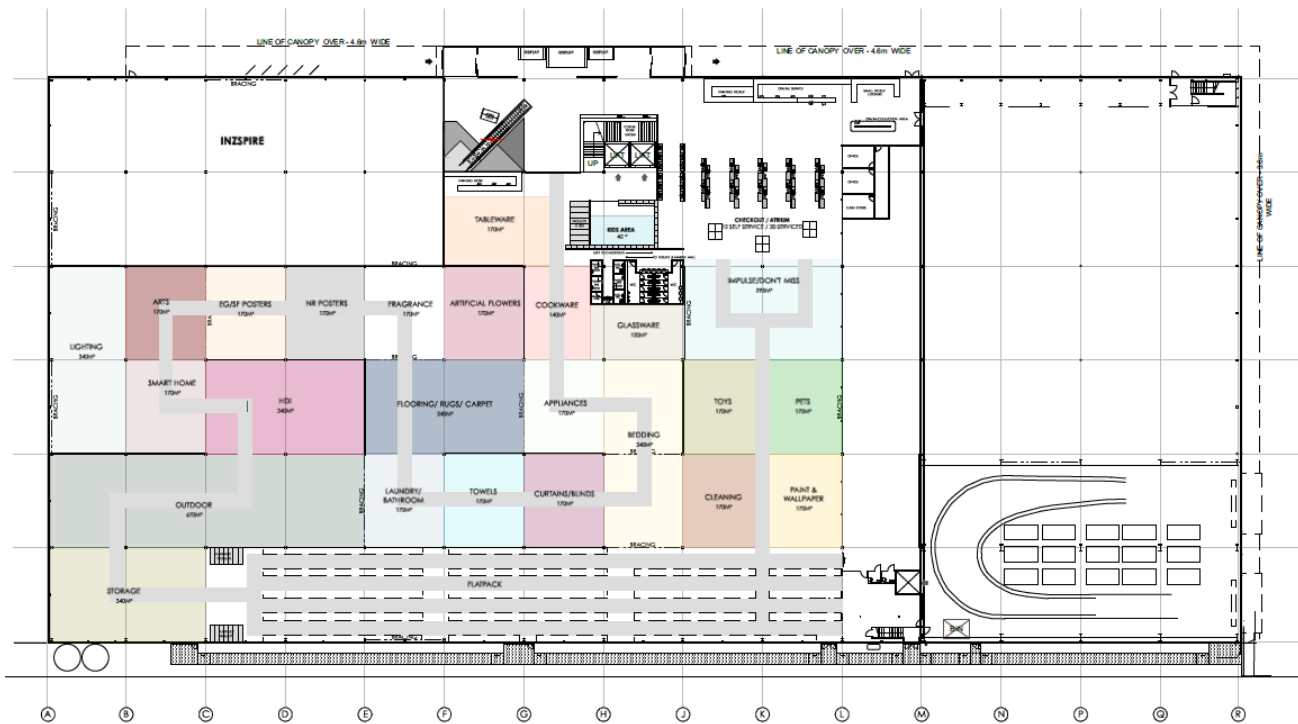
Such a store would also increase the level of competition in retail markets locally (and potentially nationally) for retailers across multiple sectors which typically has the effect of 'raising the bar' so to speak in respect of the customer experience including aspects such as store design, fit-out and customer service to name a few.

It is important to note that a full retail impact assessment, the level at which potentially directly affected individual stores are identified, has not been undertaken. The conclusions formed in this analysis given the proposed offer, unique nature of the application, size of market relative to estimated sales, and projected growth. Overall, the proposal is not considered to have the propensity to generate a level of trade competition effects on any one single retailer or centre that is likely to lead to flow-on adverse retail distribution effects that would cause the role and function of any existing centre to be undermined, or have its commercial viability jeopardised.

