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## 8. STAGE II EVALUATION - RETAIL DEVELOPMENT SCENARIOS

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### 8.1 SCENARIOS

In light of the pointers arising from the **Stage I Evaluation** and the commercial feasibility of options, a range of realistic Hastings retail development scenarios were elaborated and evaluated comprehensively in **Stage II**. The iterative analysis resolved these into three distinctive, but alternative, retail development scenarios:

***Scenario A: CBD CONSOLIDATION***

***Scenario B: CBD EXPANSION***

***Scenario C: GREENFIELDS DISPERSION***

These scenarios are described and evaluated below.

### 8.2 SCENARIO DESCRIPTIONS

The assumptions relating to the timing and locations of future retail development implied in the three scenarios are described below, and illustrated in the maps in **Figures 8.3 and 8.4**

#### **Common Base**

All three alternative scenarios incorporate references to "Current and Committed comparison goods floorspace". This "base" floorspace figure comprises comparison goods floorspace as at June 2002 year (67700 square metres), together with new large format stores which began operations since June 2002 (eg Harvey Norman in Hastings) and others which are in the course of development and which are expected to commence operations well before 2008 (eg Mitre10 in Hastings).

This means the total comparison goods retail floorspace in Hastings used as the 'base' against which the three scenarios are described above is 82700 square metres in urban Hastings, rather than the 67700 square metres referred to in **Table 5.1**.

The floorspace comparisons between the three scenarios and the adjustments to 2002 year floorspace to reach the Current and Committed comparison goods retail floorspace are summarised in the following **Table 8.1**.

**Table 8.1 New Large Format Retail (Sq m) Floorspace Assumptions**

Scenario		2008 (Sq M)	2018 (Sq M)
<b>Committed Standalone LFR</b>	East Core	5,500	
	East Periphery	4,900	
	Rest of Urban Hastings	4,600	
	<i>Total Hastings</i>	<i>15,000</i>	
	Napier	8,000	
	<b>Total</b>	<b>23,000</b>	
<b>Scenario A: Consolidation</b>	East Core	5,000	7,500
	East Periphery	5,000	7,500
	<i>Total Hastings</i>	<i>10,000</i>	<i>15,000</i>
	Napier	10,000	25,000
	<b>Total</b>	<b>20,000</b>	<b>40,000</b>
<b>Scenario B: Expansion</b>	Nelson Park megacentre	20,000	20,000
	Rail land standalone		10,000
	East Core & Periphery standalone		10,000
	<b>Total</b>	<b>20,000</b>	<b>40,000</b>
<b>Scenario C: Greenfield Dispersion</b>	Omahu Rd Megacentre	20,000	20,000
	Omahu Rd Standalone		20,000
	<b>Total Omahu Rd</b>	<b>20,000</b>	<b>40,000</b>

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Notes: Committed Standalone LFR includes the Hastings Harvey Norman, which commenced operation after the model calibration year of June Year 2002.

We assume (based on interviews with industry players) that 19,000 sq m of floorspace comes into operation over the 2008-2018 period in Napier, in addition to the changes in the above table

Floorspaces in the Scenario A, B and C are inclusive of the Committed Standalone LFR floorspaces

The figures in the 2018 column for Scenarios A, B and C *include* the floorspace in 2008 under these scenarios. For example under Scenario B we assume an increase of 20,000 sq m of LFR floorspace, bringing the total to 40,000 sq m over and above the "Committed Standalone" figure.

**CONSOLIDATION SCENARIO A:**

**Planning Rationale**

The planning rationale for *Scenario A: Consolidation* is to consolidate retail development within the current Hastings CBD ie the Central Commercial Zone. This gives primacy to maintaining compactness of the CBD. It also means that the Council considers it is an acceptable risk that limiting opportunities for retail developers in Hastings City in this way may result in retailers choosing to locate elsewhere in Hawkes Bay region in preference to Hastings.

