

# Bayleys Research

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## Auckland Retail

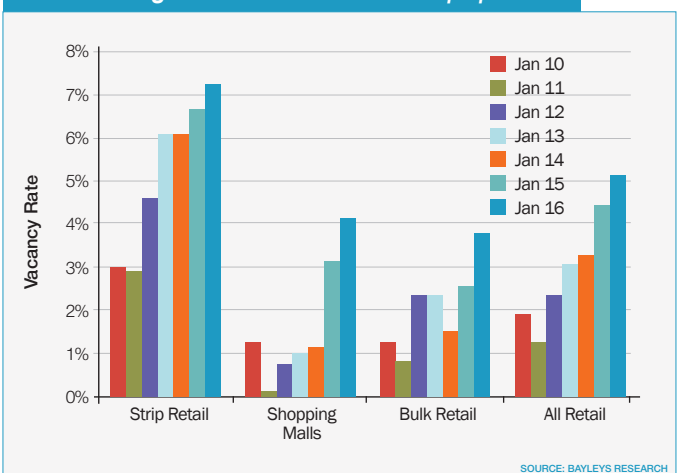


### Auckland Retail in Transition

The results of the latest Bayleys Research vacancy survey reflect the current trends apparent within the Auckland regions retail sector. The survey results show the sector to be in a period of significant transition. The increasing influence of E commerce and changing shopping preferences have resulted in the closure of many traditional format stores with mid range clothing outlets seemingly under the greatest pressure. The headline vacancy figures though need to be viewed against a backdrop of a significant expansion in the city's retail floor space, driven by new mall development and enlargement. While some traditional brands have come under pressure there is increasing demand for international and premium brands. The look of strip shop retailing is also changing as an increasing number of hospitality and service providers such as barbers and beauty salons take up space traditionally occupied by retailers.

Overall retail vacancy has increased in Auckland over the past year and currently totals 5.2% according to the Bayleys Research 2016 retail vacancy survey, an increase of 0.7% from the twelve months earlier. Vacancy has edged up over the majority of sectors and regions. The wide performance gap between prime and secondary property continues in 2016. There remains an insatiable demand for well managed prime retail property, with agencies working hard in search of better quality retail space to keep up with this demand; on the other hand, industry commentators have cited large

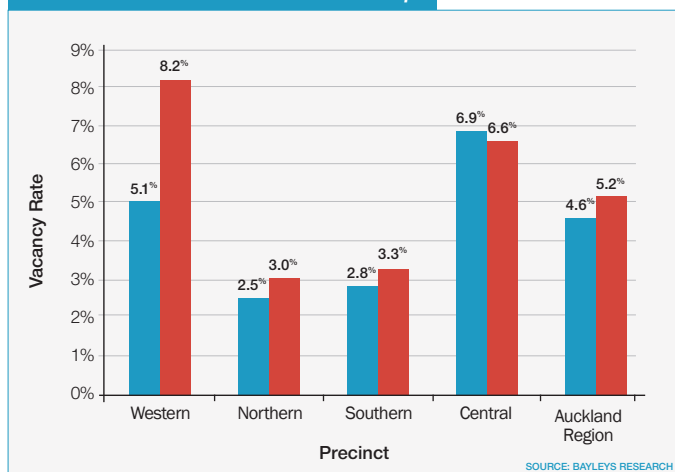
### Auckland Regional Retail 2016 - Vacancy by Sector



levels of secondary relocation as operators search for higher pedestrian flow or better quality centre management.

Strip retail holds the majority of the vacancy in the Auckland region, although shopping centre and bulk retail vacancies have also risen over the past twelve months. Strip retail sector vacancy saw a lift of 61 basis points to 7.28% in 2016 continuing the incremental increase to vacancy seen annually

## 2015 - 2016 Auckland Retail Vacancy



since 2012. Citing impact from online shopping's growing popularity, strip retail needs to offer consumers a point of difference for them to visit their bricks and mortar locations, with some struggling to adapt to these new consumer demands.

