7. STAGE I EVALUATION – LFR LOCATION OPTIONS

7.1 EVALUATION APPROACH

In this section we synthesise the results of the desktop analyses and surveys to assess the impacts of large format retail development under a range of location options and wider development scenarios.

The standard approach to scenario building in retail planning is to generate conceptually contrasting development scenarios and then assess their economic, social and environmental effects.

We approached the evaluation of alternative retail development locations in two stages:

Stage I Evaluation:
An initial phase to sift through a wide range of location options, to identify those with most potential.

Stage II Evaluation:
Elaboration of the three most realistic locations into three contrasting retail development scenarios.

In identifying the most realistic locations we also take into account commercial feasibility discussed in the previous section and further assessed in **Section 6.**

In all the location options and development scenarios we used a common assumption as to size of LFR development; that is 20,000 m2 of large format comparison retailing by 2008 and a further 20,000m² by 2018. This scale of development reflects the intentions of large format retail developers, as discussed in **Section 6**. Adopting a standard increment of retail floorspace means that differences in sales performance and impacts on existing floorspace in existing retail centres arising from location alone are isolated.

7.2 STAGE I EVALUATION - LFR LOCATION OPTIONS

7.2.1 MODEL BASED EVALUATION

In Stage I we estimated the sales and employment impacts of a range of LFR development location options on Hastings District using the base level McDermott Miller Hastings Retail Model.

Possible Locations

Ten LFR location options were simulated. All these locations (except the Waihohiki site) were identified by the Hastings LFR Working Party as potential LFR development sites. Each simulation assumes a new megacentre, of 20000 square metres of retail floor space together with corresponding car parking and service facilities, is constructed “overnight” in a particular location. The new megacentre is assumed to only sell “comparison goods” (eg apparel, appliances, hardware), not grocery lines.

For the purposes of the simulation the LFR location options place the new Megacentre at the following locations:

- Within existing Hastings CBD or central commercial zone (termed “consolidation” options):
  - Eastern CBD
  - Kmart site.
- Within an expanded Hastings CBD (“expansion” options):
  - Nelson Park
  - Racecourse.
- Beyond urban Hastings (“Greenfield’s” options):
  - Omahu Road
  - HB Showground,
  - Havelock Road
  - Waihohiki
  - Clive
- Napier City (Ahuriri)

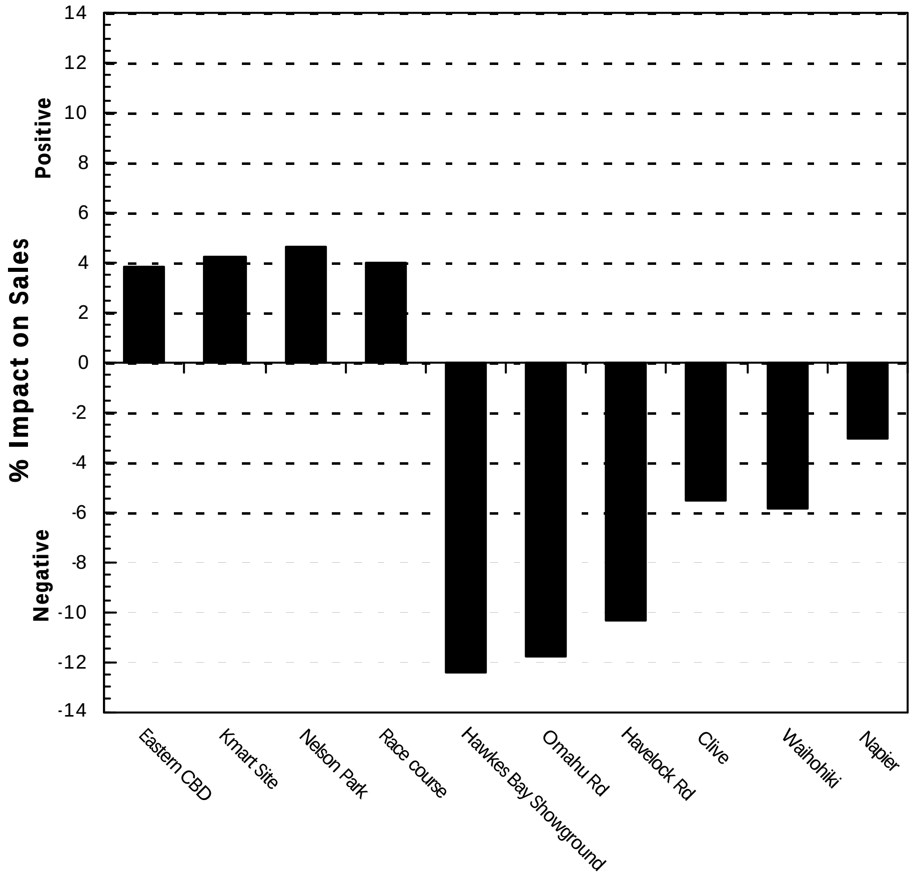
McDermott Miller’s Hastings Retail Model uses a range of Hastings data, including household income, number of households, retail floorspace, attractiveness of the retail offering and time or distance required to be travelled to reach shopping locations. The model simulates and estimates sales of new retail developments and their impact on sales of other shopping centres.