In District Planning terms it means no change to the boundaries of the present commercial zones of Hastings, and continued restriction and firm Resource Management Act opposition to commercial development beyond the Hastings urban fringe in the Heretaunga Plains. This posture leaves the way clear for LFR development somewhere else within Napier City boundaries and it is assumed this option is taken up by developers.

The floorspace assumptions under this scenario are shown in **Table 8.1**.

**EXPANSION SCENARIO B**

**Planning Rationale**

The planning rationale for *Scenario B: Expansion* is to allow a limited extension of the existing CBD through expansion of the Central Commercial zone to the North East while continuing firm restriction on commercial development in the Plains Zone and residential zones of Hastings District. This posture provides for commercially attractive sites for Large Format retail developments centrally located within Urban Hastings.

The floorspace assumptions under this scenario are shown in **Table 8.1**.

**GREENFIELD DISPERSION SCENARIO C**

**Planning Rationale**

The planning rationale for *Scenario C: Greenfield Dispersion* is to permit large format retail development on a site (or sites) in Plains Zoned land outside Urban Hastings. This maximises site options for retail developers and accepts the emergence of competing shopping centres which will compete with Hastings CBD. It implies a general relaxation of RMA controls on other forms of development on the Plains Zone.

The floorspace assumptions under this scenario are shown in **Table 8.1**.

Figure 8.3

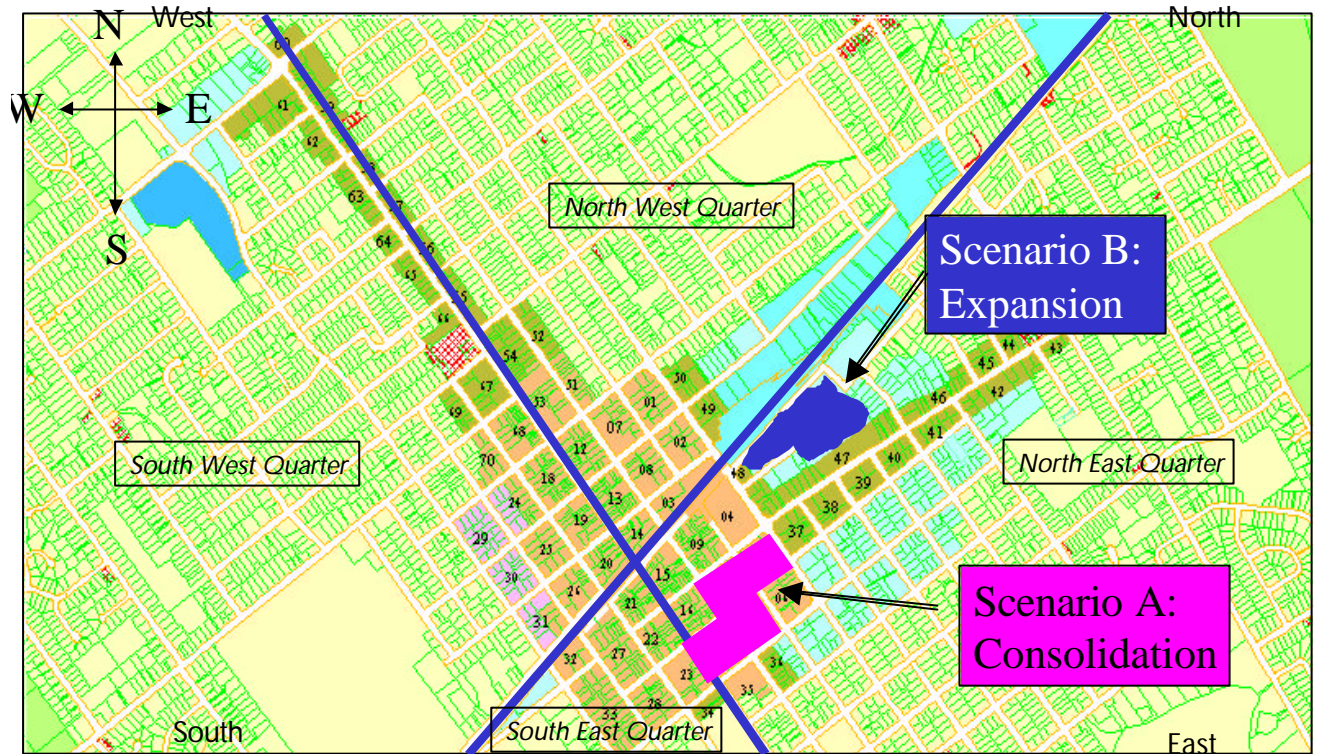
### Retail Development Scenarios



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Figure 8.4:

### Development Scenarios 2008



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## 8.3

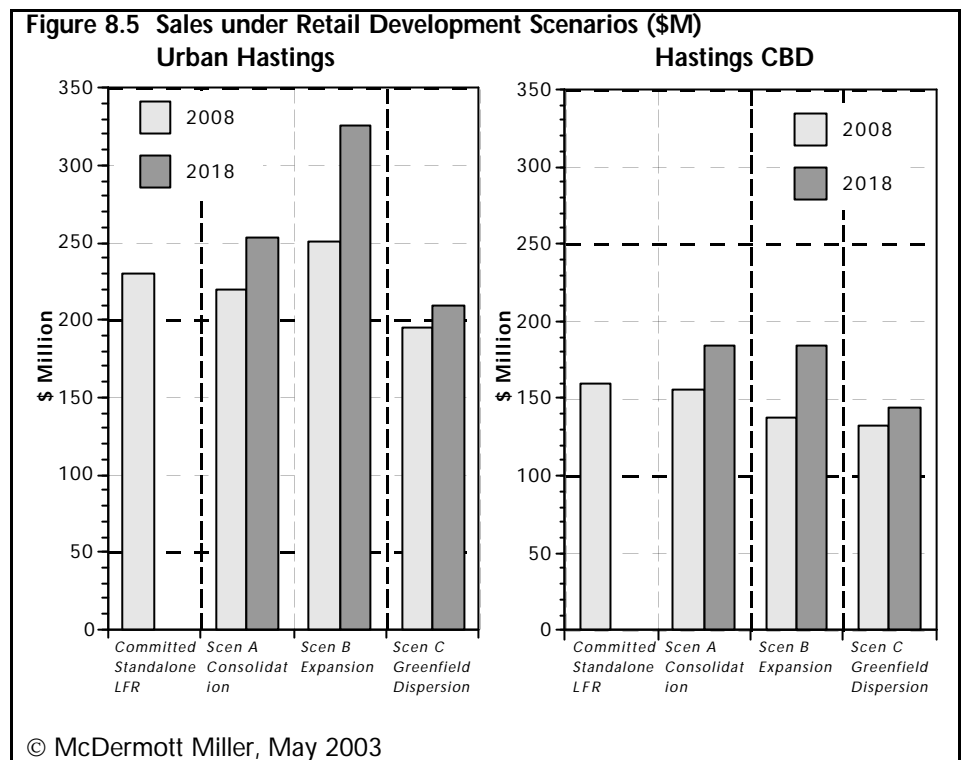
### ECONOMIC EVALUATION OF SCENARIOS

#### Retail Sales In Urban Hastings

- A megacentre in the North East quarter of Hastings at Nelson Park (*Scenario B: Expansion*) increases retail sales in urban Hastings and total Hastings District most compared with other feasible scenarios. It is projected to generate an estimated additional \$20 million sales per annum in urban Hastings by 2008 (compared to what would be expected in 2008 under current and committed LFR floorspace (Figure 8.5) rising to around \$95 million per annum by 2018.
- In other words a Nelson Park megacentre improves business activity (as measured by retail sales levels) by around 9% by 2008, rising to around 41% in 2018 (**Figure 8.6**).
- In contrast Hastings will suffer most if it relies on further standalone development within the existing CBD, and abandons megacentre development to Napier (*Scenario A: Consolidation*). In this case retail sales in urban Hastings in 2008 year sales will fall short of what would be