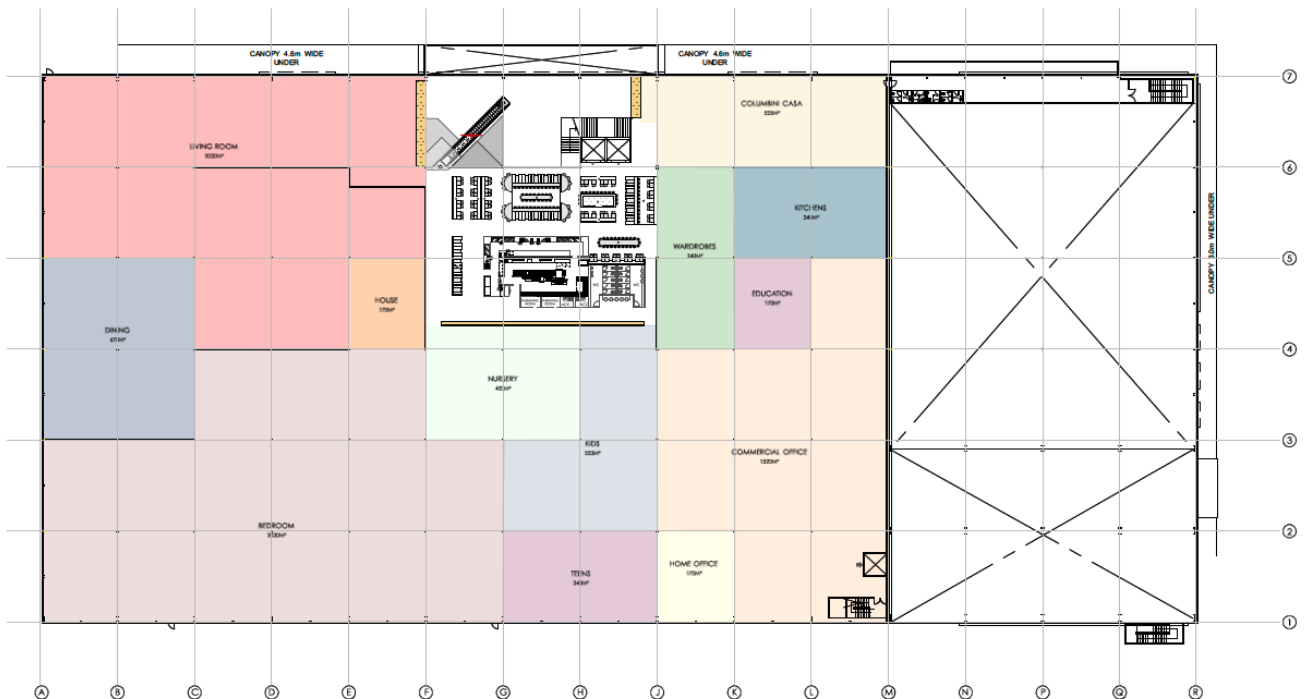
Given the above, on balance, in my opinion there is likely to be net positive economic benefits afforded the community as a result of the proposed NLS being developed and no adverse retail distribution effects are likely be created (only minor trade competition impacts), and crucially in Property Economics' view there will be no impact on the role, function, viability, vibrancy and performance of any existing centre in the network.



## APPENDIX 1: NLS DEVELOPMENT PLAN



<b>nido</b> NIDO 156 CENTRAL PARK DRIVE HENDERSON AUCKLAND 1:300 @ A3 NOVEMBER 2018	<b>PROPOSED PLAN - GROUND</b> 2434 A-02/1 CONCEPT DESIGN	<b>STUDIO GASCOIGNE LTD</b> 10 Colson Ave #40/3 Home Bay Auckland, New Zealand info@studiogascogne.com www.studiogascogne.com P 09 376 8288 F 09 376 8285
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<b>nido</b> NIDO 156 CENTRAL PARK DRIVE HENDERSON AUCKLAND 1:300 @ A3 NOVEMBER 2018	<b>PROPOSED PLAN - FIRST FLOOR</b> 2434 A-02/2 CONCEPT DESIGN	<b>STUDIO GASCOIGNE LTD</b> 10 Colson Ave #40/3 Home Bay Auckland, New Zealand info@studiogascogne.com www.studiogascogne.com P 09 376 8288 F 09 376 8285
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## APPENDIX 2: RETAIL CATEGORY STORE TYPES

### 421 FURNITURE, FLOOR COVERINGS, HOUSEWARE AND TEXTILE GOODS RETAILING

#### 4211 Furniture Retailing

This class consists of units mainly engaged in retailing furniture, blinds or awnings.

