PROPERTY ECONOMICS

PROPOSED COUNTDOWN SUPERMARKET LINCOLN RETAIL IMPACT ASSESSMENT

Project No: 51841

Date: June 2020

Client: Selwyn District Council

W: www.propertyeconomics.co.nz E: info@propertyeconomics.co.nz P: 09 479 9311 A: 1/44D Constellation Drive, Rosedale 0632

SCHEDULE

Code	Date	Information / Comments	Project Leader
51841.6	June 2020	Report	Tim Heath / Phil Osborne

DISCLAIMER

This document has been completed, and services rendered at the request of, and for the purposes of Selwyn District Council only.

Property Economics has taken every care to ensure the correctness and reliability of all the information, forecasts and opinions contained in this report. All data utilised in this report has been obtained by what Property Economics consider to be credible sources, and Property Economics has no reason to doubt its accuracy. Property Economics shall not be liable for any adverse consequences of the client's decisions made in reliance of any report by Property Economics. It is the responsibility of all parties acting on information contained in this report to make their own enquiries to verify correctness.

COPYRIGHT

CONTACT DETAILS

Tim Heath

Mob: 021 557713

Email: tim@propertyeconomics.co.nz

Web: www.propertyeconomics.co.nz

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

Property Economics has been engaged by Selwyn District Council (**SDC**) to undertake a high-level retail impact assessment of a new Countdown supermarket proposed on northern outskirts of the Lincoln urban area and determine whether the proposal has the potential to generate significant adverse retail impacts on the Lincoln Key Activity (**KAC**) either currently or in the foreseeable future.

This retail impact assessment quantifies the retail spend and sustainable GFA for the supermarket and food retail sector, in addition to estimating the annual retail sales generated by the proposed and existing supermarkets. This report also identifies the differences between trade competition vs retail distribution effects in the context of the RMA, determines the likely level of trade impacts on the existing Lincoln supermarket and forms a position on the level of retail distribution effects on the Lincoln KAC as a result of the proposal.

The primary purpose of this report is to provide a sound economic foundation for SDC to assist their decision making relating to the proposed supermarket development and their understanding of the likely resulting effects on the Lincoln KAC. The report also briefly responds to economic related submissions on the plan change.

The proposed development involves the establishment of a 3,122sqm gross floor area (**GFA**) Countdown supermarket, including an instore pharmacy, on the corner of Birches Road and Makybe Terrace, Lincoln. Also incorporated into the development is an (office) mezzanine area of 191sqm GFA, and a small café of 71sqm GFA.

1.1. KEY OBJECTIVES

The core objectives of this report are to:

- Delineate and map the geospatial extent of a core trade catchment and the proposal's location within the surrounding supermarket and centre network. This is to contextualise the market geospatially and identify competing supermarkets.
- Determine the current market size of the core catchment in terms of population and households and forecast market growth based on Statistics NZ Medium and High series projections.
- Determine the level of annualised retail expenditure generated by the core economic market across the supermarkets and food retailing ANZSIC[1] sectors, and project this out to 2038. This will quantify the growth and level of demand the market is projected to generate on an annualised basis in NZD terms.
- Provide a high-level breakdown of the Lincoln KAC's store type composition and its 'health' in retail economic terms.
- Assess the likely gross annual sales figures for the proposed Countdown supermarket and existing New World supermarket in Lincoln.
- Highlight the difference between trade competition and retail distribution effects in the context of the RMA.
- Determine the likely trade impacts of the proposed supermarket on the existing supermarket.
- Determine whether any significant retail distribution effects are likely to be generated by the proposal.

[1] *Australia New Zealand Standard Industrial Classification*

1.2. DATA AND INFORMATION SOURCES

Information and data have been obtained from a variety of sources and publications Property Economics consider are reliable and credible including;

- Business Demography Data – Statistics NZ
- Population and Dwellings Projections – Statistics NZ
- Household Economic Survey - Statistics NZ
- Retail Trade Survey - Statistics NZ
- Google Maps NZ
- Site and Lincoln Centre Visit – Property Economics
- Retail Growth Model – Property Economics