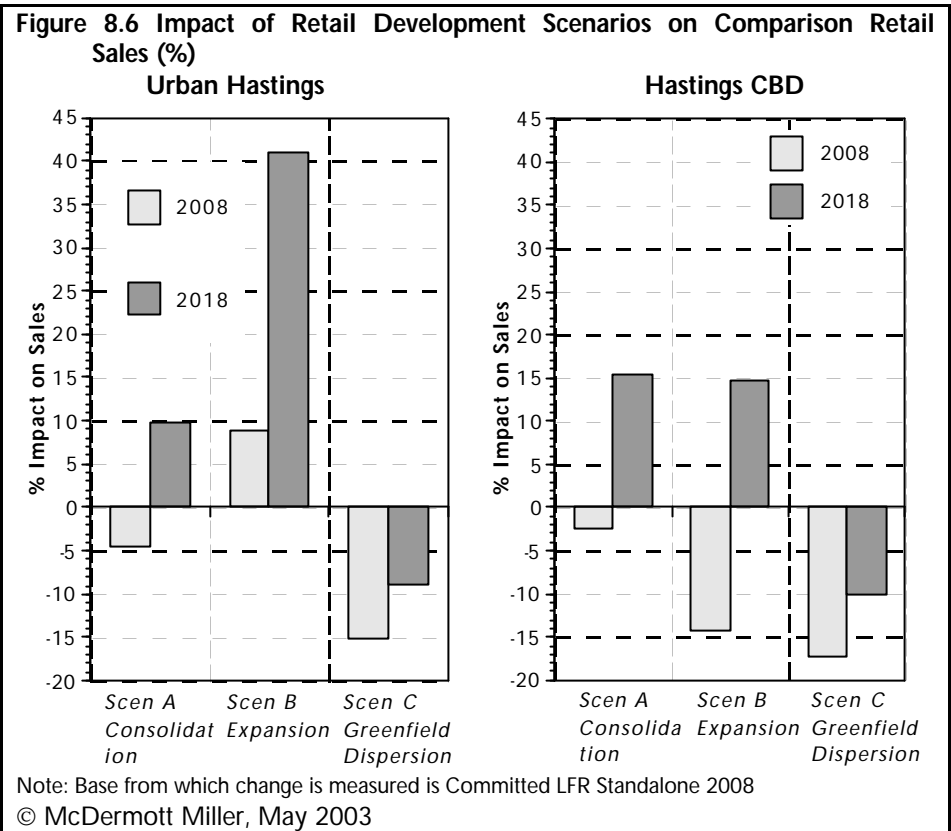
expected current and committed LFR floorspace by around 5% by 2008. (Figure 8.6)

- Sales within the existing Hastings CBD would be higher under *Scenario A: Consolidation* than under the *Scenario B: Expansion* or *Scenario C Greenfield Dispersion* (Figure 8.5).