##### *Primary activities*

- Antique reproduction furniture retailing
- Awning retailing
- Blind retailing
- Furniture retailing
- Mattress retailing

##### *Exclusions/References*

Units mainly engaged in

- the installation of household blinds or awnings are included in Class 3239 Other Building Installation Services;
- manufacturing blinds or awnings are included in the appropriate classes of Division C Manufacturing, according to the materials used in the manufacturing process;
- retailing second-hand or antique furniture are included in Class 4273 Antique and Used Goods Retailing; and
- retailing curtains are included in Class 4214 Manchester and Other Textile Goods Retailing.

#### 4212 Floor Coverings Retailing

This class consists of units mainly engaged in retailing floor coverings (except ceramic floor tiles).

##### *Primary activities*

- Carpet retailing
- Floor coverings retailing (except ceramic floor tiles)
- Floor rug retailing
- Floor tile retailing (lino, vinyl, cork, carpet or rubber)
- Parquetry retailing

##### *Exclusions/References*

Units mainly engaged in

- laying floor coverings are included in the appropriate classes of Division E Construction; and
- retailing ceramic floor tiles are included in Class 4231 Hardware and Building Supplies Retailing.

#### 4213 Houseware Retailing

This class consists of units mainly engaged in retailing kitchenware, china, glassware, silverware or other houseware goods.

*Primary activities*

- Brushware retailing
- Chinaware retailing
- Cooking utensil retailing (except electric)
- Crockery retailing
- Cutlery retailing
- Enamelware retailing
- Glassware retailing
- Kitchenware retailing
- Picnicware retailing
- Plastic container retailing
- Silverware retailing

*Exclusions/References*

Units mainly engaged in retailing electric cooking utensils are included in Class 4221 Electrical, Electronic and Gas Appliance Retailing.

#### **4214 Manchester and Other Textile Goods Retailing**

This class consists of units mainly engaged in retailing fabrics, curtains or household textiles.

*Primary activities*

- Blanket retailing
- Curtain retailing
- Dressmaking requisites retailing
- Fabric, textile, retailing
- Household textile retailing
- Linen retailing
- Piece-goods retailing
- Soft furnishing retailing
- Yarn retailing

*Exclusions/References*

Units mainly engaged in

- installing awnings, blinds, shutters or curtains are included in Class 3239 Other Building Installation Services; and
- manufacturing curtains or cushions are included in Class 1333 Cut and Sewn Textile Product Manufacturing.

## **422 ELECTRICAL AND ELECTRONIC GOODS RETAILING**

### **4221 Electrical, Electronic and Gas Appliance Retailing**

This class consists of units mainly engaged in retailing electrical, electronic or gas appliances (except computers and computer peripherals).

*Primary activities*

- Air conditioner retailing
- Appliance, electric, retailing
- Barbecue retailing
- Camera retailing
- Compact disc player retailing
- Cooking utensil, electric, retailing
- Digital versatile disc (DVD) player retailing
- Electronic beeper retailing
- Fan, electric, retailing
- Floor polisher, electric, retailing
- Gas appliance retailing
- Heating equipment, electric or gas, retailing
- Mobile phone retailing
- Modem retailing
- Pager retailing
- Pocket calculator, electronic, retailing
- Projector retailing
- Radio receiving set retailing (except car radios)
- Refrigerator, retailing
- Shaver, electric, retailing
- Sound reproducing equipment retailing
- Stereo retailing
- Stove, retailing
- Television antennae retailing
- Television set retailing
- Two-way radio equipment retailing
- Vacuum cleaner retailing
- Video cassette recorder (VCR) retailing
- Washing machine retailing