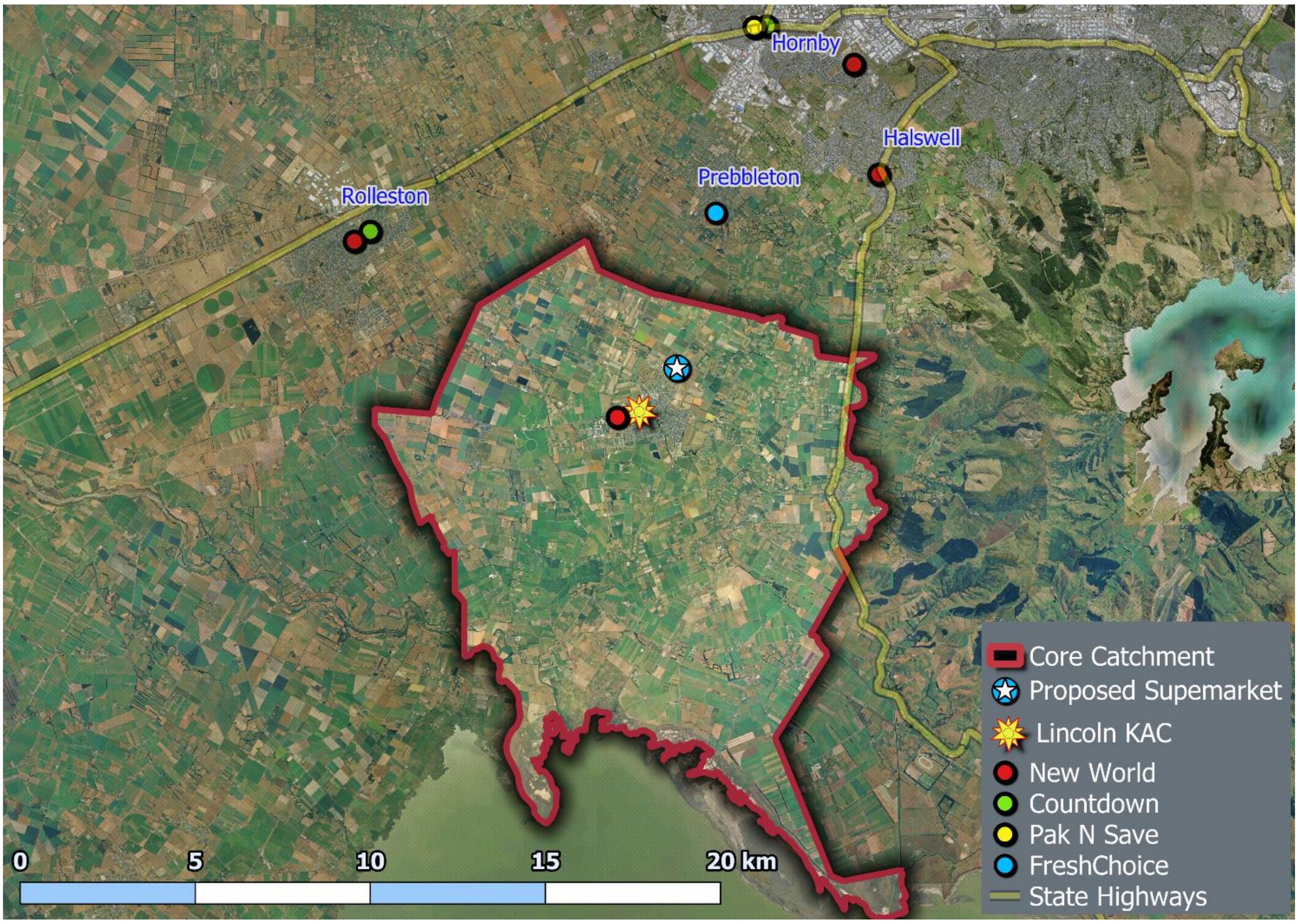
2. CORE ECONOMIC CATCHMENT

Figure 1 illustrates the core trade catchment for the proposed Countdown supermarket in Lincoln. The identified catchment represents the core economic market that the proposed Countdown would service on a frequent basis, where the bulk of its sales are likely to be derived and where the proposed supermarket has a strategic locational advantage for food retailing activity.

In deciding on appropriate boundaries for this catchment, Property Economics has taken into account the Statistic NZ meshblock boundaries, natural geographic features, road links and competing supermarkets in the surrounding areas.

This is the core supermarket catchment on which the subsequent analysis in this report is based. Residents outside this catchment have closer access to other supermarkets to meet their food and grocery retail requirements.

FIGURE 1: GEOSPATIAL EXTENT OF COUNTDOWN LINCOLN CORE CATCHMENT



Source: Property Economics, Statistics NZ

3. KEY SELWYN DISTRICT PLAN POLICY

The Selwyn District Plan is steered by the objectives laid down in the Greater Christchurch Urban Development Strategy (**UDS**). One of the key objectives pertaining to growth in the UDS "*Ensures the viability and vitality of town and village centres in Selwyn and Waimakariri Districts, and where possible encourage growth that will make these centres more self-sufficient*".

This section briefly identifies some of the key policies of the District Plan relating to existing retail and commercial centres within the District in general and Lincoln in particular to consider the proposed development against. The key policies include;

Policy B4.3.4: "Encourage new residential or business activity to occur on vacant land in existing Living or Business Zones, if that land is available and appropriate for the proposed activity."

The Council encourages use of sites, in existing zones, in the first instance, to encourage a consolidated township area.

Policy B4.3.11: "Provide Neighbourhood and Local centres, as shown in Outline Development Plans, to satisfy the more localised and convenience needs of people and communities, whilst recognising that neighbourhood and local centres are to complement existing Town Centres which shall remain the primary focus for commercial, social and community activity within each Township".

Whilst the Business 1 Zone Objectives, Policies and Rules also apply to neighbourhood and local centres shown on ODPs, the services and facilities provided for such centres are generally to have a more localised area of influence due to their limited range of activities and accessibility, and accordingly need to complement existing Town Centres, and not compete with them in terms of being a substantial business or retail destination at a strategic level.

Accordingly, such neighbourhood centres, as identified by the ODPs should:

- Range in size, but generally comprise 1,000m^2 – 2,000m^2 total floorspace and include:
  - up to 15 shops, with a maximum retail tenancy of 350m^2 GFA; and provide
  - a limited range of community facilities.

Local centres, as identified by the ODPs should:

- Range in size, but generally comprise up to 450m^2 total floorspace and include;
  - 1 – 5 shops, with a maximum retail tenancy of 350m^2 GFA; and provide
  - a limited range of community facilities.

In relation to Lincoln KAC specifically, the DP relevant objectives and policies are:

Objective B4.3.8: Commercial growth is primarily focused within the KAC of Rolleston and Lincoln in a way and at a rate that:

- Meets the economic needs of commercial businesses, provides for their communities with convenient access to goods and services, and ensures opportunities for employment and social interaction: and
- Ensures an adequate supply of land to meet commercial and community demands.

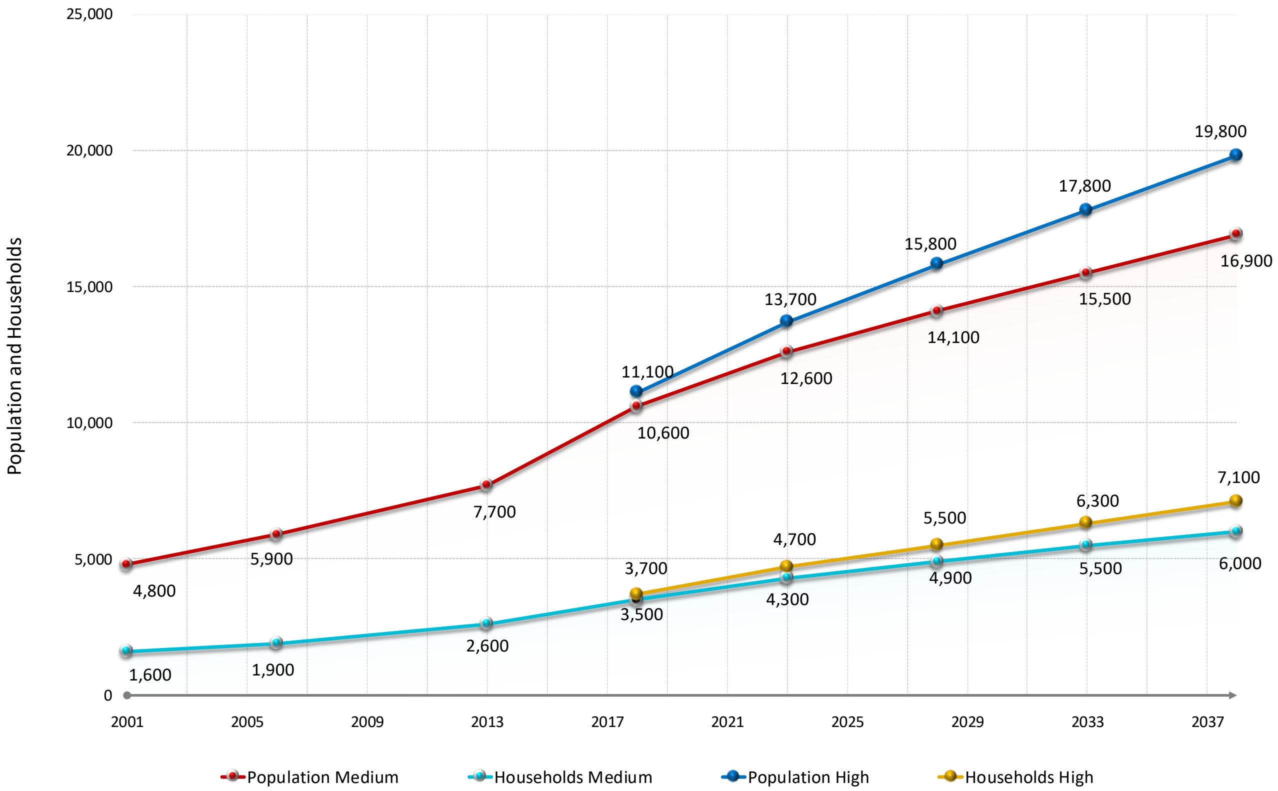
Policy B4.3.59: Achieve integration between the rezoning of land for new residential development at Lincoln and associated provisions for utilities, community facilities and areas for business development.

