

Employment lands 2020 report on the retail sector

The retail sector serves an important role in the community. It allows consumers access to a wide range of goods and services as well as allows for price comparisons.

The retail industry is also important to the economy because of the high volume of transactions and the number of workers employed across the state.

This report analyses the value of retail building approvals from custom 2019 Australian Bureau of Statistics data (as at January 2020). This data provides information about retail buildings primarily used in the sale of goods to intermediate and end users, including the value of alterations, additions and conversions (worth more than \$50,000). The data serves as a proxy to provide an estimate of the level of development activity across the retail industry in NSW. It also contains commentary on the demand for retail property given structural changes in the sector, the impact of COVID-19 and the macro-economic environment.

Value of retail approvals in 2019

Analysis of Australian Bureau of Statistics data shows the value of retail development approvals, including additions and alterations, by district during the 2019 calendar year. Figure 1 illustrates the value of retail development approvals in metropolitan and non-metropolitan NSW with metropolitan Sydney having the highest value of approvals. The local government area (LGA) with the highest value of approvals was the City of Sydney, with 18% of total approvals. The Inner West LGA had the second highest value of approvals, with 9% of total approvals. The City of Sydney and the Inner West are both in the Eastern City District. Table 1 includes examples of the approvals contributing to these results.

Figure 1. Value of retail approvals in metropolitan and non-metropolitan NSW in 2019

