Hamilton CBD retail market overview

INTRODUCTION

This report provides a summary of the Hamilton retail occupier survey conducted in December 2022.

The survey is based on a store-by-store analysis of the Hamilton Central Business District and reports on stock levels, vacancy rates, net uptake and tenancy mix.

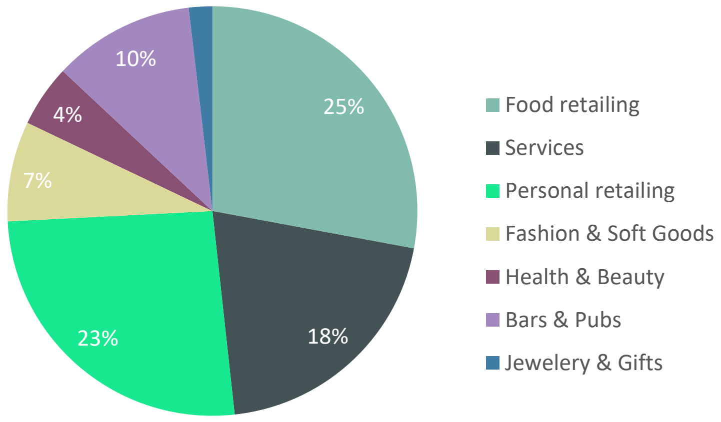
In accordance with our definition, retail accommodation within the CBD is defined by street location. In general terms, a store located on a street with good pedestrian traffic and within the central core is categorised as prime, while shops within the core and in close walking distance to high streets are secondary. Those stores located outside the core, or on the fringe are tertiary.

This retail vacancy survey is undertaken on a bi-annual basis in a partnership between CBRE Research and NAI Harcourts.

Hamilton CBD retail summary

Summary
Following an 18-month period of continuous decrease, the Hamilton CBD retail vacancy rate increased somewhat in the second half of last year, moving from 5.5% in June 2022 to 6.1% at the end of the year. The total amount of vacant space increased from 4,296sqm to 4,875sqm in the latter half of 2022, with a noticeable decrease in tertiary grade more than offset by a sizeable increase in secondary and marginal increase in prime grade. 3,608sqm of retail stock is currently under refurbishment, down from 4,605sqm in June 2022.

FIGURE 1: Hamilton CBD retail composition by store type



Retail stock and new development activity

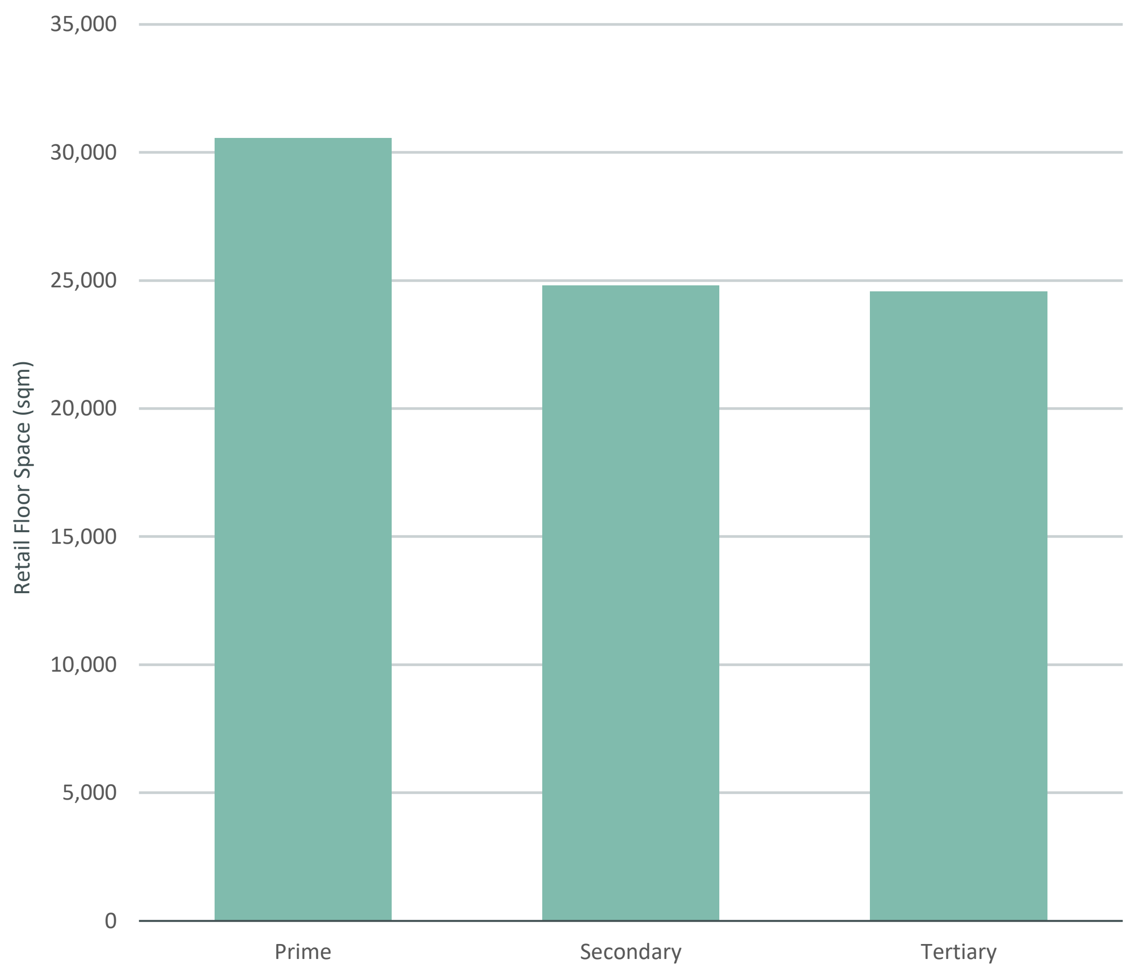
Due predominantly to a couple of completed refurbishments, the size of the monitored Hamilton CBD retail stock increased modestly in the past six months, moving from 78,700sqm in June 2022 to just under 80,000sqm (79,917sqm) at the end of last year. Redevelopments were completed at 65 Bryce Street for Up in Smoke, as well as at 161 Victoria Street, where a 384sqm refurbished unit was available for lease during our year-end survey.