On balance, the proposed Countdown is considered to have merit when assessed against these policies, particularly B4.3.8 given the limited capacity for the Lincoln KAC to accommodate such a store, and the convenience and local employment opportunities the development would provide. The implications are discussed in more detail later in the report.

4. POPULATION AND HOUSEHOLDS

Figure 2 displays the population and household growth projections within the core catchment. These projections are drawn from the latest Statistics New Zealand (**SNZ**) Medium and High population projection series. They include projected growth over the next 20 years and the actual growth from 2001-2013 as recorded by SNZ census data.

FIGURE 2: CORE CATCHMENT POPULATION PROJECTION



Source: Property Economics, SNZ

Under the SNZ Medium projection, the population is forecast to experience a net increase of around 6,300 residents (+59%) from around 10,600 residents in 2018 to around 16,900 residents by 2038. Under the SNZ High projection, the population is forecast to increase by 8,700 residents net or +78% higher than 2018 base population.

Likewise, households are forecast to increase by around 2,500 and 3,400 under the Medium and High scenarios respectively by 2038.

This is considered a robust level of growth on a proportional basis, especially if the High scenario eventuates which will generate increasing levels of retail demand and service requirements as the market moves through the next 20-year period.

5. RETAIL EXPENDITURE AND SUSTAINABLE GFA

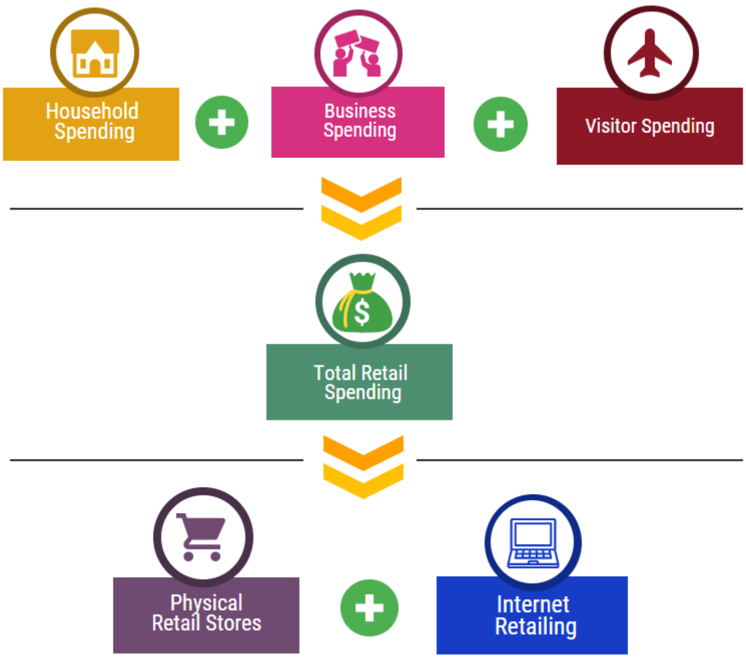
This section sets out the projected retail expenditure generated and sustainable GFA forecasts on an annualised basis for the core catchment. The forecasts have been based on the aforementioned population and household growth projections and have been prepared using Property Economics' Retail Model.

5.1. RETAIL EXPENDITURE MODEL

A more detailed breakdown of the model and its inputs is set out in Appendix 1.

The following flow chart provides a representation of the Property Economics Retail Expenditure Growth Model to assist SDC in better understanding the methodology, key inputs utilised and assist in interpreting outputs.

FIGURE 3: PROPERTY ECONOMICS RETAIL EXPENDITURE MODEL OUTLINE



Source: Property Economics

GROWTH IN REAL RETAIL EXPENDITURE

For the purposes of projecting retail expenditure, growth in real retail spend has been incorporated into the model at a rate of 1% per annum over the forecast period. This 1% rate is based on the level of debt retail spending, interest rates and changes in disposable income levels, and is the average inflation-adjusted increase in spend per household over the assessed period.

LAYERED RETAIL CATCHMENTS

It is important to note that the retail expenditure generated in the identified markets do not necessarily equate to the sales within that particular area. Residents can freely travel in and out of the area, and they will typically choose the centres with their preferred range of stores, products, brands, proximity, accessibility and price points. A good quality offering will attract customers from beyond its core market, whereas a low-quality offering is likely to experience retail expenditure leakage out of its core market.

Therefore, the retail expenditure generated in an area represents the sales centres or retail stores within that area could potentially achieve and is the key influence on what the market can potentially sustain. This should not be interpreted as a negative for any potential retail activity in Lincoln, but simply represents normal commercial market mechanisms (competition) and is a consideration that needs to be appropriately accounted for in any analysis.

EXCLUDED ACTIVITIES

The retail expenditure figures below are in 2018 NZ dollars and exclude all non-food related retail sectors as categorised under the ANZSIC categorisation system:

- Accommodation
- Vehicle and marine sales & services.
- Hardware, home improvement, building and garden supplies retailing
- Clothing and Footwear goods
- Furniture and Floor Coverings
- Appliance retailing
- Chemist
- Departmental stores
- Recreational goods
- Personal and household services
- Other stores (nec).

The above retail sectors have been excluded because they are not considered to be core trade competitors to supermarkets as such stores have the potential to generate only non-consequential trade competition effects rather than flow-on retail distribution effects. Therefore, the retail centre network's economic wellbeing and social amenity cannot be unduly compromised.

Trade orientated activities such as kitchen showrooms, plumbing stores, electrical stores and paint stores are also excluded from the model for similar reasons. This is not to imply that these activity types are not situated in centres, as in many instances some of these store types remain operating in centres as a historic overhang.

However, in the future, it is increasingly difficult from a retail economic perspective to see these trade store types establishing in centres (new or redeveloped), albeit they likely have equal planning opportunity to do so. As such, demand for these store types is additional to the retail demand assessed in this analysis.

CONVENIENCE STORES

Convenience retailing can be generally defined as stores used for quick stop and frequently required shopping, used primarily due to their close proximity and easy accessibility for the customer. These stores are not exclusive to any one retail category with examples of such stores including, dairies, bakeries, fruit & vegetable stores, cafes and restaurants.

Supermarkets, albeit being a large footprint store, are also classified as convenience stores given they predominantly service more localised catchments, the products sold are largely homogenous between supermarket stores and they tend to be fairly evenly distributed right across an area's urban fabric.

