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PC77 CURTIS STREET BUSINESS AREA  
SUPPLEMENTARY RETAIL ECONOMIC PAPER

WELLINGTON CITY COUNCIL



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## INTRODUCTION

Property Economics has been engaged by Wellington City Council (“WCC”) to provide some supplementary retail economic analysis on the Karori retail market assessing the retail demand, supply, expenditure flows within its core catchment, and the potential retail distributional impacts of PC77.

This overview builds on an earlier report completed by Property Economics for WCC, which focused on the commercial and economic issues for the proposed Plan Change with this research designed to address and respond to the key retail economic issues raised in submissions questioning the plan change.

## KARORI RETAIL MARKET

Analysis in this supplementary paper has been based on the principal trade catchment for the Karori market and immediate surrounds. This has been based on the likely convenience composition of the Curtis Street development, proximity to 'like' retail and commercial activity (i.e. centres fulfilling similar role and function), demographic distribution, Statistics NZ meshblock boundaries for statistical analysis purposes, the roading network, urban form, natural and physical geographic barriers, and the professional opinion of Property Economics factoring in known shopping patterns and trade area dynamics for similar sized centres around NZ. Any marginal reshaping of the catchment boundaries would not materially change the population and household base, and therefore the catchment and market size.

The extent of the catchment utilised in the overview has been attached in Appendix 1, for the purpose of context, retail nodes within the catchment have also been identified.

### KARORI RETAIL EXPENDITURE (DEMAND)

It is important to note that the retail expenditure generated by the catchment does not necessarily equate to the cumulative sales of the retail shops within the catchment. Residents can (and do) travel in and out of the catchment freely, and they will choose to shop at centres with a good range and quality of stores (among a range of other reasons). Quantification of this retail expenditure leakage by sector is discussed in more detail later in this supplementary paper.

Typically good quality centres attract customers from beyond its catchment, whereas a low quality centre will have retail expenditure leakage out of its catchment. Therefore, the retail expenditure generated in the catchment represents the sales a centre or retail stores within the catchment could potentially achieve in a theoretical sense, due to a current and commercially practical level of leakage in the future. Put simply it represents the level of retail spend generated by the catchment on an annualised basis.

Note the figures below are in 2013 NZ dollars and exclude the retail categories of accommodation (hotels, motels, backpackers, etc.) and vehicle and marine sales & services (car yards, boat shops, caravan sales, Repco, Super Cheap Autos, tyre stores, panel beating, mechanical repairs), as these sectors are not considered to be core retail expenditure, nor fundamental retail centre activities in terms of visibility, location, viability or functionality. The figures also exclude trade based activities such as Resene, ITM, Mico Bathrooms, Plumbing World, PlaceMakers, Guthrie Bowron, Cory's Electrical, etc. for similar reasons.

**TABLE 1: KARORI CATCHMENT RETAIL EXPENDITURE AND FLOORSPACE**

	2012	2016	2021	2026	2031
Retail Expenditure (\$m)	\$168	\$177	\$188	\$202	\$215
Sustainable Net Floorspace (sqm)	24,206	25,552	27,197	29,093	31,006
Sustainable GFA (sqm)	34,581	36,503	38,853	41,561	44,294

**Source: Property Economics**

The Karori catchment is anticipated to experience retail expenditure growth of nearly \$50m pa by 2031, from \$170m currently to an estimated \$215m by 2031 in 2013 NZ dollars. Even with on-going (and expected) significant levels of leakage this will support increased levels of local retail GFA in the area, and conversely if the local provision is not increased or improved in the future then retail leakage out of Karori as a proportion of generated demand is likely to continue to increase. PC77 is considered to represent an appropriate effort to address this issue, and alone only represents part of the solution.

Table 1 also illustrates the consolidated forecast retail expenditure and sustainable<sup>1</sup> floorspace figures for the catchment. The amount of sustainable net retail floorspace the catchment could sustain increases from around 24,200sqm to 31,000sqm between 2012 and 2031. In terms of GFA, and adopting an average 30% ratio to allow for backroom storage, the figures in Table 1 equate to a total of around 34,600sqm of sustainable GFA currently, with this estimated to increase to around 44,300sqm by 2031, representing growth in sustainable retail GFA of around 9,700sqm over the projected period.

Demand for commercial floorspace is not restricted to retail. Although retail floorspace itself is general wholly at ground level, particularly at a suburban centre level, there is an expectation that a proportion of other commercial activities will locate on floors above this as a centre evolves, even in suburban centres as they become more efficient and 'built-up'.