Stage I Evaluation Results

The sales estimated for the retail centres by the model show that the closer the LFR development to the centre of Hastings the better they perform and the more interesting they become to developers and retailers. Conversely LFR development at “greenfields” sites more distant from the city centres have lower sales performance.

In **Figure 7.1** we show the estimated sales shifts as percentage shifts from the current levels at each development location. For example, a 20,000m^2 megacentre at the Waihohiki location would be reduce sales in urban Hastings by nearly 6%, but at a location within the existing CBD would increase sales in urban Hastings by around 4%.

Figure 7.1 Impact of 20,000 M^2 Large Format Retail in 2008, at various locations, on Sales in Urban Hastings



Location Pointers

The Stage I Evaluation modelling illustrates two fundamental points:

- The further a LFR development is from a city centre the poorer is its sales performance and economic contribution to the city; and,
- The closer a LFR development is to a city centre the greater its negative impact on existing businesses within that centre, even though total sales by retailers in the city (ie: including the newly developed LFR stores) grow substantially.

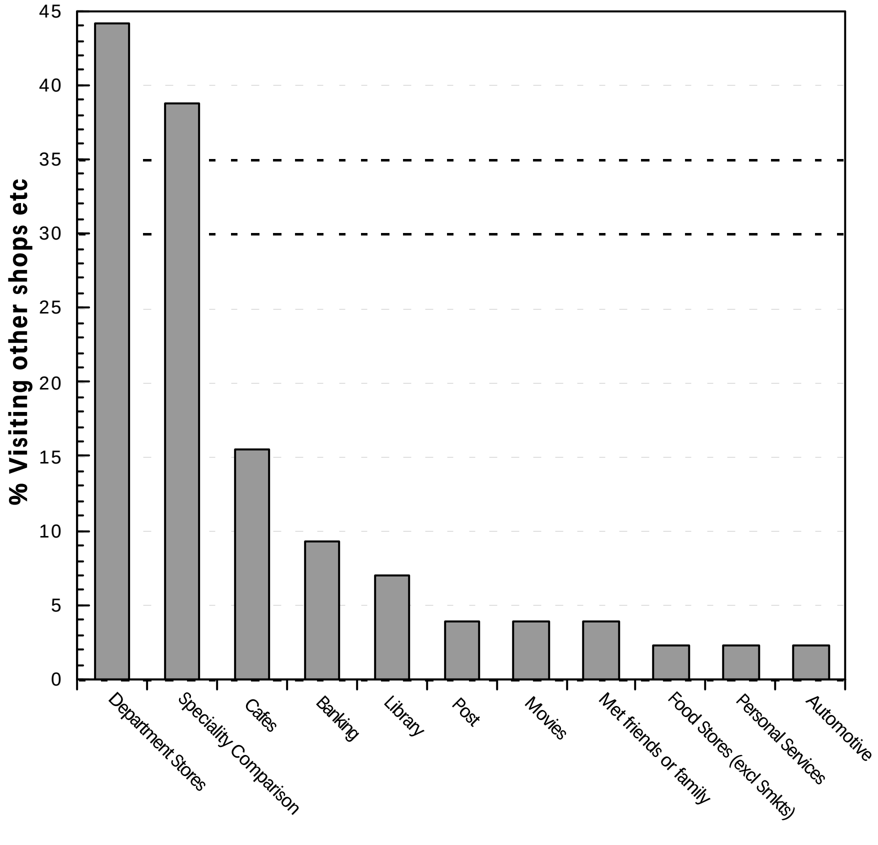
7.2.2 CROSS-SHOPPING EFFECT

The McDermott Miller Retail Model simulation highlights the first-round shopper effects of alternative megacentre location options, but does not measure the second-round effect of cross-shopping and cross-business trips made by shoppers using the megacentres. We now address this issue.

Other Activities While On LFR Shopping Trips

- Some 71% of Hastings District residents have made comparison-shopping trips to the Hastings CBD in last year; of these 45% had visited a Large Format Retail store.
- Focusing on the last shopping trip to the Hastings CBD involving visiting a LFR store, the range of shopping and other activities undertaken in Hastings CBD while on these trips to Hastings CBD (shown in **Figure 7.2**).
- Some 65% of trips involving a visit to an LFR store by a Hastings resident also involved a visit to another comparison goods store.
- Some 16% of trips also involved visiting a café, restaurant or bar, and 9% involved visiting a bank.

Figure 7.2 Cross-shopping and other activities in Hastings CBD.



Source: Hastings Shopper Survey
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Cross-Shopping Effects Of Different Megacentre Locations

- On the basis of data collected in the Hastings Shopper Survey, we estimate that:
  - Nearly 50% of Hastings District residents say they are likely to use a new megacentre on the Nelson Park site.

    - Of these, some 40% say they would be likely to go to Hastings CBD on the same shopping trip.

