



Retail Property Market Forecasts and Strategies 2011 – 2021



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

COMMERCIAL PROPERTY

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1. INTRODUCTION

1.1 Introduction and major objectives of this report

Retail Property Market, Forecasts and Strategies 2011 to 2021 is the fifteenth comprehensive study of the Australian retail market undertaken by BIS Shrapnel.

The retail sector is facing challenging conditions. Consumers seem to be locked in to precautionary savings mode. Concerns about the US and European debt crises, domestic economic growth, rising interest rates, rising utilities bills, the impact of the floods and Cyclone Yasi earlier this year, uncertainty about the carbon tax, a fragile sharemarket and falling house prices are all weighing on consumers' minds. Savings rates are at a 24 year high.

Is it really as bad as all this? After all, employment growth is solid, the unemployment rate is low and household incomes are growing solidly. Consumers have built up a considerable savings buffer and, as a result, have a latent capacity to spend. The question is, what will trigger a change in consumer behaviour? And when will it happen?

Will it happen fast enough to come to the rescue of suffering retailers? Many of the major groups have warned of profit downgrades this year. Others have not been so lucky and have closed shop entirely. We've started to see an increase in vacancy rates in shopping centres.

What does this mean for shopping centre owners in terms of centre income? Occupancy costs are already at historic highs. Will retailers be able to continue to absorb rental increases? How important is the level of the \$A in supporting retailer profit margins and their capacity to pay?

Meanwhile, online retailing has been grabbing the headlines over the last 12 months. What are the growth prospects for this sector, and how is it likely to impact on shopping centre turnover—and hence income?

On the investment front, transaction activity picked up sharply during 2010 and keen investor interest is being sustained this year despite the weakness in retail spending. Is this a wise time to be buying? Will yields resume their previous downward trajectory and return to pre-GFC levels? Where will the differential between regional and sub-regional centres settle? And what about development, which has bounced back rapidly after a post-GFC slump? Can all these projects be justified—how much more retail floorspace does Australia need?

Our report addresses all these issues and more through a detailed assessment of:

- Demand—taking into account both the cyclical economic influences and long term structural issues such as changing demographics.
- Supply—taking into account funding and feasibility issues and long term underlying demand.
- Retail trends—including the performance of key anchor tenants (the department stores, discount department stores and supermarkets), the development of new retail formats, as well as the threats from new retail players such as Costco and Internet retailing.
- Centre incomes—balancing the influences of consumer spending, retailer profitability and capacity to pay, and additional supply.
- Investment yields and capital values—based on econometric analysis which suggests a re-rating of retail yields post-GFC.

The report also discusses a range of investment and development issues and asks: Is retail property a good investment at this stage in the cycle?

1.2 Report outline

Demand for retail goods and services is analysed in **Chapters 2 and 3**. Chapter 2 considers the demographic factors and looks at how the ageing population, changing household structures and shifts in the location of population growth will impact on retail spending patterns. Chapter 3 sets this information in the context of the overall economic environment over the next 10 years to provide forecasts of retail turnover by category and by state, taking into account the impact of online sales at both domestic and overseas sites, as well as 'lost' trade as Australians increasingly travel, and shop, overseas.

Chapter 4 discusses the supply of retail floorspace, tracing the growth in stock and the current distribution. The chapter discusses retail planning policy, state by state, and presents our forecasts of retail commencements by state over the next 10 years.

Chapter 5 assesses the implications of developing market trends on future retailing. Issues considered include changing consumer tastes and preferences and the response from retailers and shopping centres, both here and overseas. The chapter traces current trends in the performance of key anchor tenants—the department stores, discount department stores and supermarkets, as well as the fluctuating fortunes of discount variety stores and the arrival of Costco. A discussion of the impact of bulky goods retailing and factory outlet centres also features in the chapter.

Chapter 5 also incorporates an overview of the status of Internet retailing in Australia, including an update of our internet retailer survey, and an assessment of the likely impact on shopping centre turnover growth.

Chapter 6 examines historical rental trends in rents for different types of retail floorspace. It uses econometric modelling as the basis for forecasting centre incomes over the next decade, for both regional and sub-regional centres.

Chapter 7 examines the determinants of yields and capital values, and forecasts both, for regional and sub-regional centres.

Chapter 8 discusses what the findings and forecasts mean in terms of decision making for market participants—investors, developers, retailers and others. It assesses retail returns after making allowance for capital expenditure and compares these with prospective returns from other property sectors. We also include estimates of how much additional regional and sub-regional centre floorspace will be required in Australia over the next decade.

Finally, **the Appendix** provides definitions of shopping centre types and summarises our econometric work on shopping centre income and retail yields.



Retail Property Market 2011 – 2021 & Bulky Goods Retailing 2011 – 2016

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