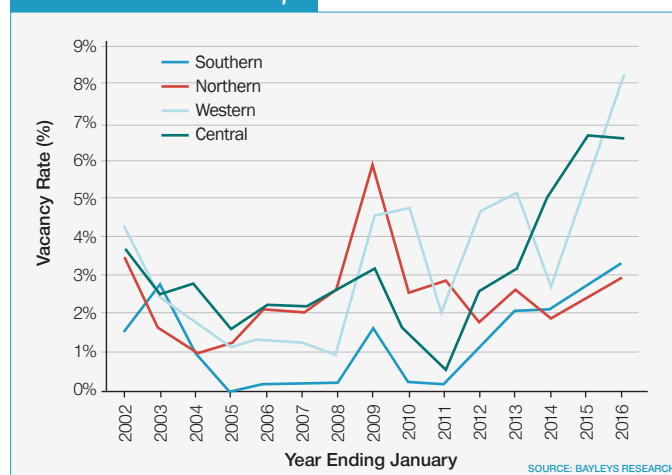
Historically, shopping centres recorded the lowest vacancy rates of the retail sector, but since 2015 these too have crept up higher to overtake bulk retail. In 2016, shopping centre vacancy sat at just over 4%. Shore City in Takapuna had its vacancy rate double over the past twelve months, to now sit at 6%, pushing up Auckland's overall vacancy. In addition a near 2% increase in vacancy to 8.2% at Westfield Westcity also added to weaker overall vacancy. The CBD shopping centre figure will be influenced heavily over coming months as a result of the imminent closure of the Downtown mall, in preparation for the redevelopment of the site. An early illustration of this influence is the reduction in vacancy at Atrium on Elliot, where vacancy has decreased by close to 4% over the last year, partly due to the relocation to the complex by the Warehouse. Bulk retail vacancy closely follows the overall regional trend of increasing vacancy. After falling to 1.5% in 2014, bulk retail vacancy increased to 2.6% in 2015. Bayleys Research January 2016 survey shows a 1.2% increase in bulk retail vacancy to 3.8% for the year.

Disparity between the precincts has been exacerbated in the 2016 survey. Vacancy remains lower on the northern and southern precincts; which claim a large percentage of the traditionally higher occupancy shopping centres and bulk retail outlets.

Central Auckland was the solitary precinct to lower vacancy over the year to 2016. Boasting some of the best strip retail in the region, the central precinct is also home to a large proportion of secondary property; and although the

decrease in vacancy of 30 basis points to 6.6% is negligible, it is no longer the weakest performing precinct in the Auckland region. Western retail has seen a large increase in tenants vacating property over the past year, at the time of the survey it had the highest vacancy rate of the precincts at just over 8%, up 3% from 2015, driven by the opening of Norwest Mall which has seen tenants relocate from traditional strip retail locations such as the Great North Road where vacancy has near doubled to now sit at 12%.

## Auckland Retail Vacancy



Northern and southern precincts saw a mere 50 basis point increase each to both sit around 3% unoccupied. In the north, as previously mentioned Shore City shopping centre vacancy doubled along with strip retail on Hurstmere Road, but was very nearly offset by previously vacant property on Anzac Street and Link Drive being absorbed. In the south, Southgate mall in Takanini which was previously at capacity is now at 3.6% vacant, contributing to an overall 50bps increase to 3.3% for the precinct. Southgate owners Augusta have confirmed that completion of new leases on all vacant space is now imminent.

