

PROPERTY **E**CONOMICS



PAK'N SAVE ROLLESTON

ECONOMIC ASSESSMENT

PEER REVIEW

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SCHEDULE

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1. INTRODUCTION

Property Economics has been engaged by Selwyn District Council (SDC) to undertake a peer review of the proposed PAK'N SAVE supermarket of 7,100sqm (GFA) at 157 Levi Road, Rolleston. This review assesses the economic impact assessment of the proposed development by Insight Economics (IE) dated 16 December 2021 provided as part of the resource consent application of Foodstuffs South Island Properties Limited (Foodstuffs).

In particular, this review focuses on the appropriateness of the approach, methodology and interpretations of the IE assessment and outlines whether material trade competition and retail distribution effects are likely to be generated by the proposed development. Ultimately, Property Economics forms a view on whether the proposed development can be supported from an economic perspective under the RMA.

OBJECTIVE

The main objective of this report is to:

Review the IE economic assessment report - its assumptions, methodology, the validity of identified trade catchments and estimated trade and retail impacts and determine whether the conclusions reached in the IE report are agreed with and can be supported from a retail economics perspective.

PROPOSED DEVELOPMENT

The proposed supermarket development involves the establishment of a new PAK'N SAVE supermarket with a GFA of 7,100sqm on 157 Levi Road, Rolleston. This proposal will occupy approximately 4.14ha of the northern portion of a 7.2ha site in close proximity to the Rolleston Town Centre. The proposed site is currently zoned Living Z under the Operative Selwyn District Plan.

Foodstuffs currently hold resource consent RC185461 (granted by SDC in January 2019), enabling the development of a PAK'N SAVE supermarket at 84-92 Rolleston Drive in the Rolleston Town Centre to replace the existing New World supermarket. However, Foodstuffs consider the proposal represents a more appropriate location for the new PAK'N SAVE store and, if approved, will surrender its existing resource consent for redeveloping the New World supermarket in the Rolleston Town Centre.

2. RETAIL REVIEW

This section reviews the main sections of the IE report from an economic perspective.

METHODOLOGY AND ASSESSMENT APPROACH

The objectives of the economic impact assessment as set out in Section 2 of the IE report and include:

- Determine existing supermarkets and grocery stores within a 12km radius of the subject site.
- Examine current and future demand (to 2043) for supermarket capacity in the study area.
- Assess the likely impacts of Foodstuffs consented development to replace its New World site at the Rolleston Town Centre with a new PAK'N SAVE supermarket.
- Identify the rationale of the proposed supermarket from an economic perspective.
- Assess the likely direct trade impacts of the proposed supermarket on existing supermarkets in the study area.
- Assess the likely retail distribution effects of the proposed supermarket in the study area.
- Consider other broader positive economic effects of the proposed supermarket.

These steps are considered appropriate for the purposes of a retail assessment for the proposed supermarket.

DISTRICT FOOD SHOPPING PATTERNS

Section 4 of the IE report introduces the types of food retailers in NZ and resident food shopping habits. Section 4.3 identifies the district retail

food spend by destination from 2015 to 2019 based on MarketView retail transaction data. This is in line with the approach that Property Economics would take to identify the retail spend leakage of the core trade market.

In addition to those 'destinations', Property Economics would also consider the 'origins' of retail spending in the district. If a net inflow of the retail spending is observed, the size of the Selwyn food retail market is larger than the spend generated by the local residents and businesses alone. This would help determine the trade market size of the proposed development.

Even though in Section 9.4, Table 7 presents the origins of district food retail at the aggregated level, food retail spending patterns at a more detailed (town) level have not been identified. This is not a major flaw in the IE assessment but would be useful to contextualise the impacts on the Rolleston Town Centre.

CATCHMENT IDENTIFICATION AND MARKET FUTURE DEMAND

Identifying catchment areas is critical in calculating the economic impacts of the proposed supermarket. The IE report has assessed the future market growth and retail in the Selwyn District in Section 6, albeit the process that led to the selection of the market (or catchment) is not made clear.

