



Business Hutt Valley Limited

The Voice of Business in the Hutt

GROWING THE HUTT CITY RETAIL SECTOR



heart of the Hutt

Proposal for a Special Rate for the Hutt CBD.

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Terminology

- In this paper, “High Street” is used as a generic term for the CBD strip shopping including High Street, Queens Drive, Margaret Street and other adjacent streets.
- “The mall” or “Queensgate” refers to Westfield Queensgate mall.
- “CBD” refers to all the city-centre retailing, including the mall, in the area covered by the Business Rating Differential.

1. EXECUTIVE SUMMARY

High Street retailing in Lower Hutt is currently at a very low level. Although Westfield has attracted many shoppers back to the city, they are not shopping in High Street. There is also strong competition from other parts of the region. If retailers and the Council can work together, this competition can be met and the Hutt retail sector will return to its previous level of activity. This proposal is to:

- Levy a Special Rate in the CBD
- Create an annual marketing fund of \$350,000
- Fund events and marketing activity to attract more shoppers to Hutt CBD
- Set up an Incorporated Society to set the budget and oversee all activity

2. BACKGROUND AND CURRENT ISSUES

(a) History

Previously, High Street was the Hutt's premier shopping area. Photos from the sixties and seventies show a bustling street, full of cars, people and shops.

The picture today is very different. In December 2009, in the lead-up to Christmas, there were more than 20 empty shops in the CBD. Pedestrian counts show declining numbers over recent years. This did not happen overnight, it has been a problem for some time.

(b) Queensgate mall

Queensgate mall opened in 1986. Anecdotal evidence suggests that some of the first mall shops moved there from High Street creating vacancies which took some time to fill. Queensgate expanded in 1991, again pulling in some businesses from High Street. A third expansion occurred in 2006, more than doubling the retail space and taking the mall to its present size of 180 shops. Once again, this created some vacancies in High Street, Margaret Street and Queens Drive.

This most recent expansion was done with financial support from Hutt City Council in the form of a rates rebate for two years. This was not direct funding but was income foregone, under the Council's existing economic development policy.

(c) Car parking

The current belief is that Hutt shoppers (like shoppers in other towns throughout the country) will not walk much more than 100 metres to get to where they want to shop. This gives the mall an obvious advantage – with its 1,850 car parks the chances of being able to park within 100 metres are very high. By contrast, High Street (Daly Street to Waterloo Road) has only 120 car parks, recently reduced to this number by widening the footpaths between Andrews Avenue and Margaret Street and removing angle parking in this section of the street.

There are, of course, more car parks in Queens Drive and other adjacent streets but the larger Riverbank car park is generally thought to be too distant for the Hutt shopper. High Street retailers believe that if their customers cannot park "outside the shop" then they tend to go elsewhere.

This problem may soon be exacerbated when the stopbanks are increased in width and many parks are lost from the Riverbank car park and Daly Street, forcing longer-term parking towards the CBD.

Parking is seen to be free to the shopper at the mall although it is, of course, paid for by all the tenants as part of their rent. By contrast, High Street is metered from Monday through Friday, with a two hour limit Monday through Saturday. Parking fees are modest when compared to Wellington but shoppers still see it as an irritant and another disincentive to shop in High Street.

(d) Promotion

Queensgate is professionally managed and marketed and this activity is funded by all the tenants as part of their lease agreements. High Street, by comparison, has no cohesive marketing strategy. Promotions organised by CBD+, the Hutt News or other media do not always attract the support that comes with a fully-funded marketing programme. Although this situation has improved since the appointment of a Retail Coordinator, there is still a long way to go.

(e) Rentals

When the mall was undergoing expansion from 2004 to 2006, demand for space in High Street was strong (as was the economy), leading to a rise in rentals. When the mall reopened in 2006 some businesses moved there from High Street, creating retail vacancies. However, some rentals have remained at the higher levels, discouraging new businesses from moving in.

(f) Street upgrading

Hutt City Council has a programme in place to progressively upgrade the city's shopping streets. Andrews Avenue and Margaret Street were completed in 2005 and 2007, followed in 2008 by High Street between Andrews Avenue and Margaret Street. No further funding has been allocated as the Council is currently considering the implementation of the Koebus Mentz report "Making Places" which has a number of recommendations for the physical layout of the CBD.