## Auckland Retail Vacancy by Grade

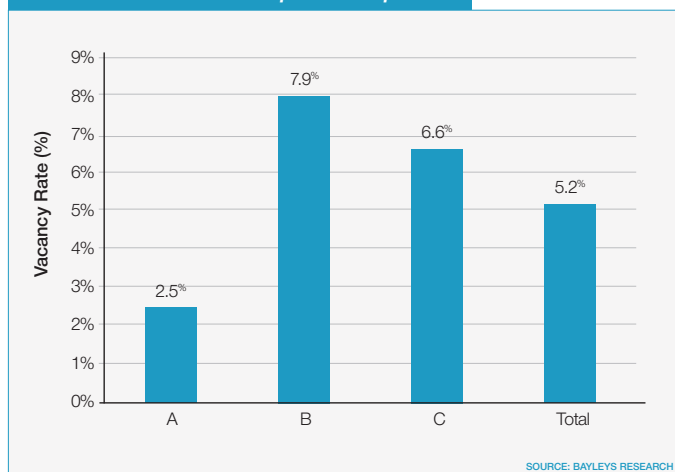
Quality of retail property has been graded, to be either A, B or C; and unsurprisingly once again is showing a divergence in vacancy rates. A grade property is described as well managed shopping centres and strip retail in excellent locations, and therefore it comes as no surprise that it is the best performing stock with only 2.5% unoccupied. Secondary property comprising B and C grades tends to have lower pedestrian counts and is of an inferior standard when compared to prime A grade retail. Higher vacancy rates result from this therefore, and in 2016 there was no

## CBD UPDATE: Monster Expansions and Growing Offshore Interest

As reported in the Bayleys Research 2015 Retail update, a number of high profile offshore retailers had located themselves in northern Queen Street. This offshore interest, in the city, has gathered momentum, with agency reports of continued strong international interest from retailers, with recent announcements that Swedish clothing company H&M and equally popular competitor Zara from Spain have committed to space in Sylvia Park Mt Wellington. Owner, Kiwi Property, is completing a \$7.7m 20,000m<sup>2</sup> upgrade to accommodate these clothing giants. Meanwhile, Scentre, Australasia's largest shopping centre owner,

have announced plans to spend over \$500 million expanding three Auckland malls and bringing new international retailers to New Zealand. By selling down a number of its non core New Zealand shopping centres Scentre has been able to redirect the proceeds of those sales back into the development pipeline. Newmarket's 277 is first on the list, with an estimated \$150-\$200 million to be spent on the site. Approximately 18 months after commencing development at 277, plans for expansion at St Lukes will get underway, followed by Albany depending on market demand.

## Auckland Retail Vacancy 2016 - By Grade



exception with B and C grade having just less than 8% and 6.6% vacant respectively. As a result the lower grade property surveyed has the highest percentage turnover which is not surprising. 13.5% of C grade property saw changes in occupancy over the past twelve months, closely followed by B grade with just over 11% of property seeing a change in tenant. Stability of tenants goes hand in hand with prime property, and accordingly A grade turnover is lower at approximately 8%. Turnover consistency has been calculated by comparing occupiers from the Bayleys Research 2015 survey with the latest 2016 results and analysing any change, which is then expressed as a percentage of total retail properties surveyed.

Master planned, well managed, high quality properties with a good tenant mix are the current leaders in Auckland retail. The demand for these prime retail properties continues to grow compared to rising numbers of retailers vacating poorly managed space with weak pedestrian flows.

The rise in vacant shops in strip retail locations has been driven by the fact there are numerous diverse property owners in these locations, which leads to a miscellaneous tenant mix. A pronounced example of this is what has happened to the retail combination in Newmarket, where in recent years Broadway has been known as the premium fashion hub of New Zealand. The face of Newmarket has been changing, to now be more of a business hub with numerous banks, and lesser quality chain stores.

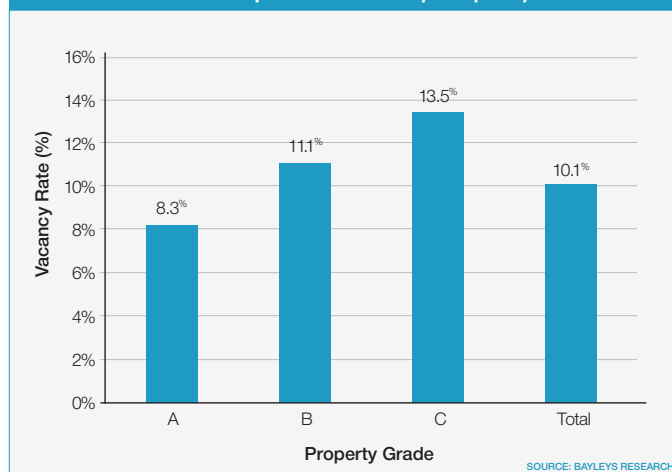
Retail precincts, when well managed, align the ideal brands of tenants to suit the location, lending itself to more foot traffic, collectively increasing demand for retailers to be located in these positions, so it is hardly surprising therefore that these types of centrally managed precincts are still indeed in high demand.

