

Master of Property Studies

Market Analysis Study in Beachlands-Maraetai

Property Market Analysis

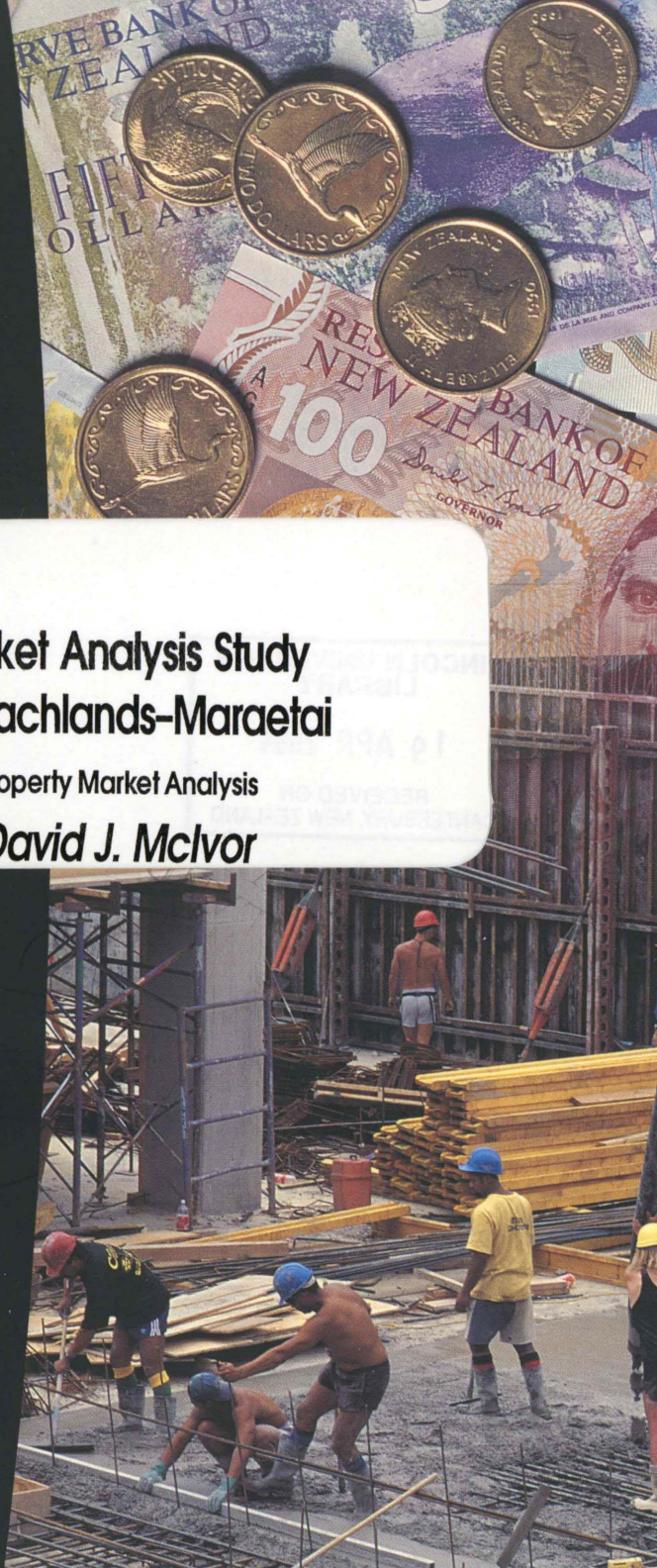
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Te Whare Wānaka O Aoraki



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Executive Summary

SUBJECT PROPERTY

We, the research team, have been requested to undertake a market analysis study of a block of retail outlets currently under construction and for sale in the beachside community of Beachlands–Maraetai. The size of the property is 600 square metres, of which 120 square metres has been leased by a local real estate company. The balance of the property is vacant and being marketed locally. The development under construction is built of concrete blocks on concrete foundations with a long-run iron roof.

TARGET MARKET

The success of this development depends on the local expenditure patterns and growth of the local residential market. We expect only limited spending from out of Beachlands–Maraetai. This area has evolved primarily into a dormitory suburb of the Auckland region.

CONCLUSIONS

The current economic climate at the national and regional level is favourable for a development of this type provided it is properly researched and located. The underlying Auckland economy is diversified, soundly based and growing much faster than the country as a whole. The catchment area will continue to grow at a faster pace than the region, until the existing population has approximately doubled. The local population appears to be adequately served by the existing commercial operations and we identified no obvious deficiencies or gaps in the market. The only likely tenants for the vacant space (80 per cent of the total development) during the next two or three years at least, would be tenants poached from existing merchants in the area at significantly lower rents than are now being asked, or, similarly, new ventures which may be viable at lower rents. It would

appear that the developer has not completed an adequate market analysis to identify the source of new tenants prior to commencing the project.