The upgrading done so far has had mixed results. Andrews Avenue is fully tenanted but Margaret Street is not. In High Street, the central portion is nearly all tenanted but some of these businesses have moved there from other parts of the street (e.g. PSIS).

It is not surprising that more businesses have not moved into the Hutt because of the street upgrades as they have simply brought the Hutt up to the standard offered elsewhere – they have not altered the business fundamentals such as rentals, competition and the state of the economy. It could even be argued that reducing the parking in High Street has made it worse for business.

(g) Building deterioration

Anyone walking along High Street could not help but notice that many of the buildings need maintenance, both at street level and first floor level. This general impression is compounded by the proliferation of real estate agents signs drawing attention to the empty spaces. However, like the street upgrading work, this does not affect the business fundamentals.

(h) In summary ...

The retail issues in the CBD are:

- Rentals are perceived to be high;
- Parking is limited and not free;
- Buildings in the street have a run-down appearance;
- There is no will to work as a cohesive marketing unit;
- The mall is seen as a more attractive place of business;
- Customer numbers continue to drop, despite individual business efforts.

3. WORKING TOGETHER TO GROW THE RETAIL SECTOR

(a) Can the retail sector be expanded?

Since it reopened, Queensgate mall has brought new shoppers to the CBD, in effect, growing the size of the retail sector through its marketing efforts and its growing reputation as a place to shop. The mall has also attracted a large number of retailers, including chains, which were not previously represented in the Hutt.

There is no evidence that retailing in the Hutt has reached saturation with no possible increase. Therefore, it is possible to grow the sector.

(b) Can High Street benefit from promotion?

It is generally accepted in business that good promotion will attract customers. Within the High Street there are many good retailers that understand this and regularly promote their products, either individually or as part of a chain. Destination shopping areas can also be promoted, as Queensgate has shown.

In other cities, areas such as Newmarket in Auckland have "reinvented" themselves through promotion as a destination. There is no reason why Hutt's CBD cannot do the same with good coordination and an adequate budget.

(c) Outside competition

Competition from outside the Hutt is going to increase. Although Wellington City Council is intending to alter planning laws to restrict competition for its "Golden Mile", the Johnsonville Mall is likely to increase in size and attractiveness. This makes it even more imperative for the Hutt to "get its act together" to meet increasing competition.

In Upper Hutt, the number of tenants in the mall is growing, attracting new shoppers. Combined with generally-lower rentals, Upper Hutt will become more of a threat to Hutt CBD, particularly for shoppers from the Wairarapa who might otherwise be attracted to Lower Hutt.

(d) Growing the retail sector

The answer to the lack of business and the lack of demand for shop premises in the CBD is better promotion as a retail destination. This promotion should include the mall, High Street and the "big box" area around the Melling Bridge.

In addition to this promotion, more parking is needed now and in the future, in and around High Street – this is currently being addressed by the Council as part of the "Making Places" review.

(e) Who will benefit?

The benefits of better promotion will flow through the community. Benefits will be felt by:

- Retailers, through increased turnover;
- Building owners through increased rents;
- The Council through increased valuations and rates;
- Workers through increased job opportunities.

4. PAYING FOR BETTER PROMOTION – THE OPTIONS

Given that more promotion is needed, how should it be funded?

(a) Option 1 – by voluntary contributions

As has already been shown in joint promotions, Hutt retailers are reluctant to join together to pay for joint promotions. An example is the December 2008 Christmas Carnival, supported by funding from the Council and Business Hutt Valley with free promotion from Hutt News. Only about 40 CBD retailers (out of a possible 200 excluding the mall) took advantage of the special advertising rate and group promotion.

CBD+ endeavours to coordinate retail promotions. In the example of the Carnival, all High Street retailers were advised by hand-delivered fliers and invited to take part. It seems clear from this and other examples that voluntary participation will never create the marketing “clout” which is required to bring the CBD up to its full potential.

(b) Option 2 – by compulsory contributions

This is the method used successfully by Jackson Street and Auckland’s 17 special rating areas. The best known is Newmarket where a special rate pays for major promotional activity.

Special rates are not new to the CBD nor to Hutt City. The Jackson Street programme is currently funded by a special rate which pays for a coordinator, office services and some promotion. Although not a large sum, it provides leverage and has helped establish the “Jackson Street” brand. The CBD too has had special rates, the last of which was removed in July 2007 after its purpose and application had long been blurred.