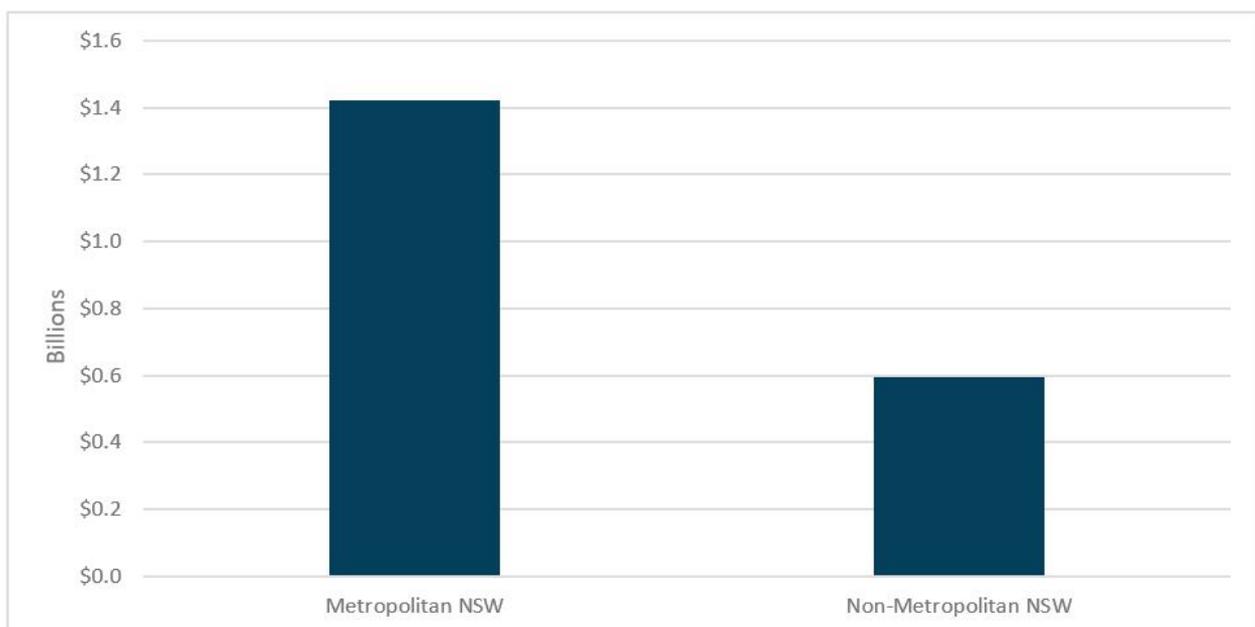


Figure 2. Value of retail approvals by District in 2019

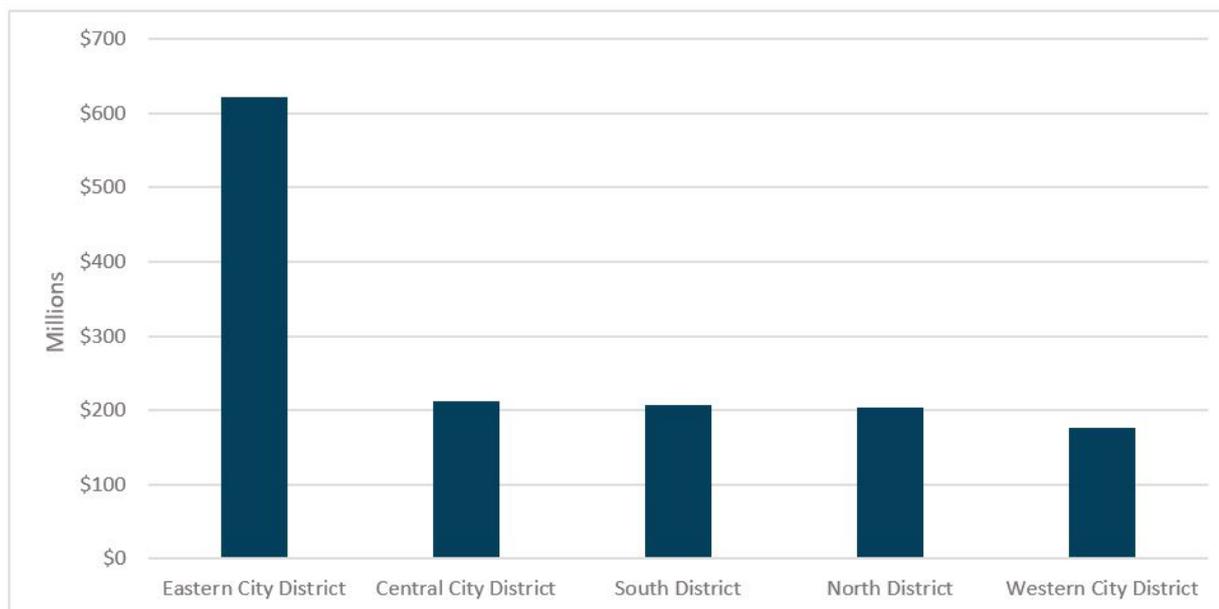


Table 1. Examples of retail approvals

LGA	Suburb	Project	Development application value (may include non-retail components)	Approval date
Canada Bay	Drummoyne	Birkenhead Point brand outlet – alterations and additions	\$19,851,000	5 April 2019
City of Sydney	Surry Hills	Chalmers Street commercial building – alterations and additions	\$7,200,000	13 February 2019
City of Sydney	Sydney	Pitt Street commercial building – alteration and additions	\$8,690,000	19 August 2019
City of Sydney	Sydney	Challis House redevelopment	\$1,708,000	23 January 2019
Inner West	Tempe	Bunnings – alterations and additions	\$44,825,000	27 June 2019
Lane Cove	Lane Cove	Burns Bay Road mixed-use development	\$28,992,000	25 September 2019