SUSTAINABLE GFA

This analysis uses a sustainable footprint approach to assess retail demand. Sustainable floorspace in this context refers to the level of floor space proportionate to an area's retainable retail expenditure that is likely to result in an appropriate quality and offer in the retail environment. This does not necessarily represent the 'break-even' point, but a level of sales productivity ($/sqm) that allows retail stores to trade profitably and provide a good quality retail environment, and thus economic wellbeing and social amenity.

It is also necessary to separate the Gross Floor Area into:

- Net retail floorspace (Sustainable Floorspace); and
- Back office floorspace that does not generate any retail spend.

A store's net retail floor area only includes the area which displays the goods and services sold and represents the area which the general public has access. By contrast, the Gross Floor Area typically represents the total area leased by a retailer. Back Office Floorspace in a retail store is the area used for storage, warehousing, staff facilities, admin functions, toilets and other 'back office' uses.

These activities on average occupy around 25-30% of a store's GFA but can vary (higher and lower) between individual retailers based on operational and functional requirements. It is important to separate out such back-office floorspace from sustainable floorspace because back-office floorspace does not generate any retail spend. For the purposes of this analysis a 30% ratio has been applied.

5.2. RETAIL EXPENDITURE

Table 1 highlights the level of supermarket and food sector retail expenditure generated in the core catchment on an annualised basis, factoring in the local population base, business activity and spend.

TABLE 1: ANNUAL SUPERMARKET AND FOOD SECTOR RETAIL EXPENDITURE FORECASTS ($M)

Retail Spend	2018	2023	2028	2033
Supermarket	$31	$37	$42	$48
Food retailing (excluding Supermarket)	$10	$12	$14	$16
Food-Related Retail	**$41**	**$49**	**$56**	**$64**
Estimated Inflow	-	$14	$18	$23
Total Food-Related Retail	**$41**	**$63**	**$74**	**$87**

Source: Property Economics

Food-related retailing is the largest retail sector in the core catchment, generating $41m of retail expenditure in 2018, equating to around 42% of all retail spending. The catchment's annual 'food retailing' expenditure is projected to increase to $72m by 2038, $31m more than the current level of annual spend.

5.3. SUSTAINABLE GFA FORECAST

Table 2 shows the level of sustainable supermarket and food retail sector GFA over the assessment period of 2018 – 2038.

TABLE 2: SUSTAINABLE SUPERMARKET AND FOOD SECTOR RETAIL GFA (SQM)

Sustainable GFA	2018	2023	2028	2033	2038
Supermarket	4,870	5,860	6,720	7,660	8,580
Food retailing (excluding supermarkets)	1,720	2,070	2,370	2,700	3,030
Total	**6,590**	**7,930**	**9,090**	**10,360**	**11,610**

Source: Property Economics

The core catchment currently generates enough retail expenditure on an annualised basis to sustain an estimated 6,590 sqm of retail GFA in Food Retailing store types. By 2038, the level of sustainable GFA for food-related retailing will increase to 11,610 sqm, representing an increase of around 5,020sqm. The majority of this increase in sustainable floor area will be taken up by supermarkets, with an increased sustainable footprint of 3,710sqm by 2038.

6. CURRENT RETAIL SUPPLY

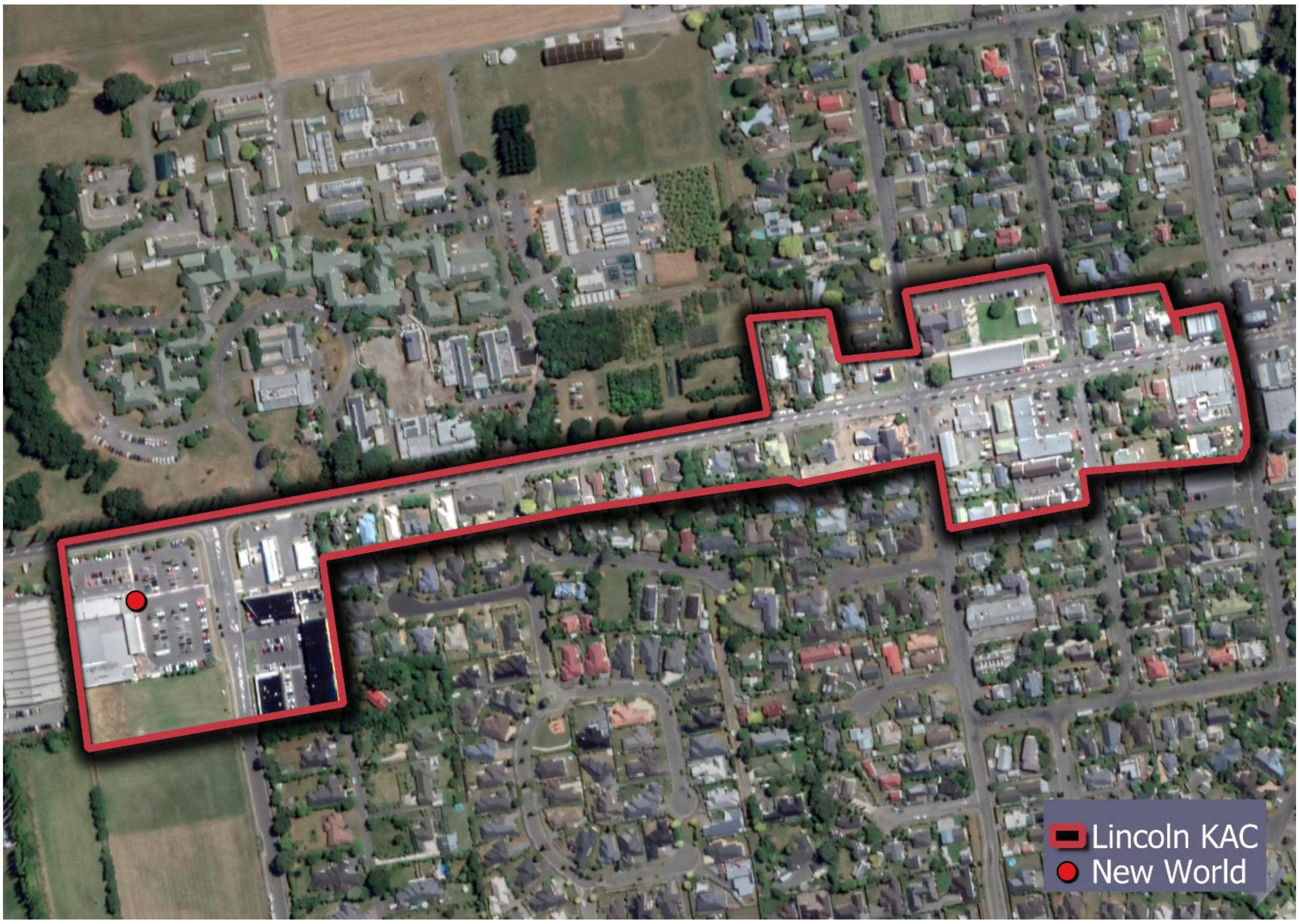
This section exhibits the current commercial store types within the Lincoln KAC to get a more fine grain perspective of the current '*state*' and composition of the Lincoln KAC on a proportional basis in order to assess the potential for retail impacts to be generated on the centre and its stores in more detail.

