6. FEASIBILITY OF RETAIL DEVELOPMENT

6.1 MEETING STAKEHOLDER PREFERENCES

In the previous Section we revealed the preferences of key stakeholders – shoppers, and retailers (existing CBD and large format retailers) for future development of Hastings retailing.

All three groups have a common preference for development to take place adjacent to the CBD. Shoppers and LF retailers prefer megacentre type developments, whereas existing retailers prefer stand-alone development.

These preferences help explain why retail developers currently are looking for provision of around 20,000 to 30,000 square metres of new large format retail floorspace, in one form or another, either within or adjacent to the existing Hastings CBD.

This section of the Report examines the feasibility of respective preferences being accommodated.

6.2 SHOPPER DEMAND

Shoppers' preference for megacentre development, instead of a "power strip" or scattered large format stores, can only be accommodated adjacent to the CBD at Nelson Park or a greenfields site beyond Hastings fringe, the most preferred of which is Omahu Road. This is because there is insufficient land available immediately adjacent to the Hastings CBD to develop a megacentre.

6.3 STAND-ALONE DEVELOPMENT

It is not feasible to create sufficient floorspace to match the amount required by a Megacentre by stand-alone development within the existing CBD Central Commercial Zone of Hastings because:

- There is insufficient land available at present (requires around four city blocks).
- Multiple ownership of existing sites makes aggregation difficult, (irrespective of the entity undertaking aggregation), time consuming and expensive
- Price of the potentially available land is so high as to require rents paid by retailers to range between $130-$340 per square metre per annum. These rents are substantially above market for LFR operations
- Even at these rental levels investment returns would be under current market (around 7% in North-West quarter and 7-9% in North East and South East quarters).
- In contrast rents in discussion of around $115 per square metre for "single site" megacentres will generate investment returns around 9.75-%12.5%, depending upon the location of the "single site"

This means retailers' operating costs at a "single site" megacentre will be lower than in individual stand alone sites, and returns to investors will be higher. In other words stand alone developments are infeasible in current market conditions.

6.4 INTENTIONS OF LARGE FORMAT RETAILERS

The survey of large format retailers generated a range of data and responses about a number of issues. Their preferences for retail development have been reported earlier in **Section 6.4** of this report. The following summarises their responses on their present performance, current investment intentions and feasibility of further investment.

CURRENT PERFORMANCE

Sales

- LFR sales in the 2002 calendar year in the Hastings Urban Area are estimated to have been around $168 million (grocery and comparison goods combined).
- Sales growth over the last year has been of the order of 9-14% for most large format retailers, which is significantly greater than their experience in most national locations.
- In some cases sales growth is off a low base, and others are "over-trading" and want more floorspace.
- Some regard the introduction of new LFRs as improving their sales performance as a result of drawing more customers to Hastings from elsewhere in Hawkes Bay.

Market

- Most LFRs regard their penetration of Hastings District market to be relatively low compared to other regional markets with similar demographics.
- Most LFRs see their sales growth over the next three years being above average for their businesses –some as high as 12-15% per annum. They see this as coming partly from limited growth in Hastings residents' spending, but more from gaining increased market share across the Hawkes Bay region and growth of spending by visitors.

Margins

- LFR operating margins have also improved – considerably in some cases.
- Maintenance of higher operating margins is expected and consequently has improved the prospect of return on further investment by LFRs.

EXPECTED HAWKES BAY SALES GROWTH

- Most LFRs see the Hawkes Bay economy as more resilient than other regional economies (eg Manawatu), because of its greater diversity as well as its recent growth.
- Although growth in the Hawkes Bay economy continues to track marginally below national growth (3.9% to 31 March 2003 in Hawkes' Bay, compared to 4.4% nationally), most LFRs see recent greater retail sales growth as sustainable. This is because LFRs:
- Regard Hawke's Bay spending growth as still "catching up" to the national average per household,
- Expect tourism growth will continue to be strong, with consequential support for retail sales to visitors.

LOCATION PREFERENCES

- Most LFRs want to be near each other, and preferably close to the existing Hastings Central Commercial Zone.
- All LFRs emphasise the importance of car parking at their locations. They say Hawke's Bay shoppers rarely walk far, almost all use their cars to move more than 100 metres.
- Labour resources are more readily available in near Central Commercial Zone- locations.
- Most LFR say these factors, together with the market and economy factors referred to earlier in this section, result in their preferring to develop in Hastings as first priority.
- However if this is not possible within their time preference, priority for development will shift principally to Napier.

LOCATION SHIFT

- LFRs continue shifting their location from the Western side of Hastings to the North-Eastern side.

STRATEGIC THINKING

- The majority of LFRs see a "two-cities" strategy for themselves. This means one store in each of Hastings and Napier.
- A number of LFRs see Napier as a self-contained market, and Hastings as a market centre for a wider region. This leads them to prefer larger stores in Hastings than in Napier.
- All but one LFR want to be close to each other and the Central Commercial Zone. They believe 'crossover" shopping works to their mutual advantage.
- Few are interested in a "greenfields" site – if one was to be established, their clear preference is for the proposed Omahu Road/Expressway site.
- They have indicated a requirement for an additional 21-30000 square metres of retail floorspace, that is, a required total site area, including retail

floorspace, car parking and services, of around 45-60000 square metres by 2008.

- There could be a further requirement of 25-30000 square metres of retail floorspace (plus car parking and services) over the ten-year period 2008-2018.
- Some LFRs wish to move quickly to develop more floorspace in Hastings with an intention of doing so within the next two years.

6.5 FEASIBILITY OF MEETING STAKEHOLDER PREFERENCES - SUMMARY

LFR IMPERATIVES

Large Format Retailers see Hawkes Bay as market area likely to support growth of their business and therefore likely to justify further investment subject, of course, to meeting their location, size of site and price criteria.

Their first preference is continued development in Hastings City.

Cumulatively, they are looking for sites adjacent to the Hastings Central Commercial Zone to provide around 21-30000 square metres of retail floorspace in comparison goods (plus car parking and services)

Their preferred form of development for this purpose is a single site megacentre.

There is only one such area potentially available meeting these criteria, which is in the North Eastern quarter of Hastings City in the Nelson Park/Railway area.

If a site is not available in central Hastings, LFR are likely to locate at Omahu Road, or even in Napier, rather than pursue a time consuming, costly and difficult aggregation process within the existing Central Commercial Zone, which may be unsuccessful in any event.

For these reasons LFR consider the only feasible developments for their purposes within their preferred timeframe, are in the North East Quarter of Hastings City, or at Omahu Road.

FEASIBLE OPTIONS

The key preference, that of shoppers who generate demand and make spending decisions, is ultimately in the determinant of retail success. The clear preference of shoppers is for a megacentre form of large format retail development.

This analysis shows **the only feasible location for a megacentre that has an optimum fit with shoppers, existing retailers and LFR operators is a megacentre on land in the North East quarter of Hastings City,** adjacent to the existing CBD and Central Commercial Zone.

The only effective competition to this location is a site at Omahu Road, and that has shortcomings, including reduced crossover shopping economic benefits which are examined in **Section 7** of this Report.