*Exclusions/References*

Units mainly engaged in

- retailing computer or computer peripheral equipment are included in Class 4222 Computer and Computer Peripheral Retailing;
- retailing CDs, DVDs or other entertainment media are included in Class 4242 Entertainment Media Retailing;
- retailing car radios are included in Class 3921 Motor Vehicle Parts Retailing;
- installing heating, refrigeration or air conditioning equipment are included in Class 3233 Air Conditioning and Heating Services;
- hiring household appliances are included in Class 6639 Other Goods and Equipment Rental and Hiring n.e.c.; and
- repairing and maintaining electrical, electronic and gas domestic appliances are included in Class 9421 Domestic Appliance Repair and Maintenance.

## 4222 Computer and Computer Peripheral Retailing

This class consists of units mainly engaged in retailing computers or computer peripheral equipment.

*Primary activities*

- Compact disc burner retailing
- Computer equipment retailing
- Computer game console retailing
- Computer hardware retailing
- Computer software retailing (except computer games)
- Printer retailing
- Visual display unit (VDU) retailing

*Exclusions/References*

Units mainly engaged in retailing computer games are included in Class 4242 Entertainment Media Retailing.

#### **4229 Other Electrical and Electronic Goods Retailing**

This class consists of units mainly engaged in retailing electrical and electronic goods not elsewhere classified.

*Primary activities*

- Dry cell battery retailing
- Electric light fittings retailing
- Electrical goods retailing n.e.c.
- Electronic goods retailing n.e.c.

### **423 HARDWARE, BUILDING AND GARDEN SUPPLIES RETAILING**

#### **4231 Hardware and Building Supplies Retailing**

This class consists of units mainly engaged in retailing hardware or building supplies.

*Primary activities*

- Carpenters' tool retailing
- Cement retailing
- Ceramic floor tile retailing
- Garden tool retailing
- Hardware retailing
- Lacquer retailing
- Lawn mower retailing
- Lock retailing
- Mineral turpentine retailing
- Nail retailing
- Paint retailing
- Plumbers' fittings retailing
- Plumbers' tools retailing
- Timber retailing
- Tool retailing
- Wallpaper retailing

- Woodworking tool retailing

*Exclusions/References*

Units mainly engaged in

- wholesaling builders' hardware or supplies (except plumbing supplies) are included in Class 3339 Other Hardware Goods Wholesaling; and
- wholesaling timber are included in Class 3331 Timber Wholesaling.

**4232 Garden Supplies Retailing**

This class consists of units mainly engaged in retailing garden supplies or nursery goods.

*Primary activities*

- Bulb, flower, retailing
- Fertiliser retailing
- Garden ornament retailing
- Garden supplies retailing n.e.c.
- Nursery stock retailing
- Pesticide retailing
- Plant, garden, retailing
- Pot plant retailing
- Seedlings retailing
- Seed, garden, retailing
- Shrub or tree retailing
- Tuber, flower, retailing

*Exclusions/References*

Units mainly engaged in retailing cut flowers are included in Class 4274 Flower Retailing.



## APPENDIX 3: PROPERTY ECONOMICS RETAIL GROWTH MODEL

This overview outlines the methodology that has been used to estimate retail expenditure generated at Census Area Unit (CAU) level for the identified catchment out to 2038.

### CAU 2013 Boundaries

All analysis has been based on Census Area Unit 2013 boundaries, the most recent available.

### Permanent Private Households (PPH) 2013

These are the total Occupied Households as determined by the Census 2013. PPHs are the primary basis of retail spend generation and account for approximately 71% of all retail sales. PPHs have regard for (exclude) the proportion of dwellings that are vacant at any one time in a locality, which can vary significantly, and in this respect account for the movement of some domestic tourists.

### Permanent Private Household Forecasts 2006-2038

These are based on Statistics NZ Census Area Unit (CAU) Medium Series Population Growth Projections and have been adjusted to account for residential building consent activity occurring between 2006 and 2018, with this extrapolated to the year of concern. This accounts for recent building activity, particularly important for the 5-10 year forecasts, and effectively updates Statistics NZ projections to reflect recent trends.