RECOMMENDATIONS

It is our view that the project cannot be economically justified and the construction should not have been built. We recommend that no further analysis be undertaken on this proposal unless there are indications that the property could be purchased for far less than it cost to develop. This would enable rents to be set low enough to attract tenants from existing premises. We have not investigated the financial strength of the developer to determine whether a forced sale may be looming. If it is decided to proceed with this proposal we recommend that further research be undertaken, particularly into surveying tenants, from competing premises, and shoppers, to identify their needs and intentions.

National and Global Economy Overview

The global economy is improving steadily with some stock markets at all-time highs. The New Zealand economy is currently in a healthy condition with sound fundamentals. The election in October 1996 under MMP may have an unsettling effect on the market but no major change in direction is expected for the economy. Projections about the New Zealand economy over the next few years may be summarised as follows:¹

- GDP growth is expected to increase to 2 per cent in 1997 and 2.6 per cent in 1998 due to growing exports, improvements in the terms of trade and an easing in fiscal policy by the new government. However monetary conditions are likely to remain firm;
- underlying inflation is expected to fall by 1 per cent by September 1997 and 5 per cent by 1999;
- tax cuts or increased government spending will provide a boost to household incomes and consumption, of approximately 3 per cent, which should benefit the development of the subject property;
- investment spending will increase in 1997;
- overall export volumes are expected to increase by 4 per cent to 5 per cent over the next two years because of the stronger global outlook. However, the volume of manufactured products, although growing strongly within New Zealand, has declined over the last three quarters possibly due to the high exchange rate;
- the unemployment rate is expected to increase by 7 per cent;
- the current account deficit of 4 per cent of GDP is expected to remain stable;
- the government's operating surplus is expected to decline to approximately 2 per cent of GDP due to the tax cuts and/or increased spending by the in-coming government;

¹ Source: Reserve Bank of New Zealand. Economic Projections, September 1996.

- wage growth, at 4 per cent, is now heading above the rate of inflation.² This will make it difficult for the Reserve Bank to ease monetary policy.

² Source: NZ Herald 25 September, 1996.

Market Commentary

REGIONAL OUTLOOK

The Auckland region is, by New Zealand standards, a large and diverse region which is currently in a sustained growth phase due to the favourable New Zealand economy, the nature of its economic base (see page 7) and the effects of internal and external migration. However, there has been a significant drop in arrivals of wealthy foreign immigrants because of the major changes to immigration policy in 1995. This will affect the higher-priced housing market and the Auckland regional economy in general.

The population of the Auckland region is expected to grow steadily in the 25 years to 2016; Auckland, Manukau and Waitakere Cities are expected to increase by 26 per cent, 47 per cent and 52 per cent respectively. This a much faster rate of growth than other New Zealand centres where, for example, Wellington's population is expected to grow by less than 10 per cent. These projections may prove to be conservative; Table 1 shows the projected growth rate of Manukau from 1991–1996 as 10.28 per cent whereas the actual growth rate was 12.57 per cent.³

TABLE 1: Population Projections: 1976–2016

	1976	1981	1986	1991	1996	2001	2006	2011	2016
Manukau Actual	171,212	189,763	206,741	226,147	254,577				
Manukau Projected						277,489	298,550	318,285	338,623
% Increase Actual		10.84%	8.95%	9.39%	12.57%				
% Increase Projected					10.28%	9.00%	7.59%	6.61%	6.39%
Beachlands–Mrtā Actual	2,219	2,684	3,204	3,575					
Beach–Mrtā Projected					4,128	4,585	5,013	5,420	5,846
% Increase		20.96%	19.37%	11.58%	15.46%	11.07%	9.34%	8.13%	7.86%

³Source: Demographic Trends 1995. Statistics NZ 1986 Census of Population and Dwellings. Statistics NZ.

LOCAL ECONOMY: BEACHLANDS-MARAETAI

To determine expected population numbers for Beachlands–Maraetai we have used the Statistics New Zealand rate of increase forecasts for Manukau and adjusted them upwards by 23 per cent, which was the error in the 1991–1996 forecast for Manukau. The 1996 census population of Beachlands–Maraetai was not published at the time of this report. We expect that the original population growth estimates for Manukau will continue to underestimate the true rate. Furthermore we expect the Beachlands–Maraetai area to grow at a faster rate than Manukau as a whole due to the more desirable lifestyle and the planned expansion. The local sewage scheme has the capacity for a growth in population of 5,000. Note that in the 15 years to 1991 the Manukau population grew from 171,212 to 226,147, that is, a 32 per cent increase; the Beachlands–Maraetai area grew from 2,219 to 3,575, that is, a 61 per cent increase in population. Accordingly we believe our projections will prove to be conservative.

