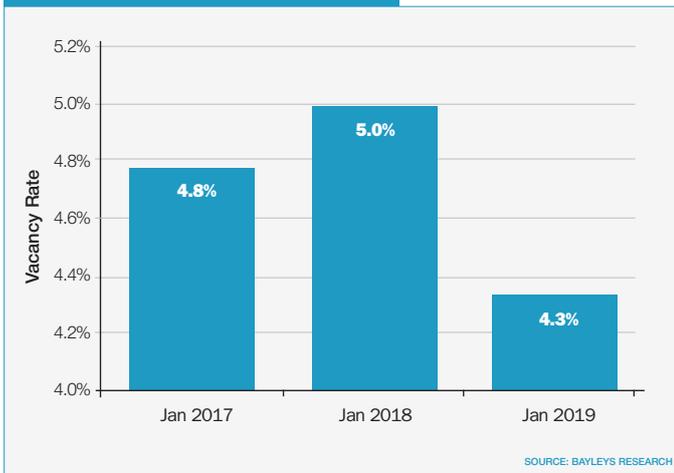


Bayleys Research

ANNUAL 2019 | WWW.BAYLEYS.CO.NZ

Auckland Retail Market

Auckland Overall Retail Vacancy



Auckland's retail property sector remains buoyant with continued tenant demand for retail premises well-reflected in the latest *Bayleys Research* vacancy survey which shows overall vacancy at just 4.3%, down from 5% in the prior survey. Low levels of vacancy reflect a number of trends including the increasing demand from international and premium brands, an increase in successful service retailers and a continued need for a bricks and mortar presence. These trends work in combination with that fact that New Zealand currently provides a positive economic backdrop where consumers are continuing to spend money. The increasing influence of E commerce and changing shopping preferences has resulted in the closure of a number of traditional brands, specifically mid-range clothing brands over the last

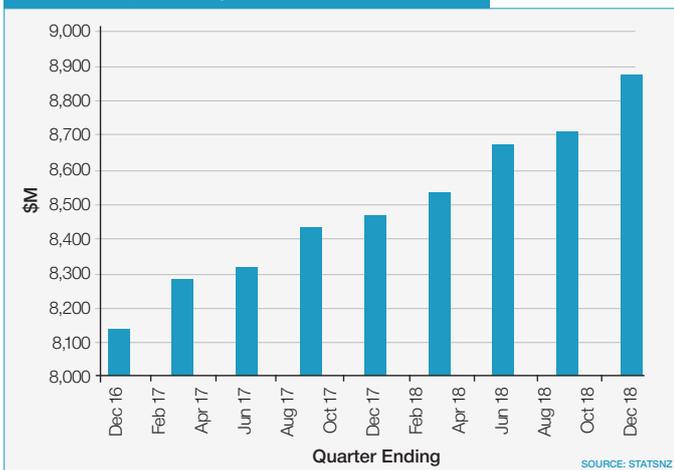
couple of years. There is however a growing consensus that having a bricks and mortar presence drives increased on-line activity, thereby underpinning demand for physical space, particularly within high profile locations.

A number of important market fundamentals including a strong regional economy, high levels of migration, increasing visitor numbers and visitor spend are acting as positive stimuli for Auckland's retail sector.

High levels of confidence in the economy has seen consumers continue to spend, this is well illustrated by total retail sales value reaching almost \$8.9 million over the December 2018 Quarter.

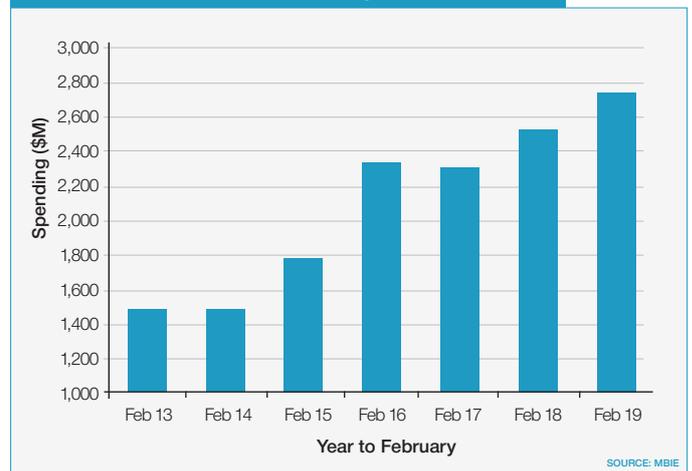
The challenge going forward for retailers will be the increased competition in both physical and online retail stores, as this total spend must be divided across an increasing number of retailers and retail channels.

