

→ Retail Property Market Report 27 | 27 July 2018

1 of 4 Macro-Office-Industrial-Retail Reports | Celebrating 20 Years!

Key observations:

- *HDC is planning CBD works and design proposed under its LTP with a CBD works budget of \$4.5M plus potentially land acquisitions.*
- *Economic conditions underpin strong retailer revenues – Paymark data records a strong upwards trend for Hawke’s Bay. Retail is more positive for Hawke’s Bay than has been the case for 5-7 years plus.*
- *Heretaunga Street East is going through a revival phase assisted by hospitality occupiers – poised to possibly become an ‘Eat Street’.*
- *Napier CBD overhaul and intensification 2013-17 has tapered, occupancy remains tight but slightly off its 2017 peak (increased number of retail units). Further developments are proposed.*
- *We anticipate continuance of economic growth in the near term for Hawke’s Bay, but are wary as first said by us in mid-2017.*
- *The US has started a trade war with inflation potentially a consequence possibly leading to higher interest rates (higher yields and lower asset values).*

Hawke’s Bay based Turley & Co is continuously engaged in high-quality commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant**.

Principal property strategist and projects leader since 2009 for acquisitions **\$120M** and disposals **\$30M** for corporate, Crown and Council clients nationally.

Since 1998 acquisitions-disposals **\$0.5B** nationally alongside considerable volumes of valuation work, litigation and related advisory.

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Streamside reserved land planting of +2,000 native seedlings funded | MTT volunteer Trustee 2009-18 | Chair 2015-18 www.maraetotaratretrust.co.nz

Retail Market Indicators for Napier | Hastings | Havelock North

Retail Category	Rental Range Gross TOC (\$/m ²)	Forecast Rental Growth Next 24 Months (%)	Yield Range (%)	Forecast Yield Change Next 24 Months (%)
Prime	\$180 - \$550	-5 to +5%	5.00-7.50%	0% to 0.25%
Secondary	\$90 - \$180	-10 to 0%	7.50-10.0%	0% to 0.50%

Vacancy Rates: - Prime Retail 5.0% estimate
 Secondary 6.0-15.0% estimate
 Micro-locality considerations and quality dependant

Inducements: - Prime Retail 1 to 4 months rent free equivalent
 Secondary 2 to 12 months rent free equivalent
 Depending on premises, term and tenant



Taradale Mainstreet | Photo TCL

HB Retail Market | News | Quick Summary

- Economic conditions have underpinned retailer revenues 2017-18 – Paymark data recorded a strong upwards trend for Hawke’s Bay
- Heretaunga Street East is going through a revival phase assisted by hospitality occupiers. Refer to www.stuff.co.nz/business/100356175/sex-shop-legal-highs-and-beatenup-whiteware-make-way-for-hastings-bright-future
- Hastings’ CBD revitalisation initiatives are underway, with improved open spaces in the 100 Block, pocket park developments and a proposed ‘Eat Street’
- HDC is planning CBD works and design proposed under its LTP (CBD works budget \$4.5M plus potentially land acquisitions)
- CBD and fringe Hastings rent affordability provides added impetus for new retailers/ start-ups
- 100 Block vacancy substantially reduced (three new leasings in 2017)
- Napier CBD overhaul and intensification 2013-17 has tapered, occupancy remains tight but slightly off its 2017 peak (increased number of retail units)
- Havelock North’s retail heart remains particularly strong with further well-supported supply (Village Exchange)
- Large Format Retail oversupply eases with substantial activity in 2016 continuing in 2017/ 18
- Retail investment opportunities infrequently present, and prime stock yields/ cap rates historically low
- Physical retail trading is more positive for Hawke’s Bay than has been the case for 5-7 years plus

The best NZ and Australasian retailers are now omni-channel focused with dual strategies: online virtual retail combined with physical stores. This is an international trend. Digital retailer Amazon has US physical stores and is planning more. The Warehouse, Noel Leeming, Kathmandu and Rebel Sport are some NZ examples of a strong omni-channel retail.