The local economy has evolved from a summer beach recreation area of baches to a lower cost and retirement-type village, but is now being overwhelmed by the growth of Manukau City. This has reached the stage where the area is largely a dormitory suburb of Manukau. As a result of these trends there has been a major increase in spendable income, partly due to the increasing number of households and partly due to the increase in the proportion of two-income households (30 per cent in 1981 to 41 per cent in 1991 with an expected substantial increase since 1991).⁴ We believe local merchants have benefited from this increase but we have not undertaken any surveys to quantify the level. If the subject proposal is to proceed we recommend that research be undertaken into local buying patterns; refer to pages 15–18 for our estimates of current spending in the area.

⁴Source: Statistics New Zealand. Supermap.

MARKET DELINEATION OF SUBJECT PROPERTY

The subject property is in a local suburban shopping area in a reasonably well-defined catchment area. Beachlands and Maraetai are two villages separated by a one kilometre green belt and are located 20 kilometres from the closest urban area; they are generally perceived as one district and the residents from each village interact socially. Beachlands is the larger in size of the two villages, and has the largest shopping area; there are no services in Maraetai which are not already in Beachlands. Unlike Maraetai, Beachlands is not directly on the tourist bus route. Custom for tenants of the subject property would come primarily from Beachlands and, depending on the product or services, may come from Maraetai or visitors and tourists. Major amenities of the area include a large completed marina and an international golf course under construction on the town boundary.

Success for the development will depend on the spending power and patterns of local residents. A detailed analysis of the projection of their spending is on page 15.

SITE ANALYSIS

The subject property is a 600 square metre commercial development on the only remaining significant block of commercially-zoned land in the area. It is on a corner site in the middle of the existing shopping area. See location map Appendix 1 (please see note regarding appendices).

The site is suitable for its purpose but has two major physical drawbacks. First, the major part of the development faces south and hence receives little sun, particularly in the winter. This would be a major drawback for some tenants, for example, cafe owners. Secondly, the land slopes down to one road frontage resulting in a fall of approximately two metres to the street and parking spaces. There are steps down to the street but they would be awkward for customers such as mothers with pushchairs, and it would generally make access difficult.

As this report is focused on analysing the market for the subject property we have not undertaken a marketability or feasibility study on the specific property. This should be carried out if the proposal is to be taken further.

Analysis of Regional Economy

LOCATION QUOTIENTS

Location quotients attempt to identify particular strengths and weaknesses in an economy. They are particularly useful in identifying possible areas to investigate for investment and also to identify areas to avoid. Table 2 on page 9 identifies transport storage and communications as particularly strong quotients, reflecting the major entry port of Auckland and possibly the telecommunications infrastructure. Business and financial services are even stronger than the above quotients in this region, and would be useful in identifying sources of employment or the need for office buildings. This does not necessarily indicate a current need for new space. Before we make too many assumptions from these quotients it is desirable to break the industries down into finer sub-groups to reveal further insights.

SHIFT-SHARE ANALYSIS

Shift-share analysis identifies trends and changes that have taken place between periods. It attempts to indicate which sectors of an economy are growing and which are declining in relation to time, and it also tries to identify trends and changes between sectors of the economy.

Table 3 is an analysis of the employment changes which have taken place in New Zealand during the period 1990 to 1995. Some items to note are:

- a major increase in employment of 6,836 persons occurred in agricultural and similar services – 5,659 more than would have been expected from New Zealand's overall population increase of 4.95 per cent;
- only 633 new jobs were created in manufacturing whereas a growth of 12,477 jobs would have been expected;
- employment in wholesale and retail trade increased by 21,186 jobs – 7,127 more than expected, showing the trend towards employment in these industries;

- further analysis could be undertaken in much greater detail and into the contributions of sub-groups to these industries. Such an analysis would be useful if the purpose of the study was to investigate investments in infrastructure and facilities for specific industries but this is outside the scope of this report.

Table 4 is a similar analysis of the employment changes which have taken place in the Auckland region. Some points to note are:

- wholesale and retail trade was expected to grow by 4,669 extra jobs but actually grew by 13,770. The additional employment was caused by the shift to this industry in New Zealand as a whole (i.e. the industry mix change of 2,367) and the greater trend in the Auckland region towards employment in this industry;
- the regional population grew by 27,622. This was made up of an expected increase of 19,297 from the overall New Zealand population increase of 4.95 per cent, and 9,941 from the migration trend of New Zealanders and foreigners towards the employment opportunities in Auckland.

In summary it can be said that the Auckland region provides a diversified and growing mix of employment opportunities which will underpin growth in the target market for tenants of the subject property.

The NZ Institute of Economic Research published in September 1996, forecasts by industry for the five years to 2001. These indicate that fabricated metals, transport, communications, business services and community services will be the outstanding relative growth areas during this period. As these areas are major parts of the Auckland regional economy there should be further substantial employment growth in the region. It is beyond the scope of this report to investigate particular opportunities that may come about through this estimated growth.

