Press Release & Market

leasing information systems

Retail Leasing Outlook in Australia 2016/2017

Since the beginning of the year, global financial markets have experienced severe volatility; however Australian retail markets on the whole have looked more positive, with consumers benefiting from record low interest rates, falling oil prices and reasonably stable employment prospects in parts of Australia.

Digging deeper, each retail market consists of a series of sub-markets and retail categories, each performing very differently from each other. This article will therefore examine some of the sub-markets and retail category trends and the implications for rental pricing for the year ahead.

Luxury Retailers

The luxury apparel market has experienced significant growth during the 2014 and 2015 calendar years as shown below.

Luxury Companies	Net Dollars 2014 (000)	Net Dollars 2013 (000)	Growth	Market Share 2014	Financial Year End Date
Total	**$1,022,640**	**$885,413**	**15%**	-	-
Louis Vuitton	$182,668	$165,680	10%	17.86%	31/12/2014
Tiffany & Co	$179,450	$162,101	11%	17.55%	31/01/2015
Total Chanel	**$176,903**	**$148,956**	**19%**	**17.30%**	**31/12/2014**
Richemont	$126,200	$103,267	22%	12.34%	31/03/2015
Hermes	$73,411	$56,434	30%	7.18%	31/12/2014
Prada / Miu Miu	$72,638	$74,188	-2%	7.10%	31/01/2015
Gucci	$67,616	$59,913	13%	6.61%	31/12/2014
Burberry	$50,795	$42,923	18%	4.97%	31/03/2015
Bvlgari	$44,861	$35,332	27%	4.39%	31/12/2014
Dior Fashion	$38,864	$29,528	32%	3.80%	31/12/2014
Bottega Veneta	$9,234	$7,091	30%	0.90%	31/12/2014

This is due to a number of factors including:

- Luxury goods becoming increasingly available to an increasingly affluent Australian middle class;
- Australians are much more knowledgeable about international luxury brands due to their passion for overseas travel;
- An increasing market segment is the Asian inbound tourists due to the devaluation of the $AUD.

There are at least 15 international luxury brands currently looking for flagship stores in prime CBD locations, primarily in Sydney and Melbourne. Furthermore, super-regional and CBD shopping centres have created luxury precincts to cater for this market.

Outlook Summary

Rental Growth

Demand Growth

International Retailers

Larger international retailers continue to either enter the Australian retail marketplace or are looking for flagship space, primarily in the prime and super prime markets of the CBDs of Sydney and Melbourne. Debenhams have announced that they are setting up a department store in George Street, Sydney. This follows numerous other international retailers entering the market such as;

COS – Upmarket sister brand of H&M; Kit and Ace; Tesla all setting up in Martin Place.

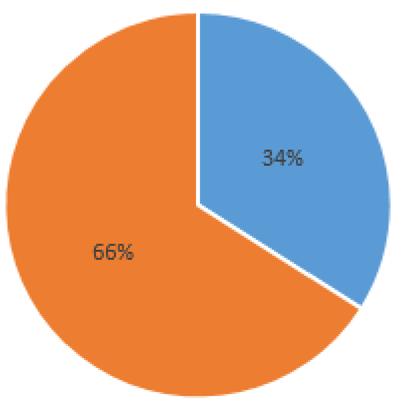
Additionally the big 3 IFF (Zara, H&M, Uniqlo) continue to penetrate and take market share in the Australian market. Since entering the Australian market in 2014, H&M currently have nine stores nationwide and have just announced they will be opening across the country by the close of the year.

There is also an increasing trend for international retailers acquiring or partnering with Australian operations to penetrate the market including Woolworths South Africa acquisition of David Jones, Pepkor and Debenhams JV.

Uniqlo is set to open its 12th Australian store in Victoria's south-west during winter. Uniqlo Australia CEO, Shoichi Miyasaka "We've had an extremely positive response from shoppers since opening our first store in Melbourne in 2014, and have since been focused on expanding our operations across the Victorian market".

Domestic Fashion

The outlook for domestic fashion retailers is very mixed, with the large multi-brand chains reporting low to moderate LFL store sales growth, largely at the expense of the small chains, which are gradually being squeezed out of the market. Graph 1 shows the number of fashion retail administrations by category over a 5 year period from 2011-2016, showing a very alarming trend for both retailers and landlords



Graph 1

Graph 1 – For the past five years 34% of retailers that have gone into administration are in domestic fashion.