It is worth noting that the following information also represents a 'snapshot' in time and retail stores are constantly opening, closing and relocating due to a variety of individual store and owner circumstances. In this regard the retail market is fluid and typically undergoes constant change.

6.1. LINCOLN KAC RETAIL SUPPLY

Figure 4 highlights the geospatial extent of the Lincoln KAC. This is the area the store count data in Table 3 following relates to.

FIGURE 4: GEOSPATIAL EXTENT OF LINCOLN KAC



Source: Property Economics, SDC

6.2. COMMERCIAL COMPOSITION OF LINCOLN KAC

Table 3 contains the commercial business counts for the Lincoln KAC.

TABLE 3: COMMERCIAL STORE TYPE COUNT FOR LINCOLN KAC

ANZSIC	No of Stores	% of Stores
Supermarket	1	5%
Food, Liquor Retailing	3	14%
Cafes, Restaurants & Takeaways	7	32%
Pubs, Taverns and Bars	3	14%
Clothing, and personal accessories retailing	1	5%
Pharmaceutical and personal care goods retailing	3	14%
Other goods retailing	3	14%
Vacant	1	5%
TOTAL RETAIL	**22**	**100%**
Commercial and Professional Services	18	
TOTAL	**40**	

Source: Property Economics

The Lincoln KAC is the primary commercial centre for the core catchment. It has a significantly larger commercial provision than any other centre in the catchment with 22 retail stores and 18 stores engaged in commercial and professional services.

The KAC is focussed on small speciality stores and convenience-oriented store types with no meaningful large format retail offer. The New World supermarket is the largest footprint retail store in the centre and is currently the only supermarket in the catchment to service the Lincoln township and the surrounding rural environs.

Cafes, restaurants and takeaway retail store types is the largest sector represented in the KAC accounting for 7 stores or 32% of the centre's total retail provision, with a small scattering of non-food retail stores across the balance of the centre.

In total food and beverage related retail store types represent 50% of all retail stores in the centre. This proportional spread of retail store types is not unusual in smaller rural townships where convenience food related store types typically dominate.

The Lincoln KAC also has a strong non-retail store presence in the form of commercial, professional services and community facilities which help underpin the role and function of Lincoln KAC as a whole. None of these activities are threatened by the proposed development.

At present there is no material competition to either the existing supermarket or the Lincoln KAC from within the catchment. Lincoln's primary (retail) competition lies outside the core catchment namely from Rolleston.

Rolleston is a growing centre which offers a more extensive town centre provision with a broader range of key anchor tenants namely Countdown, New World and The Warehouse. Rolleston would draw more retail sales from Lincoln's core catchment then the reverse, however the proposed Countdown Lincoln would rebalance that somewhat by increasing the level of retail internalisation[2] within the Lincoln catchment.

Overall, the Lincoln KAC is considered to be in a fairly '*healthy*' state with many of the 40 retail and commercial tenancies well established and in good condition. Furthermore, there is significant private and public sector investment occurring in the Lincoln KAC with both recent and new retail developments proposed (small stores not competing with Countdown) that will broaden the centre's economic base further and strengthen the centre's position in the market and wider District network. These developments are not jeopardised by the proposed Countdown.

The Council has recently invested significant public capital into new community assets being the Library and community space which broadens the centre's vibrancy and appeal to the community, and further serves to entrench its role and function in the community and long term resilience of the KAC to competitive threats.

Growth in the Lincoln catchment over the past decade and increased retail expenditure is clearly driving an improvement in the Lincoln KAC's retail and commercial offering, and a confidence by the market to invest in the centre as a whole. This is reflected in the two small scale retail developments being marketed within the Lincoln KAC at present.

[2] *Retail internalisation represents the level of retail expenditure generated in a catchment being spent within the same catchment on an annualised basis. This is represented as a proportion of the total annual generated retail expenditure.*

7. ESTIMATED LINCOLN SUPERMARKET SALES

This section estimates the annual sales figures ($m) for the proposed Countdown supermarket and for the existing New World supermarket with the proposed Countdown incorporated into the market. The assumptions are the retention rate from the local catchment is assumed to increase to 80%, sustainable productivity levels are $10,000 per sqm, and the proposed Countdown is fully operational and had a full trading year by 2023.

TABLE 4: LINCOLN SUPERMARKET ESTIMATED ANNUAL SALES FIGURES ($M)

Annual Sales	2019	2023	2028
Proposed Countdown	-	$21	$23
Existing New World	$30	$23	$25
Existing New World Productivity (Net)	$12,910	$10,010	$10,890

Source: Property Economics

The key insight pertaining to the existing Lincoln supermarket (New World) is an estimated decrease in its annual retail sales and net productivity levels once the proposed Countdown Lincoln becomes operational. This represents a direct trade competitive impact under the RMA.

The initial decrease in the annual sales of the existing New World supermarket is estimated to be around $7m (-23%) from its 2019 base annual sales estimate. This represents the point at which the biggest impact occurs as market growth will potentially offset this impact moving forward. By 2028, the New World Lincoln annual sales level is estimated to bounce back to $25m annually, which represents a net 16% sales decline from its 2019 annual sales base.

In terms of net productivity levels (sales / sqm) of New World, the initial direct trade impact is expected to result in a decline in productivity from $12,910/sqm in 2019 to just over $10,000/sqm in 2023. Sustainable productivity level for the New World store is considered to be around $10,000/sqm within this environment. However, it is estimated that at the point of its most significant impact the productivity levels of the existing New World will not fall below this before recovering from this initial impact with net productivity levels estimated to reach nearly $11,000/sqm by 2028.

The key question to consider is whether this initial estimated impact is likely to be to an extent that it would cause the New World supermarket and potentially other food and beverage retailers in the Lincoln KAC to close, and whether these trade competition effects would flow on to wider retail distribution effects for the Lincoln KAC. This is addressed later in the assessment.

8. TRADE COMPETITION VS DISTRIBUTION EFFECTS

When assessing the potential for a supermarket to generate adverse retail impacts in the context of economic effects and economic efficiency, there is a need to understand the difference between trade competition generated effects and retail distribution effects. This is a very important differentiation to understand in the context of the RMA.

To assist in understanding differences between trade and retail activity effects, and the general ability of retail activity to generate consequential economic impacts under the RMA, there is first a requirement to differentiate between trade competition effects and flow-on distribution effects.

Trade competition effects (in a generalised retail sense) are the retail trade impacts of retail activity on other similar or 'like' retail activity. It basically reflects a direct cause / effect relationship as a result of a simple repatriation of retail sales among retail operators. In essence, it represents a redistribution of retail sales as opposed to a loss to the community brought about by the relocation of those sales.