## Tenant Profiles

As retail premises have been categorised by grade within the Bayleys Research survey, so too are tenants, with the class of tenant leading to the strength of the grading. International and publicly listed companies, along with long term high performing New Zealand companies, are awarded an A grade, through to a C grade which is given to independent and boutique retail operations.

The grade of the tenant historically follows a pattern where the high grade tenants tend to have a larger proportion operating in high grade property.

## Auckland Retail Occupier Turnover by Property Grade 2016



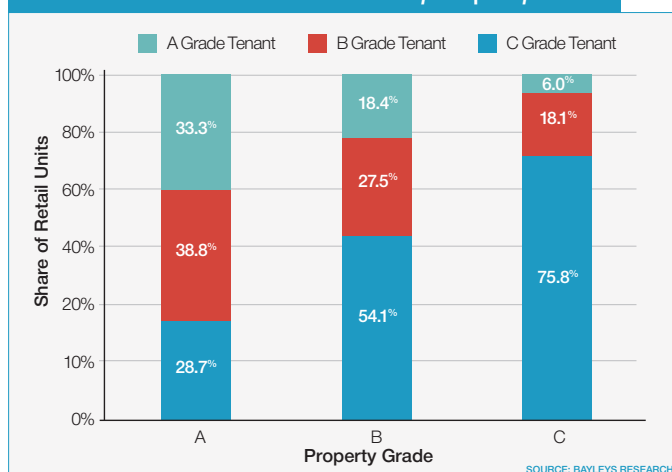
By comparison, secondary property tends to house a higher proportion of C grade tenants. So unsurprisingly in Auckland, A grade locations house the greatest percentage of A grade tenants, at 33%. A grade localities house the lowest number of C grade tenants also, with 29% being independent retail operators.

In contrast, C grade tenants occupy 76% of C grade retail premises. Typically these locations do not attract higher grade tenants, therefore 6% of C grade property is filled by A grade tenants. The majority of A grade presence in these secondary locations is banks.

For B grade locations, 54% of retailers present are C grade. B grade tenants make up 28% and the remaining 18% are A grade tenants.

Dominating the retail scene in the Auckland region are cafés, restaurants and takeaways, alongside clothing retailers, who represent up to 20% of the market in each sector. Increasingly springing up are hairdressers, barber shops and beauty salons, the sectors offering services which don't need to compete with the online shopping tussle for the retail dollar. Convenience sectors with a difference will flourish amid the increase in popularity of online shopping, with predictions that click and collect, and my food bag type nutrition delivery stores will be on the increase, with a target market of health conscious and time poor customers.

## Auckland Retail Tenant Grade 2016 by Property Grade



With the number of office and CBD apartment developments ongoing and in planning stages in Auckland CBD, the resident population is expected to expand by approximately 10,000 in the 4 square kilometre area, with a further 13,000 wage and salary workers coming into the CBD each day for work, increasing the population density substantially by 2025. This will have a significant effect on the demand for retailers, most notably in the food, beverage and suburban service industry (Personal care, hairdressers, laundry services etc), offering CBD residents the same services available in suburban locations.

