



Evolving retail trends impact on property dynamics

Consumers have more power than ever before when it comes to shopping, and retailers need to move with the times or risk being left behind in this complex sector, say industry experts. Business writer Abby Gillies investigates what makes a retailer successful in these changing times, and the importance commercial real estate plays in underpinning that success.

There's an old saying: "If the shoe fits, buy it in every colour". While the principle may still apply, where and how consumers are spending their shopping dollars has become a more complex issue, in a more expansive environment than ever before.

With the rise of internet shopping and huge city fringe shopping centres, small independent neighbourhood retailers must work harder than ever to secure the consumer's business. There is still very much a place for such traditional cornerstone shopping precincts, but they and all retailers must move with the times to stay alive and convenience is key to success, say industry experts.

It used to be that traditional neighbourhood retail precincts included

food and beverage outlets such as a dairy, liquor store, pizza takeaway, fish and chip shop, and video store. Shoppers could pick up milk and other necessary food items on the way home, along with a quick dinner or cheap bottle of wine - all on their doorstep.

Consumers still have the same needs and a desire to support local business, but they now demand more convenient retail experiences – a bigger range, better service, faster delivery. To stay relevant, retailers need to be flexible and cater to the shopper's changing needs. This has had a subsequent impact on the retail segment of the commercial property market.

One consideration for retail businesses now is whether they will sell online exclusively, store only, or, the biggest growth area, utilise both spaces. If they choose the last option commercial property will continue to play a huge role within the sector, for example by meeting the growing need for strategically located warehousing spaces where goods are moved from supplier to customer.

More than ever before, consumers hold the power in the retail chain.



During the 1960s and 1970s limitations on product supply meant manufacturers were the key players in the retail game. With the major expansion of national chains such as Briscoes, Harvey Norman and Whitcoulls in the 70s and 80s, those selling the products took over the power, only to have since been trounced by consumers.

Today, consumers hold the weight of power and are expected to continue to do so, with the world of retail opening up to offer customers access to any brand at any price in the world, says New Zealand Retailers Association chief executive John Albertson.

In this environment, the consumer has a wealth of choice nationally and internationally, at their fingertips. Depending on their needs and the shopping experience they want, they can choose to buy online, go to a shopping centre, to their neighbourhood retailer or to a local market. The choice is theirs.

As a result, shopping strips may expand to include a wider range of products and services. In other regions, as in the UK, a resurgence in demand for local goods is impacting commercial spaces in neighbourhood retail precincts.

Typically, consumers will use a range of different ways of buying the things they need. The weekly fruit and veggies might be bought from a local market, wine bought along with groceries at the supermarket, and the latest DVD downloaded online. As the retail market opens up and consumers have greater choice about where and what they buy, all retail shops and precincts must keep talking to their customers to stay relevant, says Albertson. This means real estate must change along with the "moving feast" of changing retail business, including new builds in established and growing areas, bigger malls, and expanding neighbourhood precincts.

"Retailers are going to really have to understand what their customers want. Unless you're delivering the service your customer wants, you can't buy loyalty."

Chief executive of Hospitality New Zealand Bruce Robertson agrees retailers need to be more

accommodating about the products they offer consumers and look at opportunities for expanding their business, such as extending opening hours, or providing a delivery service.

"Traditional neighbourhood shopping precincts still have a place but need to stay flexible and relevant if they are to compete with online and large shopping complexes," says PwC partner and retail industry expert Nathan Wylie.

However, as well as offering convenience, small neighbourhood shops have an added advantage – Kiwis like to support local traders, says Wylie. "Accordingly, property in such spaces is likely to remain desirable.

"New Zealanders like to support their local community and I would like to think they [small retail precincts] will continue to have a part to play.

"They need to think about how they co-operate amongst themselves to be a destination for the community," says Wylie.

The retail industry is not moving away from neighbourhood precincts, but rather reinventing itself, says Hospitality New Zealand regional manager Jill Davey. With an international move towards healthy food options, one example is traditional takeaway options trying to create a point

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We're seeing more innovation. People are looking for choice and more convenience.

Bruce Robertson.

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of difference such as local produce and artisan style food and beverage (breads, craft beer, local fresh produce). This could lead to a growing number of such businesses, driving demand in the real estate market, particularly for new builds in developing areas, says Davey.