TABLE 2: Economic Base Analysis, Full-time Equivalent Persons Employed, February 1995

INDUSTRY NZSIC (Major Division)	AUCKLAND (1)		NEW ZEALAND		LOCATION QUOTIENT
	Persons Engaged	%	Persons Engaged	%	
Agricultural Services, Hunting, Forestry, Fishing	2,980	0.71	30,629	2.43	0.294
Mining and Quarrying	445	0.11	4,708	0.37	0.286
Manufacturing	90,713	21.72	252,813	20.02	1.085
Electricity, Gas and Water	1,904	0.46	10,162	0.80	0.567
Construction	27,019	6.47	87,657	6.94	0.932
Wholesale and Retail Trade, Restaurants and Hotels	108,146	25.89	305,343	24.18	1.071
Transport Storage and Communication	31,761	7.60	83,007	6.57	1.157
Business and Financial Services	66,139	15.84	161,281	12.77	1.240
Community Social and Personal Services	88,544	21.20	327,375	25.92	0.818
Total	417,651	100.00	1,262,975	100.00	

(1) Regional Council Boundary

Source: Business Activity Statistics 1995, NZ Department of Statistics.

TABLE 3: Employed Persons by Industry, Total New Zealand, 1990–1995

INDUSTRY NZSIC (Major Division)	1990		Actual Employment 1995		1990–1995		Employment Change		Total Change Persons
	Persons Engaged	% of Total	Persons Engaged	% of Total	Change Persons	Change %	Expected 1990–1995 Increase Persons	Industry Mix Change Persons	
Agricultural Services, Hunting, Forestry, Fishing	23,793	1.98	30,629	2.43	6,836	28.73	1,177	5,659	6,836
Mining and Quarrying	4,241	0.35	4,708	0.37	468	11.04	210	258	468
Manufacturing	252,180	20.96	252,813	20.02	633	0.25	12,477	11,844	633
Electricity, Gas and Water	13,657	1.13	10,162	0.80	3,495	-25.59	676	4,171	3,495
Construction	87,136	7.24	87,657	6.94	521	0.60	4,311	3,790	521
Wholesale and Retail Trade, Restaurants and Hotels	284,157	23.61	305,343	24.18	21,186	7.46	14,059	7,127	21,186
Transport Storage and Communication	88,151	7.32	83,007	6.57	5,144	-5.84	4,361	9,505	5,144
Business and Financial Services	145,314	12.07	161,281	12.77	15,967	10.99	7,190	8,777	15,967
Community Social and Personal Services	304,806	25.33	327,375	25.92	22,569	7.40	15,081	7,488	22,569
Total	1,203,434	100.00	1,262,975	100.00	59,541	4.95	59,542	58,619	76,819

Source: Statistics New Zealand. NZ Business Patterns 1990.
Statistics New Zealand. Business Activity Statistics 1995.

TABLE 4: Employed Persons by Industry, Auckland Regional Council, 1990–1995

INDUSTRY NZSIC (Major Division)	Actual Employment							Employment Change Analysis				
	1990		1995		1990–1995		Expected Increase 4.95% X1990	Industry Mix Influence		Regional Influence		Total Change Persons
	Persons Engaged	% of Total	Persons Engaged	% of Total	Change Persons	Change %		%	Persons	%	Persons	
Agricultural Services, Hunting, Forestry, Fishing	2,132	0.55	2,980	0.71	848	39.77	105	23.78	507	11.04	235	848
Mining and Quarrying	484	0.12	445	0.11	39	8.06	24	6.09	29	-19.10	92	39
Manufacturing	91,431	23.44	90,713	21.72	718	-0.79	4,524	-4.70	4,294	-1.04	948	718
Electricity, Gas and Water	3,017	0.77	1,904	0.46	1,113	-36.89	149	-30.54	921	-11.03	341	1,113
Construction	28,586	7.33	27,019	6.47	1,567	-5.48	1,414	-4.35	1,243	-6.08	1,738	1,567
Wholesale and Retail Trade, Restaurants and Hotels	94,376	24.20	108,146	25.89	13,770	14.59	4,669	2.51	2,367	7.13	6,734	13,770
Transport Storage and Communication	32,269	8.27	31,761	7.60	508	-1.57	1,597	-10.78	3,480	4.26	1,375	508
Business and Financial Services	56,783	14.56	66,139	15.84	9,356	16.48	2,809	6.04	3,430	5.49	3,117	9,356
Community Social and Personal Services	80,951	20.76	88,544	21.20	7,593	9.38	4,005	2.46	1,989	1.98	1,599	7,593
Total	390,029	100.00	417,651	100.00	27,622	7.08	19,297	-0.41	1,616	2.55	9,941	27,622

Source: Statistics New Zealand, NZ Business Patterns 1990.
Statistics New Zealand, Business Activity Statistics 1995.