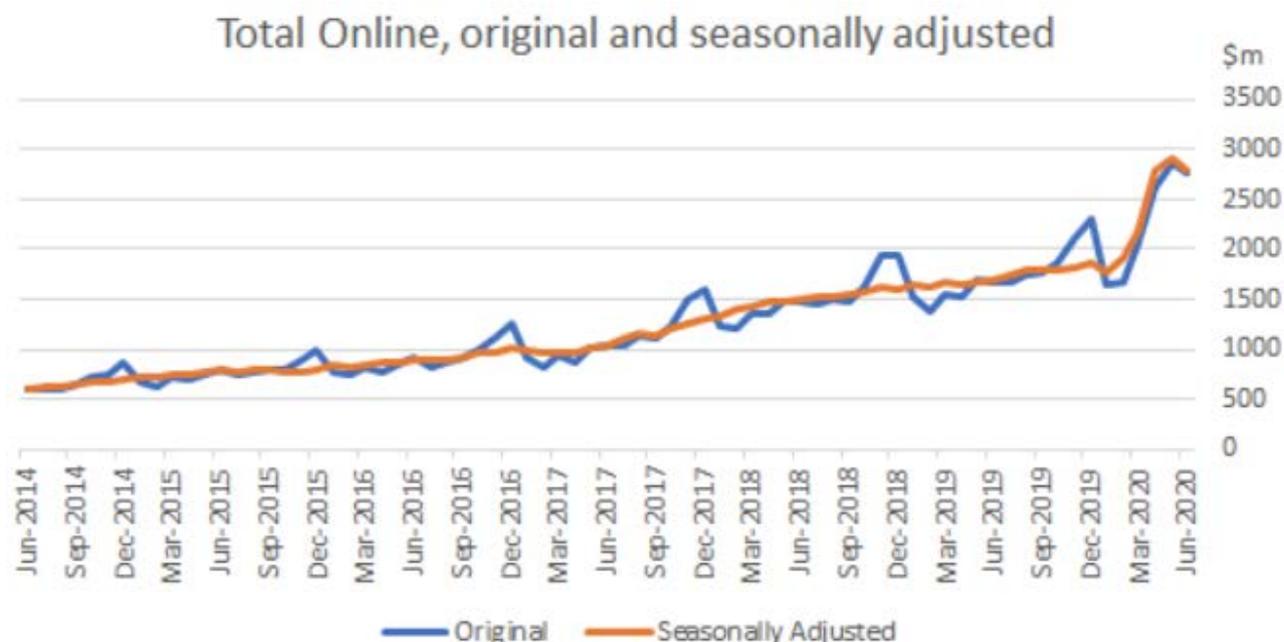
Retail performance overview 2019–20

Structural Change, COVID-19 and the macro-economic environment

Before COVID-19, bricks-and-mortar retailers were facing challenges from long-term structural shifts, including the rise of online shopping and changes in consumer spending patterns from ‘things’ towards ‘experiences’. This resulted in increasing vacancies and declining rents, putting downward pressure on valuations. COVID-19 social restrictions and lower discretionary income resulting from the economic downturn have increased the headwinds facing the sector, putting more pressure on vacancies, rents and valuations. In fact, some well-known retailers have closed in 2020, leading to lower floor-space requirements. Others are facing large declines in revenue and are still reliant on government support measures. At the time of writing, restrictions have been eased somewhat in NSW and there is increasing activity in shopping precincts. According to the Australian Bureau of Statistics Business Impacts Survey, only 16% of retail businesses in Australia were operating ‘normally’ in July 2020.¹

Retail sales have been quite volatile in 2020. Initially, there was a large increase in March because of people stockpiling various durables. But then, weak consumer sentiment and job prospects saw a large fall, which reversed in later months when the economy gradually reopened. Turnover for ‘Cafes, restaurants and takeaway’ is down over the year, but ‘Clothing, footwear and personal accessories’ has rebounded to be steady over the year.² Online retailing grew robustly in April and despite subsiding a little in June, remains above pre-COVID-19 levels. Australian Bureau of Statistics data indicate around 10% of the market (\$2.8 billion).²

Figure 1. Total online, original and seasonally adjusted retail sales



Source: ABS

Despite low interest rates and high fiscal stimulus, household budgets remain under pressure because of higher unemployment, reduced working hours and high levels of indebtedness. This decrease in the amount of available discretionary spending will likely see low growth in retail sales in the short to medium term.

Property

Structural changes in the sector are forcing businesses to adapt, such as by increasing their online presence, and investors have been rebalancing their portfolios in favour of industrial property at the expense of retail to capitalise on the rise of ecommerce.³ Total investment activity was lower in 2019 compared with 2018, but large-format retailing has been a more resilient component.

If structural changes continue to put downward pressure on rental prices, then it is likely that property managers will increase the incentives they offer to attract tenants.⁴ Investors may also renovate to help accommodate non-traditional tenants, such as gyms, health centres and childcare centres, to diversify and shore up rents.

Shopping centres have experienced rental declines given the consolidation of floor space and bigger retailers downsizing.³ Regional, subregional and neighbourhood centres have also had lower rents in recent years. On the other hand, large-format retailing has been fairly resilient. This is likely because of the large non-discretionary component, such as standalone grocery stores, and other high-demand stores, such as hardware and household goods. Prime CBD property has also held steady, perhaps because of the wealthy target market. But given border closures, the luxury sector faces challenges from falling international tourism and business travel.

General sources

Colliers International, 2020, *Retail Research and Forecast Report—First Half 2020*.

Australian Bureau of Statistics, 2020, Business Indicators, Business Impacts of COVID-19, July 2020.

Reserve Bank of Australia, 2020, *Financial Stability Review*, October 2020.

¹ Australian Bureau of Statistics, 2020, Business Indicators, Business Impacts of COVID-19, July 2020 (Excel spreadsheets).

² Australian Bureau of Statistics, 2020, Retail trade, Australia, June 2020.

³ CBRE, 2020, Australia Retail MarketView Q2 2020.

⁴ BIS Oxford Economics, 2020, Retail Property—2020–2030.