As a cross check, Table 1 following compares Property Economics estimated current and future food retail demand based on Property Economics Retail Model with the projections in Section 6.4 of the IE report. It shows that the market size of the district's food retail might be slightly underestimated in the IE report but well within range. As indicated in this table, our model predicts that the district will have a total food retail spend of around \$335m under the Medium Growth Scenario and \$370m under the High Growth Scenario in 2023.

In contrast, the IE estimates tend to be smaller, with a food retail sales value at \$295m and \$325m under the Medium and High Growth scenarios, respectively. This difference may further influence the estimated trade impacts of the proposed development. Theoretically, a smaller market size may signal a more significant sales loss in percentage terms in the existing supermarkets and stores if other conditions such as store productivity and shopping preferences remain constant.

However, this level of difference is considered to be inconsequential in relation to the outcomes of the report.

TABLE 1 CURRENT AND PROJECTED FOOD RETAIL SPEND IN SELWYN DISTRICT (\$M)

PE Retail Growth Model				IE Integrated Retail Model			
Year	Medium	High	Average	Year	Medium	High	Average
2023	335	370	353	2023	295	325	310
2028	385	440	413	2028	340	390	365
2033	440	515	478	2033	390	460	425
2038	490	595	543	2038	445	535	490
2043	550	680	615	2043	500	620	560

Source: Property Economics, Insight Economics

IMPACT OF NEW WORLD REDEVELOPMENT

Section 7 of the IE report addresses the viability of the consented New World supermarket redevelopment in the Rolleston Town Centre.

It is agreed that the PAK'N SAVE supermarket model requires sites with a larger land capacity than Countdown and New World supermarkets. Therefore, the New World redevelopment may not fit the land capacity requirement of the proposed PAK'N SAVE, especially when the proposed market will likely service some of the demand from the broader Canterbury market in the future.

ECONOMIC RATIONALE FOR THE PROPOSAL

Section 8 of the IE report briefly explains the economic grounds supporting the proposed PAK'N SAVE and considers the district has substantial retail demand for the proposed development. It also considers that the proposed site fits the locational criteria of supermarkets, such as customer and transport accessibility. Property Economics agrees with IE on these conclusions.

TRADE IMPACTS ASSESSMENTS

Sections 9.5-9.9 have assessed the trade impacts of the proposed supermarket on the surrounding retail network in 2023 under three scenarios (i.e., 'status quo', 'consented baseline' and 'proposal'). Property Economics considers that the consented scenario is an appropriate baseline to measure the proposal's likely impacts. In effect this scenario represents the existing environment from an RMA impact perspective.

According to IE's estimated results, Countdown Rolleston in the town centre would be most impacted store and likely to experience a 22% decline (or \$11m) in sales in 2023 under the 'with proposal' scenario. This equates to a productivity decline from \$14,100 to \$9,900 per sqm.

In contrast, the existing PAK'N SAVE Hornby is estimated to experience a trade impact of around \$2.5m in 2023 due to the proposal. It is important to note that the consent baseline scenario would result in an additional \$45m of supermarket spend, per annum, being accommodated within the Rolleston Town

Centre (with the larger Pak'N Save generating significantly more sales than the New World that would remain under the proposal).

Property Economics considers that the magnitude of the trade impacts on the nearby supermarkets may be slightly different from the IE estimates as the total food retail demand (or market size) of the IE report is underestimated (as discussed earlier in this review).

In addition to the underestimated market size, most importantly, the proposed PAK'N SAVE has a sales productivity of around \$10,270 per sqm in 2023 under the 'proposal' scenario in the IE report. Property Economics considers that this productivity (\$10,270/sqm) for the proposed PAK'N SAVE potentially underestimates the likely sales levels given that PAK'N SAVE supermarkets typically trade at a higher productivity than other supermarket brands given their low margin high turnover model. Therefore, the estimates presented in Section 9 of the IE report are considered to not represent the likely capture rate or the trade diversion impacts of the proposed development on the nearby stores. However even with an appropriate productivity range for the new Pak'N Save these impacts are unlikely to alter the conclusions of the report.

It can be expected that the temporary trade diversion impact on existing stores would be quickly offset by the projected (high) demand growth in the foreseeable future. Ultimately, the overall retail network within the district will see a net gain from the proposed development in both short and long term as the new PAK'N SAVE, with a significant GFA of 7,100sqm, would also be able to re/capture some sales from the broader Canterbury market.