<sup>1</sup> 'Sustainable' at this juncture refers to a hypothetical or theoretical level of sustainable floorspace as it excludes retail flow in and out of the district, but is considered important to identify at this point so the steps in the analysis can be followed and understood

## KARORI RETAIL SUPPLY

In June 2013 Property Economics undertook a retail audit of the Karori 'in-centre' retail supply. This involved measuring the net retail floorspace of all retail centre stores within the catchment by sector. These figures were then translated to GFA using an average 70% net to GFA ratio.

The results of the audit are displayed in Table 2, and are shown by GFA, number of retail stores, and the respective percentages by ANZSIC<sup>2</sup> retail sector.

**TABLE 2: KARORI RETAIL SUPPLY JUNE 2011**

	Store #	Store %	GFA (sqm)	GFA %
Supermarket Retailing	2	4%	2,167	25%
Food retailing	8	14%	1,046	12%
Clothing, footwear and personal accessories retailing	3	5%	227	3%
Furniture, floor coverings, houseware and textile goods retailing	1	2%	254	3%
Electrical and electronic goods retailing				
Hardware, building and garden supplies retailing	2	4%	499	6%
Pharmaceutical and personal care goods retailing	3	5%	351	4%
Department stores				
Recreational goods retailing	5	9%	561	6%
Other goods retailing	7	13%	907	10%
Food and beverage services	24	43%	2,563	29%
Vacant	1	2%	143	2%
<b>Total</b>	<b>56</b>	<b>100%</b>	<b>8,719</b>	<b>100%</b>

**Source: Property Economics**

Within the identified Karori catchment there are a total of 56 retail stores in the market encompassing an estimated 8,700sqm of retail GFA, with only one 140sqm vacancy. This represents around 2% of the total retail market by store number and GFA. Given the current 'downturn' in the retail market nationally, this vacancy level is considered very low and is a representation of the health of the overall market itself.

<sup>2</sup> Australia New Zealand Standard Industrial Classifications

In real terms it usually represents an area with restrictive market supply where retail development may be difficult to achieve to service the growing retail requirements of the market. In this instance this would appear an accurate depiction of the market, with only 1 vacant store suggesting an undersupplied and constrained market. In such locations, commercial property is often tightly held to the advantage of the property owner as trade competition is limited, often leading to complacency in the quality and breadth of offer in centres. This can lead to flow-on negative effects for the local community and in Property Economics' view is a situation that should, and can, be avoided in Karori.

The low vacancy levels can also represent a healthy centre whose commercial viability is soundly grounded. These centres can absorb some trading 'hits' from increased competition and not lead to widespread store closures as sometimes purported.

It is worth noting the survey is a 'snapshot' in time and retail stores are constantly opening, closing and relocating due to a variety of individual store circumstances. In this regard the retail market is fluid and undergoing constant change. Regardless the vacancy percentage at its identified level is significantly lower than that typically found in other centres of similar size.

The retail sector representing the largest proportion of the market in terms of store count (by some margin) is food and beverage services with 24 stores or 43% of the total retail market by store number. Food retailing represents the second largest proportion of the market in terms of store count with 8 stores representing 14% of the total market.

Combined, these two sectors alone comprise 57% of the Karori retail offer. This is not unusual given the convenience focus of these two sectors in the shopping destinations within Karori, their respective role and function, and the broad commercial appeal these sectors have in the community.

Table 2 breaks down the retail audit by centre in the catchment, illustrating the number of stores and GFA of each and their proportion composition of the total Karori retail market.

**TABLE 3: KARORI RETAIL SUPPLY CENTRE BREAKDOWN JUNE 2013**

<b>Centre</b>	<b>Store #</b>	<b>Store %</b>	<b>GFA (sqm)</b>	<b>GFA (%)</b>
Karori Town Centre	26	46%	5,604	64%
Marsden Village	15	27%	2,000	23%
Northland Village	9	16%	581	7%
Standen Court	6	11%	533	6%
<b>Total</b>	<b>56</b>	<b>100%</b>	<b>8,719</b>	<b>100%</b>

**Source: Property Economics**

As expected the audit shows that Karori Town Centre is the largest centre within the catchment, with a total of 26 retail stores, covering a footprint of around 5,600sqm GFA. This is the only centre with supermarket provision, in the form of Countdown and New World, collectively equating to approximately 2,200sqm GFA (small by modern day standards).

The balance of centres within the catchment can be regarded as small convenience based centres. Convenience retailing can be generally defined as stores used for quick stop and frequently required shopping, used primarily due to their close proximity to the customer. These stores are not exclusive to any one retail category with examples of such stores including, dairies, bakeries, fruit & vegetable stores, cafes and takeaways.



