



RETAIL

WILL NEVER DIE

MORE AND MORE PEOPLE ARE WORKING FROM HOME SINCE COVID-19 ENTERED OUR LIVES LEADING TO BIG CHANGES IN THE WAY WE SHOP, BUT THE RETAIL SECTOR IS NOTHING IF NOT RESILIENT

AS OFFICE WORKERS AROUND THE country work from home in droves the COVID-19 ripple is being felt across the retail sector with structural changes taking place before our eyes in the traditional commercial sectors of office, shopping and hospitality.

Bayleys and retail experts say businesses are busy working on how to improve their online capacity and to streamline click and collect facilities to enhance contactless shopping. The COVID-induced pressures are not all doom and gloom and while some businesses are struggling others have boomed through the surge in online shopping.

These trends are likely here to stay and the big winners so far include large format retail with figures showing Kiwis spent up large coming out of the first lockdown. Bayleys' Ash Hira, director, retail sales and leasing, says with all that time at home people looked around their lounges and backyards and instead of putting something on their wish list they went out and bought it, be that a new couch or a spa pool.

Kiwibank credit and debit card data shows Kiwis splurged on the likes of beauty and hair, clothing, home improvements and electronics. They also spent up big on alcohol and even bought and pampered new pets.

However, with the second wave of lockdown that left office buildings empty of workers and the shops and cafés which would service them closed, times are challenging in the city centres and big changes are bedding in. AMP Wealth Management is one business which has announced a move to smaller premises outside the Wellington and Auckland CBDs.

Who would have thought a little virus could lead to such structural change so quickly, says Ryan Johnson, Bayleys' national director commercial and industrial. The speed took everyone by surprise, including employers. Prior to COVID-19 employers were putting more

people into less square meterage only to now find offices empty of their usual number of workers.

"To go from an agile workplace with some occupiers at a .75 percent ratio of desking per person to now working from home is almost two polar opposites from an employer's workplace strategy – no one ever saw that."

The work-from-home quantum shift has flow-through to people now eating, drinking, shopping, entertaining and even meeting clients around their local neighbourhood rather than in the CBD.

Chris Beasleigh, Bayleys' national director of retail sales and leasing, says all cities in the world are struggling because of the new work-from-home dynamic and bigger companies are now working on the premise that 40 percent or more of a worker's time will be at home.

But while CBDs like Auckland are hurting, Beasleigh says the city's loss is the suburbs' gain. "It's a big, big shift.

"PEOPLE HAVE BEEN SAYING DEATH OF RETAIL FOR THE LAST 20 YEARS BUT IT ALWAYS SEEMS TO REINVENT ITSELF IN ONE SHAPE OR ANOTHER."

CHRIS BEASLEIGH, BAYLEYS' NATIONAL DIRECTOR OF RETAIL SALES AND LEASING

If you're working from home you're going to pop down to the local café to get a coffee or a bite to eat."

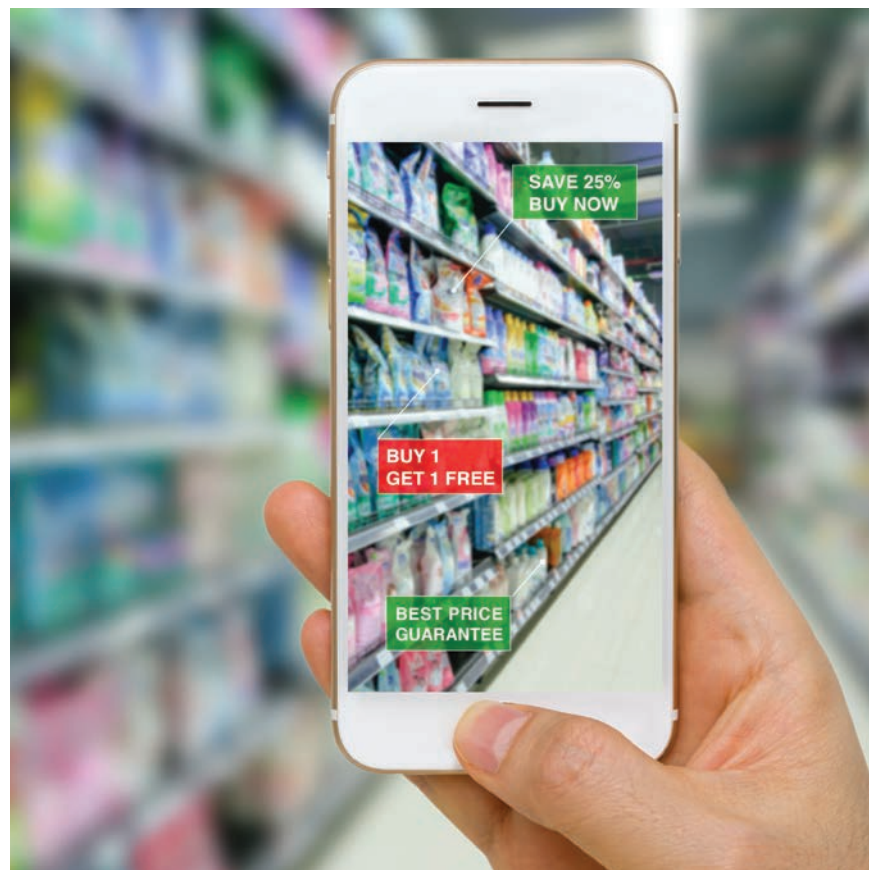
Retail in the CBD will come back, he says, but probably not until the cruise ships and tourists are back, the universities fill up and overseas students return. "Retailers have been triple hit.