## Auckland Core Retail Spending

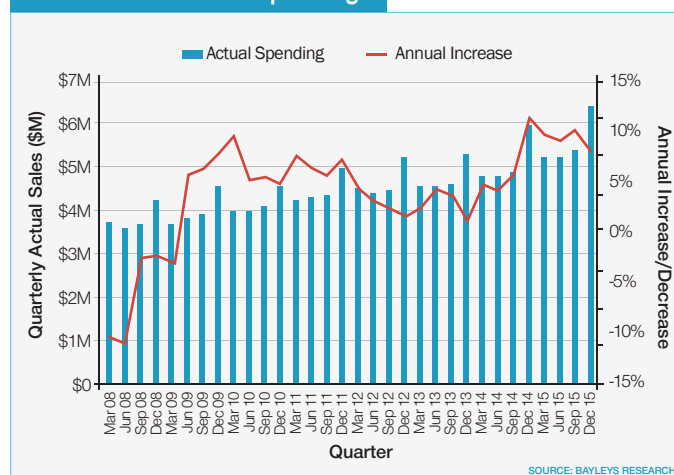
Auckland retail spending in the December 2015 quarter had annualised growth of 8%, well above the national average of 5% according to the latest retail spending data from Statistics NZ. Recent sales data reflect solid demand for prime property with sales regularly yielding as low as 4% in Central Auckland. Total retail sales for the 2015 year were just short of \$800 billion which is 4.6% up on 2015. With New Zealand currently experiencing a booming population with 67,500 new residents over the past year, and 60% of those settling in Auckland this has contributed to the increase in retail spending, along with low interest rates, and strong tourist numbers.

The Reserve Bank of New Zealand (RBNZ) reduced the official cash rate (OCR) by 25 basis points to 2.25% in March, following continued low headline inflation and moderating house price inflation in Auckland. Domestically the dairy sector faces difficult challenges, but domestic growth is expected to be supported by continued strong inward migration,

tourism, a pipeline of construction activity and accommodative monetary policy. RBNZ has stated that further monetary policy easing may be required to ensure future average inflation settles near the middle of the target range of 1-3% suggesting we may be in a low interest rate environment for the foreseeable future. Economic growth for New Zealand rose by 3% over 2015, mainly driven by construction and services, along with a 1.9% increase in population.

Looking forward, with consumer confidence optimistic, unemployment at a long term low of 5.3%, low inflation and downward pressure on interest rates, the New Zealand economy is moving along with positivity, with forecast growth of circa 2.5% in 2016.

### Auckland Core Retail Spending



## Auckland Retail Leasing & Investment Trends 2016

Location	Rental Market (\$/m <sup>2</sup> ) Net		Rental Trends	Leasing Market			Investment Market	
	Prime	Secondary		Demand	Supply	Yield Range (%)	Demand	Supply
Auckland CBD	\$1200-\$4000	\$400-\$900	Up	Strong	Scarce	4.0%-6.0%	Strong	Scarce
Newmarket	\$800-\$2200	\$400-\$700	Up	Steady	Sufficient	5.0%-6.0%	Strong	Scarce
Takapuna	\$500-\$900	\$350-\$450	Flat	Steady	Scarce	5.0%-6.0%	Strong	Scarce
Albany	\$500-\$700	\$250-\$350	Up	Strong	Surplus	6.0%-7.0%	Strong	Scarce
Central Henderson	\$300-\$500	\$150-\$300	Flat	Slow	Surplus	8.0%-9.0%	Strong	Scarce
Westgate	\$350-\$650	\$180-\$350	Up	Strong	Scarce	5.0%-7.0%	Strong	Scarce
Manukau	\$250-\$500	\$150-\$200	Flat	Slow	Scarce	7.0%-8.0%	Strong	Scarce
Pakuranga	\$400-\$600	\$250-\$300	Up	Strong	Scarce	6.5%-7.5%	Strong	Scarce
Howick	\$400-\$600	\$300	Up	Strong	Scarce	5.0%-7.0%	Strong	Scarce
Botany	\$350-\$1000	\$250	Flat	Strong	Scarce	6.5%-7.5%	Strong	Scarce

Based upon 100m<sup>2</sup> tenancies

SOURCE: BAYLEYS RESEARCH

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