The ongoing big push by supermarkets to meet a growing range of consumer needs is forcing small operators to be different, and creative when developing products and services, she says.

"Commercial property owners and retailers will need to better understand



PwC partner and retail industry expert Nathan Wylie

each other's businesses to ensure suburban retail stays alive and viable for property owners, operators and fundamentally the general public.

The three key factors for consumers are still price, location and quality. "One trend is very strongly towards quality, which now includes the belief that local is better," says Davey.

Consumer priorities are driving the changes and when it comes to making the decision about where to spend, convenience is key, along with a combination of other factors such as price, location, selection, and environment, agree the industry experts.

In Auckland and Wellington mini supermarkets are popping up around the central cities to cater to apartment dwellers who don't have cars and need to be able to carry their groceries home. Pop-up shops, bars and takeaways are a growing phenomenon, such as Wellington's gourmet chicken caravan in Tinakori Road every Friday, to keep up with the consumer demand for fresh and relevant services.

The locations of such shops are typically determined by vehicle and foot traffic and are new builds deliberately designed to cater to a specific customer base, says Albertson. In downtown Wellington for example, that means New World Metro in Willis Street stocks a wide range of ready-made sandwiches

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and meals for its largely professional and commuter consumer base.

A greater degree of consolidation is also evident as retail outlets make themselves a one-stop-shop. Supermarkets offer an extensive range of wine and alcohol cutting out the need for consumers to go to another store, and petrol stations are expanding to provide customers much more than petrol with café food and coffee, even CDs and along with the traditional milk, bread and ice creams on offer.

"We're seeing more innovation. People are looking for choice and more convenience," says Robertson.

Larger retail complexes, which are destination experiences for consumers,

equally need to provide for a range of products and services to meet consumers' needs.

Property company DNZ Property Fund regional manager Andrew Hay says there is a consumer appetite for large retail complexes that can offer a "one stop shop". New retailers should consider being located on a main traffic route, to be accessible to the city/town centre or to set themselves up as a destination shopping complex to increase convenience and relevance to consumers, says Hay.

In Wellington consumers currently only have the options of Lower Hutt and Porirua for large shopping complexes, with a \$300 million re-development of the Johnsonville Shopping Centre planned in the suburb, located north of the city. DNZ has been granted consent to increase the mall from about 10,000m² to a 34,000m² two-level centre.

Auckland continues to see a huge amount of development in the retail sector. The recently renovated Wairau Junction complex in the North Shore suburb of Glenfield is an example of an expansive centre catering to a range of shopper needs. It is a strip shopping centre, where shops are in a row facing the sidewalk and typically on a high profile site.

The 4,800m² centre, on one of the North Shore's busiest roads, includes bars fitness centres, café, shops, restaurants, and takeaway food. The neighbouring suburb of Albany has similarly seen strong retail development.



Chief executive of Hospitality New Zealand Bruce Robertson



Wairau Junction, North Shore



Shopping precincts are getting bigger and being built on city fringes to increase convenience to shoppers, says Rotorua developer Tony Bradley of TPB Properties. Small neighbourhood precincts of just a dairy and fish and chip shop side-by-side are “definitely being hit by hubs that have for example nine or 10 shops”, says Bradley, whose family has been involved in property development for 40 years.

“Now they’re getting up to 20 shops or more. You see places like Tauranga full of shopping centres more on the fringes because people don’t always want to go into the city centre to get what they need.”

Last year, shops at Rotorua’s largest convenience centre, which has a medical centre, gym, food outlets and bakeries, opened for business. The centre was developed by TPB Properties and like most retail complexes Bradley’s worked on, it is under one roof. Also like other complexes, shops typically lease rather than owning their premises. Redwood Centre has a wide mix of shops and products – the key to retail success, says Bradley.

The cost of rent, along with staffing, makes up about 15 percent of overall margin for retailers, says Albertson.

“The cost of rent and staff are the two most significant fixed costs of a retail business. For some these two cost centres can be in the order of 10-15 percent each of turnover.

“Driving revenue becomes critical. While independent retailers have the advantage of being able to make changes to their offering quickly, the chain operator has buying power. Points of difference are critical. The retailer must consider their offering and decide whether or not it is sufficiently differentiated from their competitors.”

