BIG BOX OF SURPRISES

NEW ZEALANDERS HAVE EMERGED FROM 2020'S LOCKDOWNS TO EMBRACE BIG BOX RETAIL BOTH IN-STORE AND ONLINE CREATING AN UNEXPECTED SILVER LINING TO THE POST-PANDEMIC ECONOMY.

WHAT A DIFFERENCE A YEAR MAKES.

Like most of New Zealand's commercial entities in the first months of 2020, the owners and occupiers of the country's large format retail developments looked on in trepidation as COVID-19 locked Kiwis down at home for weeks.

While housebound Kiwis took to online shopping for everything from home office products and renovation supplies to fitness equipment, economic commentators were confidently predicting the demise of bricks and mortar retail.

Instead, owners of New Zealand's cornerstone large format retailers are riding a new wave of success. While most have reported increases in their online business through the rollercoaster of 2020, they have also all reported continuing strong figures for in-store purchases. Around the country, new and expanding large format retail centres are already under construction or about to break ground, and vacancy rates in existing sites are at an all-time low.

The growth is not limited to one preferred big-name brand. Most of the high-profile big box stores have recorded healthy results in the wake of a watershed 2020.

The Warehouse Group (TWG) that includes The Warehouse, Warehouse Stationery, Noel Leeming, Torpedo7 and online marketplace TheMarket.com reported $3.2 billion in sales in its annual report for the year ending 2 August 2020, a 1.5 percent increase compared to FY19 when compared on a 52-week basis (FY20 had 53 weeks).

This was despite all stores being closed for seven weeks during Alert Level 3 and 4 lockdowns in FY20.

By the end of FY20, online sales for TWG had increased by 55.2 percent on the prior year and represented 11.4 percent of total group retail sales for the year.

That impressive online growth is understandable given the amount of time shoppers spent at home, but it's notable that almost 90 percent of TWG's total retail sales were still in-store.

TWG chief executive Nick Grayston said in his annual summation that click and collect sales increased by 103.2 percent in FY20 and a survey conducted on shopping habits during the first COVID-19 lockdown found that 48 percent of respondents shopped online with TWG for the first time in 2020.

In the annual report, Group chair Joan Withers said the performance of TheMarket.com – which was launched late-2019 offering more than two million products across more than 3,500 brands – gives the group confidence in the long-term value of this investment in the digital future.

> **"THOSE FIGURES MEAN THERE'S SOMEWHERE AROUND 83-85 PERCENT OF CUSTOMERS SHOPPING IN-STORE. THAT'S STILL A PRETTY BIG CHUNK."**
>
> ROD DUKE, BRISCOE GROUP CEO

Briscoe Group, which includes Briscoes, Rebel Sport and Living and Giving has a similar 2020 story. It posted a $73.2m profit, with net profit up 17 percent in the 12 months to January 2021 and a revenue increase of 7.5 percent in the same period to $701.8m.

But, as Briscoe Group CEO Rod Duke confirms, the growth is not just due to online shopping. "Pre-COVID, our online business was worth about 11 percent of our total revenue. Today it's about 17-18 percent. But we haven't experienced an online-only rush.

"Those figures mean there's somewhere around 83-85 percent of customers shopping in-store. That's still a pretty big chunk."

Similarly, Matthew Grainger, Woolworths New Zealand's acting general manager format, development and property, said eCommerce was a fast-growing part of its Countdown supermarket business, and now represents more than 10 percent of total sales.

"The choice of channel, be it home delivery or pick up from our stores, really comes down to personal preference for our customers – whatever is more convenient for them," he said.

The other shift for Countdown has been the development of "dark stores" – dedicated to fulfilling online orders, with no customer-facing service.

"Traditionally, all of our orders have been picked from local Countdown supermarkets, but with the growth of the online channel we have recently developed dedicated Countdown eStores in Auckland and Wellington, solely for servicing our online home delivery customers," said Grainger.

"While these eStores play an important role in the larger metropolitan areas, they don't meet all of our customers' shopping missions, so there will always be a need for well-designed supermarkets in convenient locations throughout New Zealand."

FRESH SAVINGS, FRESH AIR

In part, Duke puts the lockdown-defying spending numbers down to the closed borders and New Zealanders' inability to take overseas holidays.

"Having restricted overseas travel has left some customers with more savings in their pocket, and fewer places to spend it. Instead of spending on travel as they may have planned, they've chosen, by and large, to spend those savings on their homes and themselves," he says, adding that the company's sporting goods business, Rebel Sport is also "riding very, very high" as post pandemic, Kiwis look to get fitter and spend more time outdoors in their own country.

