Retail falters, but the rent keeps rising

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ANALYSIS

Australian retailers may have battled lacklustre conditions in the past year, but shopping centre landlords have still managed to nudge rents up.

> *"The bigger and better centres are enjoying rental and sales growth while the others are flat or even negative."*

And new data shows that independent retailers - who don't have the same clout as the chains to negotiate favourable deals - may have born the brunt of rent increases, leaving them at greater risk of failure.

However an unusually large number of shopping centre tenants are unwilling to commit to a new lease for five or more years, instead continuing to trade on a short-term basis, according to the data, contained in the *Sitting Tenant Renewal Report - Market Update*. The report is produced by Sydney-based consultancy Leasing Information Services (LIS), which monitors the retail leasing market.

The "short term" can be as little as month-to-month or as long as one-to-two years.

LIS managing director Simon Fonteyn said it was clear there were two distinct trends in Australian shopping centres.

"The data shows a clear trend of bifurcation - the bigger and better centres are enjoying rental and sales growth while the others are flat or even negative."

He believes that retail conditions in 2013 will be broadly in line with 2012.

In the 18 months to last December, renewals at medium and large shopping centres resulted in an average rent increase on renewal of 2.4 per cent, according to the data, which mainly covers centres in New South Wales and Queensland.

The composition of the increase was particularly interesting, with services (eg. hairdressers, salons) up by over 10 per cent on average and banks up more than 7 per cent, while fashion, footwear and accessories virtually flatlined.

Despite the modest average rent increase in the past year, trends are clearly reflecting market conditions and psychology.

In NSW for example, rents increased by an average of 0.7 per cent on renewals in the past year, a far cry from 2010/2011. Then, according to LIS, rents grew by an average of 9.8 per cent at medium centres and 9.2 per cent at the large centres.

And then there is the increased number of holdover and short-term leases, which underscores the fragility of the market.

Whichever direction the overall market heads this year, the dominant shopping centres in Australia look set to enjoy rental growth that by most international standards - if not their own - are quite healthy. For the others, there will be a lot of hard scrapping to do.

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