

# PROPERTY **E**CONOMICS



**PROPOSED LINCOLN  
SUPERMARKET - ECONOMIC  
PEER REVIEW**

**Client:** Selwyn District Council  
**Project No:** 51841  
**Date:** October 2019

## SCHEDULE

| Code    | Date         | Information / Comments | Project Leader           |
|---------|--------------|------------------------|--------------------------|
| 51841.3 | October 2019 | Report                 | Phil Osborne / Tim Heath |

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## 1. INTRODUCTION

Property Economics has been engaged by Selwyn District Council (SDC) to undertake an economic review of a proposed new Countdown supermarket in Lincoln, by Lincoln Developments Limited.

This overview has a specific focus on the appropriateness of the supporting economic reports provided as part of the application and whether the methodology adopted and assessed impacts are appropriate for the application, and whether the proposed development is likely to have the propensity to generate any significant adverse economic effects on the existing commercial centre network of the district in the context of the RMA, with a specific focus on the Lincoln township.

## 2. PROPOSED DEVELOPMENT

The original application sought to develop a 1,500sqm Fresh Choice supermarket, service station, pharmacy, café and community services at Birchs Road, Lincoln. Subsequently the proposal changed to a request for a 3,063sqm Countdown supermarket in place of the Fresh Choice.

The proposed site lies north east of the Lincoln KAC identified in the Selwyn District Plan as a 'key' centre of local activity, including retail, commercial and community.

### 3. ECONOMIC REVIEW

This aspect of the economic review encompasses both the original economic report completed by Urban Economics (UE) titled Economic Assessment of Proposed Supermarket, Lincoln Christchurch, dated 20 February 2018, the supplementary paper supporting a revised development plan dated 8 April 2019, and UE's letter response to a RFI dated 26 September 2019.

As a general comment there are a number of concerning shortcomings in the original economic report and supplementary addendum from UE that render the reporting not fit for purpose in Property Economics view. Property Economics consider the economic analysis of UE in no way meets the objective of the task or reaches conclusions that can be relied upon, and as such based on the economic material provided to date Property Economics consider a more robust economic assessment is required before Council can get an appropriate understanding of the likely retail effects of the proposed development.

#### Original Economic Assessment - Initial High-Level Points of Concern

- The retention rates UE apply for supermarket spend in the identified catchment appear to rely on guesswork, or at the very least have no justified basis in the reports. There is no need to speculate this with MarketView shopping pattern data able to determine retention / leakage with a lot more accuracy. Property Economics consider UE should contemplate utilising actual data and not rely on speculative estimates. These 'guessed' retention rates are important as they flow through to large tracts of UE's analysis.
- The \$6,500/sqm productivity rate (\$/sqm) applied by UE is considered unsustainably low for a supermarket of any quality. Property Economics would like to know what is the basis of applying such a low productivity level. There are well established supermarket productivity levels established that have been successfully utilised through Environment Court processes that Property Economics consider are more appropriate to apply. This is crucial as this low productivity level is used by UE as a fundamental basis to determine how much supermarket GFA is supportable. Applying an appropriate supermarket productivity rate would lower the supportable supermarket GFA significantly (which has the flow-on effect of increasing adverse effects on other supermarkets in the area). This has not been quantified.
- There is no analysis in the UE report on where the proposed Countdown's supermarket sales are likely to be derived once operational, i.e. which supermarkets are likely to have retail sales diverted from them and the level of sales diversion from each store. This is a significant gap in the UE assessment. This is a standard process for quantifying retail impacts that is not undertaken in either of the UE assessments.
- The original UE assessment applies a sales productivity of \$6,500/sqm for a 1,500sqm supermarket. This is the same productivity applied in the new supplementary report despite the supermarket doubling in size to over 3,000sqm and changing its brand from



Fresh Choice to Countdown. Property Economics consider this is not a plausible assumption by UE affecting the credibility of UE's assessment. Additionally, the UE supplementary report recognises the new Countdown proposal as a full-service supermarket rather than 'top up' supermarket as referred to previously. This makes maintenance of the same productivity level highly questionable.