### International Tourist Spend

The total international tourism retail spend has been derived from the Ministry of Economic Development Tourism Strategy Group (MEDTSG) estimates nationally. This has been distributed regionally on a 'spend per employee' basis, using regional spend estimates prepared by the MEDTSG. Domestic and business based tourism spend is incorporated in the employee and PPH estimates. Employees are the preferred basis for distributing regional spend geo-spatially as tourists tend to gravitate toward areas of commercial activity, however they are very mobile.

### Total Tourist Spend Forecast

Growth is conservatively forecast in the model at 2% per annum for the 2015-2038 period.

### 2013-2038 PPH Average Household Retail Spend

This has been determined by analysing the national relationship between PPH average household income (by income bracket) as determined by the 2013 Census, and the average PPH expenditure of retail goods (by income bracket) as determined by the Household Economic Survey (HES) prepared by Statistics NZ.

While there are variables other than household income that will affect retail spending levels, such as wealth, access to retail, population age, household types and cultural preferences, the

effects of these are not able to be assessed given data limitations and have been excluded from these estimates.

### **Real Retail Spend Growth (excl. trade-based retailing)**

Real retail spend growth has been factored in at 1% per annum. This accounts for the increasing wealth of the population and the subsequent increase in retail spend. The following explanation has been provided.

Retail Spend is an important factor in determining the level of retail activity and hence the 'sustainable amount' of retail floorspace for a given catchment. For the purposes of this outline 'retail' is defined by the following categories:

- Food Retailing
- Footwear
- Clothing and Softgoods
- Furniture and Floor coverings
- Appliance Retailing
- Hardware and Building Supply Stores
- Chemist
- Department Stores
- Recreational Goods
- Cafes, Restaurants and Takeaways
- Personal and Household Services
- Other Stores.

These are the retail categories as currently defined by the ANZSIC codes (Australia New Zealand Standard Industry Classification).

Assessing the level and growth of retail spend is fundamental in planning for retail networking and land use within a regional network.

### **Internet Retail Spend Growth**

Internet retailing within New Zealand has seen significant growth over the last few decades. This growth has led to an increasing variety of business structures and retailing methods including; internet auctions, just-in-time retailing, online ordering, virtual stores, etc.

As some of internet spend is being made to on-the-ground stores, a proportion of internet expenditure is being represented in the Statistics NZ Retail Trade Survey (RTS) while a large majority remain unrecorded. At the same time this expenditure is being recorded under the

Household Economic Survey (HES) as a part of household retail spending, making the two datasets incompatible. For this reason, Property Economics has assumed a flat 5% adjustment percentage on HES retail expenditure, representing internet retailing that was never recorded within the RTS.

Additionally, growth of internet retailing for virtual stores, auctions and overseas stores is leading to a decrease in on-the-ground spend and floor space demand. In order to account for this, a non-linear percentage decrease of 2.5% in 2018 growing to 10% by 2038 has been applied to retail expenditure encompassing all retail categories in our retail model. These losses represent the retail diversion from on-the-ground stores to internet-based retailing that will no longer contribute to retail floor space demand.

### Retail Spend Determinants

Retail Spend for a given area is determined by: the population, number of households, size and composition of households, income levels, available retail offer and real retail growth. Changes in any of these factors can have a significant impact on the available amount of retail spend generated by the area. The coefficient that determines the level of 'retail spend' that eventuates from these factors is the MPC (Marginal Propensity to Consume). This is how much people will spend of their income on retail items. The MPC is influenced by the amount of disposable and discretionary income people are able to access.

### Retail Spend Economic Variables

Income levels and household MPC are directly influenced by several macroeconomic variables that will alter the amount of spend. Real retail growth does not rely on the base determinants changing but a change in the financial and economic environment under which these determinants operate. These variables include:

**Interest Rates:** Changing interest rates has a direct impact upon households' discretionary income as a greater proportion of income is needed to finance debt and typically lowers general domestic business activity. Higher interest rates typically lower real retail growth.