ESTIMATE OF TOTAL ANNUAL EXPENDITURE BY BEACHLANDS-MARAETAI

In order to project the total expenditure which may be available in Beachlands-Maraetai we have estimated the total expenditure by all residents in Beachlands-Maraetai and then estimated the proportion which we believe is reasonably available to be captured in the local community if the goods and services were provided. We have relied on secondary sources of data to obtain the total expenditure and on subjective local knowledge to estimate the capture rate. Primary research in the form of questioning an adequate sample of residents should provide a more accurate estimate but we believe the present approach is adequate for this first stage of analysing the proposal.

We used Statistics New Zealand data for the breakdown of expenditure between various expenditure groups: full-time employed, part-time employed and those not working, according to the status of the head of household (refer Table 5). We obtained the work status of the total population of Beachlands-Maraetai and scaled this down proportionately to the known number of households in the area. Total expenditure using this method was \$46,518,000. As a check on the accuracy of this method the following tests were undertaken:

Methodology Test

1	Average weekly household expenditure by all household groups ⁵	\$583.80
	Total households ⁶	1,335
	Total annual estimated expenditure	<u>\$40,527,396</u>
2	Average weekly household expenditure by all labour force status groups ⁷	\$622.60
	Total households ⁶	1,335
	Total annual estimated expenditure	<u>\$43,220,892</u>
3	Total income before tax ⁸	\$52,965,000
	Less tax at 15 per cent ⁹	-\$7,944,750
	Total annual estimated expenditure	<u>\$45,020,250</u>

(Methodology Test cont.)

⁵ Source: Consumer Expenditure Statistics 1994.

⁶ Source: Statistics New Zealand – Supermap – Beachlands–Maraetai.

⁷ Source: Consumer Expenditure Statistics 1995.

⁸ Source: 1991 Census, Northland/Auckland. Total Income Residents 15 years and over.

⁹ The Beachlands–Maraetai area had 633 households out of 1,335 (i.e. 47%) with incomes of over \$30,000.⁶ Household incomes of \$25,500–\$32,199 spend \$470.00 per week i.e. \$24,440 annually.⁵ Assuming income tax is the primary reason for the difference then tax on average takes about 15 per cent. Lower incomes will pay a lower rate offset by those on higher incomes. The true average tax rate may be somewhat higher due to the graduated tax scale but is not likely to be material to this study.

CONCLUSIONS AS TO REASONABLENESS OF EXPENDITURE ESTIMATES

Estimates of total expenditure for Beachlands–Maraetai range from \$40,500,000 to \$46,500,000. The lowest estimate was obtained using the average expenditure for New Zealand for all household income groups. However, there is a higher proportion of households in Beachlands–Maraetai with incomes over \$30,000 (47.4 per cent) compared with New Zealand as a whole (44 per cent).⁵ Accordingly, average expenditure per household in Beachlands–Maraetai is expected to be higher than the New Zealand average.

The other two estimates of \$43,200,000 and \$45,000,000 compare reasonably well with the primary estimate.

Although the estimate of \$46,500,000 appears a little high we believe that there is a significant local black market which is not reported in the official statistics and, because of this, effective incomes may be even higher. Therefore, we will use this estimate for the purposes of our analysis.

TABLE 5: Analysis of Total Expenditure by Work Status, Beachlands–Maraetai, 1991

Expenditure Group	Weekly Expenditure of Household ¹⁰			Annual Expenditure of Household			Total 1991 \$
	Full-time Employed \$	Part-time Employed \$	Not Working \$	Full-time 650 \$	Part-time 157 \$	Not Working \$	
Food	124.00	111.10	93.90	4,193,926	909,379	2,574,061	7,677,366
Housing	167.70	129.90	163.00	5,671,946	1,063,261	4,468,285	11,203,492
Household Operation	102.40	92.70	73.70	3,463,371	758,771	2,020,323	6,242,464
Apparel	36.50	28.30	19.80	1,234,502	231,642	542,773	2,008,918
Transportation	131.60	109.40	72.80	4,450,973	895,464	1,995,651	7,342,088
Other Goods	92.70	82.50	59.60	3,135,298	675,281	1,633,802	5,444,381
Other Services	135.10	108.80	41.60	4,569,349	890,553	1,140,372	6,600,274
Total Net Expenditure	\$790.00	\$662.70	\$524.40	\$26,719,364	\$5,424,351	\$14,375,268	\$46,518,983

Determination of Work Status by Household

	Population ¹¹ Over 15 years	%	Households ¹²
Full-time Employed	1,314	48.72	650
Part-time Employed	318	11.79	157
Not Working	1,065	39.49	527
Total	2,697	100.00	1,334

¹⁰ Source: Consumer Expenditure Statistics 1995 – Average Weekly Expenditure by Labour Force Status – All Households.

