

→ Retail Property Market Report 29 | 31 July 2019

1 of 4 Macro-Office-Industrial-Retail Reports | Celebrating 21 Years!

Key observations:

- Prime stock yields/ cap rates are historically low including The Warehouse Hastings at yield 6.13% December 2018 – \$19.76M.
- Havelock North's retail heart remains particularly strong with further well-supported supply (Village Exchange) and well-advanced units at Joll Rd.
- HDC is planning CBD works and design initially proposed under its LTP (CBD works budget \$4.5M plus land acquisitions) – a master plan is advancing.
- Hawke's Bays' economic conditions remain exceptionally buoyant. Confidence is high driven by a coincidence of fortunes across most sectors that lead the region's economy, underpinned by persistently low interest rates.
- We anticipate continuance of good rates economic growth in the near term for Hawke's Bay. NZ growth is projected to be more modest in 2019/20.
- Slowing global growth with uncertainties is potentially a moderating factor however.

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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Retail Market Indicators for Napier | Hastings | Havelock North

Refer to separate same date reports for: *Macro, Office and Industrial.*

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 +10%	5.0-7.0%	-0.5% to 0.5%
Secondary	\$75 - \$180	-10 to +5%	7.0-9.0%	0% to 1.0%

Vacancy Rates: - Mainstreet Retail 7.0% surveyed Mar 19 (improved)
Micro-locality considerations and quality dependant

Inducements: - Prime Retail 1 to 3 months rent free equivalent
Secondary 3 to 6 months rent free equivalent
Depending on premises, term and tenant

HB Retail Market | News | Quick Summary

- Buoyant economic conditions have assisted retailer revenues
- 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
- HDC is planning CBD works and design initially proposed under its LTP (CBD works budget \$4.5M plus potentially land acquisitions) – a master plan is progressing
- HDC hospitality street dining build outs are proposed
- CBD and fringe Hastings rent affordability provides added impetus for new retailers/ start-ups
- Napier CBD overhaul and intensification 2013-17 has tapered, occupancy remains tight
- Havelock North's retail heart remains particularly strong with further well-supported supply (Village Exchange) and well-advanced units at Joll Road – refer to report
- Large Format Retail oversupply eased with substantial 2016/19
- Prime stock yields/ cap rates are historically low including The Warehouse at yield 6.13% late 2018 – refer to report
- Physical retail trading is more positive for Hawke's Bay than for 5-7 years
- Retail occupancy has improved Oct 18 v. Mar 19 – refer to report



Taradale Mainstreet | Photo TCL

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

Mainstreet Retail Occupancy Mar 2019

Turley & Co at Q1-19 (Mar), resurveyed Hawke's Bay retail occupancy for Hastings, Havelock North, Napier and Taradale. Oct 18 v. Mar 19 overall vacancy declined from 8.0% to 7.0%. Refer to us for analytics by locality.

Refer to Turley & Co prior occupancy analytics in our Retail Focus Report November 2018 www.turley.co.nz/2018/11/12/retail-focus-report-november-2018.

Refer to Turley & Co retail property press since mid-2018 www.turley.co.nz/press/latest.

Retail Leasing and Rents

Hastings

Occupancy for Hastings' CBD core improved in 2018/19, with affordability being a drawcard and complemented by local economy buoyancy, optimism and increased spending.

MarketView retail spending stats for Hastings have been very good. "Retail spending in the Hastings district continues to climb, with \$76m spent in the area over the three months to the end of June this year." Refer to HDC latest news www.hastingsdc.govt.nz/home/article/1367.

Heretaunga Street East is experiencing a revival pivoting around a craft gin distillery entrant, Fun Buns, Cornucopia Organics and café, the Common Room (bar), Cupple and the Opera House redevelopment circa \$30M by HDC. Rents are more affordable in this city block that could become an 'Eat Street' or similar supported by council. Council is planning street dining buildouts enabled by licences.

The Opera House is set to reopen in February. Construction of Quest Hotel on a site behind the Opera House complex is due to begin by late October.

Hotel proposals if these come to fruition would bolster the Hastings CBD centre's vibrancy.

Refer to November 2018 Retail Focus Report www.turley.co.nz/2018/11/12/retail-focus-report-november-2018.

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 commentary 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 has developed a \$1M pocket park, adding a pedestrian connection to a Queen St West Council carpark. It is very well-designed. HDC has recently purchased the old Briscoes site with plans to create another walkway and car park, connecting Heretaunga and Queen Streets, and a market/ events space.

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
- www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=12222993
- www.nzherald.co.nz/hawkes-bay-today/news/article.cfm?c_id=1503462&objectid=12246325

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 number of shops supply. Retail accommodation has long since 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 and is ongoing.