By themselves, trade competition effects are not justification for declining a retail consent application under the RMA, unless they are of a level that generates significant adverse flow-on retail distribution effects on the existing centre network of the area. It is within this broader context that the relative merits of the application need to be considered.

It is accepted caselaw that Councils should have regard to significant effects on the amenity of the public caused by any reductions in the viability or vitality of the commercial centres that arise as a consequence of trade competition, i.e. often termed " distributional" or " consequential" effects.

Retail distribution effects are generated by, and are the result of, consequential trade competition and retail activity disbenefit effects. These effects can range across the spectrum (positive and negative) depending on the level of effects generated, which are heavily dependent on the scale, type and location of the proposed activity, among other attributes.

Where the patterns of performance, amenity and commercial activity within an existing centre (or associated flow-on benefits from retail activity within that location) would not change significantly within a locality, then the retail distribution effects are not considered to be significant in a RMA context.

Justice Randerson J[3] stated *"The key point of distinction between the adverse effects of trade competition on trade competitors and adverse effects which may properly be considered under the RMA, is that trade competition effects focus specially on the impacts on individual trade competitors. In contrast, where a proposal is likely to have a more general effects on the wider community, then the RMA permits consideration of those effects".*

[3] *Northcote Mainstreet vs Discount Brands Limited (High Court, CIV-2003-404-5292), paragraph 60*

The Supreme Court in the Discount Brands decision[4] stated *"An important matter which the Council's Regulatory and Hearings Committee needed to inform itself upon was the effect which the activity proposed might have on the amenity values of the existing centres – on the natural or physical qualities and characteristics of those areas that contributed to people's appreciation of their pleasantness, aesthetic, coherence and cultural and recreational attributes. Such effects on amenity values would be those which had a greater impact on the people and their communities than would be caused simply by trade competition"*.

Collectively, those decisions emphasise and establish that where trade competition produces social and economic effects that are not significant and are not beyond the effects ordinarily associated with trade competition, those effects are to be disregarded when assessing an application.

Put another way, the 'significant effect' threshold is breached where a new business (or cluster of businesses) affects key businesses in an existing centre to such a degree that the centre's performance (and potentially viability) is eroded, causing a significant decline in its function and amenity, and disenabling the people and communities who rely upon those existing (declining) centre(s) for their social and economic wellbeing.

Retail distributional effects are differentiated from the effects of trade competition on trade competitors, which are to be disregarded pursuant to s104 (3)A of the RMA when considering resource consent applications. Although retail distributional effects are a relevant consideration for a consent authority, it should be noted that Environment Court case law has made it clear that those effects must be significant[5] (but not necessarily ruinous) before they could properly be regarded as going beyond the effects ordinarily associated with trade competition.

---

[4] *Discount Brands Limited v Westfield (New Zealand) Limited (2005) 2 NZLR 597 (SC) also reported as Westfield (NZ) Ltd v North Shore CC [2005] NZSC 17; [2005] NZRMA 337 (SC).*

[5] *Northcote Mainstreet vs Discount Brands Limited (High Court, CIV-2003-404-5292), Randerson J stated: "In regard to shopping centres, I would not, with respect, subscribe to the view that the adverse effects of some competing retail development must be such, as to be ruinous before they could be considered. But they must, at the least, seriously threaten the viability of the centre as a whole with on-going consequential effects for the community served by that centre."*

9. RETAIL IMPACTS ON THE EXISTING LINCOLN KAC

The scale and location of the proposed Countdown supermarket development is such that it is considered to have the capacity to generate significant trade competition effects on the existing supermarket (New World) in the Lincoln KAC based on an estimated 23% trade impact. Trade competition impacts arise when a new store opens and causes a redistribution of retail spending among existing stores, and a decrease in sales at some existing stores. Impacts of this type are the effects of trade competition and cannot be considered under the RMA.

The proposed Countdown supermarket is considered unlikely to exhibit any additional consequential direct effects on the Lincoln KAC food and beverage retailers that New World is current is not generating effects on. In this regard, the wider Lincoln KAC's town centre role, function, vibrancy and vitality could not be compromised as a result of potential flow-on effects (indirect effects) arising out of trade competition effects on other types of retail and service activity located within the Lincoln KAC.

For flow-on effects to be able to be considered under the RMA they must go beyond direct competition effects, affecting the role, function, amenity and viability of the centre. Property Economics consider this is highly unlikely and most effects would likely be confined to one store – New World Lincoln. Given this, the key consideration is whether the effects on this single store would significantly affect the wider Lincoln KAC.

By itself a 23% direct trade impact on a single retail store is a significant effect. However, the level of proportional impact by itself is not the key determinant of likely effect but the '*state*' and performance of the receiving environment (in this case the New World Lincoln store).

The New World supermarket is considered a good quality store that is currently trading above sustainable productivity levels and as such is considered likely to be able to absorb a sales '*hit*' of 23% and not close down. This is also due to the positive growth outlook for the catchment that would enable the store to offset the trade impact loss with market growth within 5 years.

Supermarket operators generally take a longer-term outlook for markets, and in this instance the long-term growth prognosis for the Lincoln catchment is very good with steady population / market growth forecast. Therefore, any trade diversion effects resulting from the proposed supermarket would be offset by market growth in Lincoln within a short period of time, so any trade impact effects would not likely be sustained or enduring.

There is also the practical implication that the proposed Countdown would grow the total food retailing spend '*pool*' in Lincoln by generating sales that might not have otherwise occurred in the food retailing sector (through increased spend internalisation as outlined earlier in the report). This would further offset any trade impact effects and has been factored into Property Economics' impact modelling.

Furthermore, it is clear the Lincoln KAC has site size and capacity issues relating the practical ability of the centre to accommodate a new modern-day supermarket of 3,000sqm+.

Given there is unlikely to be any consequential retail distribution effects for the Lincoln KAC, the role and function of the proposed supermarket would play a complementary role to the Lincoln KAC and surrounding retail environment. Therefore, the proposed development is not likely to attract a significant level of consumer spend away from the Lincoln KAC that will cause any RMA concerns in relation to retail economic matters.

Additionally, the proposed Countdown will increase local employment opportunities, increase annual retail sales in Lincoln and reduce retail leakage to the benefit of the Lincoln economy and community as a whole.

In Property Economics' opinion, there is little propensity for the proposed Countdown development to undermine the viability, amenity, role and function of any individual centre in the network, and in particular the Lincoln KAC. As such, given the economic analysis in this assessment, Property Economics consider there can be no significant adverse retail distribution effects generated by the proposed supermarket on the Lincoln KAC in the context of the economic effects under the RMA. The existing New World supermarket has the opportunity to continue to operate in the market and successfully play its role and function in the community.

In Property Economics experience it would be highly unusual for Foodstuffs to close down the existing New World store and hand the market to Woolworths, particularly in a growing market that can sustain two supermarkets.