- At possible locations for a new megacentre of 20,000 m^2 of LFR comparison retail progressively more remote from the Hastings CBD the percentage who would be likely to shop in Hastings CBD on the same shopping trip becomes correspondingly less. This has implications for sales and employment in retailing in Hastings CBD and the District as a whole.
    - At Omahu Road site, around 20% would go to Hastings CBD on the same shopping trip;
    - At the Waiohiki site would be around 15%;
    - At a site in Napier city, around 10% of Hastings District residents would still go to Hastings CBD on same shopping trip.
- We estimate (based on estimates of average spend per shopping trip and number of shopping trips to a megacentre on Nelson Park) that shoppers, on their trips to the Nelson Park megacentre, would by 2008 spend around $48 million annually in Hastings CBD's specialist comparison goods stores, department's stores, cafes and restaurants. This figure includes spending by Napier City and Central Hawkes Bay shoppers, as well as Hastings residents. This represents around 27% of estimated comparison plus cafes, restaurants etc sales in Hastings CBD in 2008.
- For a megacentre in a dispersed location, such as a greenfield site at Omahu Road, we estimate this spend (on the same shopping trip as the megacentre at Omahu Road is visited) would be only around $28 million annually; the difference between this and the Nelson Park figure is $20 million.
- This $20 million represents an estimated upper bound on the benefit to Hastings CBD retailing from having a megacentre at Nelson Park rather than in Omahu Road. A more refined estimate takes into account that most comparison goods purchases can be shifted in time – if a planned purchase is not made on one day, it will be made at a later date. However, missed impulse purchases would not be, and a delay means there is a chance that the shopper will choose eventually to spend their money in Napier (or elsewhere) rather than Hastings.
- For a megacentre in a more distant greenfield site such as Waiohiki near Taradale, this net loss to the Hastings retail industry is estimated to be $13 million per annum, or 70 FTE jobs. This compares with employment 2002 in comparison retailing in Urban Hastings of around 700 FTE (source Statistics NZ Business Demographic database), of which 400 were in Hastings CBD.
- Taking into account the estimated gross leakage from Hastings to Napier discussed in **Section 4.3** and allowing an additional amount for missed impulse purchases, we estimate around 25% of the $20 million – ie $8 million, would be lost permanently to the Hastings retail industry.
- This loss of $8 million dollars corresponds to a loss of around 45 FTE jobs in Hastings District's retail industry.
- In the case of a megacentre in Napier the net loss to the Hastings retail industry from such secondary effects is estimated to be $17 million or 95 FTE jobs.