## BNZ MARKETVIEW RETAIL TRANSACTION DATA

In order to assess the level of retail expenditure flows in and out of the identified Karori catchment, Property Economics has utilised BNZ MarketView retail transaction data as a representation of the proportion of spending by the identified catchment residents by sector and territorial authority.

BNZ MarketView data is based on the retail sector spending and transactions of BNZ credit and debit (EFTPOS) cardholders. It excludes business and corporate cards. The transaction values include GST, but exclude cash out with purchases. BNZ MarketView does not pick up Hire Purchase, direct debit / credit payments or cash based spending.

The MarketView data has been collected from numerous New Zealand retailers, from national chains to small independent stores, across a range of retail categories.

MarketView data is based on aggregations of BNZ cardholder transactions by origin, destination and store type, these include transactions completed using BNZ eftpos and credit cards. BNZ currently holds approximately 20% market share of the electronic card market in NZ. Electronic card transactions accounts for approximately 60% of retail spending within NZ. The retail transactional data sources for the catchment are based on the calendar year periods of April 2012 – March 2013 ('destination' of spending) to factor in all seasonal variations that may occur.

Note the figures below exclude the retail categories of accommodation (hotels, motels, backpackers, etc.) and vehicle and marine sales & services (car yards, boat shops, caravan sales, Repco, Super Cheap Autos, tyre stores, panel beating, mechanical repairs), as these sectors are not considered to be core retail expenditure, nor fundamental retail centre activities in terms of visibility, location, viability or functionality. This is so comparisons with my earlier retail expenditure data can be made. The figures also exclude trade based activities such as Resene, ITM, Mico Bathrooms, Plumbing World, Guthrie Bowron, etc. for similar reasons.

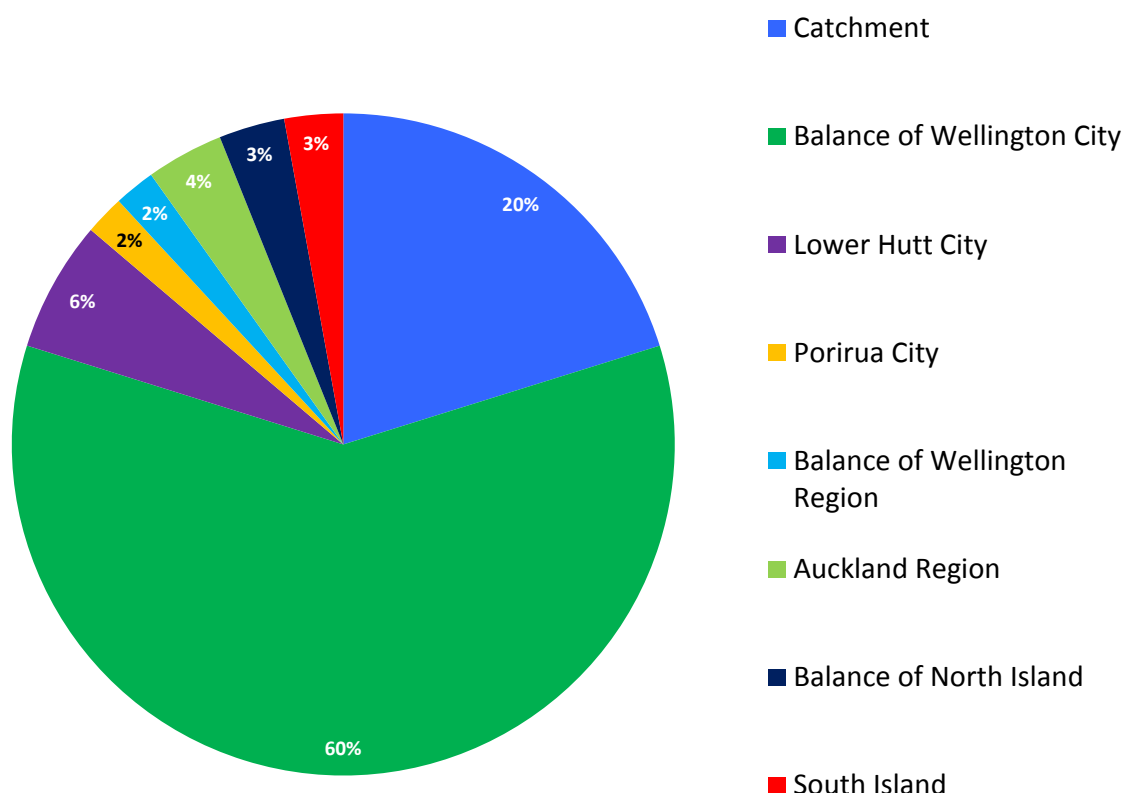
### RETAIL LEAKAGE ('DESTINATION' OF CATCHMENT RETAIL EXPENDITURE)

