
Market Overview

Over the last decade the strong growth in retail sales, combined with demand from global retail brands, has boosted demand for retail space along Wellington's 'Golden Mile.' This has resulted in limited, if any, retail vacancies, strong rental growth and an overflow from the traditional retail sites along Lambton Quay, Willis Street and Manners Streets onto adjacent CBD streets. Over the last twelve months, however, employment concerns, rising unemployment and more general constraints on household budgets has tempered consumers' appetite for retail spending. At the same time the collapse in new residential building has also significantly impacted upon retail sales. CBD retail rents have softened over the last six to twelve months and all secondary locations and some prime locations have seen vacancy appear.

A policy change which will have longer term implications for retail development in Wellington City was the passing in 2008 of District Plan Change 66. In the face of a number of mooted and proposed retail developments outside of the CBD, council moved to require any retail development in the central area and suburban centres, that exceed a defined size threshold, to seek consent as a discretionary activity (restricted). Council's discretion will be limited to the impact of the development on the sustainability of the cities existing retail centres, the sustainability of the transport network, and the location of retail activities within Wellington City.

Retail Property Market Drivers

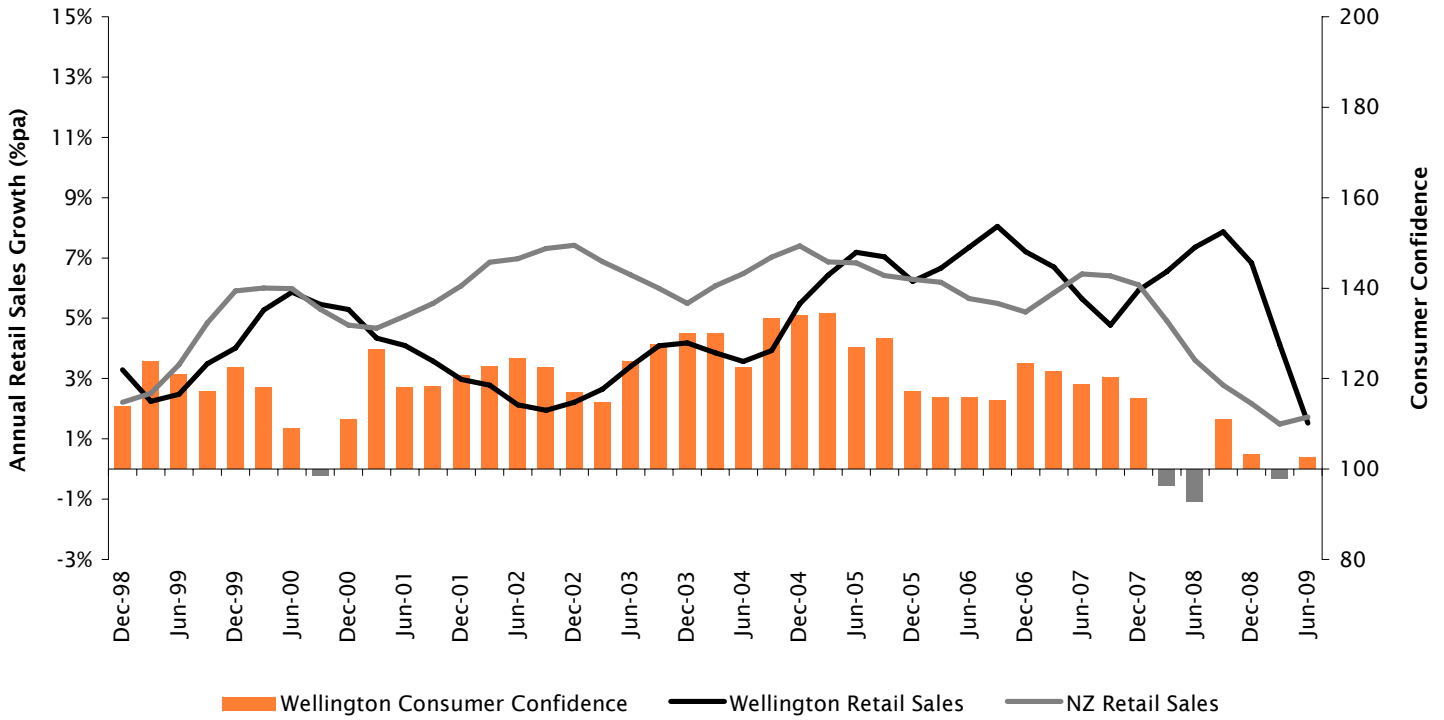
The performance of a region's retail property market is influenced by trends in its economic and demographic drivers, in conjunction with supply trends. Key demand factors likely to influence the performance of the retail sector include:

- Consumer confidence;
- Disposable income growth;
- Employment and labour force participation rates;
- Interest rates;
- Access to credit;
- Economic growth (both national and regional);
- Population growth; and
- Personal/household wealth.

The combination of these factors has resulted in strong nominal growth in retail sales across the Wellington region over the last decade; however, the rate of growth has dropped significantly over the past twelve months.

Figure 1 presents the trend in Wellington consumer confidence together with the trend in Wellington and New Zealand retail sales since mid 1998.

Figure 1: Wellington Consumer Confidence and Retail Sales Growth



Source: Westpac and Statistics New Zealand

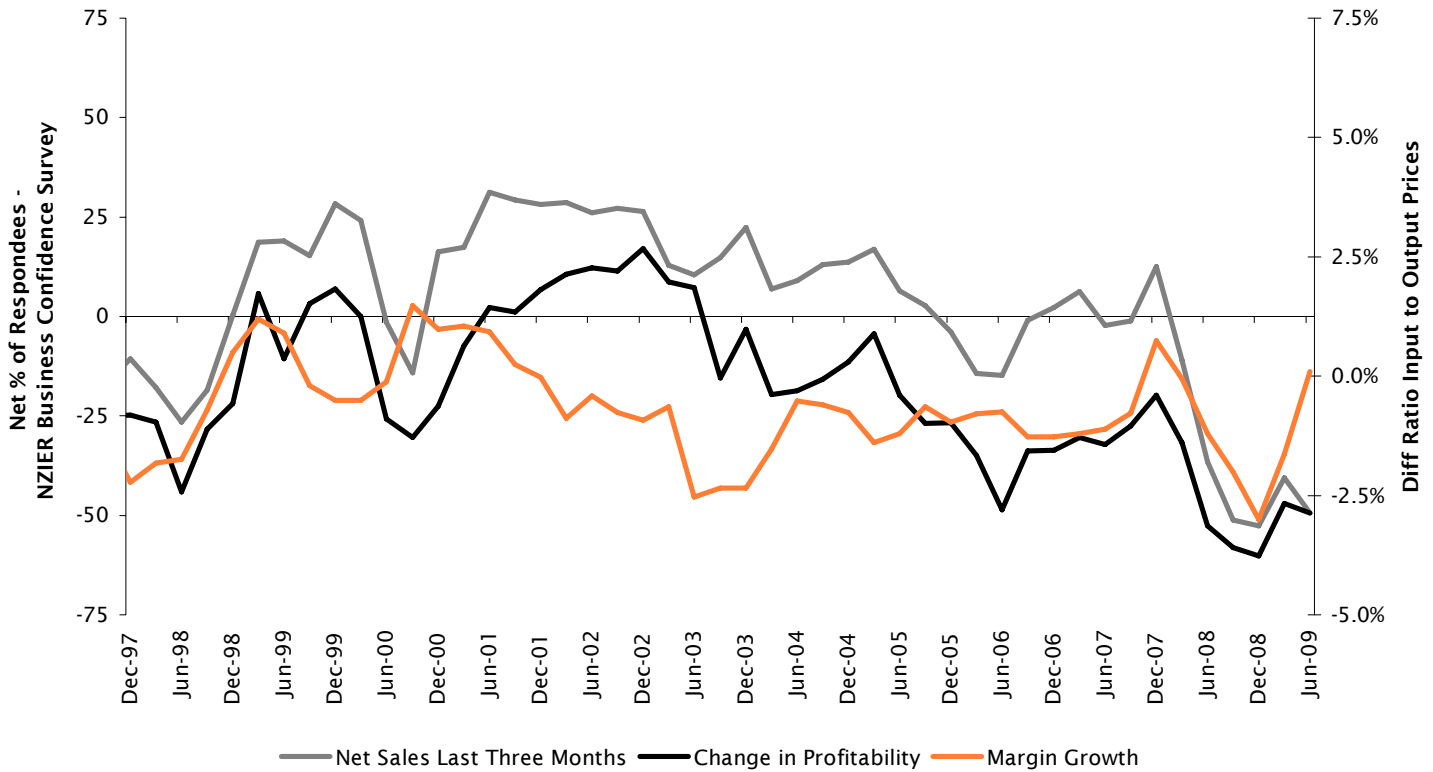
The growth in sales in the Wellington region over the June 2009 year was 1.5%, well down on the 4.1% growth recorded in the March 2009 year, and a decline of 2.6 percentage points over the sales growth recorded for the previous corresponding period. Nationally, the rate of retail sales growth fell from 3.6% in the year to June 2008, to 1.7% in the year to June 2009.