Chris Beasleigh, Bayleys' national director retail sales and leasing believes large format retail centres have other unique features that appeal to shoppers in a post-COVID world.

"COVID has actually assisted a lot in making the large format retail market very strong and most retailers in that market are in growth mode.

"Large format retail centres have big open-air car parks, where you can often park right outside the store you're visiting. The stores themselves tend to be large so shoppers can spread out inside," he says. "All those factors appeal to shoppers who are more conscious of these things after COVID."

A LONG-TERM LOVE

Of course, it's not all about COVID. It's not as though New Zealanders have only discovered big box shopping centres as a result of the pandemic lockdowns, it's just strengthened a long-term love affair. Recent MSCI annual data comparing New Zealand shopping centres, bulk retail and other retail found that:

- bulk retail has outperformed shopping centres and other types of retail, achieving 12.2 percent total returns over the past three years;
- bulk retail has returned close to 17 percent over the last year while shopping centres returned -2.3% over the same period;
- bulk retail has consistently outperformed shopping centres and other retail in terms of capital gains and income returns, on average over the past three years bulk retail has returned 5.3 percent and 6.5 percent respectively
- over five years, shopping centres have returned 2.2 percent total returns, while bulk retail returned 11.6 percent and other retail returned 10.1 percent.

Beasleigh says that when it comes to bricks and mortar, large format centres have appealing features for retail tenants as well as shoppers, beyond the strong sales figures. These include competitive rents, often lower operating costs for essentials such as cleaning and lighting.

> "COVID HAS ACTUALLY ASSISTED A LOT IN MAKING THE LARGE FORMAT RETAIL MARKET VERY STRONG AND MOST RETAILERS IN THAT MARKET ARE IN GROWTH MODE."
>
> CHRIS BEASLEIGH, BAYLEYS' NATIONAL DIRECTOR RETAIL SALES AND LEASING

He adds that the tenancy mix of large format centres is changing, which may also contribute to the ongoing success of the sector.

"Previously these types of retail developments were really focused on home whiteware; big purchases. Now they are much more diverse and can include all kinds of retail, including fashion."

Some of the large format retail properties currently being marketed by Bayleys include "town centre" type developments which are anchored by at least one recognised big box retailer, such as a Bunnings, Briscoes, The Warehouse or Countdown, but now include banks, clothing and footwear retailers, pharmacies, and beauty salons as well as cafes and even bars; all with open air environments and set around large car parks.

Beasleigh cites Queenstown's Five Mile retail and commercial hub, owned by Queenstown Gateway (5m) Ltd (QGL), as a good example of what successful large format retail is becoming in New Zealand.

The Five Mile site, at Frankton, counts Briscoes, Rebel Sport, The Warehouse and Countdown among its big box tenants but they are mixed in with smaller New Zealand brands such as Hannahs and local Queenstown businesses. The site currently has two new buildings under construction including a Sudima Hotel and a pub. QGL has plans to add a further five buildings to the site over the next five to seven years.

"It's out of the congestion at the centre of town. It's easy to find a park right outside where you need to go," Beasleigh says.

Another emerging big box retail centre type are those which sit adjacent to other broader mixed-use retail and entertainment sites. For example, Kiwi Property Group (KPG), which owns Sylvia Park mall in Auckland has developed the big box site across the road in Mt Wellington, known as Sylvia Park Lifestyle, which houses large format retailers such as Freedom Furniture and Spotlight, offering shoppers mixed-use options in a large suburban hub.

KPG has also developed Westgate Lifestyle, a similar site, adjacent to New Zealand Retail Property Group-owned Westgate Shopping Centre.

UNDER CONSTRUCTION

With the future looking more certain compared to the early days of lockdown, developers are pressing on with their pipeline of planned big box retail projects.

Beasleigh says there is a good amount of development activity to meet the growing demand and address the current shortage of stock for eager tenants.

"Most are projects that were already in the pipeline or underway pre-COVID, but there is certainly fresh impetus to get them completed. The pandemic certainly hasn't put any large format projects on hold," he says.

"Areas like Silverdale are growing and need more capacity. Warkworth is growing and needs to be on the radar. Basically, if you see an area that currently has a McDonald's and a BP, it's likely that in the next few years it will be joined by something like a Bunnings and a supermarket."