Retail Leakage for the purposes of this statement, can be defined as retail expenditure generated by residents in the catchment but spent outside of this area. While some leakage out of a market can be classified as 'normal' shopping behaviour due to its proximity to major retail destinations in areas of Wellington and Lower Hutt, Karori is considered to have higher than 'normal' level of leakage (approximately double). A high level of retail leakage indicates that the retail requirements of the resident population are not being met by the localised market to the level of quality sought, hence why residents travel outside of the market to satisfy their retail shopping requirements elsewhere.

## TERRITORIAL AUTHORITY / REGIONAL LEAKAGE

Figure 1 below illustrates the proportion of retail expenditure generated by Karori catchment residents according to where it was spent by local territorial authority and region.

**FIGURE 1: DESTINATION OF KARORI EXPENDITURE BY AREA**



**Source: Property Economics, MarketView**

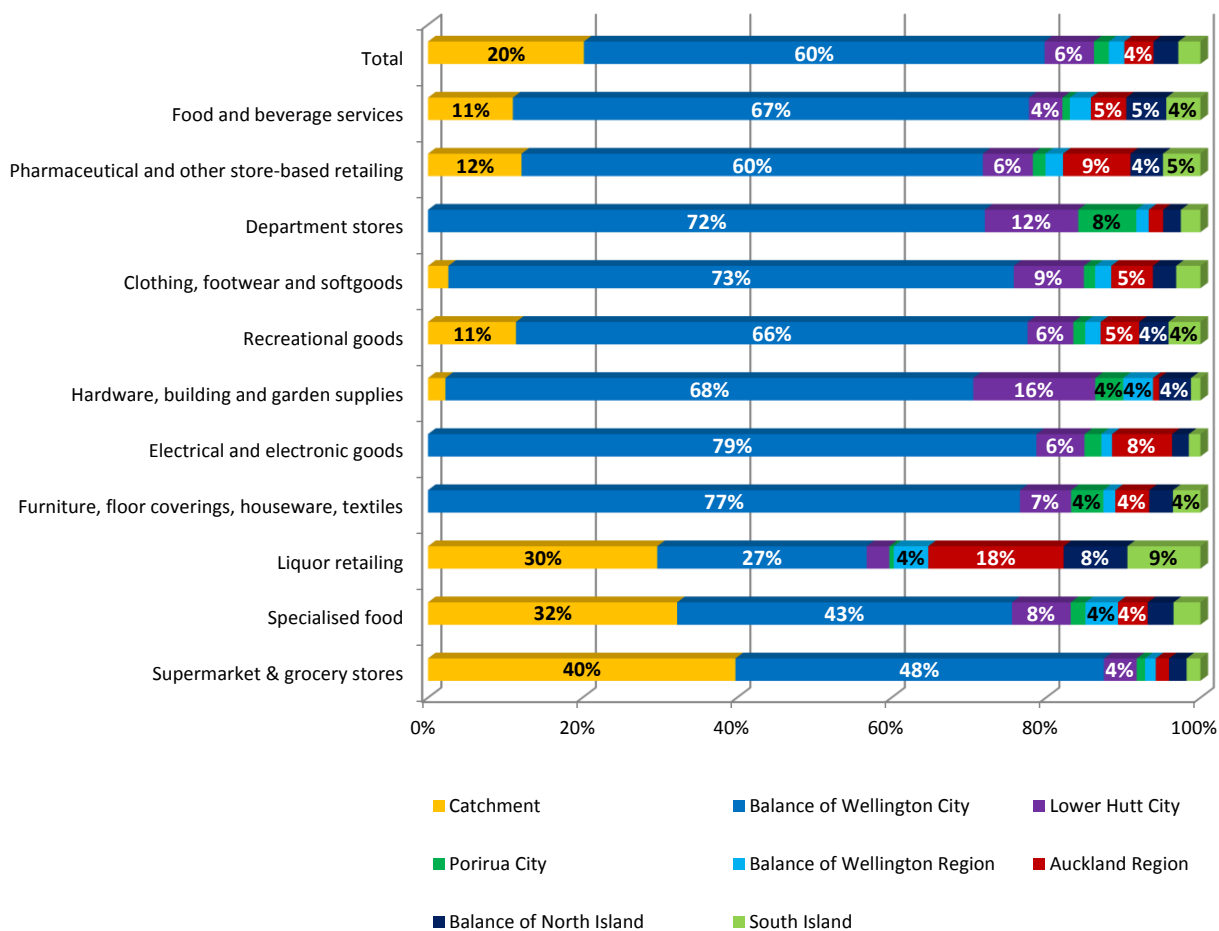
As indicated in Figure 1, a significant 80% of retail expenditure across all retail sectors generated by Karori catchment residents is spent outside of the catchment, with a high proportion of this (20%) going to other territorial authorities within the region. This suggests that the retail needs of the catchment residents are not being met by the existing retail offer / centres in Karori, and the 'bulk' of retail leakage to other retailers is within the wider Wellington City area (60%).