The June 2009 quarter Wellington consumer confidence measure rose to a positive measure of 102.5, which means the number of pessimists outweighed the number of optimists, albeit only slightly.

Over the last twelve months employment concerns and rising unemployment, coupled with more general constraints on household budgets has begun to temper consumers' appetite for retail spending. At the same time the collapse in new residential building has also significantly impacted upon retail sales. Retail rents have softened over the last six to twelve months and all secondary locations and some prime locations have seen vacancy appear.

Figure 2 presents the trend in net sales, profitability and margin growth within the retail sector since 1997.

Figure 2: Retail Sales, Profitability and Margin Growth Trends



Source: NZIER

Retailer’s net sales and profitability have weakened over the last quarter after slight rebounds in the March 2009 quarter. Retailer’s margin growth, measured as the difference between the growth in input and output costs, delivered a positive result in the June 2009 quarter for the first time since December 2007, indicating a significant focus by retailers on costs over the period. Figure 2, however, shows that for a number of years retailer’s costs have been rising faster than their prices, which is consistent with them experiencing a decline in profitability. This would suggest that their ability to pay higher rents is likely to continue to be constrained in the short term.

Table 1 presents the New Zealand wide trend in annual sales growth by store type.

Table 1: National Retail Sales Growth by Store Type

Store Type	Sales (\$M Jun-09 Year)	Annual Retail Sales Growth (Year End)			
		Jun-06	Jun-07	Jun-08	Jun-09
Food Retailing	1,745.00	6.5%	3.3%	-8.4%	6.0%
Supermarkets	14,807.80	6.2%	7.4%	7.7%	5.3%
Footwear	462.30	13.6%	12.5%	7.2%	4.2%
Clothing & Softgoods	2,557.50	9.3%	4.2%	1.8%	-0.9%
Furniture & Floor Coverings	1,318.80	4.8%	6.1%	-0.5%	-15.9%
Appliance Retailing	2,501.20	1.9%	9.5%	-4.1%	2.6%
Hardware	1,436.20	12.0%	9.9%	6.8%	-7.1%
Chemist	1,872.30	4.2%	7.6%	1.1%	4.5%
Department	3,794.80	3.3%	4.3%	3.2%	0.2%
Recreational Goods	2,305.50	0.6%	7.5%	0.9%	-1.0%
Accommodation, Hotels & Liquor	3,808.60	48.4%	5.4%	5.0%	-0.3%
Cafes, Restaurants & Takeaways	5,144.20	45.0%	6.4%	4.5%	0.9%
Other	1,774.70	6.8%	6.9%	3.7%	1.6%
Personal & Household Services	230.80	-1.5%	14.7%	-4.1%	-3.3%
Sub Total (Ex Motor Vehicles)	48,277.90	5.6%	6.5%	3.6%	1.7%
Motor Vehicle Retailing	13,315.70	4.1%	2.2%	7.4%	-11.7%
Motor Vehicle Services	3,414.90	8.2%	1.7%	3.7%	-2.7%
Total	65,008.50	5.4%	5.2%	4.5%	-1.6%