Auckland Quarterly Retail Sales Value (sa)



Tourism Boom Adds Support

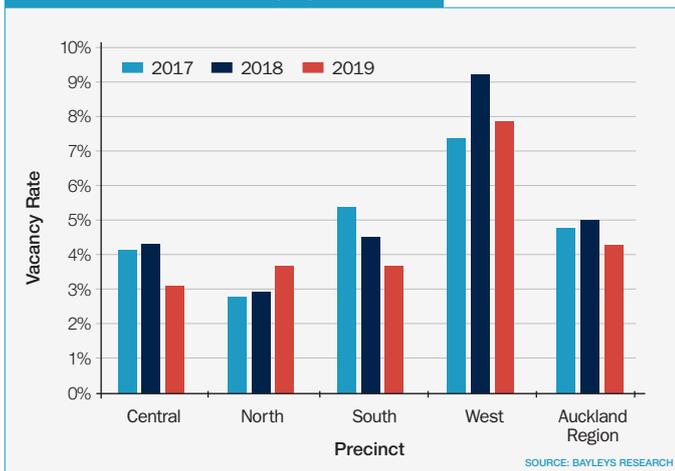
Annual International Tourism Spend in Auckland



New Zealand's tourism sector is in expansion mode. The number of international visitors to the country reached 3,822,000 in the year to October 2018, an increase of 4% on the year and up approximately 1,000,000 since 2014.

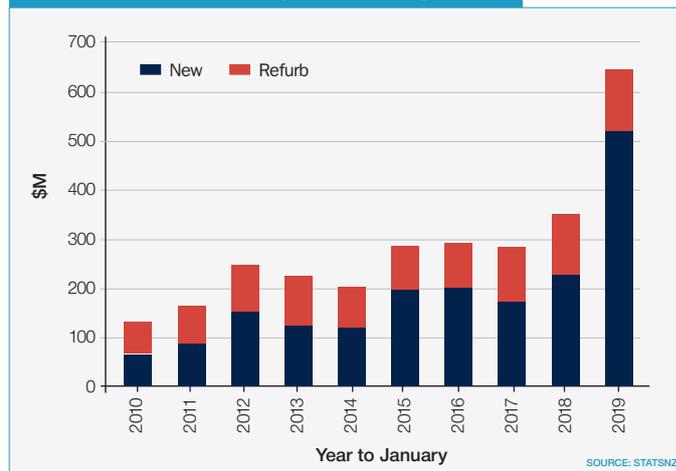
Ministry of Business, Innovation and Employment (MBIE) statistics show that retail spending by international tourists in Auckland has grown significantly over recent years reaching almost \$2.7 billion for the 12 month period ending in February 2019.

Auckland Retail Vacancy by Precinct



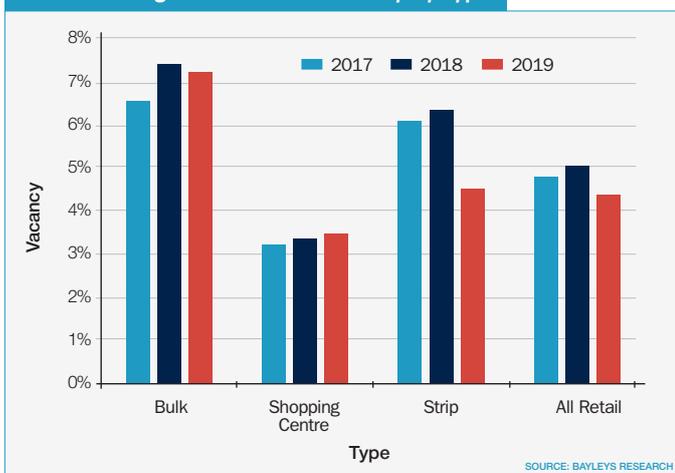
When breaking vacancy levels down by precinct, Central holds the tightest vacancy as it includes Sylvia Park, High Street and Lower Queen Street all of which are close to fully occupied. The West precinct holds the highest vacancy rate which can be largely attributed to the high level of vacancy in the Westgate shopping centre a result of the additional options for tenants which have emerged from the development of the nearby NorthWest shopping mall and adjacent bulk retail development. As tenants have relocated backfill space has been left vacant.