The \$25M Village Exchange development anchored by Porter's Boutique Hotel and Malo restaurant adds a new dynamic. This prime development added 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, Moochi and Annabelle's alongside Muse fine art dealers.

Foodstuffs' purchased land in Havelock Road in 2014 (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 uncertain although the development may not be far away.

The Joll Road development nearing completion by the Hardys with Warren Ladbrook, forms a new retail, hospitality and office property for Havelock North. The first stage of the development was reported being close to fully tenanted www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12126111.

The Ryman \$100M retirement village at Te Aute Road and added dwellings at Mary Doyle will add to retail support in Havelock North.

Refer to Turley & Co for Havelock North detailed current data for prior and Q3-18 retail occupancy www.turley.co.nz/2018/11/12/retail-focus-report-november-2018.

Napier

MarketView in 2018 recorded Napier's spending was up 5.9% for the December quarter v. quarter in 2016. The Farmers' store relocation some years ago 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 performing very well. Napier's overall occupancy improved in 2017/19.

We expect ongoing demand by established and new retailers for prime sites in Napier, especially if Napier's tourism activity continues to track well that is likely. Four new hotels are proposed for Napier CBD which would add vibrancy (assuming one or two occur).

The Napier Port wharf expansion will further assist Napier activity, tourism and retail spending.

Napier's iconic Vautier House in Dalton Street is being marketed for sale and has been touted for redevelopment as possibly retail, residential/ apartments or offices www.nzherald.co.nz/hawkes-bay-today/news/article.cfm?c_id=1503462&objectid=12144609. Planning is unconfirmed.

Council's Marine Parade upgrade is a significant city vibrancy project. Napier City investment in McLean Park and potentially a new aquatic centre are anticipated to add to the Napier economy and activity.

Refer to Turley & Co's November 2018 Retail Focus Report for Napier retail occupancy Q3-18 and CBD changes 2015-2018 www.turley.co.nz/2018/11/12/retail-focus-report-november-2018. Refer to us for more recent survey data and occupancy metrics by locality.

We intensively surveyed Napier's CBD retail make-up in 2003 and again in 2018. Change of use claims for Napier's main street retail are not supported by the 2003 v 2018 data. Refer to above cited Retail Focus Report and the BayBuzz article by us www.turley.co.nz/2018/11/09/cbds-are-social-centres-a-hastings-cbd-history-baybuzz-magazine

Taradale

Taradale since 2014 has improved with shop vacancies reduced from 11 to 3. Impressively Taradale's occupancy was at 97% Q1 2019, unchanged since Q3 2018. The increased incidence of hospitality and food business is significant. Rents are mostly lower than previously.

Refer to Turley & Co for detailed property metrics and occupancy Q3-18 for Taradale and www.turley.co.nz/2018/11/12/retail-focus-report-november-2018. Refer to us for more recent data and metrics for Taradale.

Recent sales in Gloucester Street for national retailers ASB and Caroline Eve have reflected low 6% yields.

Large Format Retail (LFR)

Industrial land zoned to LFR at Ford Road/ Prebensen Drive, is underway 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 predict. The development could be net positive for Napier as a regional retail destination. Kmart Hastings' performance and pedestrian numbers could be affected.

A \$20M LFR development in Munroe Street Napier housing national retailers Briscoes and Rebel Sport is underway by developer Mana Ahuriri. This will add 6,000 sqm of large format retail to Napier's existing supply. Rebel Sports current site has been proposed as a hotel.

PETstock occupied the final retail unit space behind Noel Leeming at The Park Hastings in 2017. Briscoes and Rebel Sport relocated to new developments at The Park in 2016 positioning alongside Noel Leeming, Mitre 10 Mega, The Warehouse and Uncle Bills. The Clearance Shed leased space vacated by FCO.

Bayleys sold a component of The Park in late 2018: PETstock, Noel Leeming, The Clearance Shed, Rebel Sport/ Briscoes with a four leases aggregate rent \$1,359,100 p.a. (July 2018). The sale reflected 6.47% yield for WALT 6.3 years www.turley.co.nz/2018/09/17/big-retail-property-portfolio-in-hastings-fetches-21-million.

Bayleys also sold The Warehouse Hastings in December 2018 for \$19.76M (6.13%), lease term 15 years to March 2027.

The Rebel Sports former site opposite New World Hastings was reworked and re-occupied by City Fitness that sold for \$6.5M (6.99% yield). Refer to Turley & Co. The adjacent Two Dollar Things property also sold. Refer to us for details.

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 details. Bunnings has since opened a second store in Hastings, a Trade Centre on Heretaunga St West (3,000 sqm).

