

'Retail Leasing – The Road Ahead for 2009'

As 2008 draws to a close, it is worth reflecting upon some of the major macro and micro economic factors that have impacted on retail leasing. In addition, we will be gazing into the crystal ball to determine where the retail industry may be heading in 2009.

The 'R' word and its impact on retail

Although many economists do not acknowledge that the Australian economy is in a recession, we as retail specialists believe for many parts of the retail industry, particularly discretionary retail, technically went into recession during the middle part of this year. The following well publicised retailers have either completely or partially closed down there Australian portfolios, which provide some evidence of the above assertion:

Company	Usage Category
Kleins	Jewellery/Accessories
Starbucks	Coffee/Takeaway
Heringbone	Men's Fashion - Up-market
Groove Accessories	Accessories
Shoobiz	Shoes

Macro economic factors

2008 was effectively a year of two halves, in the first two quarters the Reserve Bank of Australia and the Federal Government were focused on keeping inflation under control due to rocketing petrol prices, surging Australian dollar, record commodity prices and food inflation from the drought. These factors combined began to take their toll on discretionary retailers towards the middle and later half of 2008.

However, as the ramifications of the global financial crisis began to impact on Australia, the retail industry experienced a strange phenomenon of rapidly falling interest rates, falling petrol prices, falling commodity prices and a falling Australian dollar. Unfortunately, with all these falls came a crisis of confidence, as consumers were increasingly concerned about job security and household balance sheets.

However, there are some retailers, in particular those in the takeaway food category and those in the discount variety store category who are benefiting from the current economic conditions, particular due to the macro economic factors stipulated above, whereby households are more concerned about spending, however still require the

particular product or service that they deliver. These categories are likely to be the major expanders in 2009.

How long will the 'R' word last?

As with all forecasts, one can only make assumptions and look at historical cycles where these conditions have previously occurred. Table 1 (below) illustrates the length of recovery in months for the retail sector for the last two recessions in 1981, 1991 and 2001 respectively:

Cycle	1981-83	1991-93	2001-03
Housing construction	12	18	9
Retail sales	15	21	9
Employment growth	12	36	6
Business investment	15	30	9
GDP growth	12	18	9

Source: DEXUS Research (from time interest rates begin falling)

This table above shows that the recovery time for retail sales was between nine and twenty one months. The severity of each downturn is dependent upon a myriad of factors and therefore any attempt to predict the length of this recession is likely to be futile.

How does this affect you in retail leasing in 2009?

During the first two quarters of 2009, we expect that new store acquisitions by discretionary retailers to be minimal. The emphasis will be maintaining profitable stores or consolidating poor performing stores into either a single location and/or shutting down marginal locations.

Therefore if you are in retail leasing, expect retailers to be very cautious in their leasing approach. Retail agents should consider recommendations of appropriate incentives to attract new leasing, either in the form of longer rent-free periods, contribution to fit-out or some combination thereof. The retail agents who appraise the market appropriately and recognise the tough trading conditions for retailers will be the ones best placed to negotiate leasing deals. If however, retail agents continue with the ever upward philosophy of retail leasing, then be prepared for a lean six months.

We expect that there will be some exceptions to this rule, as previously stated for the categories of fast food, particularly takeaway hot prepared meals and small format discount variety stores. Also, expect some states to perform particularly poorly next year, such as NSW, VIC and WA as falling commodity and household prices in WA affect consumer sentiment.

During the second half of 2009, it will be a brave forecaster to predict where the economy might be, however we know from previous recessions that the current fiscal and monetary stimulus packages from the Federal Government take approximately six months to kick in, therefore some economic pay-off for retailers is likely to be felt in the second half of 2009.

We trust that you have found our articles useful and we wish you peace and prosperity over the festive season of 2008 and look forward to contributing again in 2009.

If you would like more information or any retail leasing evidence for your upcoming rent reviews or new site acquisitions/disposals, please visit our website at www.leaseinfo.com.au or call us on (02) 8354 0250.

About the Author

Bio – Simon Fonteyn

In January 2005, Simon Fonteyn founded **leaseinfo.com.au**, an online retail leasing database and has taken the business to become the largest independent retail data provider in Australia with over 300 clients and over 22,000 leases covering, centres and strips.

Simon is a registered property valuer and retail tenancy expert with the Administrative Decisions Tribunal and is called on as an expert in rental determinations. He combines expert knowledge in property valuation and leasing with strong business and IT management skills.

Simon holds a Bachelor's degree in Accounting/Finance from UNSW, an Associate Diploma in Property Valuation and a Master's Degree in Business Management from Macquarie. He is an associate of the Australian Property Institute.