We're seeing a lot of vacancies in Queen Street, but I think in the long term things will get back to normal. You see all the work that's been done, whether it's Queen Street or Quay Street, all the upgrades and all the capital spend – it's going to be an awesome CBD waterfront but at the moment the crystal ball is when people are going to come back."

Beasleigh says the changes in where people work may lead to the repositioning of some buildings in the CBD, such as a Tier 3 office building being taken out of the pool of office space and turned into residential.

"There's going to be change, there's going to be a lot of space coming up. But that's only in three CBDs (Auckland, Wellington and Christchurch) so it's not a massive part of the retail footprint."

He expects a lot of retail companies will move to dark stores, perhaps closing some outlets and investing back into delivery, but says retail always adapts.



That vacant space will be filled by others, possibly in the service industry, like hair, nails and beauty stores because you can't get a haircut or your nails done online.

"That sector seems to be quite strong. There will be some areas that have too much retail and will be affected but if you've got single level shops you can knock them out and put barbers in. You can amalgamate and do mixed-use schemes.

Businesses may also find the changes are adding another string to their bow. "You've got one part of your business where you're selling direct to the consumer online, via click and collect, via delivery, via Uber Eats and takeaway so now you've got another part of your business to add on top of your bricks and mortar. Your shop may only be open nine to five, or to 11pm if you're a restaurant, but if you have online retail as well you can sell 24 hours a day."

One area which has boomed is groceries. Jason Stockill, Countdown's general manager of format development and property, says during the first lockdown Countdown supported small businesses which have shops within its supermarkets and shopping centres.

Rent relief was offered to tenants from cafés and restaurants to travel agencies, hairdressers, takeaway outlets and real estate agencies, and also to Auckland tenants during the Level 3 lockdown.

"WHAT SEEMS TO BE HAPPENING IS PEOPLE WHO SPENT \$12B OVERSEAS ARE NOW SPENDING IT LOCALLY ON THOSE SORTS OF THINGS; ON HOME IMPROVEMENTS, ON INTERNAL HOLIDAYS AND NEW CARS."

ASH HIRA,
BAYLEYS' DIRECTOR RETAIL
SALES AND LEASING

"The year has also reinforced and fast-tracked a number of initiatives, such as our eStores, online capacity and drive thru pick up service. Definitely the biggest change we've seen this year has been demand for online shopping services – while this has been in growth since we started online shopping more than 20 years ago this year has seen more and more people embrace the convenience of online and, of course, it's helped people heed the Government's lockdown advice to stay home."

This demand will impact the way Countdown thinks and designs in the future. Retail is a fast-moving industry and stores are always being adapted to meet trends, societal changes and

environmental factors, be that around locations, the drive toward convenient meal solutions or different style stores such as the new metro stores.

"A good example of future design thinking is our first smart store in Rototuna (in Hamilton) which has a number of initiatives to provide a better and safer environment for both the team and customers, including energy-saving refrigeration and chiller doors, a hazard-detecting robot and drive thru online pick up."

The future of grocery is "incredibly bright", says Stockill. "Investing in our business to set ourselves up for the future is a key focus for us, including innovation like our Penrose eStore and our plans for two more eStores, in Moorhouse, Christchurch, and Grenada North, Wellington."

Ash Hira, who works in large format, says the Level 4 lockdown and subsequent restrictions did not slow his clients' plans. "Let's just say quite a few of these majors are looking for more than a dozen stores each."

With cooped up Kiwis spending hard in homeware, appliances, department and furniture stores, internet sales all increased.

That's a "phenomenal" amount of money and the first lockdown also led to a build-up of cash in people's pockets because they hadn't been spending it at bars and restaurants or even on petrol.