Auckland Retail Building Consents by Value



The year to January 2019 has seen the total value of new retail building consents more than double when compared to the same period a year prior, reaching \$5.21 million. When breaking the value of new consents down by council ward over the year to January 2019, 43% of total consent value was in the Waitemata and Gulf Ward, reflecting the magnitude of development, particularly in Commercial Bay and Westfield New Market. The onslaught of new development activity clearly outlines the extent of the construction boom for retail development.

Auckland Regional Retail - Vacancy by Type



Vacancy has decreased across all retail types with the exception of Shopping Centres which witnessed a marginal vacancy increase. Bulk retail continues to hold the highest vacancy levels of all property types. Shopping centres continue to show the lowest level of vacancy of all retail types. A number of shopping centre expansions and developments are currently underway and set to significantly increase total stock over the next couple of years, potentially changing current vacancy trends. While the trend of 'bigger is better' draws more tenants to these new and improved shopping centres, it will become important for other retail types such as strip retail to reinvent themselves and draw tenants back. The look of strip shop retailing is also changing as an increasing number of hospitality and service providers such as hair and beauty salons increase their share of retail space, previously occupied by more traditional retailers.

Market Disruption

The Auckland retail sector is becoming increasingly dynamic and competitive with a number of disruptors entering the market. Of critical importance for existing stores is to ensure they remain vigilant and proactive of any new trends as a key safeguard.

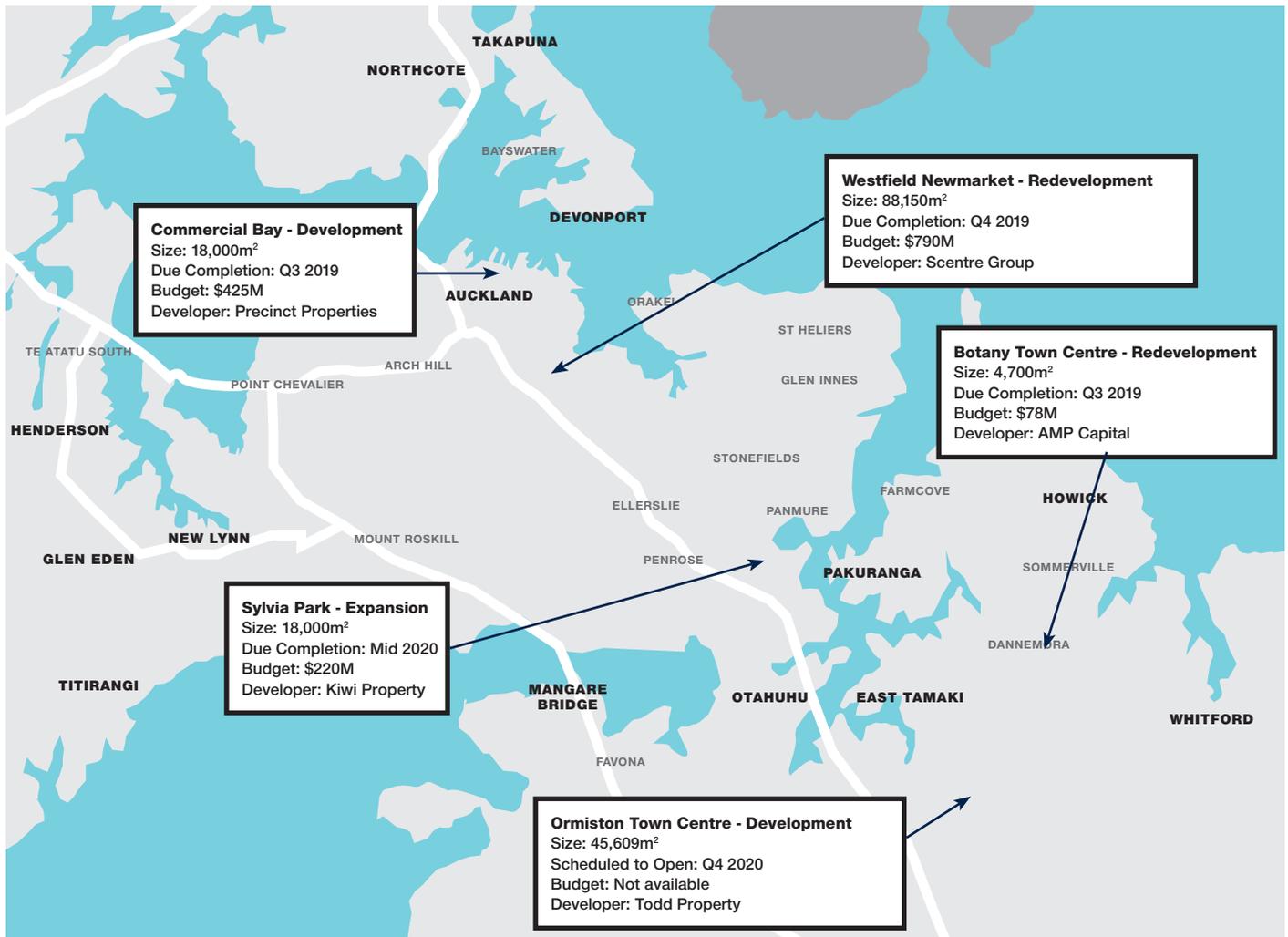
The Chemist Warehouse, an Australian pharmaceutical discount giant, has recently made an impact in NZ, opening a number of stores across Auckland with plans to eventually open a total of 70 across the country. Their low cost strategy and the offering of free prescriptions combined with their aggressive expansion plans is set to create significant competition for existing pharmacies.