**Government Policy (Spending):** Both Monetary and Fiscal Policy play a part in domestic retail spending. Fiscal policy, regarding government spending, has played a big part recently with government policy being blamed for inflationary spending. Higher government spending (targeting on consumer goods, direct and indirectly) typically increases the amount of nominal retail spend. Much of this spend does not, however, translate into floors pace since it is inflationary and only serves to drive up prices.

**Wealth/Equity/Debt:** This in the early-mid 2000s had a dramatic impact on the level of retail spending nationally. The increase in property prices has increased home owners unrealised equity in their properties. This has led to a significant increase in debt funded spending, with residents borrowing against this equity to fund consumable spending. This debt spending is a

growth facet of New Zealand retail. In 1960 households saved 14.6% of their income, while households currently spend 14% more than their household income.

**Inflation:** As discussed above, this factor may increase the amount spent by consumers but typically does not dramatically influence the level of sustainable retail floor space. This is the reason that productivity levels are not adjusted but similarly inflation is factored out of retail spend assessments.

**Exchange Rate:** Apart from having a general influence over the national balance of payments accounts, the exchange rate directly influences retail spending. A change in the \$NZ influences the price of imports and therefore their quantity and the level of spend.

**General consumer confidence:** This indicator is important as consumers consider the future and the level of security/finances they will require over the coming year.

**Economic/Income growth:** Income growth has a similar impact to confidence. Although a large proportion of this growth may not impact upon households MPC (rather just increasing the income determinant) it does impact upon households discretionary spending and therefore likely retail spend.

**Mandatory Expenses:** The cost of goods and services that are necessary has an impact on the level of discretionary income that is available from a household's disposal income. Important factors include housing costs and oil prices. As these increase the level of household discretionary income drops reducing the likely real retail growth rate.

### Current and Future Conditions

Retail spend has experienced a significant real increase in the early-mid 2000s. This was due in large part to the increasing housing market. Although retail growth is tempered or crowded out in some part by the increased cost of housing it showed massive gains as home owners, prematurely, access their potential equity gains. This resulted in strong growth in debt / equity spending as residents borrow against capital gains to fund retail spending on consumption goods. A seemingly strong economy also influenced these recent spending trends, with decreased employment and greater job security producing an environment where households were more willing to accept debt.

In 2008 this reversed with the worldwide GFC recession took grip, while over recent years an economic recovery has emerged. As such, the economic environment has undergone rapid transformation. The national market is currently experiencing low interest rates (although expected to increase over the short term) and an inflated \$NZ (increasing importing however disproportionately). The recent rebound in the property market and an increase in general business confidence as the economy starts to recover from the post-GFC hangover. These factors will continue to influence retail spending throughout the next 5 or so years. Given the previous years (pre-2008) substantial growth and high levels of debt repayment likely to be

experienced by New Zealand households it is expected that real retail growth rates will continue to be subdued for the short term.

### **Impacts of Changing Retail Spend**

At this point in time a 1% real retail growth rate is being applied by Property Economics over the longer term 20-year period. This rate can be volatile however and generally falls within the range of 0.5%-2.0%. It is considered prudent in the shorter term to be conservative with regard to the level of sustainable retail floor space within given centres and as the economy stabilises and experiences cyclical growth longer term rates might be slightly higher.

### **Business Spend 2013**

This is the total retail spend generated by businesses. This has been determined by subtracting PPH retail spend and Tourist retail spend from the Total Retail Sales as determined by the Retail Trade Survey (RTS) which is prepared by Statistics NZ. All categories are included with the exception of accommodation and automotive related spend. In total, Business Spend accounts for 26% of all retail sales in NZ. Business spend is distributed based on the location of employees in each Census Area Unit and the national average retail spend per employee.

### **Business Spend Forecast 2013-2038**

Business spend has been forecasted at the same rate of growth estimated to be achieved by PPH retail sales in the absence reliable information on business retail spend trends. It is noted that while working age population may be decreasing as a proportion of total population, employees are likely to become more productive over time and therefore offset the relative decrease in the size of the total workforce.