- Large tracts of Sections 6 of the UE report are considered fundamentally flawed and cannot be relied upon as it does not reflect market realities.
- Section 8 of the UE report is not an Economic Cost Benefit Analysis in any form and as such has no merit. The UE report makes some unquantified cursory comments that have no context or balance. Its relevance to assessing potential retail impacts / effects is also questioned.
- Section 12 of the UE report makes conclusions that are not borne out anywhere in the report. It states there are significant economic benefits (albeit none appear to be quantified by UE) and there are no economic costs. This last statement cannot be correct and is factually inaccurate given the application, and only serves to undermine the credibility of the assessment.
- Additionally, there appears no assessment on the potential effects on the Lincoln KAC, and there is no assessment of current retail supply in Lincoln. Both these elements are considered fundamental to assess in a retail impact / effects assessment given the proposed development and location.
- Overall, despite its ambitions, UE has not completed an Economic Assessment and as such the UE reports are considered unfit for the purposes intended and fails to assist Council understand the likely effects of the proposed development from a retail and economic perspective in the context of the RMA.

The above does not represent an exhaustive list of the issues Property Economics has with the UE reports, and by not mentioning some aspects of the reports should not be interpreted as agreeing to those aspects.

Despite the comments above, Property Economics' position on the application remains neutral at this point and have not formed a view on the merits of the proposal (i.e. neither for nor against the application at this stage on economic effects grounds). Property Economics are simply saying the economic report provided with the application falls short of the mark and provides no reliable or credible basis to understand the potential effects of the proposal.

### UE Response to Council RFI

In response to the concerns above UE provided a brief response on 26 September 2019 in reply containing some degree of feedback including:

1. **The level of local supermarket spend currently retained.** The original report stated that 'it was reasonable to assume' retention at 50%. Property Economics' original request stated that there was no need for this guesswork, that MarketView data would



provide an accurate assessment of the level of current retention (thereby understanding the current vulnerability of the market). UE's response was to ask Mr Heath of Property Economics what he would consider an optimal retention rate.

As outlined in UE's response MarketView data is not intended to assess future retention rates (this is the role of the expert) but to establish the current level of retention that UE has simply assumed. This provides an empirical basis for all other assumptions. While it would appear prudent to utilise factual data where available, it is not always necessary if clear reasoning can be utilised to assess the potential retention. The UE report does not employ such reasoning but simply states that in their view it can be assumed.

Additionally, it is unclear as to the size of this market. While the UE report assumes a 50% retention rate, in Table 6 it indicates a market size of \$21.6m while the narrative explains that the market generates \$26.1m. The lack of a clear and accurate basis for the remaining assessment remains a concern for Property Economics.

2. **Low supermarket productivities.** The UE report employs a notably low sales rate for supermarkets of \$6,500/sqm. Few supermarket stores (by total market) trade at such a low rate and typical do so either in anticipation of significant nominal localised growth or cease to trade over the long term. A review of any substantive supermarket assessments will find that most assessments are undertaken utilising a much higher productivity rate that provides for sustainable retail rather than simple viability.

Additionally, the identification of the same productivities for fundamentally different supermarkets (1,500 'top-up' and 3,000sqm 'full service') has not been addressed in any responses to date. Property Economics remain concerned that if this is the productivity rate required to result in no distributional effects then the assessment remains fundamentally flawed.

The following, fundamental issues, have not been addressed in any subsequent responses by the applicant or UE:

3. **A retail impact assessment typically indicates the original and extent of retail impacts.** There remains no indication as to the origin nor extent of diverted sales. A fundamental failing of the UE report is that it has not assessed the potential impact on the Lincoln KAC, it has simply identified the potential market size for the proposed supermarket.
4. **The assessment of market indicators and alternative sites.** Given the absence of information regarding sales diversion much of this section is unable to be assessed in relation to the potential impacts on the Lincoln KAC. No indication is given as to the potential loss of sales and activity from the KAC and therefore the suitability of assessing alternative site locations. As a result of the level and approach adopted by UE, many greenfield sites would be deemed appropriate without any assessment of cost.
5. **The report is titled an 'economic assessment' and identifies economic 'benefits' and 'costs'.** Subsequently, the report goes on to identify economic 'impacts' resulting in a



disjunct between the terminology and the resulting assessment. This lack of understanding is clear when the report states there are no economic costs associated with the proposed site. It is clear at the very least that there are opportunity costs in relation to the proposed activity, as well as the fact that this proposal is not in centre. It is acknowledged that in some economic assessments these costs can be outweighed by the potential benefits, but no such assessment has been presented by UE.

Property Economics remain of the opinion that, from a retail economic perspective, the UE report does not provide Council with the information or assessment necessary to assess the potential retail distributional impacts of the proposal.