It can be seen that a significant level of retail expenditure generated in the catchment is leaving the catchment on an annualised basis. The high level of leakage varies across the key retail sectors (excluding supermarkets whose spend is more internalised in Karori), with many sectors capturing less than 20% and no one sector (excluding supermarkets) capturing

more than a third of retail spending from the catchment. This indicates that leakage is not for 'one-off' shopping trips, but is occurring at a regular and high rate.

Figure 2 breaks down the MarketView retail trend data by sector and destination, providing an overview of where retail expenditure from the Kaori catchment residents is spent.

**FIGURE 2: DESTINATION OF KARORI EXPENDITURE BY AREA**



**Source: Property Economics, MarketView**

It is clear many shoppers in the Karori catchment are voting with their wallets so to speak and turning their backs on the local Karori offer. While this does not paint a great picture currently, it does represent a significant level of potential within the existing Karori market to recapture some of this leakage if the scope of offer, quality and environment is improved in the future.

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## CENTRE ROLE AND FUNCTION AND POTENTIAL EFFECTS

Karori Town Centre is predominantly a supermarket based neighbourhood centre in terms of retail role and function. It also contains localised commercial service and community facilities to complement this. Karori Town Centre's current role and function in the localised retail network means it that primarily draws customers from across the wider suburb. This is a significant contrast to the other smaller retail centres in the catchment which function as local convenience nodes predominately for residents within its immediate surrounds. The differences in function, retail offer and size of the centres suggests that the PC77 is likely to have negligible if any impact on Karori Town Centre's role and function in the wider retail network.

Marsden Village, Northland Village and Standen Court all operate as small convenience nodes. This predominately limits their customer base to the immediate surrounding resident market and drive-by traffic. This limits the overall effect of proposed development as few customers are willing to travel further to shop at a centre for retail provision of similar type and quality.

Given the level of leakage out of the catchment as assessed earlier, the market can sustain all four centres without compromising the role and function of any. There will be some redistribution of retail expenditure within the catchment, but this will likely be balanced by an increase in retail expenditure internalisation and not to a level that would generate material retail impacts.

## CONCLUSION

Overall this supplementary analysis shows a clear indication of significant levels of retail leakage from the identified catchment in the range of 80%. Sustainable demand forecasts for the catchment as determined by Property Economics also support this conclusion with an estimated 34,600sqm GFA currently sustainable by the catchment population, in contrast to the existing provision of only 8,700sqm GFA.

Current supply equates to only 25% of sustainable demand and by 2031, this decreases to just under 20%. At a high level, this means that catchment residents are currently spending \$34m pa within the catchment, with \$134m leaving the area. Without additional development in the future, the level of retail expenditure generation and therefore leakage from Karori will only increase over the foreseeable future.

The existing centres are unlikely to be adversely affected to a significant degree in an RMA context due to their closer proximity to the markets they service, particularly for convenience orientated centres and stores where proximity and 'speed of access' are very important. There may be some trade competition effects but that's not a consideration under the RMA unless they flow over into becoming wider retail distributional effects, and the market demand / supply equation show this is unlikely to be the case, i.e. there is more than enough market demand to sustain all the centres in the catchment (current and proposed).

On balance, the development will, in my professional opinion, provide net benefits to the social and economic wellbeing of the community though providing retail and commercial service activity in an easily accessible location, including local employment opportunities, increased competition and its associated benefits.

For the foregoing reasons, from a retail economic perspective, Property Economics support PC77 given the scale and type of the proposed development and the provisions associated with PC77 provide a balance between commercial practicality and flexibility for a developer and a high degree of certainty in relation to potential effects for the Council and community.

## APPENDIX 1: KARORI CATCHMENT

