

From Omnichannel Supermarkets to Sustainability Legislation – UK Commercial Property Trends with Potential in New Zealand

As a recent arrival in New Zealand from the UK, the two commercial property markets and jurisdictions share a lot of similarities. With both island nations buffeted by global headwinds, we dive into three popular trends in the UK and explore how they may, or may not, find their way to New Zealand.

Omnichannel supermarkets: Within weeks of moving to Auckland, I have had a number of conversations with locals bemoaning the lack of competition in the NZ supermarket space. To the newly arrived expat, the supermarkets seem to fall into the upmarket (New World), the mid-range (Woolworths) and the budget conscious (PAK'nSAVE). It is easy to glance back at the UK's relatively robust, competitive marketplace with rose tinted glasses, but the reality is that Europe on the doorstep and a much larger population size is always going to lead to a more diverse crop of competitors. Having said that, if Aldi or Lidl do want to launch in New Zealand and need some commercial property advice, please do pick up the phone!

Although not an entirely new phenomenon, a trend I could see taking hold in NZ is that of the omnichannel supermarket. Put simply, an omnichannel store would provide your traditional in person grocery shopping, but

combine it with a 'last mile' grocery fulfilment centre for both click and collect in store, and home delivery.

Why do I think this trend is well suited to New Zealand? Firstly, an omnichannel store requires a larger floor plate in order to provide the necessary range of short notice goods. New Zealand has an abundance of space, the likes of the Albany Mega Centre in Auckland could easily accommodate the ancillary requirements of an omnichannel store such as multiple loading bays, a fleet of home delivery vehicles and refrigeration units. Secondly, given the relatively spread out nature of New Zealand's population, an omnichannel supermarket is usually a lot closer to the customers than a large, out of town order fulfilment centre. This means lower delivery costs and faster delivery for the customer, and increased efficiency for the supermarket.

What are the headwinds for this? The obvious answer is that an omnichannel supermarket does require some initial capital expenditure in order to get it ready to go. However, if you have an existing, relatively modern supermarket in situ then a lot of the work has already been done. The use of e-commerce in New Zealand is only going to grow further, and future proofing your supermarket stock by making it omnichannel could be a good use of that extra financial wiggle room decreasing interest rates may provide.

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Co-working spaces: The pandemic forced a lot of professional services in the UK and NZ into remote work in the early 2020s. As we approach the mid 2020s (where did that time go?), the genie is truly out of the bottle in terms of flexible working. Whilst some freelancers and digital nomads seem to get a lot of benefit from fully remote work, the majority of office workers in both jurisdictions have landed on some form of hybrid working. As Millennials move into their forties and Gen Z increasingly enter the workplace, employees are increasingly drawn to high quality, innovative office space. In NZ, co-working spaces such as Generator and Thinkspace are offering competitively priced event spaces, meeting rooms and offices.

Why do I think this trend is well suited to New Zealand? With employees living further away from the physical office than other, higher density cities in Europe and Asia, I would anticipate a 'flight to quality' when it comes to office stock. If a company is based in a creaking building with a tired fit out reminiscent of The Office, then the temptation to crack open your laptop in your lounge instead of getting into your car is going to rise substantially. I do not think by the way that the advent of these co-working spaces spells the end of the traditional office building. Not every business requires a ping pong table and a beer tap. What I do think is that a rising tide raises all boats, and a bit like the success of Tesla pushed other car manufacturers towards EVs and hybrids, the success (initially!) of the likes of WeWork changed the

perception of what office workers post-pandemic want the place they spend the majority of their waking day in to look like.

What are the headwinds for this? Unlike the UK, tenants in NZ are unlikely to have a 'break clause' in their lease which would allow them to vacate on an agreed date if they see a better option. A lot of businesses are tied in to medium term leases, for certainty of cash flow and continuity. A move to a more open plan, communal office is also not for everyone. There are valid concerns over privacy and confidentiality, as well as the distractions that come with some of the perks that employees are asking for. It is my opinion though that the office of the future will be subject to a bifurcation of the market, where businesses without appealing office environments struggle to retain top level talent, regardless of whether they offer pizza on a Friday.

Sustainability and Repurposing: I am not saying that sustainability is not already a big ticket issue in NZ. At Anderson Lloyd we are proud to be Toitū net carbon zero certified, using verified carbon credits to run sustainably. However, although in NZ there exists the commercial 'carrot' of being able to say your property is Green Star rated, or your energy efficient building costing you less in utilities, I have not come across the equivalent legal 'stick' that exists in the UK. The 2015 MEES (minimum energy efficiency standards) Regulations have made it unlawful

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from 1 April 2023 onwards to continue to let a property with an 'F' or 'G' EPC rating, without a valid exemption. Without making this article too UK focused, an EPC (energy performance certificate) is required for the letting of most commercial and residential properties, with limited exemptions such as some listed buildings, and reports on the energy efficiency of the property with suggested improvements. The best NZ comparison would probably be the Healthy Homes standards.

Landlords in breach of the MEES Regulations can be fined up to £150,000, however the number of properties that fall into the 'F' and 'G' class is comparatively small. My London flat for example was nothing special but obtained a 'B' EPC rating. The concern for anyone with an existing portfolio of commercial property however, is that from 2028 (at time of writing) the EPC requirement for commercial buildings jumps up to a 'C'. For a lot of commercial property owners, that's a big problem - there is only so much that changing to LED light bulbs can do for an old, inefficient building.

Why do I think this trend is well suited to New Zealand? The country as a whole seems ahead of the global curve on sustainability, as my family members visiting and paying \$100 towards a Conservation and Tourism Levy will confirm. The Green Star rating system is admirable, but because there is no legal requirement for buildings to be of a certain

energy standard, there is no comparable race to get rid of inefficient stock and build new, sustainable buildings. The closest statutory requirement I can see is the mandatory climate-related disclosures that financial market participants in New Zealand are required to provide to the Financial Markets Authority (FMA). This requirement for large lenders, insurers and listed companies (amongst others) to disclose to FMA their strategy and risk management around climate change remains in its infancy, however it seems only a matter of time however until a NZ government of any colour turns its focus to minimising the energy usage of the country's buildings. If Wellington won't do it, then the free market may do so instead. Even without government intervention, a commercial tenant having to stomach large utility costs, either directly or indirectly through operating expenses, is likely to look for newer, greener buildings that don't cost the earth (pun semi-intended).

What are the headwinds for this? As with a lot of large-scale developments, the current depressed market does not lend itself to long term repurposing projects, especially when there is no imminent threat of financial pain. Whether it is the demands of increasingly ESG observant investors, the desire to future proof your portfolio, or simply the dollar in your pocket being spent on high energy costs, I still see this trend coming down the track eventually.

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In summary, this article is not suggesting that New Zealand must follow in the UK's footsteps. There are plenty of things that the commercial property market here is ahead of the UK in (registration of land for example). However, with a population over ten times the size, there are inevitably trends which will crop up in the UK first – it is up to New Zealand to decide which of these opportunities fit the local market, and which of them to leave to our northern hemisphere friends.

Want to know more?

If you have any questions about investing in New Zealand commercial property please contact our specialist commercial property team.