The world's largest Swedish homeware giant, IKEA, has announced its plan to come to New Zealand. An IKEA megastore will open in Auckland in the next couple of years and eventually a store in the South Island will follow. IKEA's highly successful store concept is likely to place existing NZ furniture stores under pressure.

Sephora, a French beauty store is reportedly opening its first New Zealand Store on Auckland's Queen Street later this year.

Market speculation points to a number of other large international brands exploring opportunities in the NZ market such as Uniqlo and Aldi.

Auckland Region Current Major Retail Development Projects

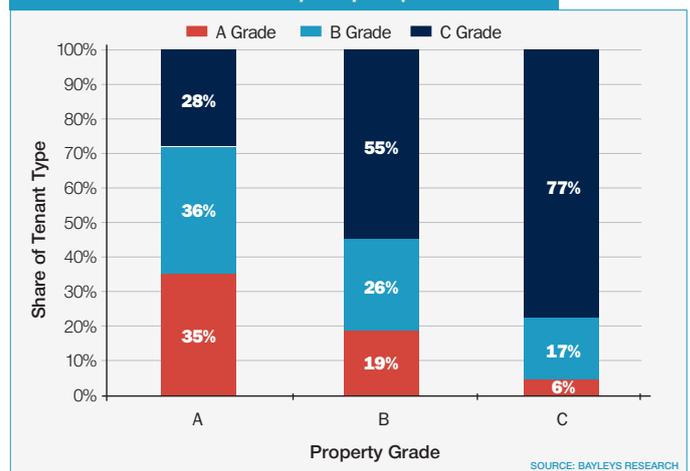


The extensive development pipeline will lead to a significant transformation of the Auckland retail scene as a wave of new stock enters the market boosting total supply. As tenants re-locate to new retail locations, old premises are left behind with a higher chance that they will remain vacant for longer. Encouragingly, development activity has triggered interest from a growing list of new international tenants including Christian Dior, Sandro & Maje, Kate Spade and Furla who have secured space in the Commercial Bay development. A growing trend towards luxury retail in NZ has seen strong growth in recent years. Westfield Newmarket is set to have an entire floor dedicated to both national and international luxury brands with speculation of tenants including Tony Burch, Louis Vuitton and Gucci.

While large scale shopping centres are set to thrive, smaller community/regional shopping centres need to reinvent themselves and become their own unique destination. Tailoring these smaller centres and creating a community feel where people can meet and be social and creative will help in ensuring vacancies remain low and performance is maintained.