¹¹ Source: 1991 Census, Northland/Auckland – Sex by Employment and Work Status – Aged over 15 years.

¹² Source: Department of Statistics – Supermap – 1991.

CAPTURE RATES OF LOCAL EXPENDITURE

We have analysed the detailed expenditure groups in the Consumer Expenditure Statistics 1995, according to the labour force status of the householder. We have reviewed each sub-group within each major group and made an estimate of the amount of money available in each category for spending locally. The results have been summarised in Table 6 on page 18. Some comments on the estimates are:

- **Food group:**
 - consists of fruit, vegetables, meat, fish and other food items together with meals away from home and ready-to-eat meals. We expect that a proportion of this would be spent locally due to convenience. We have estimated 10 per cent overall as being reasonably available.

- **Housing group:**
 - includes rent, mortgage costs, rates and so on. Other than a small amount for maintenance goods we expect no money from this group to be spent locally. Therefore we have not included any local expenditure for this group.

- **Household operation group:**
 - includes power, appliances, furnishings and household supplies and services. We expect relatively little of this to apply to the subject: 3 per cent overall.

- **Apparel group:**
 - consists of clothing and footwear. To capture any of this group a sizable store would be needed to carry an adequate range. As we estimate a total expenditure of only \$2,009,000 for all categories it is unlikely that such a store would be viable. No local expenditure is included.

- **Transportation group:**
 - other than vehicle ownership expenses this category does not relate to a retail centre. As the zoning for the property under study does not allow for vehicle fuel or maintenance services, no local expenditure is included.

- **Other goods group:**
 - this group includes tobacco, alcohol, medical supplies, toiletries, pet supplies, stationery and publications. We expect a large part of this expenditure to be spent locally. Some other sub-groups would not apply so we have estimated 40 per cent of the expenditure for this group to be spent locally.

- **Other services group:**
 - relevant sub-groups include health services, finance companies, and insurance and legal services. Other than medical offices, these services are not provided in the local retail area (there are businesses operating from private residences). We estimate that \$1,284,000 is spent on financial, insurance and legal services, and the majority of this goes out of the area. There may be scope to investigate the feasibility of providing some of these services locally. The other sub-groups are not relevant. Accordingly we have estimated that overall, 15 per cent of total expenditure for this group is available to the local market.

In addition to the local expenditure by residents, there is spending by visitors and by tourists. This area is a primary recreation area for Manukau City with some of the best beaches and regional parks. Following discussions on an informal basis with the local shop-keepers we have conservatively estimated this spending at \$300,000 in 1991. This expenditure is likely to increase substantially in the future due to Manukau's continued growth and the fact that there are few competitive outdoor recreation facilities provided. However, we have subjectively estimated the local spending and its growth and recommend that

further research be undertaken to establish its true contribution to the local market.

SUMMARY OF LOCAL SPENDING

In Table 6 we have estimated that there was local expenditure of \$4,423,000 available in 1991. This is expected to increase to \$4,810,000 in 1996 and to \$5,687,000 in 2001. As we have discussed previously in this report, proposals for the building of substantial residential subdivisions adjacent to the study area are in the initial stages of planning which, if proceeded with, would increase local expenditure and therefore, the above projections would prove to be underestimated. Spending could be higher by an estimated 25 per cent but at this stage we do not know how many, if any, of these projects may get zoning approval. Accordingly we have not provided for any growth from this direction in our forecasts. There is suitable zoned land available for infill housing to cater for the population growth we have forecast in this study.

TABLE 6: Estimates of Local Expenditure, Beachlands-Maraetai, 1991-2001

	1991		Projected 1996		Projected 2001		
	Total ¹³ \$	%	Local ¹⁴ \$	Total ¹⁵ \$	%	Local \$	
Food	7,677,366	10	767,737	8,864,509	10	886,451	984,581
Housing	11,203,492	0	0	12,935,878	0	0	0
Household Operation	6,242,464	3	187,274	7,207,731	3	216,232	240,169
Apparel	2,008,918	0	0	2,319,555	0	0	0
Transportation	7,342,088	0	0	8,477,388	0	0	0
Other Goods	5,444,381	40	2,177,753	6,286,241	40	2,514,496	0
Other Services	6,600,274	15	990,041	7,620,869	15	1,143,130	1,269,675
Residents Spending	\$46,518,983		\$4,122,804	\$53,712,170		\$4,760,310	\$59,658,107
Visitors Spending			300,000			350,000	350,000
Total Available Locally			\$4,422,804			\$5,110,310	\$5,637,276

¹³ See Table 5.

¹⁴ See allocation discussion pages 13-14.