And the growth is not confined to our biggest city. While the Auckland market is probably experiencing the largest growth, purely as a result of being the largest centre, Beasleigh says, there is plenty of activity in the regions that includes new developments or the expansion of existing sites.

One key development being marketed by Bayleys is the expansion of Tauranga Crossing in the Bay of Plenty.

On completion, the centre, developed by Tauranga Crossing Ltd, will be Bay of Plenty's largest shopping destination, offering 70,000sqm of retail space. It will incorporate elements of town centre retail, as well as an enclosed shopping centre and a large format retail lifestyle centre.

Other large format retail sites in the pipeline are:

- Showgrounds Hill by Redwood Group. Anchored by Countdown and Bunnings, this 34,000sqm shopping area on a 12ha site, is due to commence construction in July/August 2021.
- 231 Archers Road, Wairau Valley in Auckland is being developed by Archers Limited Partnership and has six retail and food and beverage tenancies with 130 car parks, in close proximity to PAK'nSAVE, Bunnings and Mitre 10.
- Open now, Todd Property Group's Ormiston Town Centre in southeast Auckland has retail spaces available in a mixed-use centre, that includes large format retail, commercial offices and dining.

LOOKING TO THE FUTURE

This development spurt is unlikely to slow down any time soon, particularly with big Australian brands eyeing the New Zealand large format retail market.

Beasleigh says members of Australia's Large Format Retail Association (LFRA) visited these shores in February and were very impressed with the state of the market here. He estimates that approximately 50 percent of the LFRA's members have a presence in New Zealand currently, but expects that to change.

"Most of them are thinking if they're not already here, they need to be here." Though it's a British brand, Beasleigh cites the arrival of sporting goods giant JD Sports into Sylvia Park mid-2021 as an example of things to come.

"I expect other brands like Baby Bunting out of Australia will be looking to New Zealand in the near future."

This is in addition to US giant Costco, which is coming to NZ Retail Property Group's big box site at Westgate in 2022 and is actively searching for further locations in Wellington and Christchurch.

These new retailers will lead to more large format retail developments around the country, but what we may also see, Beasleigh predicts, is some shuffling of tenancies as the big box big names review their catchment areas.

> "WE'RE LOOKING AT CATCHMENTS WHERE WE DON'T HAVE THE PRESENCE WE WANT TO HAVE. THAT MAY MEAN ESTABLISHING A STORE, IT MAY MEAN MOVING, REFURBISHING OR RESIZING AN EXISTING STORE."
>
> ROD DUKE, BRISCOE GROUP CEO

Rod Duke backs this up, saying Briscoe Group is actively assessing its catchments to make sure it has the right presence in the right place.

"We're looking at catchments where we don't have the presence we want to have. That may mean establishing a store, it may mean moving, refurbishing or resizing an existing store.

"With between 80 percent and 90 percent of our business still being done in-store this is clearly still the most favoured way customers chose to shop in the categories we operate in, it's important we're in the right areas."

FLEXIBILITY IS THE WAY FORWARD

Balancing the precious growth in online sales with still-thriving in-store business, means flexibility and the ability to pivot will be key to the ongoing success of New Zealand's large format retail sector.

"Things still aren't quite normal and we don't know what that new normal will look like, but we do know it won't be the same as pre-COVID," Duke says. "And it won't look exactly like the current business model.

"I suspect during this period we've not only got extraordinary lift in volume as people stay home, but I also suspect in some categories there's been a significant market shift as well.

"Customers are making choices about the quality of merchandise they want to buy, where they spend, what sort of centres they want to spend it in. Do they go in-store? Do they order it online, or order online and pick it up in-store; they're experimenting.

"In today's world, you've really got to let customers shop the way in which they choose and they don't always choose the same ways. Sometimes they will come into the shops and other times they will choose to shop online.

"It has made retailers be flexible in the way they do business and there's nothing wrong with meeting that demand for flexibility. At Briscoe Group we're up to speed with click and collect in stores. We have a substantial online presence, and we're able to deliver to all stores in a very short cycle.

"All that is helped by the distribution of physical stores that we have."

Ultimately the future remains bright for New Zealand's large format retailers, as well as the developers and investors, says Beasleigh. "Everyone has been writing off the retail market for the past 10 years, and it keeps coming back.

"About a year ago, we were scratching our heads wondering 'Where is this going to go?' Then about six weeks after that first lockdown these large format retailers were telling us how they were having record sales and we realised this wasn't going to pan out how we thought.

"It's ended up going in a completely different direction - in a good way."