10. RESPONSE TO SUBMISSIONS

There are a variety of reasons in the submissions why many submitters are against the subject Countdown supermarket application. This section will focus on the retail economic reasons.

This report will group submitter's (retail economic) identified concerns together to avoid repetition. The primary economic concerns with the application can be summarised into the following themes:

1. The supermarket should be in the Lincoln town centre zone.
2. The Countdown development would result in fragmentation of the retail offering in Lincoln and reduce shopping trips to the Lincoln town centre; and
3. The Countdown located where proposed would lose the economic benefits of having an additional supermarket located in the town centre.

The supermarket should be in the Lincoln town centre zone: The zoned commercial area (and shape) of the Lincoln KAC is unable to practically accommodate a store of the size proposed. Property Economics agrees supermarkets are valuable '*anchor*' tenants for convenience focused centres such as Lincoln and it would be more beneficial to have the Countdown supermarket located in the town centre than where proposed. But if there is insufficient centre zone provision for a new modern-day supermarket to establish in the centre, then alternative locations can come into play.

The Countdown development would result in fragmentation of the retail offering in Lincoln and reduce shopping trips to the Lincoln town centre: The short answer is yes. It is a fact the application would result in further fragmentation of the retail provision in Lincoln, but that reason by itself is not a matter driving retail economic considerations under the RMA. These are more focused on potential impacts / effects of the application, and whether they are confined largely to being trade competition effects or flow on into wider retail distributional effects as outlined in Chapter 8 earlier in this report.

Fragmentation of Lincoln's retail provision would result in economic inefficiencies in the market, which is a valid economic cost consideration under the RMA, but these 'inefficiencies' are not likely to reach a level where economic inefficiencies / effects, in conjunction with trade diversion effects, could be considered likely to result in significant distributional effects on the Lincoln town centre when considered in the round.

Part of this reason is Lincoln is more than just a retail centre with a range of local commercial and professional services (45% of town centre tenancies by number). Lincoln also has a strong presence of food & beverage store types. All these activities would be largely unaffected by the application. As such, many shoppers who utilise the new Countdown store would still likely use the Lincoln town centre for their other retail, commercial service and community convenience requirements. This would offset any potential adverse impacts as a result of diverted supermarket spend from the Lincoln KAC.

The Countdown located where proposed would lose the economic benefits of having an additional supermarket located in the town centre: Once again the short answer is yes. Establishment of the Countdown supermarket on the subject site would see economic benefits of having an anchor supermarket and major national banner brand in the town centre lost, compared to a new supermarket being established in the Lincoln town centre. However, the reality is a new supermarket cannot '*fit*' into the Lincoln town centre zone, so any perceived economic benefits associated with such remain theoretical and unlikely to be realised, which means in reality they are not 'lost' benefits.

These '*lost*' economic benefits identified in submissions represent an economic cost to the community of not having enough appropriately zoned land for such a store type within the KAC Lincoln town centre zone.

Furthermore, the existing supermarket in the Lincoln KAC (New World) is considered unlikely to close, so that supermarket will continue to generate the economic benefits associated with being located in the town centre.

Additionally, some economic benefits will be generated for the community through increased competition in the market, typically reflected in more competitive pricing structures in the localised market. This is particularly the case for homogenous store types such as supermarkets.

11. SUMMARY

The Lincoln KAC is the main commercial centre for the core catchment with 22 retail stores and 18 stores engaged in commercial and professional services (40 tenancies in total). The Lincoln KAC is focussed on small speciality store and convenience-oriented store types. Cafes, restaurants and takeaway sector is the largest sector accounting for 7 stores or 32% of the centre's retail provision, with a small scattering of non-food retail stores across the balance of the centre.

The Lincoln KAC also has a strong non-retail store presence in terms of commercial services and community facilities which underpins the role and function of Lincoln as a whole.

At present, the core catchment has just one fully operational supermarket (New World Lincoln), attracting most of the supermarket spend from within the catchment. Currently, there is no intra-catchment competition, but its competition lies with the supermarkets outside of the catchment namely Rolleston and Hornby.

The proposed Countdown supermarket is located to the north of the Lincoln urban area and once functional is estimated to have significant trade competition effects in the short run on the annual retail sales of the existing New World supermarket in Lincoln. The annual retail sales of New World Lincoln are estimated to decrease by around $7m (23% impact) with net productivity levels marginally above the sustainable threshold of $10,000 per sqm by 2023.

However, the existing New World supermarket is considered likely to continue with its operations and not result in closure of the store, albeit trading at materially lower annual retail sales level than it is currently.

Any trade diversion effects would also likely be offset by market growth in the Lincoln KAC within a short period of time, so any trade impact effects would not likely be sustained or enduring. There is also the practical likelihood that the proposed Countdown supermarket would grow the total food retailing spend '*pool*' in Lincoln by increasing supermarket spend internalisation. This would further offset any trade impact effects.

As such, Property Economics consider there is not likely to be any significant adverse retail distribution effects generated by the proposed Countdown supermarket development on the Lincoln KAC in the context of the economic effects under the RMA. The existing New World supermarket is considered likely to remain operational and in doing so continue to play its role and function in the market successfully.

APPENDIX 1: PROPERTY ECONOMICS RETAIL MODEL

This overview outlines the methodology that has been used to estimate retail expenditure generated at Census Area Unit (CAU) level for the identified catchment out to 2038.

CAU 2013 Boundaries

All analysis has been based on Census Area Unit 2013 boundaries, the most recent available.

Permanent Private Households (PPH) 2013

These are the total Occupied Households as determined by the Census 2013. PPHs are the primary basis of retail spend generation and account for approximately 71% of all retail sales. PPHs have regard for (exclude) the proportion of dwellings that are vacant at any one time in a locality, which can vary significantly, and in this respect account for the movement of some domestic tourists.

Permanent Private Household Forecasts 2006-2038

These are based on Statistics NZ Census Area Unit (CAU) Medium Series Population Growth Projections and have been adjusted to account for residential building consent activity occurring between 2006 and 2018, with this extrapolated to the year of concern. This accounts for recent building activity, particularly important for the 5-10-year forecasts, and effectively updates Statistics NZ projections to reflect recent trends.

International Tourist Spend

The total international tourism retail spend has been derived from the Ministry of Economic Development Tourism Strategy Group (MEDTSG) estimates nationally. This has been distributed regionally on a 'spend per employee' basis, using regional spend estimates prepared by the MEDTSG. Domestic and business-based tourism spend is incorporated into the employee and PPH estimates. Employees are the preferred basis for distributing regional spend geo-spatially as tourists tend to gravitate toward areas of commercial activity, however they are very mobile.

Total Tourist Spend Forecast

Growth is conservatively forecast in the model at 3% per annum for the 2015-2038 period.

2013-2038 PPH Average Household Retail Spend

This has been determined by analysing the national relationship between PPH average household income (by income bracket) as determined by the 2013 Census, and the average PPH expenditure of retail goods (by income bracket) as determined by the Household Economic Survey (HES) prepared by Statistics NZ.