Mainstreet Retail Occupancy March 2018

Turley & Co at Q2-18 (31 Mar), resurveyed Hawke's Bay retail occupancy for Hastings, Havelock North, Napier and Taradale. Refer to Turley & Co for occupancy analytics.

Retail Leasing and Rents

Hastings

In May-June 2018, Turley & Co submitted on the Hastings LTP concerning the CBD www.turley.co.nz/2018/06/05/hastings-city-centre-submission-hdc-ltp-may-2018.

Our submission was consistent with Turley & Co market reports 2011-15:

- *Turley & Co has [well before 2011] considered the westerly 100 and 200 blocks would be long-term stronger by partially reintroducing to the 100-Block vehicular traffic (currently pedestrians only) and reducing 200-Block traffic access by adopting the Emerson Street Napier model for these streets in CBD Hastings.*

HDC is planning CBD streetscape redesign and has confirmed a works budget of \$4.5M plus potentially land acquisitions. HDC's City Centre Vibrancy Plan is aimed at attracting more people and business by coupling CBD revitalisation and other strategic initiatives. Council has recently purchased an accessway parcel (property) at 223 Heretaunga Street. At 325 Heretaunga St West, HDC is developing a \$1M pocket park, adding a pedestrian connection to a Queen St West Council carpark.

Hastings District Council has an initiative to encourage conversion of disused upper levels CBD office space to residential. At this stage this hasn't eventuated in a conversion that would further assist inner-city vibrancy.

Press for Hastings CBD:

- www.nzherald.co.nz/hawkes-bay-today/news/article.cfm?c_id=1503462&objectid=11977348
- www.nzherald.co.nz/hawkes-bay-today/news/article.cfm?c_id=1503462&objectid=12066121
- www.stuff.co.nz/business/100356175/sex-shop-legal-highs-and-beatenup-whiteware-make-way-for-hastings-bright-future
- www.nzherald.co.nz/good-news/news/article.cfm?c_id=1503279&objectid=12083527

The possibility of a Kmart for Napier, if this eventuates, could have Hastings effects.

MarketView retails spending stats for Hastings have been very good. The latest data records “the total retail spend in Hastings central city for the three months to June 30 reached \$70.098M. It was up \$4M on the previous three months and up just over \$4M on the same period last year.” Refer to HBT press

www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12090648

The Mall 100 Block West is markedly improved by 3 new leasings in 2017. Occupancy for Hastings CBD core improved in 2017-18, rent affordability being a drawcard complemented by a spike in local economy buoyancy, optimism and increased spending.

Opera House and Heretaunga Street East has a revival happening pivoting around a craft gin distillery entrant, Fun Buns, Cornucopia Organics and café, the Common Room (bar) and Cupple. Rents are more affordable in this city block that could become an ‘Eat Street’ under Council proposals.

Havelock North

This tightly-held retail and hospitality focused commercial hub features specialty shops, banks and hospitality (and a hotel). Retail vacancies have been close to non-existent since 2003, bucking Hawke’s Bay trends and notwithstanding increased shops supply. Retail accommodation is expanded on the fringes of Havelock and includes conversion of industrial and formerly residential use property. Development activity in Havelock has been significant in the past decade.

The \$25M Village Exchange development anchored by Porter’s Boutique Hotel and Malo restaurant adds a new dynamic to Havelock North’s western shoulder. This prime development adds 7 retail units to Havelock North. Backdoor Surf sits in prime position on the corner since September 2017, joining other top-quality retailers Hartley’s, Sophistication by Design, Annabelle’s alongside Muse fine art dealers.

Foodstuffs’s Havelock Road 2014 land purchase (current Tumu ITM and adjoining sites) with new supermarket plans unconfirmed. The Foodstuffs mooted new supermarket indicates that retail shops would backfill its Havelock North site. Timing is undisclosed.