National retailers Smiths City and Supercheap Auto joined Warehouse Stationery at Mitre 10 Mega's former address as St Aubyn Street in 2017. Refer to Turley & Co for details.

Supermarkets

Countdown plan to build a new supermarket on the existing Hastings site to replace its current store (on expanded land).

Refer to Turley & Co for prior reporting and for most recent Hawke's Bay supermarkets 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
Heretaunga St East	Oct-18	74	\$178
Gloucester St	Sep-18	340	\$227
Heretaunga St West	May-18	248	\$356



Hastings CBD | Photo TCL

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

Other transactions: Refer to us.

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

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 a lease settings advisor.

Retail Investment Market

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

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 very 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.

Bayleys sold The Warehouse Hastings in mid-2016 for \$17.6M (6.53%), representing a \$4.1M (31%) increase in value since August 2011. As earlier cited, Bayleys re-sold The Warehouse Hastings in December 2018 for \$19.76M (6.13%), lease term 15 years to March 2027.

We refer to information earlier concerning The Park LFR investment property sold by Bayleys in late 2018 (\$1.36M net rent, four leases, 6.47% yield).

The 2015 redeveloped property for Kiwibank (former Farmers), was sold in late 2018 by Colliers (Danny Blair and Reuben George) reflecting yield 6.13% at sale price \$7.09M. Potential net rent \$665,000 p.a. with Kiwibank contributing net \$435,000 p.a.

The relatively small number of Hawke’s Bay retail investment properties offered 2016-18 were mostly unsold, although some good-quality prime calibre retail investment properties transacted in 2017-18. Investor owners are for the most part however holding 2018/19.

It is obvious that borrowing rates sub 5.0% lowered prime retail investment cap rates.

The yield difference for investment property quality, tenant-calibre, lease term/s and any vacancy aspects, has narrowed in recent years. The yield spread increased has more recently paused. At the prime-end, yields have been stubbornly low in 2018/19 (enabled by very low interest rates).

At present masses of local and global capital is pursuing prime attributes investment property and evidenced by competing bidder substantial oversubscription, e.g. Visy at Hamilton ~\$70m industrial sale July ~5% yield. Refer to *Macro* report.

Retail Investment Transactions

Sample retail property investment sales include:

Location	Price	Date	Yield
Gloucester St	\$1,080,000	Feb-19	6.08%
Karamu Rd	\$19,780,000	Dec-18	6.13%
Gloucester St	\$850,000	May-19	6.35%
Karamu Rd	\$21,000,000	Aug-18	6.47%
Heretaunga St East	\$1,625,000	Dec-18	7.08%
Heretaunga St West	\$2,800,000	May-19	8.04%
Waipukurau	\$384,500	Oct-18	8.06%
King St	\$520,000	Oct-18	8.50%

Other insight: Refer to Turley & Co for most recent transactions data, lease durations, etc

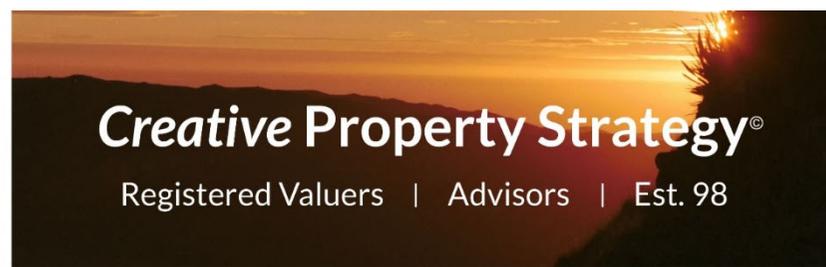
Other transactions: Refer to us.

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

Turley & Co Analytics + Market Metrics

Turley & Co is a publisher of property market analytics, metrics and commentary prior to 1998, and for over 21 years maintains an extensive private database of market transactions/ valuation evidence for Hawke's Bay and NZ.

Turley & Co has published 28 prior biannual reports 2005-2019, plus one-off market metrics updates and occupancy surveys regularly www.turley.co.nz/news



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Turley & Co Profile

Hawke's Bay based Turley & Co was formed in 1998 employing **five professionals** www.turley.co.nz/our-people/. **Turley & Co 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 over two decades.

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 CBD Auckland. 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. This included over 400 Crown landbanking acquisitions NZ-wide for 19 years as sole services contractor to Office of Treaty Settlements (MoJ). Turley & Co is continuously engaged in high-quality commercial property analysis and valuation as a **Registered Valuer** and **Registered Property Consultant** in Hawke's Bay and **NZ-wide including Auckland**.

Definitions | Warnings | Disclaimers | Copyright | Distribution

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

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 should be considered unreliable.

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