The battle to secure shoppers’ dollars continues to grow as retailers vie for their service.

In The United States, Amazon is trialling a new service in which shoppers are personally delivered ordered products via airborne drones that determine their location by satellite. Many American online retailers now offer delivery in one to two hours.

The growth of online shopping will create new real estate needs around bulk warehouses and storage facilities.

There is no doubt however, that the online space is becoming more active. In New Zealanders 6-7 percent of our total retail shopping is online. That figure is expected to grow by up to 15 percent each year as New Zealanders embrace online shopping.

Kiwis overall retail spending remains buoyant. The tills rang in record-breaking fashion throughout the past Christmas period, according to figures from Paymark, which processes around 75 percent of all electronic transactions in New Zealand.

Huge spending last Christmas Eve and Boxing Day saw December spending up by 7.5 percent on 2012.

The figure illustrates consumers’ appetite for spending and in the future they are likely to retain the power in the retail chain, says Albertson. Retailers need to make sure they are relevant to their customers’ needs otherwise they risk losing business, he says.

“Availability and distribution of product has been a game-changer. It’s going to be about what people want as individuals instead of the mass marketing we’ve been used to.”

“It’s an exciting, challenging environment. If you want to be in the game you really have to stay on top of it.”



That figure is expected to grow by up to **15%** each year

By comparison, projected annual growth of total retail spending is **3-4%**

Around the Regions



1. Whangarei

Small retail outlets have increased the range of products they offer and the number of brands and franchises such as sushi shops, Spit Roast takeaways and Wendys have also increased in the region, says Bayleys commercial and industrial spokesperson Ross Blomfield. Valentines, Nando’s, Pita Pit, Lone Star and Carl’s Jnr are all planned for the region in the coming months.

Consumers are driving demand for convenience outlets with a mix of products such as liquor, video, fruit and veggies, meat and bakery goods. “What has changed is the customer’s desire to one-stop-shop”.

Retail complexes continue to grow with Bayleys currently working with two developers planning shopping centres in prominent locations Reyburn Street and Kensington Avenue.

2. North Shore, Auckland

National chains such as Hell Pizza have taken over independent retailers, says recently retired Bayleys commercial and industrial salesperson Greg Healey.

Strip shopping centres, such as Wairau Junction are doing well. Wairau includes a number of shops and services such as a fitness centre, shops, restaurants and takeaway food.

There are a high number of strata titled retail properties on the North Shore, with a preference for freehold.

Redwood Centre

Retailers in the upmarket complex at the intersection of Te Ngae and Tarawera Roads, in Rotorua opened their doors last year. The centre, developed by TPB Properties, includes 24-hour gym Anytime Fitness, Couplands Bakery, Best Sushi, Burger Fuel, Tarawera Superette, specialised takeaways Te Arawa Fisheries and Te Ngae Medical Centre. Burger Fuel relocated from its central city site to the Redwood Centre. The new, larger 124m² site has up to 50 percent more seating. The centre is an example of retail precincts catering to changing consumer needs.





3. Hamilton

In outlying areas, a push towards sub-divisions has created a market for specialised shops and upmarket restaurants catering to the tastes of a range of ethnicities, says salesperson Mike Swanson. The opening of Te Awa Retail Shopping Centre, has drawn business out of the CBD but this has resulted in the resurgence of specialist shops in the central city, he says.

There is further growth in the northern regions, with 10-20 retail precincts being developed anchored with a good restaurant/pub/specialist shops, near the planned ring road set to transform the city's road network.

One example is a development being constructed on the corner of Thomas and Horsham Downs Roads in the suburb of Rototuna. The mixed-use development will include apartments, retail stores, offices and restaurants

Buyers predominantly want freehold buildings, says Swanson.

4. Taupo

Traditional community shopping precincts are still operational in Taupo and retail location has not changed a lot, says Bayleys Taupo director Yvonne Westerman.

The town has seen an increase in Indian restaurants, catering to changing consumer demands. At the lake end of Taupo township new buildings have been developed; one housing restaurant Lone Star and the other that has a sushi bar and remaining area yet to be leased. Taupo District Council recently changed bylaws within the district plan to ensure retail and offices stay within the confines of the CBD, and retail in the central town continues to grow, says Westerman.

