NEW ZEALAND

Cushman & Wakefield

Global Cities Retail Guide

CUSHMAN & WAKEFIELD

New Zealand lies in the southwestern Pacific Ocean some 1,500km (900 miles) from Australia, and comprises North and South Islands, plus many smaller islands.

It is a small market of some 4.8 million New Zealanders (informally known as Kiwis). Over three-quarters of the population live in the North Island, with one-third of the total population living in Auckland. The other main cities are Wellington, Christchurch and Hamilton.

Some 3.7 million people visited New Zealand in 2017, predominantly from Australia (1.47 million), followed by from China with 418,000 visitors. 2017 saw strong growth in visitor numbers from the USA (330,000) and the UK (249,000). Tourists spent some NZ$ 10.4billion in 2017.

The New Zealand economy has been amongst the western world's best performing post the global financial crisis. Further strong growth is anticipated over the course of the next two years (approx. 3.0% p.a.). The economy has been driven by record levels of population growth, the result of high levels of net migration, the construction sector and a booming tourism sector. The agricultural sector, long the backbone of New Zealand's economy continues to perform well with export values forecast to increase further in the short term. In line with global trends, inflation has been slow to return to the New Zealand economy. As a result the Reserve Bank of New Zealand (RBNZ) has been able to hold interest rates at historically low levels which has supported economic expansion and seen the national unemployment rate drop to 4.3%

The rapidly expanding population, strongly performing economy and significant increases in residential property values have seen lifts in consumer confidence which has led to increases in retail spending nationally. The retail sectors experiencing the strongest spending growth are mainly in the food and hospitality sectors, including supermarkets, food and beverage retailers and entertainment, along with the wellbeing sector.

NEW ZEALAND OVERVIEW

NEW ZEALAND
ECONOMIC OVERVIEW

ECONOMIC SUMMARY

ECONOMIC INDICATORS*	2017F	2018F	2019F	2020F	2021F
GDP growth	2.5	2.6	2.2	2.3	2.1
Consumer spending	3.8	2.2	2.3	2.2	2.1
Industrial production	2.0	2.8	2.5	2.4	2.4
Investment	2.6	3.2	2.6	1.7	1.6
Unemployment rate (%)	4.8	4.9	5.0	5.0	5.0
Inflation	1.9	2.0	2.0	2.0	2.0
NZ$/€ (average)	1.6	1.8	1.8	1.7	1.7
NZ$/US$ (average)	1.4	1.5	1.5	1.4	1.4
Interest rates 3-month (%)	1.8	1.8	2.3	3.1	3.5
Interest rates 10-year (%)	3.0	3.2	3.5	3.8	3.9

ECONOMIC BREAKDOWN

Population	4.6 Million (2017F)
GDP (nominal)	US$ 195.5 Billion (2017F)
Public Sector Balance	1.3% of GDP (2017F)
Public Sector Debt	28.4% of GDP (2017F)
Current Account Balance	-2.3% of GDP (2017F)
Parliament	Constitutional Democracy
Head Of State	HM the Queen
Prime Minister	Jacinda Ardern
Election Date	September 2017

RETAIL SALES GROWTH: % CHANGE ON PREVIOUS YEAR

NEW ZEALAND	2017F	2018F	2019F	2020F	2021F
Retail Volume*	4.1	2.5	2.5	2.5	2.3

NOTE: *annual % growth rate unless otherwise indicated. Figures are based on local currency and real terms. E estimate F forecast.

SOURCE: Oxford Economics Ltd.