¹⁵ See population estimates Table 1 page 3. 1996 population figures were not available at the local area level. Accordingly, 1996 and 2001 are projected using expected changes in population only and have not been adjusted for inflation. Hence these projections are measured in real 1991 dollars and reflect real volume increases.

Analysis of Supply

LOCAL COMPETITION

A survey was made of local competing commercial space in Beachlands–Maraetai. A detailed listing is in Appendix 2 (please see note regarding appendices). There is a total of 2,351 square metres of commercial space in Beachlands which includes the development on the subject property; the only vacant space is the 480 square metres remaining in the subject property. There is a total of 3,032 square metres in Maraetai which is all tenanted.

There is only one other area of undeveloped commercially zoned land in Beachlands–Maraetai. This is located across the road from the subject property and is currently being used as a car park for the local Citizens Club. The Club also has other land that it could convert to parking to allow its existing carpark to be commercially developed at some future date.

No applications for building permits or zoning changes have been made to Manukau City Council at the time of preparing this report. From interviews with local real estate people and local property developers there appear to be no competing projects in the pipeline.

ABSORPTION RATE

There have only been three commercial developments in Beachlands–Maraetai in the last 15 years:

- 1 In 1993 a retail development of 448 square metres was built for the owner-occupiers of a superette and a liquor store. The liquor store appears to be trading well but the superette, although surviving, has a difficult time competing with an existing dairy which is in a better location, smaller and operates at a significantly lower rental.
- 2 In 1994 an old house of 110 square metres on the main street was converted to a veterinarian's office.

- 3 The subject property of 600 square metres of which 120 has been leased to a local real estate office. That area of the development has been completed and the real estate office is now in occupancy. Their previous space has been used to expand the restaurant.

In the above three developments a total of 678 square metres has been absorbed in the last three years. These later developments are in response to the increasing population of Beachlands–Maraetai and the trend towards it becoming a more affluent dormitory suburb of Auckland.

SUPPLY ADEQUACY

We undertook some research to see if we could establish a level of commercial space which could be expected given the size and income levels of a community. We tried to select other communities which had similar size and demographics to Beachlands–Maraetai and which may be similar dormitory areas for larger cities. We selected:

- Cleveden, a similarly rural village 18 kilometres from Papakura.
- Weymouth, a dormitory suburb five kilometres from Clendon/Manurewa.
- Waiuku, a rural town 22 kilometres from Pukekohe.

Tables 7 and 8 compare the four areas by income brackets, total income for each community and average income per resident. Figure 1 shows graphically how similar the communities are. From Table 8 it is noted that there is a range in average income per resident of only \$1,178 (\$18,340 in Weymouth to \$19,518 in Cleveden).

TABLE 7: Population (Over 15) by Total Income, 1991 Census

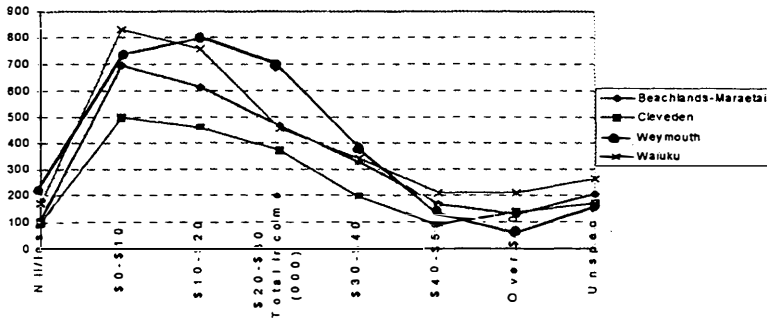
Area	Nil or Loss	Total Income								Not Specified	Total
		\$1-\$5,000	\$5,001-\$10,000	\$10,001-\$15,000	\$15,001-\$20,000	\$20,001-\$30,000	\$30,001-\$40,000	\$40,001-\$50,000	\$50,001 and over		
Beachlands-Maraetai	108	204	489	369	240	462	330	165	126	204	2,697
Cleveden	96	156	339	252	204	372	192	90	135	171	2,007
Weymouth	210	231	510	435	354	693	372	156	75	162	3,198
Waiuku	171	273	555	459	294	453	339	210	207	261	3,222
Total	585	864	1,893	1,515	1,092	1,980	1,223	621	543	798	11,124

Source: 1991 Census, Northland/Auckland.