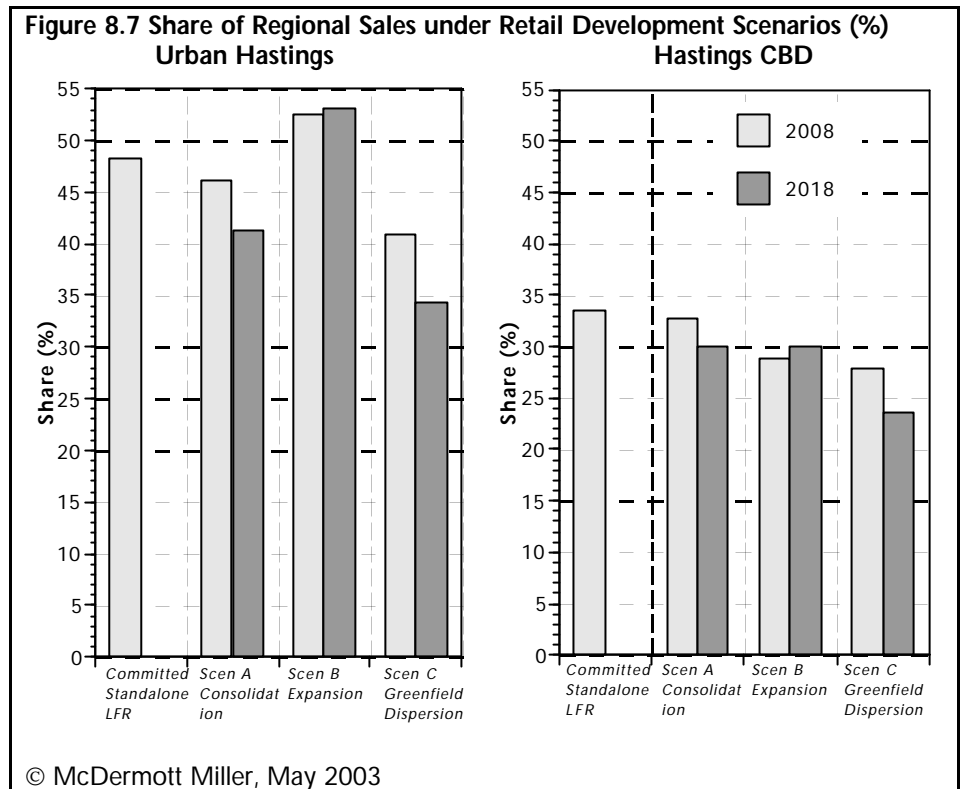


**Retail Sales Shift**

- The effect of following *Scenario A: Consolidation* (continued standalone in Hastings, megacentre in Napier) will be a shift of around \$30 million annually in retail sales away from Hastings to Napier compared to following *Scenario B: Expansion* (megacentre at Nelson Park) by 2008. This represents around 12% of retail sales in the Hastings District that would be expected in under current and committed LFR floorspace. Moreover all this shift will be felt in urban Hastings with maximum impacts on employment, profitability, rentals and other businesses.
- This adverse shift between *Scenario B: Expansion* and *Scenario A: Consolidation* grows to around \$70 million per annum in retail sales by 2018.



- Figures 8.7** show these shifts in terms of share of the Hawkes Bay market. *Scenario B: Expansion* should, by 2008 lift urban Hastings share of Hawkes Bay market from around 48% in 2008 (current and committed LFR floorspace) to around 53%. On the other hand *Scenario A: Consolidation* would reduce urban Hastings share of Hawkes Bay market from around 48% to 46% in 2008 and 41% in 2018.



**Scenario C: Greenfield Dispersion**

- A megacentre at Omahu Road (*Scenario C: Greenfield Dispersion* in **Figure 8.3**) will retain retail sales in the Hastings District almost as well as a megacentre at Nelson Park and in this respect is a better option than a megacentre in Napier (*Scenario A: Consolidation*).
- However, sales in Urban Hastings will be much lower under *Scenario C: Greenfield Dispersion* than under *Scenario B: Expansion*. By 2018 retail sales in Urban Hastings will have fallen to around \$210 million per annum, compared with around \$325 million per annum if a megacentre is built in Nelson Park.
- Urban Hastings market share under *Scenario C* will fall from 48% in 2008 (current and committed floorspace) to around 41%, and 34% in 2018. Moreover, its consequential impact on other businesses will be greater.