In downtown Wellington, Wellington City Council levies a special rate on retailers. The money raised is used by Positively Wellington Tourism to promote Wellington’s CBD retailing.

(c) Summary

Voluntary contributions to joint marketing on the scale required in Hutt CBD don’t work. There is, however, a precedent for special rates and a commercial model to follow in the successful promotion of areas such as Newmarket.

5. AN EXAMPLE FROM AUCKLAND

Auckland has embraced special rating as a means to revitalise its suburban areas and currently has 17 special rating areas. The amounts raised vary from \$2 million in downtown Auckland to about \$200,000 in Ponsonby and Parnell. (Note that these special rates are levied on all buildings and thus on all floor space, commercial and retail.)

One example in Auckland is Newmarket where the \$960,000 special rate provides for a promotion budget of \$250,000 plus three full-time staff, a graffiti programme and office overheads. The rate is paid on 580 sites, representing 1,500 occupants (not just retailers) who automatically become members of the Newmarket Business Association. Each member is paying an average of \$650 although this varies according to the value of the unit.

As a result of the promotional funding, Newmarket has "reinvented" itself as a fashion centre and become a retail destination for people from all around greater Auckland. Against strong competition from malls and shopping centres, 11% of Newmarket shoppers make the journey from the North Shore. Retailers have benefited from increased trade, building owners have benefited from increased rents and the city council has benefited from an increase to the rating base.

Similar benefits could be gained by Hutt City by using a Special Rate to generate activity in the CBD.

6. THE SPECIAL RATE PROPOSAL

This is a difficult time to be increasing the rates paid by retailers, many of whom are experiencing the toughest trading conditions for many years. Yet now is the time that the CBD needs strong marketing action.

This proposal is for the Council to introduce a Special Rate in the 2010 Annual Plan to raise \$350,000 per annum, partly offset by a reduction in the Business Differential charged in the CBD. A 50/50 split is proposed i.e. half the Special Rate will come from a reduction in the differential and half will come from an increase in the rates paid in the CBD.

The money raised by the Special Rate will be "ring fenced" and spent only on promotions for the Special Rate area, against a budget and business plan approved annually by the Council.

The proposed area to be covered by the rate is the area of the CBD which is currently subject to the Business Differential. Although arguments can be made for parts of this area to be excluded and for other areas to be included, setting this area will simplify collection.

7. THE BUDGET FOR YEAR ONE

The proposed budget for Year One is:

<u>Staff and office:</u>	
Marketing staff	150,000
Office overheads	25,000
<u>Promotions:</u>	
Direct marketing spend	125,000
Events	50,000
Total	350,000

Currently, there are about 350 rated properties in the proposed CBD special rating area, with total rates of approximately \$9.0m (excluding GST).

Therefore, the proposed \$350,000 (excluding GST) represents 3.9% of the total rates (excluding GST) collected in this area.

On a per-rateable-unit basis, the Special Rate averages \$1,000 per annum. On the 50/50 basis proposed, average rates per rating unit will increase by \$500 per annum – less than \$10 per week.

8. CONTROL

In Auckland, spending of the special rate income is decided by individual business associations which submit their budgets to the city council for approval. It is the task of each association to set its own strategy and decide the means by which it will be achieved. Once approved, funds are released by the Council only against the approved budget.

We recommend a similar system for Hutt CBD, which will be very similar to the Jackson Street Programme. The existing retailers' organisation, CBD Plus, will be replaced by an Incorporated Society and all retailers, occupiers and building owners affected by the Special Rate will be eligible for membership, with equal voting rights.

A new constitution will be drawn up after consultation with those affected by the Special Rate. Following registration of the new Society, elections will be held for all office holders.

This model allows retailers the freedom to decide on their own direction while the Council, as the funding and rating body, ensures that the money is properly used. It is important that strategic direction remains in the hands of the retailers and this structure will ensure that this will happen.

9. CONSULTATION

This proposal was put to a meeting of building owners and retailers held on Tuesday 2nd February 2010. Of the 30 people present, the majority were either supportive or neutral, with only 8 people opposed.

We expect that a survey will now be undertaken by Council officers of all the businesses and building owners involved. The results of that survey will be available to the Council to decide whether or not the proposal goes into the Annual Plan for 2010.