NEW ZEALAND
LARGEST CITIES

CITY	POPULATION (2017)
Auckland	1.66 million
Christchurch	381,500
Wellington	212,700
Hamilton	165,400
Dunedin	128,800
Tauranga	131,500

Source: Statistics New Zealand
Provisional Estimates June 2017

NEW ZEALAND
RETAIL OVERVIEW

MAJOR DOMESTIC FOOD RETAILERS

Pak ‘n’ Save, Countdown, New World

MAJOR INTERNATIONAL FOOD RETAILERS

Progressive Enterprises (Countdown)

MAJOR DOMESTIC NON-FOOD RETAILERS

Farmers, The Warehouse, K-Mart, Harvey Norman, Briscoe Group (Rebel Sports, Briscoes)

INTERNATIONAL RETAILERS IN THE NEW ZEALAND

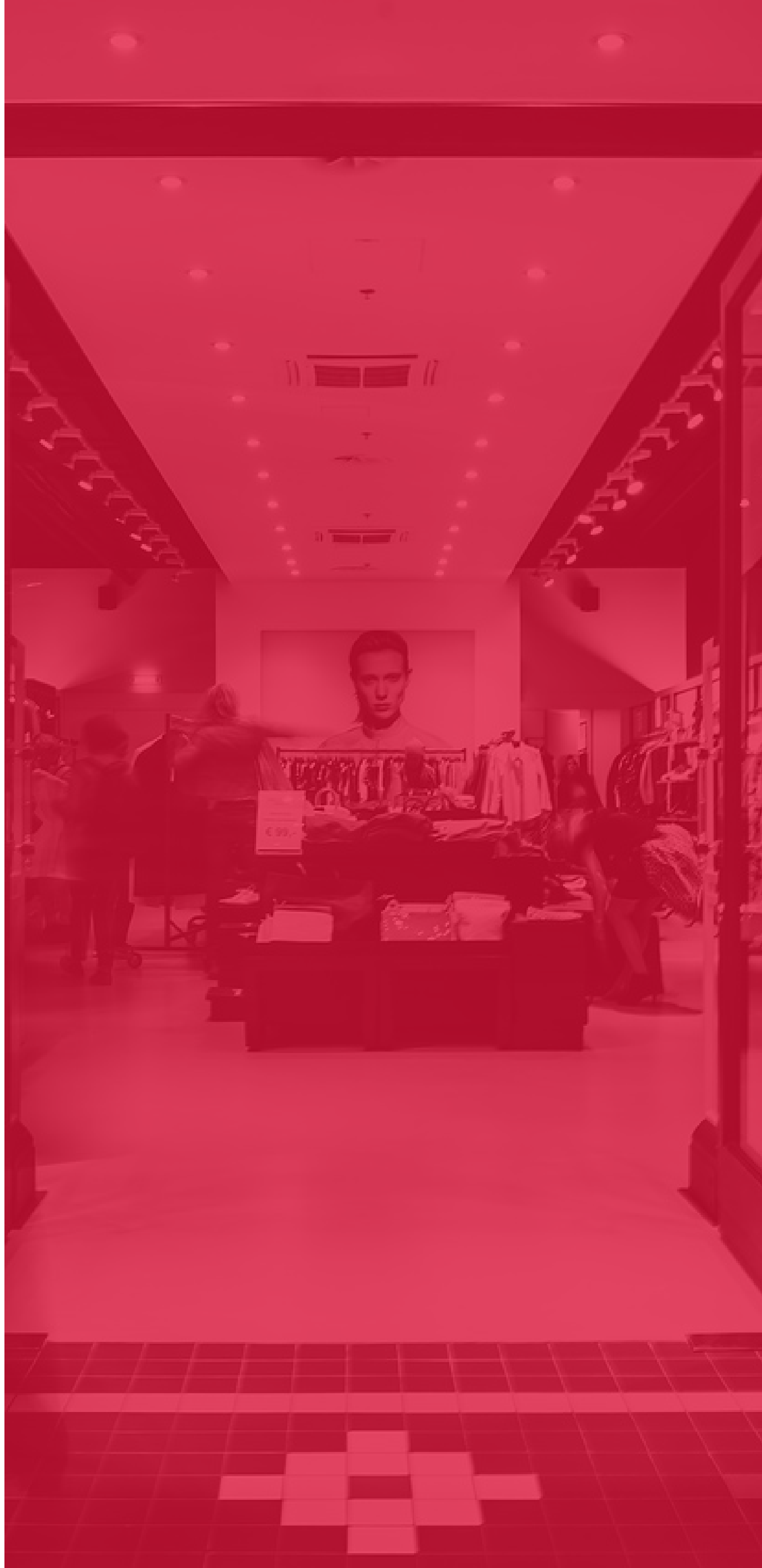
H&M, Zara, Coach, Gucci, Louis Vuitton, Prada, M.A.C, The Body Shop, Kathmandu, Nike, Adidas, Esprit, Apple, Michael Hill, Cotton On