The "crowding out" of the smaller chains is due to a number of factors including; the increasingly rapid expansion of the Big 5 International Fast Fashion players (IFF) Zara, H&M, Uniqlo, Topshop, Forever 21and the depreciating AUD impacting margins.

Consequently, looking at the renewal patterns of Fashion in Table 1, across most shopping centres, there have been large reductions in rent. The exceptions being, Westfield Bondi, Robina and Myer Centre Brisbane.

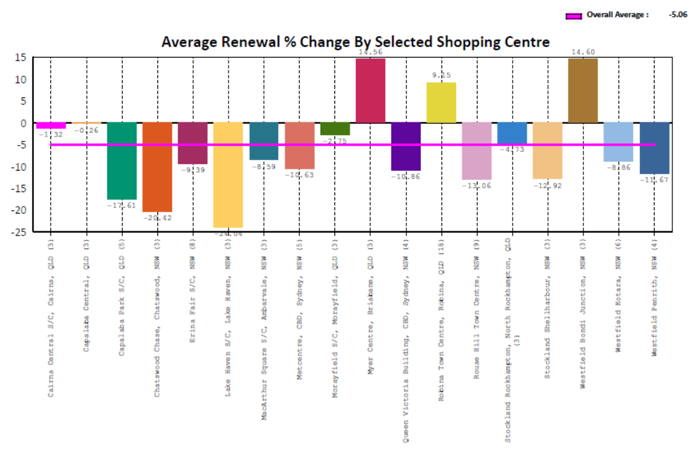


Table 1

Source: Leasing Information Systems – Sitting Tenant renewal report April 2016.

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Demand Growth 

Food Services and Food Retail

This category is made up of quick service outlets, casual dining and fresh food retail. We have excluded supermarkets from this analysis.

This category has experienced steady year on year growth, however towards the end of 2015 and early into 2016, this category's sales has started to flatten out.

Competition levels are very high in the food services sector. The larger chains are still reporting LFL store growth sales, with a major focus for these outlets on the outdoor casual dining precincts within shopping centres, where there is an opportunity to capture lunch and dinner and "own the experience".

There are some concerns emerging around food courts within shopping centres being cannibalized by their own casual dining precincts.

The Productivity Commission has recommended that Sunday penalty rates be cut and brought into line with Saturday wage penalty rates. If the Fair Work Commission adopts this recommendation, this will be a major boost for this category and likely to spur stronger growth.

We expect another reasonably strong year from this category, particularly in Sydney and Melbourne where consumer confidence is highest.

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Homewares

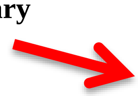
There is a very strong correlation for this segment to residential property prices and development activity, so consequently Sydney and Melbourne should still perform reasonably strongly, given their unit market is still active. Brisbane unit market looks over-supplied and WA looks poor. The recent administration of Laura Ashley and Dick Smith should help existing players.

The longer term outlook may start to moderate, as residential development activity slows.

Bank Branches and ATMs

Due to the stock market volatility and requirements to preserve more capital, bank branch costs are under increasing pressure and branch network will be under scrutiny. There has been increased pressure on loans as the residential housing market starts to cool down leading to the need for banks to rationalize costs. An increase in the use and need for technology sees banks locating and opening smaller branches. The ATM network has become saturated and banks are no longer looking to expand their share in this market.

Outlook Summary

Rental Growth 

Demand Growth 

Jewellers

The depreciation of the AUD ultimately translates to higher prices for diamonds, as they are traded in USD. Some jewellers may drop a level in quality (colour and/or clarity) of diamonds they sell to reduce the effect of the cost increase on retail prices. International tourists make up a small percentage of jewellers customers with some shops selling opals in Sydney, Gold Coast and Cairns regions. The margins amongst the market are steady; however the biggest issue for jewellers for several years now has been lower consumer confidence.

LIS sitting tenant renewal report for this category shows mixed results. The major chains have used the downturn to largely reset rents on renewals. However the smaller stores and independents have continued to pay rental increases on renewals in order to secure and maintain high traffic locations with the larger centres

The key questions for retailers this year is how the consumer confidence will hold up for the year. In my experience, confidence is made up of 3 key factors; employment growth and stability, retail house price growth and the household savings ratio.