7.2.3 COMMERCIAL EVALUATION OF LOCATION OPTIONS

Before moving to Stage II of the evaluation (elaboration and evaluation of realistic retail development scenarios), McDermott Miller evaluated the commercial feasibility of the location options. Our method and results follow.

Possible Investment Patterns

Most LFRs see Hawkes Bay as an area likely to justify further investment, for the reasons outlined earlier in **Section 6** above. However the question where that investment will be made, and new LFR stores opened, will be answered by the commercial feasibility of various location options.

Commercial Criteria

Commercial feasibility of LFR development has been evaluated in terms of the following criteria:

- Availability of Land - what and where land is available to provide at least 40000 square metres of usable site
- Number of landowner's -number of landowners of sites targeted for megacentre format retail. These can range from one (owning a site of at least 40000 square metres) to many (where smaller sites need to be purchased and aggregated to the required size. In this study the target is an aggregation of sites to a cumulative total of at least 40000 square metres). The greater the number of landowners, the more difficult and costly will be the aggregation process.
- Pricing of Land – price of acquiring required land, including all acquisition costs and fees.
- Development Complexity and Cost - excluding the cost of land but including construction costs, regulatory fees and levies, legal, professional and finance costs, developers' fees and margin. Cost depends upon the difficulty or otherwise of executing the development plan physically.
- Rents payable by retailer.
- Ease of process – that is, how easy it may be to deal with the requirements of the regulatory process in securing consents and approvals for a megacentre form of retail development. Factors taken into account in this criterion include provisions of the district plan and the appropriate consent process, the extent of other parties' involvement (including likely neighbours/competitors) in the process, and any required public consultation process.
- Duration of Process – that is, the time likely to be taken in securing the necessary consents to a new development, purchasing the land and completing its physical development.
- Return on investment to an arms length investor.

Commercial Feasibility Results

Our evaluation of these factors for the location options in summarised below:

- Commercial feasibility, of different location options, as measured by a range of evaluation criteria shows few to be feasible on all counts.

- There is insufficient land available in the Hastings Central Commercial Zone or Commercial Services Zones to enable aggregation of a megacentre site (of at least 40000 square metres including parking, services and retail floorspace), other than at Nelson Park.
- Land is likely to be available at Omahu Road, Waiohiki, Ahuriri and Nelson Park.
- In current market conditions, where relatively high premiums are being sought for land lying in the current Hastings Central Commercial and Commercial Services Zones that can be aggregated, almost all of the proposed block aggregations are commercially infeasible. Relatively the most feasible blocks lie in the North East Quadrant.
- This is because high land prices combined with redevelopment costs are not sustained by current rental levels. It is possible that further development will lift rents in future, but increases over 25% would be required to make most of the proposed block aggregations commercially feasible.
- Returns on investment are only within the current market range for investment in greenfields sites, Ahuriri and the Nelson park /Railway land area of Hastings City.

Taking into account all the evaluation criteria, **the commercially feasible locations are Omahu Road greenfields site, Nelson Park in Hastings and Ahuriri in Napier.**