There are currently 24 occupancies that are under refurbishment or fitout and have temporarily been removed from the survey. This is two less than in the previous survey in June 2022, with the total NLA of the under-refurbishment retail stock also reducing from 4,605sqm in our last report to 3,608sqm now.

There are several redevelopments currently underway in the Hamilton CBD with implications for the retail sector, one of the most significant remaining the new Waikato Regional Theatre at the south end of Victoria Street, which previously comprised of about 1,500sqm of retail/commercial space and which, upon completion in 2024, is expected to provide new hospitality offerings that can activate the surrounding streets and area.

As of December 2022, Prime retail space accounts for 38% or 30,500 sqm of the total CBD retail stock. Secondary stock is 24,800 sqm (31%), similar to Tertiary at 24,600 sqm (31%).

FIGURE 2: CBD retail stock by grade



Vacancy

Following an 18-month period of continuous decrease, the Hamilton CBD retail vacancy rate increased by 0.6% in the second half of last year, moving from 5.5% in June 2022 to 6.1% in December. Over the six months, vacant space increased by 579sqm.

As Figure 3 illustrates, Prime grade experienced a modest increase in vacancy, moving from 6.4% in June 2022 to 6.7% in December. Newly available retail space options contributing to the increase in Prime vacancy include 290 and 291 Barton Street (previously occupied by The Bedroom Store and Caroline Eve respectively), and 527 Victoria Street, where Five Star Mini Mart vacated just over 100sqm.

Secondary grade vacancy experienced a more material increase over the last six months, moving from 2.1% to 4.7%. We have recorded four new vacant units in Secondary grade in addition to the completed refurbishment of 161 Victoria Street that remained available at the end of last year. The four recently vacated units include 127 Alexandra Street (previously NUA), 16 Hood Street (previously Kung Fu Pot) and 228 Victoria Street (previously Shan Yuan) in addition to 10 Garden Place vacated by bakery and coffee business Volare.

In Tertiary grade, vacancy decreased somewhat, moving from 7.6% in June 2022 to 6.8% at the end of the year, essentially representing the uptake of one previously vacant retail unit on the corner of Victoria and Liverpool Streets by Little Split P, the second-hand kids stuff retailer.