With the borders closed this mindset will be around for a while yet and the change is feeding into how Hira's clients are thinking about design, especially the ease with which customers can use click and collect.

Technology, too, is likely to play a bigger role going forward, Hira thinks, with phone tracking of delivery items enhanced for customers – and technology is changing how stores are designed.

"We're now designing entire retail centres on Zoom and Microsoft Teams with architects and engineers and traffic engineers. During the last lockdown we virtually completely designed a major retail centre that we were leasing with all of us sitting in our homes.

"We did fly throughs with retailers and the architects in 3D with everyone sitting in their homes getting their stores designed, their centres designed and with input from their design teams offshore. It all worked. Prior to lockdown we would have flown to Sydney or Melbourne or wherever it was, or they would have flown over here."

Peter Gorton, Bayleys' associate director in retail sales and leasing, also highlights the big spend online but says physical stores will always have a place. Hardware stores like Bunnings and Mitre 10 get

instore sales driven by DIYers, whereas Placemakers get chippies buying house lots. People will always want to go to the supermarket and once there they usually outbuy their shopping list.

Stores will evolve, Gorton says, pointing to Whole Foods Market in the United States, recently bought by Amazon, which is a line of grocery stores that are "something completely different again. They've got four or five chefs working in a main kitchen area right in the middle of the supermarket with a huge range of ready made meals that get boxed up in environmentally-friendly packaging for the customer to take home."

Gorton also says there is strong interest in people wanting to invest in large format, seeing it as a reasonably safe haven for their money. People are willing to take a lower rate of return for a safer form of continuity of income than the sharemarket, such as from a supermarket, hardware, or in general merchandise stores like Kmart.

Gorton was involved in the recent Bayleys sale of Fraser Cove shopping centre in Tauranga which was bought by Silverfin and syndicated, and he expects syndication to increase. "At the end of the day it's very difficult to find safe investment platforms for the smaller private investors. People are living longer and they have residual wealth and the syndicators, like Augusta, Oyster and Silverfin, are a very good example of where that money can be put. They're a very big part of the commercial property market at the moment, a huge part of it."

Fabio Pagano, Investore's fund manager, says Investore's business has been resilient during the lockdown period, with over 70 percent of Investore's income derived from supermarkets. Investore is the largest landlord of Countdown supermarkets in New Zealand and during Level 4 there was limited disruption to their trade, in fact it increased, he says.

"Some of our retailers have done better during the second lockdown in Auckland, as they have learnt from the restrictions in April and May and know what the obligations are for them as business owners and how they can operate their business while still complying with those obligations. We have also learnt what we need to do as landlord to meet the needs of our customers and help them continue to operate their business where possible. When the recent Alert Level 3 lockdown came into effect in Auckland, a number of retailers were up and running with



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FABIO PAGANO, INVESTORE
FUND MANAGER

front door services or online order systems and customers coming to the door to pick up."

Fabio says the COVID restrictions have of course meant disruption but the ad hoc approach of people turning up and ordering at the counter has given way to better planning by tenants. "Overall, I see people ringing up and ordering or ordering online which means systems and tools need to be intuitive and simple for customers to use, giving them the service experience they would traditionally have expected if they turned up to the store."

Understandably, many businesses hadn't invested in these systems before, however it was impressive to see the growth from both large and small retailers. Bunnings, for example, has expanded its online ordering in stores and Mitre 10 established pickup services in the store carparks within days of the Alert Level announcements.

There has been further activity with new dark stores or online pickups, combined with fast delivery and dedicated click and collect facilities in prominent locations. "People are happy to buy some products online, but they don't necessarily want to wait for the delivery, they want their items straight away. This drive continued demand for retail space, to perform that collection function. There are also some things that people want to see and feel before they buy."

He says the acceleration of change is by no means the death of physical stores. "I think there is a huge element of Big Box retail you can't get away from. Customers still want to visualise new furniture, check which screw they need and hand pick that apple."

He thinks shopping centres and malls will evolve over time in New Zealand, as they have globally; they might look a little different in the future. Experiences will become more of a focus beyond the traditional bowling lanes and cinemas. Activity centres, such as Archie Brothers at Westfield's Newmarket mall in Auckland, may become more prevalent to some centres, especially when combined with bulk retail.

Super convenience will likely play an even bigger part in future, with growing populations demanding more from a retail centre. He says you also might find future shopping centres where you can pre-order from a variety of stores then pick up the lot in a single click and collect facility.

Humans are good at adapting and that's been accelerated in retail in the space of a few months. These digital solutions are really accelerating and provide great new and improved experiences for customers. It's the same products, just delivered in a different way – but there will always need to be retail spaces."