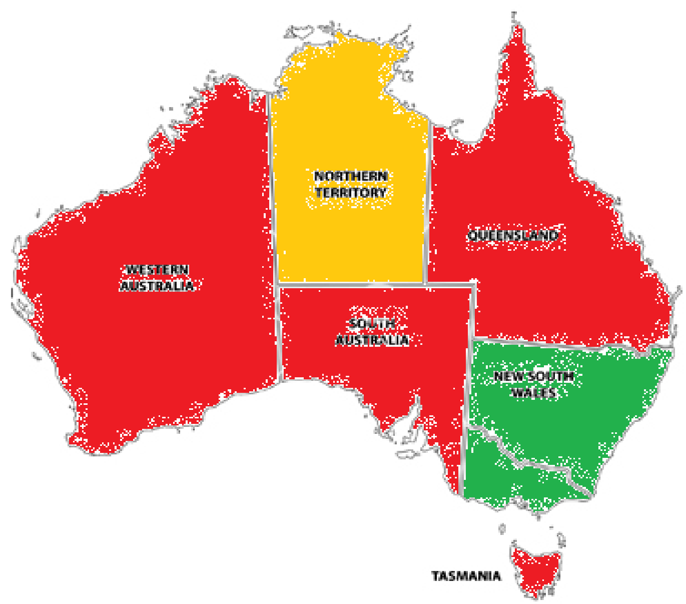
Outlook Summary

Rental Growth 

Demand Growth 

State by State Issue

Australia is still a 'two-speed economy' however the mining states of WA and QLD are dragging behind due to falling property markets and employment. On the other hand, NSW and Victoria have improved and consumer confidence is high. The key depicts explains growth rates.

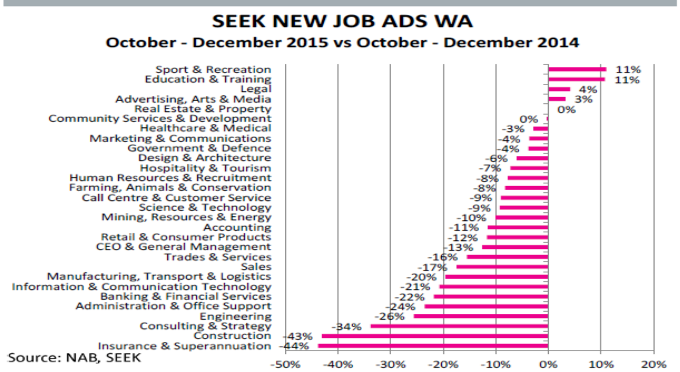


Red = Negative | Orange = Neutral | Green = Positive

Employment Growth and Stability

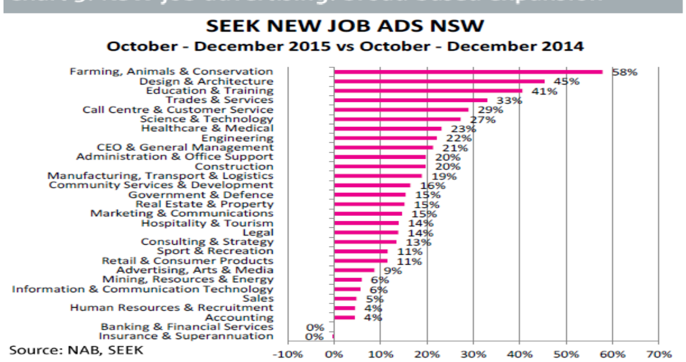
The following graphs portray a very interesting report by Seek that shows NSW having relatively strong growth in all employment categories compared to WA and QLD that has seen negative job advancements in almost all categories.

Chart 8: WA job advertising: broad-based weakness



It can be seen that in every major employment category except banking & financial and insurance & superannuation there has been some form of growth in employment with farming, animals & conservation leading the way with 5% growth.

Chart 9: NSW job advertising: broad-based expansion



The opposite must be said for WA growth levels as we see 4 of the total 29 employment categories (13%) actually showing positive growth patterns.

Residential House Price Growth

It can be observed that the year on year change in regards to all dwellings has been quite strong for all major cities except Darwin and Perth. The month on month change however sees Sydney, Adelaide and Hobart all in the red. In terms of the housing change, strong growth year on year occurs across the board except for Perth and Darwin. The month on month growth levels are similarly strong across the board bar Darwin and Brisbane. Unit growth year on year remains in the green with the exception of Adelaide, Perth and Canberra while month on month sees Sydney, Adelaide and Hobart in the red.