

3rd Quarter 2009

## Retail Spending a Positive for Property

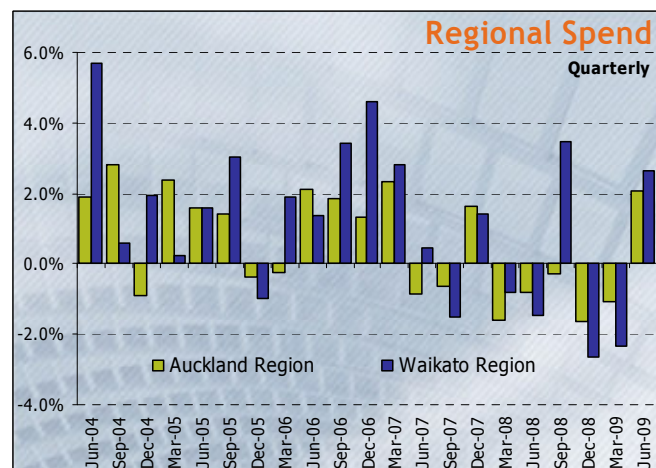
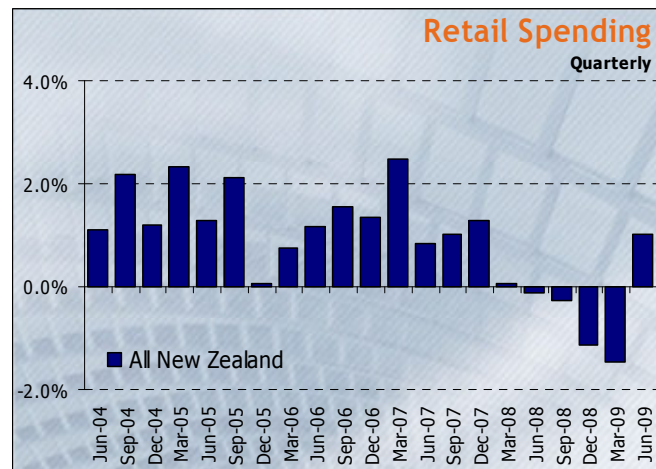
### ☛ Welcome News for Tenants & Landlords

National retail spending has rebounded strongly over the middle part of 2009, with the worst of the economic downturn appearing to have passed. According to Statistics New Zealand (SNZ), total retail spending across the country hit \$16.22b in Q2 2009, up 2% from the \$16.05b in Q1. The latest July and August figures show retail spending in Q3 2009 remains fairly positive. The improvement in consumer spending levels will come as a welcome relief to many retail tenants and landlords; many have been suffering financial hardship for the best part of 18 months.

Moreover, the improving situation is expected to have some positive repercussions for retail property. This includes keeping some businesses viable, helping arrest rising vacancies and revitalising investor confidence in retail property. This does not mean however that the retail property sector will automatically be revitalised with the strength enjoyed two to three years ago. Recovery is expected to be steady or slow. Quite a few retail tenants have endured a particularly difficult time and have been waiting in anticipation for better economic news.

Like in most recessionary property markets, there has been a bit of a stand-off between tenants and landlords as to where market rents currently sit and what is fair and reasonable for premises in the wake of tough times. Some over-anxious landlords have seen tenants vacate thus increasing vacancy levels. We also know rental incentives have increased in the past 12 to 18 months and this is likely to affect market rates until demand/supply factors come back into balance.

Many businesses will be looking for evidence of sustained retail spending before committing to new tenancy agreements and/or being more receptive to rental reviews. But generally there is a feeling that the domestic retail market has



halted its slide and is finally heading in the right direction, which should benefit all parties.

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Although retail spending is up nationally, the improved results were primarily driven by a significant turnaround in Auckland & Waikato. Auckland turnover was up 2% on Q1, while Waikato recorded even stronger gains (3%) over the quarter. In contrast, total regional spending in Wellington and Canterbury (during Q2) was still below that achieved in Q1, but in Wellington's case trade activity is rapidly improving. The overall trend in spending suggests that the upper North Island has a flow-on impact on behaviour with confidence drifting across the country in a North to South direction.

One factor having a positive impact on retail trade performance is the elevated NZ Dollar. Imported goods and foreign manufactured goods are more affordable at present and demand for such products is expected to increase; particularly with the traditionally strong Christmas retail trade now approaching.

Generally, New Zealanders are slowly beginning to loosen their purse strings given the reality that this recession hasn't been as lengthy or severe as economists initially predicted.