FIGURE 3: CBD vacancy by grade June – December 2022

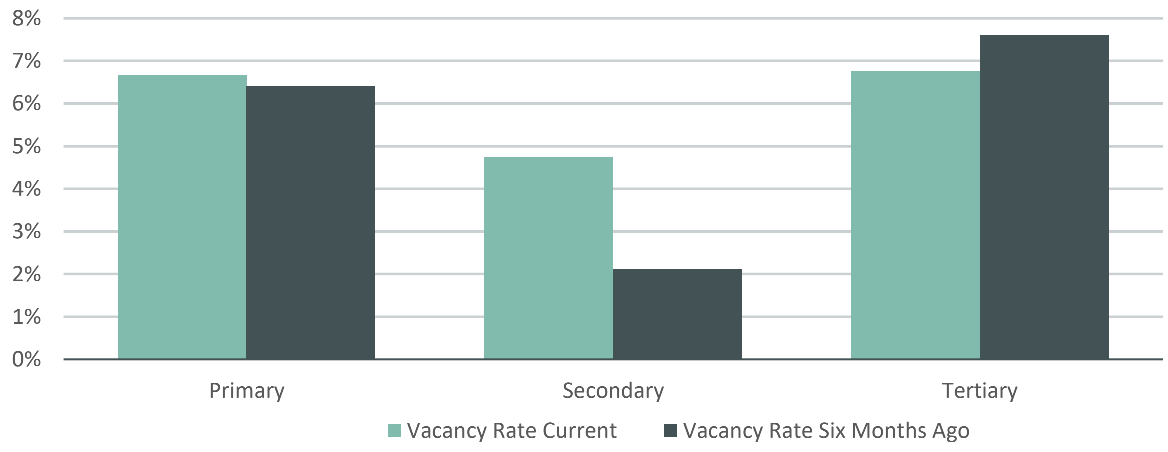
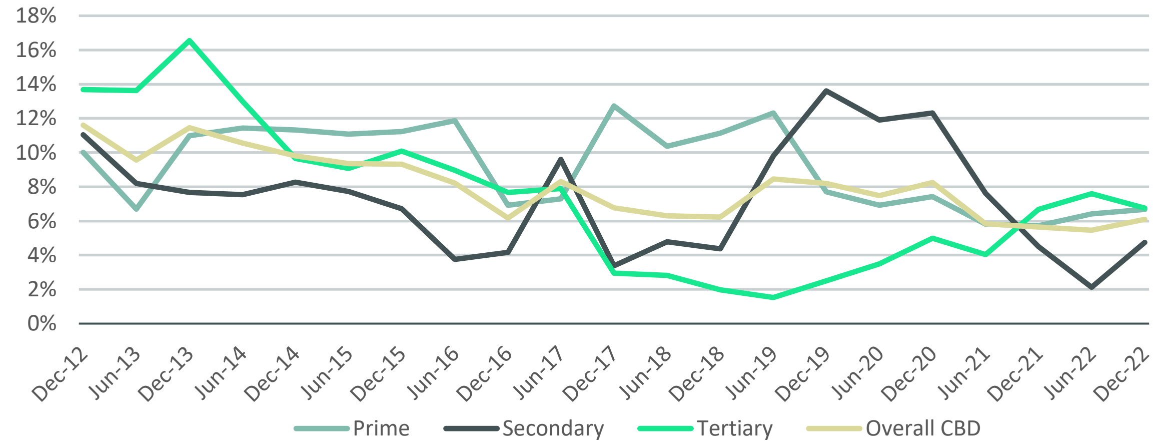


FIGURE 4: CBD vacancy by grade 2012-2022



Demand

Retail churn activity, or the changeover from one retail business to another, accelerated during the second half of 2022, impacting over 3,000sqm of retail space in the CBD. Services and Food retailing were the two most active sectors, with Bars & Pubs also experiencing reasonable activity. From a total occupancy perspective, the Services, Personal retailing and Bars & Pubs sectors increased their overall footprint, while Fashion & Soft Goods and Health & Beauty retailers' total occupied floorspace modestly contracted in the second half of 2022.

The overall net change in occupied stock over the six months to December 2022 remained positive, showing an increase of 693sqm to bring the overall figure to 75,042sqm. The movement in this figure is largely driven by take-ups of previously vacant space (e.g. Little Split P on the corner of Victoria and Liverpool Streets and Platform Homes at 354 Victoria St) and the reintroduction of refurbished stock that is now occupied, such as the Up in Smoke space at 65 Bryce Street.

Analysed by grade, there was positive net absorption in Prime grade (557sqm), mostly as a result of the above-mentioned new occupancies and completed refurbishments.

Secondary grade stock on the other hand experienced a relatively minor occupancy loss in the latter half of 2022 (-100sqm), as new vacancies exceeded new demand, influenced by a handful of food retailers permanently vacating their premises (Nua at 127 Alexandra St, Shan Yuan at 228 Victoria Street and Kung Fu Pot at 16 Hood Street).

Net absorption in Tertiary grade locations was modestly positive in the first half of 2022 at 237sqm.