FOOD AND BEVERAGE OPERATORS

McDonalds, Burger King, Wagamama, Starbucks, Domino’s, Wendy’s, Pizza Hut, Subway, Dunkin Donuts, Carls jnr

TYPICAL HOURS	
MONDAY – SATURDAY	**SUNDAY**
09.00-18.00	10.00-17.00

NEW ENTRANTS TO MARKET			
H&M	Mecca	Tiffany	Victoria’s Secret



NEW ZEALAND
RETAIL SCENE

New Zealand has a heavy weighting towards shopping centre retail, with only the most well-established strip retail areas outperforming their large-format counterparts. Total shopping centre retail stock is over 2 million square metres of rentable area. The dominant format is department-store anchored centres with a good supply of national or international chains, usually organised in a precinct format.

Large format, or bulk retail, is another popular retail format, with the many homeware retailers that bulk retail accommodates supported by a population with a keen interest in residential investment.

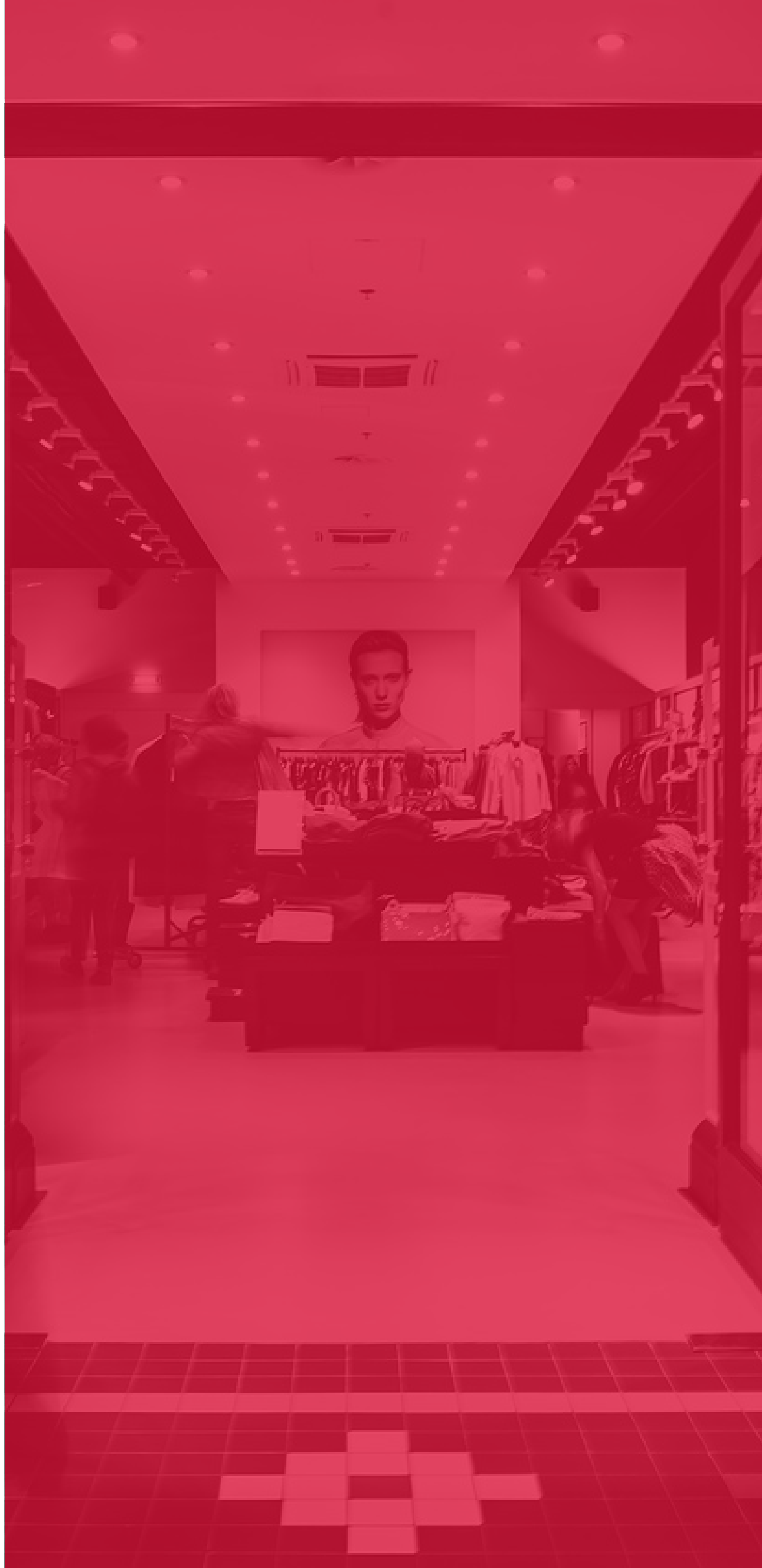
E-commerce is developing rapidly in New Zealand with burgeoning usage of multi-channel strategies, including internet and mobile. Internet spending was up 13% in 2017 compared to 2016, according to statistics released by BNZ bank. It is estimated that the value of online sales reached $NZ 4.1 billion in 2017 with 63% of this total spent with domestic stores.