The quality of retail property has been graded either A, B or C with A grade property being well managed shopping centres and strip retail in excellent locations. Unsurprisingly the quality of tenants in these spaces are also predominantly A and B grade. Master planned, well managed high quality properties with a well thought out tenant mix are the current leaders in the Auckland Retail market. High quality tenants tend to want to be close to

Auckland Retail Tenant by Property Grade 2019



other high quality tenants, resulting in clusters in certain areas usually within A grade properties. Conversely, those properties of C grade quality hold the highest proportion of C grade tenants. A C grade property tends to have lower pedestrian counts and are of an inferior quality, resulting in more affordable rents for smaller independent tenants.

Auckland Retail Investment

The Auckland Retail Investment market remains strong with interest and demand for retail property continuing. While international investor interest has come off slightly, a reasonable amount of local interest remains.

Rents look to be running flat across all property types, after a sustained period of growth over the past couple of years. As major projects currently under construction are completed over the coming year, rents could witness upward pressure in these new centres while older centres may have to soften expectations due to the extra competition.

Auckland Region: Retail Leasing & Investment Trends 2019

Precinct	Rental Rates (Net) \$/m ²		Rental Trend	Leasing Market		Yield Range (%)	Investment Market	
	Prime	Secondary		Demand	Supply		Demand	Supply
Auckland CBD	\$1200-\$4150	\$400-\$900	Up	Strong	Scarce	4.0% - 6.0%	Strong	Scarce
Newmarket	\$800-\$2200	\$400-\$700	Flat	Steady	Surplus	5.0% - 6.0%	Strong	Sufficient
Takapuna	\$500-\$900	\$350-\$450	Flat	Steady	Sufficient	5.0% - 6.0%	Strong	Scarce
Albany	\$500-\$700	\$250-\$350	Up	Strong	Sufficient	6.0% - 7.0%	Strong	Scarce
Central Henderson	\$300-\$500	\$150-\$300	Flat	Slow	Surplus	8.0% - 9.0%	Flat	Sufficient
Westgate	\$350-\$650	\$180-\$350	Flat	Strong	Sufficient	5.0% - 7.0%	Strong	Sufficient
Manukau	\$250-\$500	\$150-\$200	Flat	Steady	Scarce	7.0% - 8.0%	Strong	Scarce
Pakuranga	\$400-\$600	\$250-\$300	Flat	Strong	Surplus	5.5% - 7.5%	Strong	Scarce
Howick	\$400-\$600	\$300	Up	Strong	Scarce	5.0% - 7.0%	Strong	Scarce
Botany	\$350-\$1000	\$250	Flat	Strong	Scarce	5.5% - 7.5%	Strong	Scarce

SOURCE: BAYLEYS RESEARCH

Spotlight Big Brands Compete for Prime Space to Boost Omnichannel Presence

The surge in retail development activity runs contrary to the narrative of a business sector which is in steep decline in the face of competition from e-commerce. It should be noted however, that there is a stark contrast between demand for retail space within the nation's leading Malls and prime retail strip locations compared with many traditional high street and secondary grade malls.

Clearly the former locations attract higher foot counts and maximise exposure to physical shoppers. In addition to this research has shown that the opening of physical stores, particularly flagship stores leads to an increase in traffic to the brand's online presence.

A survey conducted by the International Council of Shopping Centres (ICSC), in the USA, has revealed that the opening of a physical store increases a retailer's online Internet traffic in general, and furthermore retailer's share of web traffic in that particular market.

The key findings of the study were:-

- Opening one new physical store in a market results in an average 37 percent increase in overall traffic to that retailer's website, compared with web traffic prior to the store's opening.

- For emerging brands, defined as those less than 10 years old, new store openings drive an average 45 percent increase in web traffic following a store opening. For comparison, established retailers experience an average 36 percent boost in web traffic.
- On average, the share of web traffic increases 27 percent within a specific market when a new store opens.
- The opposite is also true: Web traffic drops off when retailers close stores. In one retailer's case, the share of web traffic across the markets where they closed declined up to 77 percent.

In conclusion the report stated that:- A bright future lies ahead for physical retail stores. When retailers invest in brick-and-mortar locations, their online presence thrives. What's more, retailers with physical stores perform better on measures of brand awareness and consumer perceptions than in markets where those brands lack physical locations. As the findings, examples, and insights in this report reveal, physical stores matter, but retailers must continue to innovate in order to flourish in today's environment.

SOURCE: KNIGHT FRANK

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