Even though the proposed development would redirect sales from the nearby stores in the short term, Property Economics agrees with the conclusion of the IE report that no store would likely be closed due to the proposal, resulting only in a likely short-term decline in store sales productivity. It is suggested that these stores would be able to maintain their above-average sales performance even after the proposed PAK'N SAVE is developed on Levi Road.

In essence the high growth rate would offset any individual store trade losses within a relatively short period of time, meaning no supermarket operator is likely to leave the market and hand market share to a competitor. Therefore, it is agreed that no stores would likely close as a result of the proposal.

RETAIL DISTRIBUTION EFFECTS

A key question, from Property Economics perspective, in relation to economic impact considerations is whether the Rolleston Town Centre is likely to be adversely affected to the degree that it alters the centre's amenity, vitality, role and function, future growth potential and status in the commercial hierarchy of the district.

Even though the estimated sale loss in the two existing supermarkets is likely to impact the town centre's vitality, it can be expected that such impact will be minimal and temporal. Moreover, the high occupancy and diverse functions indicate that the centre is more than a shopping destination. Therefore, it is not considered reasonable to suggest that the Rolleston Town Centre would have its functions and future potential compromised due to the temporary sales loss in the two supermarkets. If the New World supermarket were to close as a result of the proposed development, the conclusion would likely be different.

Also, given the standalone shopping nature of the PAK'N SAVE supermarket and the scope of the proposed development (being supermarket only), Property Economics considers that the proposal would not create an alternative centre within the district.

A case study of the Rangiora Town Centre in the IE report is considered applicable. It suggests no significant adverse impact of a newly entered PAK'N SAVE supermarket on a surrounding centre. Property Economics agrees with IE's approach and considers their interpretations and findings are reasonable for the purpose of the report.

ECONOMIC BENEFITS OF PROPOSAL

Section 11 of the IE report has provided a comprehensive assessment of the economic benefits of the proposal. It believes that the proposal can benefit the local employment market, support Kiwi-owned & operated businesses, better satisfy consumer demand through more competitive pricing and offerings and encourage benign competition at the local market. Property Economics agrees with this conclusion and considers that the proposal's economic benefits would be material over the long term.

3. SUMMARY

There are inherent difficulties in assessing and estimating the economic impacts associated with a development or activity that has yet to occur, against a consented baseline that is yet to be fully developed. However, this review finds that the methods, processes, and high-level conclusions within the IE report are appropriate and able to provide guidance as to the likely nature of the economic impacts that the impacting area / stores would likely experience.

There are a few differences identified that are non-consequential in this impact including:

- the potential underestimation of the district food market size and;

- sales productivity of the proposed store. This influences the magnitude of likely trade impacts of the proposed development on the existing stores.

According to IE estimates, Countdown Rolleston would incur the largest impacted through the proposal, with a total decline of around \$22m in sales over the short term. In terms of the direction of sales from the consent position the removal of a potential Pak'N Save and retention of the New World would redirect \$45m per annum in supermarket sales from the Rolleston Town Centre.

Other existing supermarkets would also experience a sales loss due to the proposal. The magnitude of the impacts depends on their distance to the proposed store, brand, price and offering differentials and residents' purchasing preferences. Given the projected robust population growth in the district, Property Economics considers that the temporal sales loss in the existing supermarkets would be offset by the increasing retail demand in the foreseeable future.

Even though there would be sales and productivity reductions in the existing supermarkets, Property Economics agrees with IE that the proposed development would unlikely lead to store closures. This is because the estimated productivity of the existing stores would remain relative to the industry average across the country.

In addition, we agree with IE that the proposed development would not undermine the role and function of the adjacent Rolleston Town Centre to a significant level given its current occupancy and diverse functions.

In contrast to the consented redevelopment of the New World supermarket in the Rolleston Town Centre, the proposed site on Levi Road is considered a more appropriate location for a Pak'N Save supermarket due to its larger land capacity and locational characteristics. It also by default 'frees up' town centre zone land for other retail and commercial activities required to meet future growth in the market.

In summary, Property Economics considers that the proposed PAK'N SAVE can be supported from an economic perspective under the RMA.