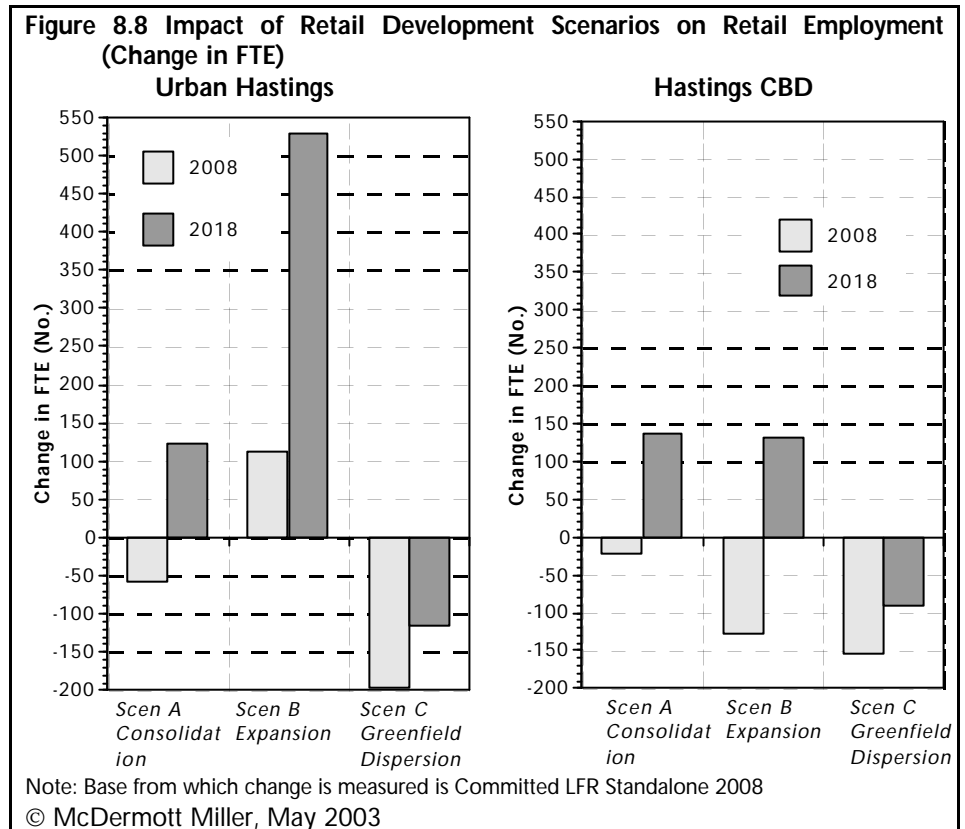
The cross-shopping effects on the CBD of a megacentre at Omahu Road under Scenario C are discussed in **Section 7.2**

**Contrasting Employment Effect**

- Under *Scenario B: Expansion* employment in Urban Hastings would be higher by some 110 FTE in 2008, than it would be if no changes beyond current and committed floorspace occur (**Figure 8.9**)
- This contrasts with situation under *Scenario A: Consolidation* which would be 60 FTE less; the net advantage of *Scenario B* over *Scenario A* in terms of Urban Area employment in 2008 would therefore 170 FTE. By 2018 this net advantage would grow to around 400 FTE.



- Under *Scenario C: Greenfield Dispersion*, FTEs in Urban Hastings would be 200 FTE less than it would be if no changes beyond current and committed floorspace occur. The net advantage of *Scenario B* over *Scenario C* in terms of Urban Area employment in 2008 would therefore be 310 FTE. By 2018 this net advantage would grow to around 640 FTE.
- Hastings CBD employment would be highest under *Scenario A: Consolidation*



**Net Economic Effect**

A measure of the contribution made to the economy of Urban Hastings under each scenario is the direct value added to the Urban Hastings economy by the stream of sales under each of the three scenarios.

The direct value added is that percentage of sales left after retail stores have purchased stock, together with other goods and services. Value added in the retail sector is around 22% of retail sales.

The estimated net present value of annual streams of value added under the three scenarios, generated over the 2003-2023 planning period are

- under *Scenario A: Consolidation* , \$412 million
- under *Scenario B: Expansion* , \$474 million
- under *Scenario C: Greenfield Dispersion*, \$370 million.

That is, *Scenario B: Expansion* is worth in present value terms \$62 million more to the Urban Hastings economy in terms of direct value added than *Scenario A: Consolidation*, and \$104 million more than *Scenario C: Greenfield Dispersion*.

Total value added takes into account all effects, both direct and indirect, immediate and follow-on; these are the “multiplier” effects. As we do not have a reliable output multiplier for Urban Hastings we have not estimated Total value added but the direct value added estimated above is conservative estimate of economic contribution under the three scenarios.