In order to combat the negative impact of online shopping on foot traffic within traditional retail locations, property owners have looked to increase "experience shopping" options with a particular focus on food and beverage, entertainment and wellbeing offerings. By way of example major mall owners Kiwi Property Group and Scentre Group have made expansion of dining options a significant part of mall expansion projects at their Sylvia Park and 277 Broadway Newmarket Centres.

New Zealand's retail market is becoming more diverse as an increasing number of international retailers, particularly well known international brands, are looking at New Zealand as a market with enough population density to support a store. This has become increasingly evident given New Zealand's relatively strong economic situation. Major mall owners, in particular, are keen to attract popular international brands to increase the appeal of their centres. Success has been achieved with brands such as H&M, Zara and Coach entering the New Zealand market over the last couple of years.

It is possible to enter the New Zealand retail market direct, though many also franchise and enter via concessions/shop-in-shops. There are no restrictions on foreign companies either buying or leasing property in New Zealand, for most classes of property. It is generally believed that the New Zealand lease structure is more orientated toward landlord than tenant: but recently landlords have become more amenable to tenant requests.

Although it is possible to occupy a new building within a few weeks, it is more realistic to expect that on average it will take 6-9 months from starting the property search to taking occupation of an existing property. This includes time for considering location options, the identification of buildings or sites, negotiating leasehold or freehold terms, drafting of the appropriate legal documentation and completing fit-out, if required.



NEW ZEALAND
SHOPPING CENTRES

TOP SHOPPING CENTRES BY SIZE			
NAME	CITY	SIZE (GLA SQM)	YEAR OPENED
Sylvia Park	Auckland	90,388	2006
Westfield Riccarton	Christchurch	55,373	1965
Botany Town Centre	Auckland	62,700	2001
Westfield Albany	Auckland	53.326	2007
Queengate	Wellington	45,470	1986
Westfield Manukau	Auckland	45,538	1976
Northlands	Christchurch	41,000	1967
Coastlands	Kapiti Coast	44,127	2012 (refurbishment)
NZRPG Westgate	Auckland	44,904	1998
Westfield St Lukes	Auckland	39,793	1971
Norwest Shopping Centre	Auckland	34,700	2015