More Havelock North speciality shops could have short-lived negative consequences for some Havelock North businesses. We expect Havelock would however, be long-run commercially stronger given more retail activity. The Exchange as predicted by us has added to vibrancy.

At Joll Road a new offices and retail development is underway. The Ryman \$100M retirement village at Te Aute Road will add to retail activity in Havelock North.

Refer to Turley & Co for Havelock North detailed data and Q2-18 occupancy.

Napier

In our report February 2018, we suggested retail rents for Napier's CBD could elevate in 2018. Empirical proof is outstanding. MarketView recorded Napier's spending was up 5.9% for the December quarter v. quarter in 2016. Council's Marine Parade upgrade is a significant city vibrancy enhancement. We expect ongoing demand by established and new retailers for prime sites in Napier, especially if Napier's tourism activity continues to track well.

The Farmers store relocation considerably improved Napier's retail heart and the stature of Hastings Street. Lower Emerson Street was the underperformer, generally experiencing higher vacancies but overall is now mostly performing well. Napier's overall occupancy improved in 2017/18. This occurrence is notwithstanding added retail supply (more shops). Refer to Turley & Co for Napier retail occupancy Q2-18 and for our prior reporting on CBD mass changes 2014-2018.

Wallace Development proposals for Marine Parade and Tennyson Street would bolster inner-city Napier vibrancy. Refer to Turley & Co.

Napier City investment in McLean Park and potentially an aquatic centre are expected to add to Napier activity levels.

Taradale

Taradale since 2014 has improved with shop vacancies reduced from 11 to 3. The increased incidence of hospitality and food business is significant. Rentals are overall lower than previously. Refer to Turley & Co for detailed property metrics and occupancy Q2-18 for Taradale.

Large Format Retail (LFR)

Industrial land zoned to LFR at Ford Road/ Prebensen Drive, is proposed for a new Kmart by Wallace Development Co. The effects for Napier CBD retail of the planned Kmart development adjacent to Mitre 10 Mega is hard to judge. The development, if it occurs, could be net positive for Napier as a further retail destination. Kmart Hastings' performance and pedestrian numbers could be affected by a Napier Kmart.

A \$20M LFR development in Munroe Street Napier housing national retailers Briscoes and Rebel Sport is due to begin in September. This will add 6,000 sqm of large format retail to Napier's existing supply. The developer is Mana Ahuriri.

PETstock has taken up the final retail unit behind Noel Leeming at The Park. Briscoes and Rebel Sport relocated to new developments in 2016 positioning alongside Noel Leeming and Mitre 10 Mega, The Warehouse and Uncle Bills. The Clearance Shed leased space vacated by FCO.

Rollo Vavasour of Bayleys is marketing a component of The Park for sale: Pet Stock, Noel Leeming, The Clearance Shed, Rebel Sport/ Briscoes with a four leases aggregate rent \$1,359,100 p.a. (July 2018).

The Rebel Sports former site opposite New World Hastings was reworked and re-occupied by City Fitness. Refer to Turley & Co. The former Briscoes unit adjoining remains vacant. Bunnings occupies the former The Warehouse Hastings premises on the shoulder of St Aubyn and Market Streets (offered for sale early 2017 but unsold). Refer to Turley & Co for rent analyses. Bunnings has since opened a second store in Hastings, a Trade Centre on Heretaunga St West (3,000 sqm).

The national retailers Smiths City and Supercheap Auto in 2017 joined Warehouse Stationery at Mitre 10 Mega's former address as St Aubyn Street. Refer to Turley & Co for details. PK Furniture failed in 2017 as well as national retailers Pumpkin Patch and Banks Shoes.

Supermarkets

Refer to Turley & Co and prior reporting on supermarkets for Hawke's Bay activity.

