

# PROPERTY **E**CONOMICS



**NIDO LIVING**

**COVID-19 IMPACTS**

**ECONOMIC OVERVIEW**

**Client:** Maat Group

**Project No:** 51784

**Date:** April 2020

23 April 2020

**Attention: Neil Tuffin**

Managing Director

Maat Group

Via Email: [ntuffin@maat.co.nz](mailto:ntuffin@maat.co.nz)

Dear Neil,

**RE: Nido Living, Henderson – Potential Covid-19 Impacts on Estimated Sales**

Property Economics has been commissioned by Maat Group to provide some initial high level economic commentary of the potential impacts of the Covid-19 pandemic on the level of retail sales likely to be achieved the Nido Living store in Henderson, when considered against the pre-Covid-19 environment.

The full economic impacts of Covid-19 are too early to determine at this point in time given the country is still in lockdown, the exact period of time the country will remain under various lockdown levels remains open to ongoing revision, and many flow-on effects are unlikely to be realised until the years to come. However, it is well agreed by economic commentators that the country will incur a significant economic 'hit' as a result of Covid-19, albeit the extent and depth of the market correction remains unknown.

In terms of the post Covid-19 environment, there will be significant job losses resulting in increased unemployment rates, loss of household wealth and equity, and increased dependency on income for many households from Government assistance over the short-medium term. This will have the effect of lowering discretionary retail spend potential in many households which is likely to flow onto lower retail sales and store productivities in the market overall when compared to the pre-Covid-19 market.

As an indication of the retail spending impacts to date, recent retail data from Verisk (who track retail spending trends across NZ) highlight the proportional changes in the level of retail spending across NZ after the first two weeks of the Level 4 lockdown. This is compared with the equivalent period last year for comparative context. Note the data excludes spending on fuel.

**LAST 7 DAYS VS. SAME WEEK LAST YEAR**

Spending -50.53%

Transactions -73.95%

**LAST 30 DAYS VS. SAME PERIOD LAST YEAR**

Spending -22.75%

Transactions -45.46%

The data indicates the first two weeks of lock down wiped out an entire year's worth of spending growth. Suffice to say the longer NZ is in lockdown, the more economic damage is being done to the economy. In terms of retail store types from the data provided (the furniture sector was not included specifically):

Supermarkets & Dairies +25.4%

Other Food -47.7%

Appliances -59.8%

The supermarket sector, being an essential service to the community and therefore able to continue trading through the lock down period, has been a significant benefactor with increased sales. The data is clear, the impact on retail sales to non-essential stores unable to trade through the lockdown period is over 50%. Many retail businesses would not be able to sustain such impacts for an extended period of time due to fixed costs.

The post Covid-19 retail market will be different. Over the next 12-month period many retail businesses would likely close. Some will try and trade their way out of any debt issues once enabled to open and operate '*normally*'; however the level of retail spend in the market is unlikely to be at the same level as the pre-Covid environment. This will make the retail market increasingly competitive and more price sensitive. While there might be an initial surge in sales once the lockdown period is over, the recovery of the retail market as a whole is likely to be a longer term proposition.

In respect of the Nido Living retail store there are a few key advantages that will assist its performance relative to other furniture related retail stores in the market. These are summarised below:

- The Nido Living store is a new concept in the furniture sector in NZ, so Nido is bringing a new offering to the market. This is important as the pre-Covid 19 'business as usual' model for retail stores may not resonate with the public as well, i.e. the general public are unlikely to just fall back into their usual shopping patterns.
- In an increasingly competitive market, offering a new shopping experience is beneficial. The market is generally receptive to advances in the way products and services are delivered to the market, and Nido will offer a new 'one stop shop' experience to the market not currently available in NZ.
- In periods of market correction, consumers become more price sensitive and seek better value for money. This is a key focus for the Nido Living offer, presenting a wide variety of choices across a range of price points but all offering value for money compared to a similar product elsewhere in the market.
- Another important point of difference to other retail stores in this sector is Nido Living will not be solely reliant on sales to the general public. Nido will be able to generate business to business transactions with organisations like home staging companies,

interior designers, office fitout companies, etc. With the building and construction sector set to be an important sector to stimulate the economy in the formative post Covid-19 years, Nido Living is well placed to leverage off this sector's increased activity. The ability for Nido Living to switch focus from consumer to trade transactions, yet still service both markets well due to its size, is likely to be a key benefit for Nido over the next few years and mitigates any sales impacts.

In terms of wider market recovery, the areas of NZ with a strong primary productive sector base that produce goods to sell domestically and export internationally are likely to experience economic recovery faster than areas without that economic base. Areas where tourism related activity is a key component of the local economy, i.e. Queenstown Lakes District, are likely to experience a slower recovery due to the long-term prognosis for that sector. This is likely to be reflected in areas where unemployment rates are likely to increase the most on a proportional basis.

Auckland, having the largest employment base in the country, is likely to see an inflow of unemployed people seeking employment opportunities, with provincial areas with a limited productive sector likely to experience a slower recovery. The recovery of any area will be closely aligned to where jobs are created. There is a strong relationship between employment growth and population growth in any economic recovery period.

Overall, Nido Living is considered better placed than many furniture retailers in the market to maximise their sales revenue in the post Covid-19 environment with the ability to service both the consumer and business markets. Nido's offer will be more competitively priced than similar product in other stores and offer the market better value for money, attributes important to the market in a recovery phase of an economic cycle. While Nido Living's store sales are likely to be softer than originally estimated, the likely closure of many competing furniture stores across Auckland over the next few years will likely provide the opportunity for Nido to recapture any fall in sales (from the estimate) within a short period of time.

If you have any queries, please give me a call.

Yours faithfully,

**Tim Heath**