NEW ZEALAND

KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	**COMMENT**
Lease Terms	Lease terms in New Zealand are traditionally for between six and eight years as an initial term. It is common for the lease to include rights of renewal. There are typically two rights of renewal offered and they are usually for the same term as the lease. In the current economic climate, it is common for incentives to be offered in order for a leasing deal to be completed. Common incentives are either a cash payment from landlord to incoming tenant or for a rent-free period, which is typically one month per year of lease term certain. Incentives are negotiable though and vary depending on quality premises. The use of incentives is a far divergence of the pre-recession conditions whereby tenants were commonly paying key money to secure prime premises.
Rental Payment	Rent is paid monthly in advance with a two month deposit required upfront. Turnover rent is not common in general retail lease deals, although it is prevalent in supermarket leases. In shopping centres, tenants are typically required to pay a sizable base rent as well a percentage-of-turnover rent. Guarantees and bank bonds are not normally required for national or multinational tenants – company guarantees will usually suffice. For independent retailers, a guarantee is a requirement.
Rent Review	Both market and CPI reviews are used equally and occasionally in conjunction, as in the review mechanism will be by CPI or to market ‘whichever is greater’. Given the prevalence of the Auckland District Law Society (ADLS) lease, most have a soft ratchet clause, whereby the rent can decrease at review, but never below the initial rental determined at the outset of the current term.
Service Charges, Repairs and Insurance	A service charge is usually payable in multi-tenanted buildings and covers management fees, security, cleaning, landscaping, internal maintenance of common parts, external maintenance and insurance, servicing of elevators, water, heating, air conditioning, management fees and property taxes. It excludes internal maintenance and insurance of rented accommodation, utility charges and GST. The landlord is responsible for external/structural matters in shopping centres (charged back via service charge) or tenant (except in multi-let buildings). The tenant is responsible for internal matters. The landlord usually insures the main structure and external fabric but will charge this back to the tenant. Insurance for common parts is also paid by the landlord and charged back. The tenant usually pays for internal insurance directly.
Property Taxes and other costs	The local government authority charges rates, the local property tax, which is payable on commercial property. The local government authority resets the rateable value of the property every three to four years, depending on the area. With respect to payment, the tenant will pay a fair proportion of rates (including, without limitation, the relevant local authority rates) which is calculated as the fair market value of the premises as a proportion of the fair market value of the property. The fair market values of the premises and the property respectively must be agreed between the parties.

NEW ZEALAND
KEY FEATURES OF LEASE STRUCTURE

KEY FEATURES OF LEASE	
ITEM	**COMMENT**
Disposal of a Lease	Sub-letting is usually possible under the terms of the lease, subject to landlord's approval. Assignment rights are not normally barred in the lease but will also be subject to consent – which should not be unreasonably withheld. At lease end, the tenant is not obliged to re-instate the premises to the same condition as at the start of the lease. All tenant improvements must be approved by the landlord subject to the alteration covenant in the lease and in accordance with local authority planning rules and regulations. Older leases may have Privity of Contract whereby all former lessees can be held liable for any default by a later tenant under the same lease. In this situation, the same reinstatement of premises clauses would apply.
Valuation Methods	Shops are valued on a 'zoning' basis, using unit metre frontage rates. The retail zoning principle recognises that the area at the front of the shop, adjacent to its primary window frontage is the most valuable in rental terms. The rate per square metre is then assessed on a reducing percentage of the shop frontage rate, using a calculation based on the shop's depth, Upper and lower sales floors are similarly valued as a proportion of the shop frontage rate. There will occasionally be local variations to these rates, which will also depend on the quality and functionality of the accommodation, relative to the market norm. For corner units, it is usual to add a small percentage to the value of the ground floor, the amount of which will depend on the degree of overall prominence.
Legislation	Property Law Act 2007, in effect from 1 January 2008. A deed of lease must be in writing, executed by signing by an individual and witnessed, and delivered. There are two standard commercial lease documents used – the ADLS lease and the Property Council of New Zealand (PCNZ) Shopping Centre lease. It is common for an Agreement to Lease is used as the negotiating document prior to the final terms of the Deed of Lease being determined and signed.

ALAINA BEATTIE
Head of Transaction Management
92 Hugo Johnston Drive
Penrose, Auckland 1061
New Zealand
Mob: +64 29 969 4767
alaina.beattie@cushwake.com

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