5. Marlborough

Cornerstone operations remain with many of the bigger brands having a presence in Blenheim. New developments, including Bunnings and Pak'N Save on the outskirts of Blenheim have drawn business away from the city centre with their extensive product range, car parks and added conveniences, says Bayleys commercial and industrial salesperson Grant Baxter. Discretionary spending caused by a



A mixed-use development underway in Rototuna, Hamilton, will include apartments, retail stores, offices and restaurants

downturn in the wine industry has not helped locally-owned retailers competing against the big brands. Shoppers are looking for "one-stop-shop convenience". There is a mixture of leasehold and freehold stores, with the majority remaining stand-alone, says Baxter.

6. Queenstown

The central city mall used to be the retail hub of Queenstown. This has evolved, with many retailers now instead preferring the city fringe.

Most properties are freehold. Tenants largely simply want to acquire space in a prime retail position – leasehold or freehold – says commercial and industrial salesperson Marty Barwood.

Former hotels have gone and liquor outlets are a lot more prevalent than what they used to be, and Dominos has become a recent addition. Favoured local restaurant "The Cow" has survived all of the changes.

"Queenstown has become a place where large brands want to showcase their wares and are prepared to pay the rentals and key money, making it difficult for some of the local businesses to compete."

Bayleys commercial and industrial salesperson Marty Barwood

Examples are Starbucks, Billabong, Just Jeans, and Louis Vuitton, which are all located in central street The Mall, and waterfront Rees and Beach Streets. Recently a local shop owner is understood to have been offered \$500,000 to move on to make way for a frozen yoghurt store.

7. Dunedin

Dunedin's community shopping centres have remained reasonably static geographically, says Bayleys commercial and industrial salesperson Robin Hyndman. Few new precincts have been developed, so many existing retailers have extended their products and services to stay relevant to consumers.

In some affluent suburbs such as Roslyn and Maori Hill, restaurants and cafes have grown, along with specialist suppliers. In more moderate suburbs takeaways and food are well represented.

The role of dairies has changed markedly, says Hyndman. Whereas once they were neighbourhood stores, they now take the role of a "tuck shop" for cigarettes, sweets, milk and papers.

There has also been a resurgence of speciality shops such as butchers and bakeries.

Rich array of shops the best thing about cities

Sir Bob Jones, of Robt. Jones Holdings Limited, New Zealand's largest private CBD office building owner, adopts – by his own admission – a highly conservative approach to investing in commercial property. Buying largely during economic downturns and choosing north-facing corner property or free-standing towers in growing cities with a mix of office, car parking, signage, building naming rights and ground level retail, he spreads risk and safeguards income.

Nothing is certain in the commercial property world and the retail component of a building is no longer the rock solid dependable that it once was, according to Sir Bob.

"Seemingly overnight the retail component has changed from being the most to the least safe as conventional bricks and mortar retailing reels under the internet assault. Furthermore, internet sales are growing rapidly as consumers realise there's little they can't buy cheaply online. Finding a way to charge GST on these purchases will not decrease internet buying as the goods will still be cheaper than those from conventional shops.

Sir Bob bemoans the empty retail premises "littering" our cities.

"Once sound, slightly off-centre retail spaces are either empty or occupied by tattooists and the like. Wellington's golden mile, hitherto the premium New Zealand retail location as reflected by its rents, is now dotted with vacant shops."

Rentals are dwindling, department stores are under pressure with profits falling sharply each year, and currently, CBD retail demand relies on corporate stupidity in Sir Bob's opinion.

"By that I mean corporates' adoption of appallingly crowded, open-plan offices which results in their employees fleeing the premises at every opportunity, resulting in the phenomenal growth of coffee-shops and other food outlets which to date have taken up the conventional retail vacancies.

"That said, prime CBD retail still works, as with so many people in the buildings above, how can it do otherwise?"

The most appealing thing about cities is the rich array of shops proffers Sir Bob. "This attraction is age-old; markets have been the centre-piece of human activity from the beginning of human society.

"But now even city office space usage is under threat by the corporate management dullards encouraging working electronically from home. Robt. Jones Holdings Limited kicks for touch with that one by ensuring all our buildings are potentially convertible to apartments although I don't see this as a serious concern.

"Cities are the future for one excellent reason, namely people love them. Always have and always will, which is the principal reason worldwide, why they're growing so fast."