While there are variables other than household income that will affect retail spending levels, such as wealth, access to retail, population age, household types and cultural preferences, the effects of these are not able to be assessed given data limitations and have been excluded from these estimates.

Real Retail Spend Growth (excl. trade-based retailing)

Real retail spend growth has been factored in at 1% per annum. This accounts for the increasing wealth of the population and the subsequent increase in retail spend. The following explanation has been provided.

Retail Spend is an important factor in determining the level of retail activity and hence the 'sustainable amount 'of retail floor space for a given catchment. For the purposes of this outline 'retail' is defined by the following categories:

- Food Retailing
- Footwear
- Clothing and Softgoods
- Furniture and Floor coverings
- Appliance Retailing
- Chemist
- Department Stores
- Recreational Goods
- Cafes, Restaurants and Takeaways
- Personal and Household Services
- Other Stores.

These are the retail categories as currently defined by the ANZSIC codes (Australia New Zealand Standard Industry Classification).

Assessing the level and growth of retail spend is fundamental in planning for retail networking and land use within a regional network.

Internet Retail Spend Growth

Internet retailing within New Zealand has seen significant growth over the last few decades. This growth has led to an increasing variety of business structures and retailing methods including; internet auctions, just-in-time retailing, online ordering, virtual stores, etc.

As some of internet spend is being made to on-the-ground stores, a proportion of internet expenditure is being represented in the Statistics NZ Retail Trade Survey (RTS) while a large majority remain unrecorded. At the same time this expenditure is being recorded under the Household Economic Survey (HES) as a part of household retail spending, making the two datasets incompatible. For this reason, Property Economics has assumed a flat 5% adjustment percentage on HES retail expenditure, representing internet retailing that was never recorded within the RTS.

Additionally, the growth of internet retailing for virtual stores, auctions and overseas stores is leading to a decrease in on-the-ground spend and floor space demand. In order to account for this, a non-linear percentage decrease of 2.5% in 2018 growing to 15% by 2038 has been applied to retail expenditure encompassing all retail categories in our retail model. These losses represent the retail diversion from on-the-ground stores to internet-based retailing that will no longer contribute to retail floor space demand.

Retail Spend Determinants

Retail Spend for a given area is determined by: the population, number of households, size and composition of households, income levels, available retail offer and real retail growth. Changes in any of these factors can have a significant impact on the available amount of retail spend generated by the area. The coefficient that determines the level of 'retail spend' that eventuates from these factors is the MPC (Marginal Propensity to Consume). This is how much people will spend of their income on retail items. The MPC is influenced by the amount of disposable and discretionary income people are able to access.

Retail Spend Economic Variables

Income levels and household MPC are directly influenced by several macroeconomic variables that will alter the amount of spend. Real retail growth does not rely on the base determinants changing but a change in the financial and economic environment under which these determinants operate. These variables include:

Interest Rates: Changing interest rates has a direct impact upon households' discretionary income as a greater proportion of income is needed to finance debt and typically lowers general domestic business activity. Higher interest rates typically lower real retail growth.

Government Policy (Spending): Both Monetary and Fiscal Policy play a part in domestic retail spending. Fiscal policy, regarding government spending, has played a big part recently with government policy being blamed for inflationary spending. Higher government spending (targeting on consumer goods, direct and indirectly) typically increases the amount of nominal retail spend. Much of this spend does not, however, translate into floorspace since it is inflationary and only serves to drive up prices.

Wealth/Equity/Debt: This in the early-mid 2000s had a dramatic impact on the level of retail spending nationally. The increase in property prices has increased homeowners unrealised equity in their properties. This has led to a significant increase in debt-funded spending, with residents borrowing against this equity to fund consumable spending. This debt spending is a growth facet of New Zealand retail. In 1960 households saved 14.6% of their income, while households currently spend 14% more than their household income.

Inflation: As discussed above, this factor may increase the amount spent by consumers but typically does not dramatically influence the level of sustainable retail floor space. This is the reason that productivity levels are not adjusted but similarly inflation is factored out of retail spend assessments.

Exchange Rate: Apart from having a general influence over the national balance of payments accounts, the exchange rate directly influences retail spending. A change in the $NZ influences the price of imports and therefore their quantity and the level of spend.

General consumer confidence: This indicator is important as consumers consider the future and the level of security/finances they will require over the coming year.

Economic/Income growth: Income growth has a similar impact on confidence. Although a large proportion of this growth may not impact upon households MPC (rather just increasing the income determinant) it does impact upon households discretionary spending and therefore likely retail spend.

Mandatory Expenses: The cost of goods and services that are necessary has an impact on the level of discretionary income that is available from a household's disposable income. Important factors include housing costs and oil prices. As these increase the level of household discretionary income drops reducing the likely real retail growth rate.

Current and Future Conditions

Retail spend has experienced a significant real increase in the early-mid 2000s. This was due in large part to the increasing housing market. Although retail growth is tempered or crowded out in some part by the increased cost of housing it showed massive gains as homeowners, prematurely, access their potential equity gains. This resulted in strong growth in debt / equity spending as residents borrow against capital gains to fund retail spending on consumption goods. A seemingly strong economy also influenced these recent spending trends, with decreased unemployment and greater job security producing an environment where households were more willing to accept debt.

In 2008 this reversed with the worldwide GFC recession took grip, while over recent years an economic recovery has emerged. As such, the economic environment underwent a rapid transformation. The national market is currently experiencing low-interest rates (although expected to increase over the medium term) and an inflated $NZ (increasing importing however disproportionately). A rebound in the property market and an increase in general business confidence ensued as the economy continues to recover from the post-GFC hangover. These factors will continue to influence retail spending throughout the next 5 or so years. Given the previous years (pre-2008) substantial growth and high levels of debt repayment likely to be experienced by New Zealand households it is expected that real retail growth rates will continue to be subdued for the short term.

Impacts of Changing Retail Spend

At this point in time a 1% real retail growth rate is being applied by Property Economics over the longer-term 20-year period. This rate can be highly volatile however and generally falls within the range of 0.5%-2.0%. It is considered prudent in the shorter term to be conservative with regard to the level of sustainable retail floor space within given centres and as the economy stabilises and experiences cyclical growth longer-term rates might be slightly higher.

Business Spend 2013

This is the total retail spend generated by businesses. This has been determined by subtracting PPH retail spend and Tourist retail spend from the Total Retail Sales as determined by the Retail Trade Survey (RTS) which is prepared by Statistics NZ. All categories are included with the exception of accommodation and automotive related spend. In total, Business Spend accounts for 26% of all retail sales in NZ. Business spend is distributed based on the location of employees in each Census Area Unit and the national average retail spend per employee.

Business Spend Forecast 2013-2038

Business spend has been forecasted at the same rate of growth estimated to be achieved by PPH retail sales in the absence of reliable information on business retail spend trends. It is noted that while working-age population may be decreasing as a proportion of total population, employees are likely to become more productive over time and therefore offset the relative decrease in the size of the total workforce.