FIGURE 5: Net uptake of CBD retail space 2012-2022

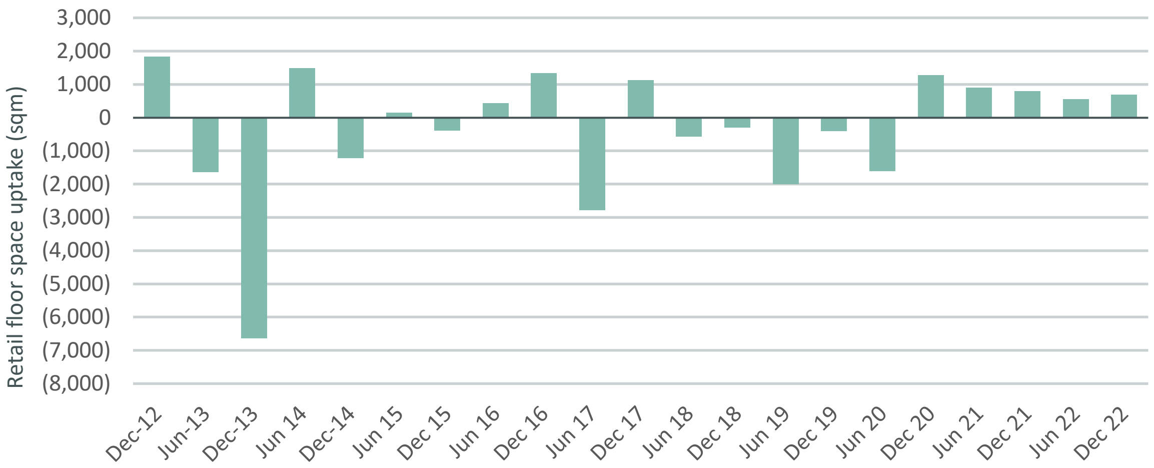
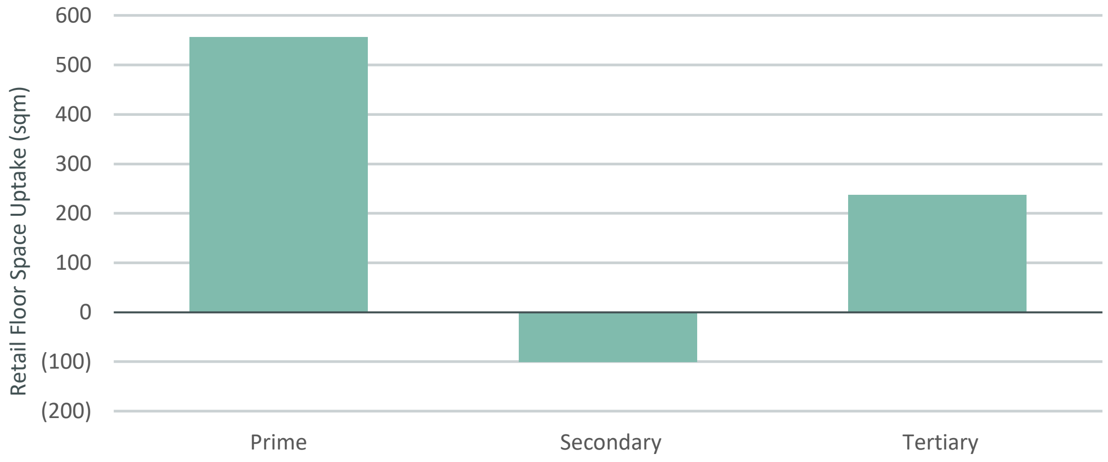


FIGURE 6: Net uptake of CBD retail space by grade



Conclusions and outlook

Overall, the Hamilton CBD retail market maintains its healthy fundamentals with low vacancy (the current 6.1% overall vacancy rate is well below the 6.9% annual average in the past five years); reasonable refurbishment/redevelopment activity (with some truly transformational projects in the pipeline); and strong tenant demand especially by Services, Bars & Pubs and Personal retailing businesses.

Quarterly (seasonally adjusted) retail sales values released by Statistics NZ for the Waikato region show that sales values increased by 3.5% in the third quarter of 2022, making Waikato the second fastest growing region in New Zealand after only Otago (that has been benefiting from the return of international tourists), and outpacing the growth of major population centres (Auckland recorded a quarterly increase of 1.6%, with Wellington and Canterbury recording 2.0% and 2.9% respectively). At the same time, the Westpac McDermott Miller consumer confidence index for Waikato shows a sizeable deterioration of consumer confidence in the final quarter of last year, moving from a score of 103 in Q3 to 74.2 in December. During the same period, Auckland's index dropped to 75.1, Canterbury's to 77.4, and Wellington's to 82.2, indicating a widespread drop in confidence not only from a geographical perspective but also across all age groups and income brackets.

While high inflation and rising interest rates are undoubtedly squeezing household budgets, the transformation of Hamilton's CBD into a niche retail destination is continuing, as a number of apartment, housing and office developments bring customers into the area to enjoy the benefits of an increasingly vibrant central city, offering a wide range of stores and services available in the central business district.

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