**CONCLUSION OF STAGE II ECONOMIC EVALUATION**

**Hastings retail trade, and its flow-on effects on employment, land values, rentals and other businesses, will benefit most from following *Scenario B: Expansion*.**

**8.4**

**COMMERCIAL FEASIBILITY OF SCENARIOS**

Having evaluated the three retail development scenarios in terms of their economic effects, we now assess how attractive they would be to commercial developers.

We summarise in the **Table 8.5** below the estimated commercial feasibility of each of the three retail development scenarios:

**Table 8.5: Commercial Feasibility Summary Evaluation**

	<b>Scenario A:</b>	<b>Scenario B:</b>	<b>Scenario C:</b>
<b>Evaluation Factor</b>	<b><i>Consolidation</i></b>	<b><i>Expansion</i></b>	<b><i>Greenfield Dispersion</i></b>
<b>Ease of Process</b>	difficult	easy	easy
<b>Availability of Land</b>	difficult	good	good
<b>Number of landowners</b>	46	1	2
<b>Duration of Process</b>	2-5 years	1-2 years	1-2 years
<b>Land price</b>	\$270-\$380psm	\$200psm	\$100 psm
<b>Development</b>	moderate	easy	easy
<b>Rents</b>	\$130-\$340psm	\$115 psm	\$115 psm
<b>Returns on Investment</b>	3.7%-8.6%	9.75%	12.50%

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In other words:

***Consolidation Scenario A:*** in terms of the Hastings component is:

- Slower to complete,
- more difficult to execute,
- substantially more expensive
- requires very much higher rents to sustain investment
- produces lower yields to investors at lower rents

**CBD Expansion Scenario B:** is:

- Attractive to investors to investors and retailers
- Relatively easy to execute
- Moderately expensive

**Greenfield Dispersion Scenario C:** is:

- The most attractive to investors and retailers (because of low rents, higher yields, easy execution, meets the time imperative).

### COMMERCIAL CHOICE

On this analysis **Consolidation Scenario A is commercially infeasible in the current climate compared with the other two scenarios of retail development.**

Individual retailers may undertake smaller developments for their sole use, accepting some of these financially adverse factors (eg high rents or high land cost), in the belief that long term gain will offset them. They may do this to gain presence in a particular location or because their brand drawing power is especially strong and consequent sales will be sufficient to more than offset additional costs.

However the economics of LFR operation and the inclinations of their national chains mean requirements to pay high rents will drive them to other lower cost sites rather than to a high priced site that may impact on their narrow operating margins.

On balance, therefore, a megacentre is only commercially feasible in **Scenario B: Expansion** or **Scenario C: Greenfield Dispersion** in the current and projected financial climate.

## 8.5

### PLANNING BALANCE SHEET

Our evaluation of retail development options focuses on quantifying the economic costs and benefits for Hastings. We now broaden the evaluation to include qualitative assessment of non-economic factors.

The Planning Balance Sheet in **Figure 8.9** below is a framework for presenting the performance of the three scenarios under a wide range of evaluation criteria through the planning period 2003-2023.

We term this a “Quadruple bottom line” planning balance sheet as the evaluation criteria are in four groups:

- District Council Strategic Outcomes
- Economic
- Environment
- Social

As many as possible of the criteria are expressed in quantitative terms, within the resources of the study. These are marked with an asterisk and have been

discussed earlier in the report. Performance of the scenarios on the criteria is indicated by rating them +5 to -5 and then ranking them as either first, second or third place.

The rating and consequent rankings of qualitative criteria presented in the Planning Balance Sheet below is based of McDermott Miller's assessment. Members of the Hastings Large Format Working Party also independently rated the scenarios on the qualitative criteria and arrived at a similar rankings.

The "Total Rank Order" in the last row of the Planning Balance Sheet were arrived at via a two step procedure:

- First: Rating and Ranking scenario's performance under individual criteria
- Second: Calculating an aggregated score for each scenario, assuming equal weighting for the criteria.