TABLE 8: Estimation of Total Spending Power, 1991

	Nil \$	\$2,500 \$	\$7,500 \$	\$12,500 \$	\$17,500 \$	\$25,000 \$	\$35,000 \$	\$45,000 \$	\$75,000 \$	Total \$	Average/Person
Beachlands-Maraetai	Nil	510,000	3,667,500	4,612,500	4,200,000	11,550,000	11,550,000	7,425,000	9,450,000	52,965,000	19,638
Cleveden	Nil	390,000	2,542,500	3,150,000	3,570,000	9,300,000	6,720,000	4,050,000	10,125,000	39,847,500	19,854
Weymouth	Nil	577,500	3,825,000	5,437,500	6,195,000	17,325,000	13,020,000	7,020,000	5,625,000	59,025,000	18,457
Waiuku	Nil	682,500	4,162,500	5,737,500	5,145,000	11,325,000	11,865,000	9,450,000	15,525,000	63,892,500	19,830

FIGURE 1: Number of Residents by Income Bracket



We surveyed and measured the commercial space in each of the selected areas (see Appendix 2 for details – see note regarding appendices). When the supply of commercial space in each community is compared to the population of that community, there is a very wide divergence in the average space apparently required:

	Population	Square Metres	Average/ Person
Beachlands-Maraetai	2,697	3,032	1.12
Cleveden	2,007	1,372	.68
Weymouth	3,198	349	.11
Waiuku	3,222	20,000	6.21

Upon further investigation it was found that much of the variation can be explained by differences in the surrounding areas and the nature of the through traffic. Cleveden is on a tourist bus route and so has more food and craft shops than the other communities. Weymouth is located a short distance from a much larger shopping area in Clendon, which is part of Manurewa. Waiuku serves a prosperous farming area and is close to the major facilities of the Glenbrook Steel Mill.

Further research would be needed to narrow the unexplained variations if a useful model is to be achieved. This is outside the scope of our report.

SERVICES NOT SUPPLIED IN BEACHLANDS-MARAETAI

We reviewed the types of tenants currently established in the surveyed areas to see if any services may be appropriate to the subject property. Beachlands–Maraetai appears to offer adequate basic needs and is probably over-served by superettes. There may be some potential to establish another real estate office or subsidiary medical services, for example, a physiotherapy clinic.

There may also be potential to provide financial, insurance or legal services, possibly on a shared basis. On page 18 we have estimated that \$1,284,000 is currently spent outside the area on such services. However, further research would be needed to confirm this recommendation.

Conclusions

- The economic climate in the current market is favourable for an investment in the subject property. The global economy is progressing satisfactorily and the national economy is fundamentally sound.
- The Auckland regional economy is diversified, soundly based and growing at a faster rate than the national economy. The projected employment growth will require housing which will place growing demands on available space for new residential areas.
- The catchment area for the subject property will, as a consequence, continue to grow strongly at a faster pace than the Auckland region. There is adequate space for infill housing to cater for this demand for the next couple of years, and proposals for major new subdivisions are in the initial stages of planning. Constraints to further development include the capacity of the local sewage system, shortage of land presently zoned residential and increasing traffic on access routes. We believe the population may double before the strains on infrastructure become intolerable.
- The local population appears adequately served by the existing commercial operators, given the size of the community. Some locally perceived needs such as banking facilities are probably not feasible until the population has grown much larger and, even then, technology may negate its justification.
- A number of potential tenant categories have been identified but these are unlikely to be feasible in the short term, particularly considering the high rents which are currently being asked for the space.
- There is potential for existing tenants in small or sub-standard premises to move to the subject property. However, from brief discussions, many of them are unlikely to move at this time unless the asking rent is significantly reduced.

- We found it difficult to find communities with comparable areas of size, demographics, distances of major shopping centres and other features which would yield a useful guideline to predict commercial space requirements for a given population. Clevedon was the most comparable with Beachlands–Maraetai but its commercial space was significantly lower than Beachlands–Maraetai despite it catering to a substantial tourist trade, as well as the locals. However, the impression we obtained was that the Beachlands-Maraetai area already has more commercial space than it needs. A lot of the stock is relatively old, therefore the rents are often very low making it feasible for some activities to survive, which would otherwise fail, or not be able to operate at full market rents. There is often a demand for space if the rent is made low enough but this cannot justify the construction of new space.
- It would appear that the developer has not conducted a proper market analysis before commencing this project. The developer has owned the land for a number of years and was able to source some of the materials at wholesale prices and this may have affected his judgment.

Recommendations

- It is our view that the development of the subject property cannot economically be justified and is not required at this time. It is likely that the vacant space will remain unoccupied for some years unless the rents are significantly reduced to make it feasible for some users to upgrade their premises or others to begin operating.
- We recommend that no further analysis be undertaken into the subject property. It should not be developed or purchased at this time unless further research indicates that any new development could be purchased at far below its cost of construction enabling attractive rents to be set that would encourage tenants to move from existing premises, or make new ventures feasible.
- If it is decided to proceed with investigation of this proposal we recommend that further research be undertaken, particularly in surveying existing tenants, to identify their needs and intentions, and shoppers, to identify needs which may not be currently met or gaps in the market, which would encourage them to shop locally.

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