Napier | Hastings | Havelock North Retail

Sample retail rents per Total Occupancy Cost (refer to *TOC Definition* later):

Property	Date	Area (m ²)	Rate \$/m ² TOC
Gloucester St	Sep-17	220	\$169
Heretaunga St West	Jul-17	317	\$181
Napier Rd	Apr-17	130	\$261
Havelock Rd	Aug-17	261	\$294
Hastings St*	Oct-17	322	\$300

* Analysis unclear exceeds \$300/m² TOC.

Refer to Turley & Co for more data and most recent transactions. Gross rent rates above exclude fitout and parking etc.

Refer to Turley & Co for information specific to a property, and for Registered Valuer and Registered Property Consultant advisory www.turley.co.nz



Hastings CBD. Photo TCL

Mainstreet retail evidence typically reflects a tighter rates pattern if analysed per UMF (frontage relative to depth). Registered Valuer assistance should be employed for mainstreet retail relative rent values assessment.

Market rent is principally objective over subjective and is determined according to valuation law principles. Turley & Co Registered Valuer assistance should be preferred. Face rents are potentially misleading. Turley & Co is a successful negotiator and litigator of “market rent” and lease structures advisory.

Retail Investment Market

Our macro-market commentaries (refer to *Macro Report*), broadly hold for Hawke’s Bay retail property investment.

Good retail realty is typically the most chased property investment subset. Retail property is well-supported at the keenest cap rates (lowest yields). At values up to \$2.0M-\$3.0M, well-located and sound building retail property investments are keenly contested. Yields are typically below 7.0% and sometimes sub-5.0% (relatively high investment values apply). Yields below 5.0% have been commonplace in recent years in Auckland, Tauranga, Tāupo and elsewhere.

Napier’s iconic three-level CPO building (~3,100 sqm and reportedly 100%NBS), brought to the market via Bayleys in early 2018 has sold for \$8M at 6.98% yield. The property is fully leased with twelve retail and office tenants including NZ Post/ Kiwibank, Vodafone, Adoro Café and Napier City Council. Refer to Turley & Co for analyses.

Bayleys sold The Warehouse Hastings in mid-2016 for \$17.6M (6.53%), representing a \$4.1M (31%) increase in value since August 2011. It was Hawke’s Bay’s largest commercial property transaction for 2016-18. We refer to information earlier concerning The Park LFR investment property currently being marketed by Bayleys (\$1.36M net rent four leases).

The 2015 completed Kiwibank development (former Farmers), is being marketed for sale by Colliers (Danny Blair). Potential net rent \$665,000 p.a. with Kiwibank contributing net \$435,000 p.a.

Tourism House is being marketed for sale touted as “a boutique studio suite hotel or apartment complex”:

www.nzherald.co.nz/hawkes-bay-today/business/news/article.cfm?c_id=1503458&objectid=12093856

In summary, a few Hawke’s Bay retail investment properties offered in 2016-18 were unsold and some good-quality retail investment properties transacted in 2017-18. Investor owners are holding for the most part.

The yield difference for investment property quality, tenant-calibre, lease term/s and any vacancy aspects, had considerably narrowed in recent years. We expect change is already underway and the yields spread is increasing.

Retail Investment Transactions

Sample retail property investment sales include:

Location	Price	Date	Yield
Havelock North	\$820,000	Oct-17	5.61%
Hastings St	\$1,250,000	Mar-18	5.83%
Russell St	\$1,560,000	Jul-17	6.76%
Hastings St (retail-office)	\$8,000,000	Feb-18	6.98%
Gloucester St	\$550,000	Mar-18	7.27%

Other insight:

→ Refer to Turley & Co for most recent transactions data, lease durations, etc

Refer to Turley & Co for information specific to a property, and for Registered Valuer and Registered Property Consultant advisory www.turley.co.nz



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Turley & Co Profile

Hawke's Bay based Turley & Co was formed in 1998 employing **five professionals** www.turley.co.nz

Pat is a *Registered Valuer* and *Registered Property Consultant*. He was an Auckland based practitioner with Jones Lang LaSalle and Darroch & Co for five years until 1995, before moving to Hawke's Bay. Pat has over 25 years of property consultancy and valuation experience focused on commercial and specialised property. He started his property career shortly after the crash of 1987. He has undertaken detailed appraisals and valuations, for single property assets \$4,000 value to plus \$100M in the Auckland CBD. He is an experienced valuation arbitration and Court expert witness.