Table 8.9 Planning Balance Sheet

SCENARIOS  EVALUATION CRITERIA		2008			2018		
		Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development	Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development
		Partial CBD Standalone with Napier Megacentre	Megacentre at Nelson Park	Megacentre at Omahu Rd	Partial Standalone with Expanded Napier Megacentre	Megacentre at Nelson Park and Railway land	Expanded Megacentre at Omahu Rd
	<b>District Council Strategic Outcomes</b>						
1 ★	Central City retail strength, measured by CBD share of regional retail sales %)						
2 ★	Urban Hastings retail competitiveness, indicated by % share Hawkes Bay regional retail sales						
3 ★	Hastings District retail competitiveness, indicated by % share Hawkes Bay regional retail sales						
4	Effect on leisure and cultural sectors						
5	Effect on commercial office development						
6	Effect on industrial land development						
7	Sustainable Hastings Economic growth						

SCENARIOS  EVALUATION CRITERIA		2008			2018		
		Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development	Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development
		Partial CBD Standalone with Napier Megacentre	Megacentre at Nelson Park	Megacentre at Omahu Rd	Partial Standalone with Expanded Napier Megacentre	Megacentre at Nelson Park and Railway land	Expanded Megacentre at Omahu Rd
	<b>Economic</b>						
9 *	Net Gain in Hastings District Sales compared to 2008 Committed (\$M) per annum						
10 *	Net Gain in Hastings District Retail FTE compared to 2008 Committed (No.)						
11 *	Extent to which the scenarios are desirable to existing retailers;						
12 *	Commercial feasibility ie investment yield and implied rents						
13 *	Development impact, as measured by the change in retail sales of existing and committed Hastings floorspace (%)						

SCENARIOS  EVALUATION CRITERIA		2008			2018		
		Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development	Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development
		Partial CBD Standalone with Napier Megacentre	Megacentre at Nelson Park	Megacentre at Omahu Rd	Partial Standalone with Expanded Napier Megacentre	Megacentre at Nelson Park and Railway land	Expanded Megacentre at Omahu Rd
		<b>Environment</b>					
14 ★	% Change in Shopping trips made to CBD						
15	Effect on the "compactness" of the CBD						
16	Quality of physical environment for shoppers.						
17	Traffic generated and congestion effect						
18	General effect on urban physical character and form						
19	Compatibility with use of public transport, or access by walking						
20	Conservation of architectural heritage						

SCENARIOS  EVALUATION CRITERIA		2008			2018		
		Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development	Scenario A: Consolidation	Scenario B: Expansion	Scenario C: Greenfield Development
		Partial CBD Standalone with Napier Megacentre	Megacentre at Nelson Park	Megacentre at Omahu Rd	Partial Standalone with Expanded Napier Megacentre	Megacentre at Nelson Park and Railway land	Expanded Megacentre at Omahu Rd
	<b>Social</b>						
21	* Accessibility, measured by average distance travelled in shopping trips						
22	* Consumer pref. for different shopping centres as measured by average number of shopping visits						
23	* Form of LFR development preferred by shoppers;						
24	* Scope for crossover business and shopping						
25	(level of service indicators from point of view of the users) eg parking availability and convenience						
26	Contribution to vitality of CBD and Hastings District						
	<b>TOTAL RANK ORDER</b>	47	72 FIRST	49	46	69 FIRST	47

KEY: Ranking

	1 <sup>st</sup> Place (Weight 3 for Rank Order)
	2 <sup>nd</sup> Place (Weight 2 for Rank Order)
	3 <sup>rd</sup> Place (Weight 1 for Rank Order)

\* Quantified values underlie ranking

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## 8.6

### CONCLUSION OF STAGE II EVALUATION

The Planning Balance Sheet (**Figure 8.9**) shows *Scenario B: Expansion* is ranked highest on most performance criteria and overwhelmingly first in terms of Total Rank Order.

The other two scenarios have mixed ratings under each group of criteria but are comparable in terms of Total Rank; that is they are a distant second equal.

***Scenario B: Expansion*** is the preferred retail development scenario.