Source: Statistics New Zealand

In the year to June 2009 many store type categories experienced negative growth with 'Furniture and Floor Coverings', 'Motor Vehicle Retailing' and 'Hardware' experiencing the most significant decline, down 15.9%, 11.7% and 7.1% respectively. Sectors to show the strongest growth included 'Food Retailing' (6.0%), 'Supermarkets' (5.3%), 'Chemists' (4.5%) and 'Footwear' (4.2%).

Development Activity

There are a small number of significant retail developments and refurbishments that have either recently been completed, are under construction or proposed for the Wellington region. These include:

- Construction was completed in 2008 on a 3,000 square metre retail centre at 50 Tacy Street, Rongotai. The development has five individual retail units ranging from 200 square metres to 1,000 square metres. One retail unit is still to lease. The largest of the retail units has been leased to Big Save Furniture;
- A 0.87 hectare site on the corner of Tasman, Rugby and Belfast Streets has been cleared in preparation for development. Foodstuffs are proposing a 2,675 square metre fresh food focussed New World supermarket, an adjoining two level café overlooking the basin reserve, three commercial tenancies, 147 carparks and 22 apartments;
- DNZ, owners of the Johnsonville shopping centre propose a comprehensive redevelopment and expansion of the existing centre including integration with a transport hub and upgraded existing railway station. This project is currently in planning with resource consent still to be secured;
- A \$17 million redevelopment of Coastlands Mall, located in Paraparaumu, has recently commenced. The two stage redevelopment will include additional floor space as well as a complete new look inside and out. The project is expected to be completed by mid 2010; and
- Progressive Enterprises proposes to build a new 4,402 square metre Countdown supermarket at the intersection of Adelaide Road, John and Hanson Street. The complex will also include four smaller shops on the ground floor, a café and undercover parking for 236 cars.

Leasing Activity

Table 2 demonstrates the typical rental ranges for retail in the CBD.

Table 2: Retail Gross Rents

Location	Typical Rental Range (\$Gross psm)	
	June 2008	June 2009
Prime Lambton Quay	\$2,300 - \$2,500	\$1,900 - \$2,300
Featherston Street	\$850 - \$1,250	\$800 - \$1,100
Willis Street	\$900 - \$1,600	\$650 - \$1,500
Courtenay Place	\$680 - \$1,000	\$800 - \$1,000

Source: Darroch Research

CBD retail gross rentals have declined in most areas over the last year at both the top and bottom ends and all secondary areas and some prime locations have seen vacant retail units appear. Over the course of the last decade there has been an overflow of demand from Lambton Quay to Featherston Street and more recently to Willis Street. At the same time Courtenay Place and Cuba Street have continued to evolve with both now offering an eclectic mix of bars, cafes, restaurants, as well as conventional retail.

It is our expectation that rents will continue to consolidate at current levels in the short term.

Recent retail leases and reviews are presented in Table 3.

