

## Memo

To: Sam Le Heron, SamLeHeron@hcc.govt.nz  
From: Susan Fairgray, Senior Consultant  
Date: 1 November 2018  
Re: Assessment of Section 92 Response – Te Rapa Pak 'N Save

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### Introduction

The purpose of this memo is to provide M.E's assessment of the further material supplied by the applicant (for a resource consent for a Pak 'N Save in Te Rapa) in response to the 27 September 2018 Section 92 Further Information Request (FIR).

The memo outlines the further information that has been received and evaluates the effects of the proposal from this new information where sufficient information is available. It also identifies areas of requested information that remain outstanding that are important to understanding the effects of the proposal.

### Key findings

The further response contains some information that M.E consider partially addresses some of the points contained within the FIR. Further information includes a partial breakdown of spending within the core catchment areas, an estimation of the effects on non-supermarket retail in other centres through a reduction in cross-shopping sales, and a confirmation of the spending per household levels used within the model.

M.E consider that there are a number of pieces of requested information that are still outstanding that are important for understanding the effects of the proposal. These include:

- A more detailed breakdown of spending within the catchment.
- The allocation of spending from different parts of the catchment to existing supermarkets in different centres.
- An assessment of the effects of an effective expansion to the size of The Base on Hamilton's CBD.

### Request for Further Information Key Points

On Thursday 27 September 2018, Hamilton City Council made a Section 92 FIR to the resource consent applicant for additional information from the economic assessment. The content of the FIR was



determined following a meeting with the applicants' economic advisor on Thursday 20 September 2018 to discuss the retail economic analysis of the proposal.

The following are the points contained within the 27 September FIR:

- A. The distribution of supermarket spending demand by census area unit (CAU) within the proposed stores catchment area and the other centres catchments which are likely to be affected by the proposal.
- B. The share of spend from each CAU which has been attributed to each centre with and without the proposed Pak 'N Save – i.e. a breakdown of how the spending flows are being redistributed with the proposal. If the applicant's advisor does not have these % split distributions of spend at the CAU level, we would need to know please the spatially defined areas of catchment overlap (which may be aggregations of CAUs) and how the spend (i.e. household demand) within these areas is distributed across the different centre destinations.
- C. An outline of how the effects on other retail (i.e. non-supermarket retail) within centres has been considered. This includes:
  - i. Any effects on other retail in other centres where a redistribution of retail spend will occur away from their supermarkets. As outlined at the meeting, this is on the basis that supermarkets are often anchor stores for other retail where other retail is sustained by cross-shopping from supermarket customers.
  - ii. An outline as to how the effects on other retail (in the City Centre in particular) have been considered in relation to an effective expansion of the size of The Base.
- D. Confirmation of the supermarket spending per household within the core catchment area and whether there are any changes to the modelling as a result of changes to the level of demand per household (point 5 of the original s92 request).

On Monday 29 October 2018 M.E received, from Hamilton City Council, a response from the applicant's economic advisor on the points contained within the FIR.

This Memo contains M.E's assessment of the response.

#### [Point A – Distribution of Supermarket Expenditure by Census Area Unit \(CAU\)](#)

The FIR response only partly addresses point A. The further material contains a breakdown of expenditure within the core catchment of the proposed store. The core catchment has been broken down into three areas – the upper western part of Hamilton City, the upper eastern part of Hamilton City, and the wider area of the outer part of the catchment to the north of Hamilton City.

This contains some useful information that provides some assistance to understanding the effects of the proposal. It contains a limited amount of information to provide a partial indication of the appropriateness of the retail distributional effects in relation to where the proposed store's sales are likely to be drawn from. This relates to assessing Table 4 within the original Centres Assessment Report (CAR).



The response does not provide a full breakdown of expenditure by CAU as requested. This would require a further disaggregation within each of the three areas. In total, there would be 28 areas within the three catchment areas. A further breakdown of expenditure, particularly within the Hamilton City area of the core catchment, would be useful as a component to understanding the relative effects through how spend is redirected away from existing supermarkets in different centres. The information provided does contain a more useful level of detail than in the CAR, but still requires a large level of estimation in assessing the applicant's approach to calculating spend diversion from the centres. For instance, it would be useful to understand the sub-component of the upper western catchment grouping that covers the Nawton supermarket's primary trade area.