Turley & Co services a loyal group of prime clients across the private, corporate and public sectors in New Zealand. Turley & Co is LINZ Accredited and a division of the firm is a longstanding preferred property acquisitions, technical and statutory services provider to Government and Council clients nationally including Ministries of the Crown. Turley & Co is continuously engaged in commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant** in Hawke's Bay and nationally including Auckland.

Current team: Pat Turley, Wayne Smith, Nikki Whelpton and Dayna Campbell. Sue Turley is a co-director and commercial manager. Three people have been with the firm for 20 years. Refer to www.turley.co.nz/our-people

Turley & Co Analytics

Turley & Co is a publisher of property market analytics and commentary before 1998, and for over 20 years maintains an extensive private database of market transactions/valuation evidence for Hawke’s Bay and NZ – publishing nine biannual reports 2005-2009 plus:

Q1-2 2010 Hawke’s Bay Market Report - 11	Q1-2 2013 Hawke’s Bay Market Report – 17	Q1-2 2016 Hawke’s Bay Market Report - 23
Q3-4 2010 Hawke’s Bay Market Report - 12	Q3-4 2013 Hawke’s Bay Market Report – 18	Q3-4 2016 Hawke’s Bay Market Report - 24
Q1-2 2011 Hawke’s Bay Market Report - 13	Q1-2 2014 Hawke’s Bay Market Report - 19	Q1-2 2017 Hawke’s Bay Market Report - 25
Q3-4 2011 Hawke’s Bay Market Report - 14	Q3-4 2014 Hawke’s Bay Market Report - 20	Q3-4 2017 Hawke’s Bay Market Report - 26
Q1-2 2012 Hawke’s Bay Market Report - 15	Q1-2 2015 Hawke’s Bay Market Report - 21	Q1-2 2018 Hawke’s Bay Market Report – 27 this report...
Q3-4 2012 Hawke’s Bay Market Report - 16	Q3-4 2015 Hawke’s Bay Market Report - 22	

And one-off market metrics updates and occupancy survey data since 2012 www.turley.co.nz/news



Definitions | Warnings | Disclaimers | Copyright

Definition Gross Rent | TOC

Gross rent or TOC (Total Occupancy Cost) values cited in this report:

- Include tenant outgoing costs: Council rates, building insurance and may include unique occupancy costs.
- Exclude tenant opex.
- For office and retail premises reflect a sealed shell net of the added value of landlord fitout: flooring treatments, subdivision partitioning, air-conditioning, etc.
- Are net of car parking and possibly excess yard value.
- Generally adjusted for corner site value and known letting inducements (frequently an undisclosed item).

The TOC definition above applies to most sample rent evidence cited in this report. Reliable values interpretation requires Turley & Co Registered Valuer and property specific advisory. The data herein should otherwise be considered unreliable.

Sources | Reliability

Turley & Co has been a valuer analyst or advisor for usually a majority of the transactions cited. Whilst all property data represented is believed to be correct Turley & Co does not warrant the accuracy of information published in this report. Transaction samples details may be incomplete and include: dated and newly-built premises, ground and upper-floor, first-lettings and sitting-tenant agreements, properties of various location strength, scale, lease content and seismic status, etc. The forgoing factors substantially influence relative market value and reliable application of data. In the absence Turley & Co Registered Valuer assistance, values or information in this report may be erroneously interpreted.

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