Table 3: CBD Retail Leases and Reviews

Address	Tenant	Date	Total Area	Rental Range (Gross psm)
The Terrace				
111 The Terrace	Finishing Touch Nail Spa	Jun-09	60	\$300 - \$350
155 The Terrace	Kiwibank	Feb-09	178	\$215 - \$315
47 The Terrace	Emporio	Nov-08	70	\$665 - \$765
Cuba Street / Courtenay Place				
132 Courtenay Place	Electric Avenue	Jun-09	94	\$900 - \$1,000
136-138 Cuba Street	EspressoHolic	Jun-09	200	\$350 - \$450
55 Courtenay Place	Burger King	May-09	135	\$830 - \$930
94 Cuba Street	Hallensteins	Apr-09	301	\$700 - \$800
71-81 Cuba Mall	Arty Bees Bookshop	Apr-09	360	\$500 - \$600
71 Cuba Mall	Overland	Mar-09	94	\$1,300 - \$1,400
Lambton Quay				
256 Lambton Quay	RYOS	Aug-09	52	\$2,000 - \$3,000
142 Lambton Quay	Nail Care	Jun-09	60	\$1,300 - \$1,400
218 Lambton Quay	Amazon	Apr-09	89	\$2,185 - \$2,285
342-352 Lambton Quay	Principals	Feb-09	85	\$2,400 - \$2,500
256 Lambton Quay	YD	Feb-09	352	\$1,850 - \$1,950
Willis Street				
124 Willis Street	Wellington Dentists Limited	May-09	152	\$700 - \$750
100 Willis Street	Maggie Potter	Nov-08	74	\$1,250 - \$1,350
75 Willis Street	Kumfs	Oct-08	115	\$1,150 - \$1,160

Source: Darroch Research

Investment Market

Over the last six months there have been few major retail investment sales. Recent retail investment sales include:

- Capital on Quay, 256 Lambton Quay, Wellington was purchased by Wilmshurst Properties in August 2009 for \$25,650,000 at a yield of 7.3%. Originally only the two level shopping complex at the base of the building was to be sold, however, Wilmshurst Properties decided in the end to purchase the whole building;
- A retail unit in The Whitaker Building at 136 Willis Street, Wellington sold in April 2009 for \$1,590,000 at a yield of 6.2%. The unit is 284 square metres and is leased to Bello;
- Churchill Drive Shopping Centre, 124 Churchill Drive, Crofton Downs sold in March 2009 for \$6,000,000 at a yield of 9.8%. The shopping centre comprises of nine specialty store and a Woolworths supermarket, there is also a standalone building which is part of the complex (formerly a Pizza Hut restaurant);
- Cnr Cuba and Wakefield Streets, Wellington, sold in December 2008 for \$1,345,000 at a yield of 6.6%. This equates to a sale price of \$7,390 psm. The unit is leased to Felix Café; and
- 176-186 Cuba Street, Wellington, sold in December 2008 for \$904,000 at a yield of 8.6%. This equates to a sale price of \$3,398 psm. The unit is leased to Flying Burrito Brothers.

Table 4 presents the total return delivered by retail, industrial and CBD office property over the last year, two years, five years and ten years.

Table 4: Retail, Shopping Centre and Office Annual Compound Returns

To March 2009	NZ Retail	Industrial	Wellington Office (CBD)
1 Year	-1.3%	2.6%	2.6%
2 Years	10.6%	8.0%	14.8%
5 Years	14.1%	13.2%	18.1%
10 Years	13.1%	11.8%	13.0%

Source: Darroch Research and New Zealand Property Council

N.B. Returns series based on the New Zealand Property Council's index up to March 2006, and since then Darroch's return series.

With the exception of the past 12 months, retail returns had achieved 10% over the last five years. Over the same period the Wellington CBD Office market has consistently, albeit slightly, out performed the retail sector in terms of annual returns.

Market Outlook

The outlook for the retail sector is for the total volume of sales to continue to grow but at a much slower rate than in the past. The positive factors which have underpinned growth over the last five or so years have weakened substantially with households, particularly those with high debt levels, reducing discretionary spending, which is resulting in an ongoing weakness in retail sales growth. The impact of this is already evident with an increase in vacancies in many secondary retail locations and more recently prime retail locations and our expectation is for retail rents to continue to soften.

Over the short term, lower interest rates and lower inflation will provide some support for the retail sector as will a forecast increase in new residential building. However, offsetting this will be ongoing labour market weakness and a generally sluggish economic recovery.

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