The response does not include the identification of the catchments assumed for the other existing supermarkets. Identifying these catchments, and their degree of overlap with the core catchment area of the proposed supermarket, is an important step in estimating the retail distributional effects contained in Table 4 in the CAR.

#### Point B – Catchment Overlaps and Distribution of Spend by Location to Different Supermarkets

The applicant's response does not provide any further information in relation to point B. It instead refers to Table 4 in the CAR which provides an estimate of the supermarket sales in each relevant centre with and without the proposed store. The response states that this is a more robust approach as it contains some known sales information from each centre.

As noted in relation to Point A, understanding how the spend from each part of the catchment has been allocated to the different centres is a key part of determining the likely redirection of sales from each centre to the proposed store. While M.E understand that part of the 'Estimated Revenue' column in Table 4 may contain actual sales information, it is not clear how the 'Estimated Sales Post Diversion' have been calculated if there has been no estimation of how spend within the catchments has been allocated to different centres.

M.E consider that this information is still outstanding and is an important part of understanding the effects of the proposal. The overall estimation of effects on existing supermarkets is sensitive to how this allocation of spending has occurred. Changes in this allocation, together with differences in floorspace productivity, are likely to yield substantially different results.

#### Point C – Effects on Non-Supermarket Retail within Other Centres

The response provides an estimation of the effects on non-supermarket retail within other centres. As discussed at the 20 September meeting, supermarkets often act as anchor stores within some smaller centres, with a share of the other retail sustained by cross-shopping at other stores from customers who access the centre because of the supermarket.



The applicant's response assumes that around 5% to 10% of supermarket customers will cross-shop at other stores within the centre. In total, the PEL Report estimates the following sales losses for non-supermarket retail from a redirection of customers to the proposed store (p8):

- Rototuna - \$70,000 to \$140,000.
- Nawton - \$10,000 to \$30,000.
- CBD - \$110,000 to \$220,000.

These calculations of the effect of cross-shopping also require the same assumptions about the spatial redistribution of supermarket spend to different destinations from different parts of the catchment areas (as outlined in points A and B above).

M.E have assessed the information provided on the effects of cross-shopping. As a starting point, we have applied the same assumptions of cross-shopping levels, centre estimated supermarket sales and floorspace productivity used in the applicant's assessment, as well as the applicant's estimated redirections of spending. These have been applied together with our own estimates of other retail floorspace, floorspace productivity, and average supermarket and other retail customer spend.

Based on these estimates, we consider that the applicant's estimates of a reduction in sales are low. For example, the PEL estimate of a \$10-30,000 reduction in non-supermarket sales for Nawton means that for every \$100 of supermarket sales re-directed to Te Rapa, there would be just \$0.50 to \$1.50 sales reduction in other stores. Depending on the numbers of cross-shoppers, that would imply low spend per cross-shopper, in the order of only \$2.50 to \$7.50 per transaction.

Nevertheless, while the sales reductions in other stores may be substantially greater than estimated by PEL, we do not consider that the proposal will substantially undermine the viability of the other centres. In percentage terms, the flow-on effects for other retail would be in the order of:

- Rototuna: - 1.6% to -2.3%.
- Nawton: -1.6% to -2.3%.
- CBD: -0.2% to -0.3%.

However, we reserve our final view on the overall effect until further information is received on the distribution of spending from different parts of the catchment to existing supermarkets in different centres.

### Impacts on the CBD of a larger Base

The further information provided does not address the second part of the FIR, which is to assess the effect on the CBD of an expanded Base. This would arise because the provision for a supermarket alongside The Base would enable other zoned land within The Base (that would otherwise be taken up with the supermarket) to be used for other retail.



We note that this information is an item on the original list of assessment areas agreed during the preliminary meeting with the applicant (11 September 2017) prior to the formal lodging of the application for resource consent.

#### Point D – Confirmation of Supermarket Spending per Household

The further information confirms that the applicant's economic advisor has checked the levels of spend per household used within their model for the calculation of supermarket demand. The levels of spend, when expressed on a per household basis, are lower in the core catchment area than for Hamilton City overall despite the higher average socio-economic status.

The further information explains that this occurs due to the inclusion of spend from other drivers (workers, businesses and tourists). That results in higher levels within the rest of Hamilton City, largely due to the inclusion of the CBD.

M.E are satisfied with this response and consider it is likely to be accurate.