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Thursday, 10 November 2011

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Retail body calls for halt to rent hikes as leasing expert says Christmas holds the key to a better 2012

Thursday, 10 November 2011 10:27
Madeleine Heffernan

A leasing expert predicts next year could produce more retail collapses than this year if Christmas trading disappoints, amid calls from a retail body to halt retail rent hikes.

Russell Zimmerman, executive director of the Australian Retailers Association, says the rule of thumb used by Westfield in determining rent increases – CPI plus 2% – is out of touch, given the number of retail collapses this year, poor sales in clothing and footwear, and warnings by retail giant Premier Investments that shopping centre landlords risked losing brands if they did not lower rents.

"Look, I don't believe the model can be sustained," Zimmerman says. He says while that model might have worked when retail sales were up by 6%, in the current climate rent rises of CPI are more appropriate.

"You only have to look at the recent closures and restructures," Zimmerman says, pointing to the collapse of REDgroup Retail, Colorado and Brown Sugar. He says it's been difficult for retail over the past 18 months, but particularly so since May.

Zimmerman says with CPI running at 3%, the price increase over a five-year rent can reach as high as 28%, including compound interest.

He adds that although Westfield says its Australian and NZ shopping centres are almost full, many tenants are "not temporary tenants" – that is, a company with a business in one Westfield centre is offered a lease in another at reduced terms – therefore "there are a whole lot of tenants supporting that 3.8% increase".

"Landlords should be more realistic in their negotiations. It's just unsustainable."

In its update this week, shopping mall giant Westfield reported that average specialty store rent grew by 3.8% year on year to \$1,460 per square metre.

By contrast, retail sales are up to 2.3% year on year. The Australian Bureau of Statistics says retail sales lifted by 0.4% in November, the third consecutive month of gains.

Westfield – which has 43 centres in Australia and 11,792 retail outlets – said 99.5% of its Australian and New Zealand portfolio was leased.

But Simon Fonteyn, managing director of Leasing Information Services, has played down the prospect of Westfield or other landlords reviewing their lease structures, and says this Christmas will be key for the viability of many retailers.

"There are a lot of tenants, especially in fashion industry, that are really hoping for a decent Christmas," Fonteyn says.

"If that doesn't happen, we'll see an even tougher year than this one."

Fonteyn says Westfield's rent rises are usually CPI plus 2-2.5%, CFS uses fixed increases of 5%, and some landlords use between 4-5% per year.

"The question is not fixed increases; it's more about whether rents are sustainable long-term," he says.

"And at the moment, it depends on what category you're talking about, because certain sectors are more susceptible to the downturn, such as fashion, footwear, jewellery, whereas others – telephones, entertainment, food and coffee – are more resilient."

But there is some wriggle room: Fonteyn says there's a push for independent retailers to be treated differently to chains because they add a point of difference, and other retailers might look at reducing their rents when they expire or do a short deal for a few years.

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The comments follow the announcement by the Franchise Council that it was writing a Retail Tenancy Code of Conduct – now with help with the competition regulator – to help prevent excessive rent rises and conflicts between landlords and tenants.

Zimmerman of the ARA adds that retailers should not be forced to hand over their turnover figures to landlords, and there should be lease registries across the country.

"It's akin to giving them the pin to your bank account," Zimmerman says. He proposes the sales figures be handed to a third party, such as a Government department, and collated, to ensure they are not being used by the landlord to justify excessive price hikes.

"I understand centres need to know how the stores are trading, but I've had retailers tell me they've been told that, 'ah you can afford this,'" Zimmerman says.

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