

Section 2: Retail Overview

We have provided an overview of the broad retail trends across Australia as they are relevant to the retail environment in both metropolitan cities and regional areas like the New South Wales North Coast, and we have then discussed the implications of these trends for the North Coast more specifically.

The retail sector throughout Australia generally enjoyed an extended period of strong and steady growth for some 15 years leading up to the global financial crisis (GFC) in 2008. Following the GFC, retailing throughout Australia remained strong in 2009, underpinned by federal government stimulus spending, including handouts to families, designed specifically to support the retail sector.

However, retail sales were then very weak for the 2-year period 2009 – 2011, as the realities of the GFC started to impact on the Australian economy and Australian consumers, particularly paying back excessive credit levels which had been run up in the pre-GFC period. Nonetheless, overall, the impacts on the Australian retail sector from the GFC were relatively benign compared with other western economies, many of which saw reductions of 10% or more in their respective retail sectors. By contrast, within Australia the worst outcome was a reduction in growth rates in the retail sector, from pre-GFC levels of 4% – 6% annually to post-GFC levels of 1% – 3%.

Generally, retail sales in Australia are steadily gathering momentum, with recent trends (past 2 years) showing steady year on year increases. These increases have been mainly underpinned by sound population growth generally across Australia; recovery in the housing market; slowly improving consumer confidence; and a very low interest rate environment by Australian standards.

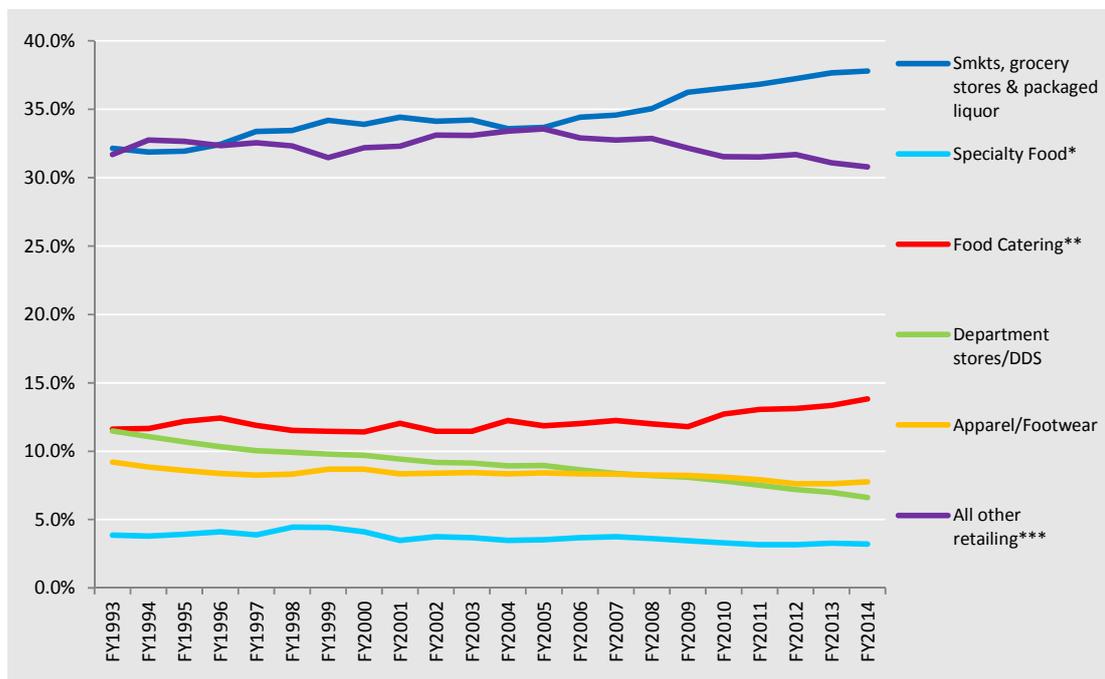
2.2.1 Retail sales by category

Across the major retail categories, department stores and discount department stores continue to experience a tough trading environment, as they cater for the more discretionary spending market, which has suffered since the GFC. Food

retailing, comprising fresh food (e.g. groceries) and food catering (restaurants, cafés, take-away food outlets), on the other hand, continues to perform strongly, underpinning a paradigm shift in consumer attitudes towards eating out.

Supermarkets and food specialty sales have been growing strongly, despite some deflation in food and grocery prices. However, non-food specialty sales are not performing as strongly, as discretionary spending continues to be impacted from depressed customer sentiment, which has recently been further negatively impacted following the release of the federal budget. Chart 2.1 below shows the readily evident post-GFC trends in retail expenditure behaviour throughout Australia, highlighting the growth in supermarkets and grocery stores as well as food catering, as well as the significant declines in non-food retailing generally, but particularly in department stores/discount department stores.

Chart 2.1
ABS Retail Trade, Total Australia (FY1993 - FY2014), % of total



*Specialty food includes fresh meat, fish and poultry, fruit and vegetables, and other specialty food retailers not captured by the above categories.

**Food Catering includes take-away food, cafes and restaurants.

*** All other retailing includes furniture/floor coverings, electrical/electronics, hardware /garden, newspapers/books, other recreational goods, pharmaceuticals and other retailing n.e.c.

Source: ABS Retail Trade Cat.8501.0, Aug 2013

International retailers continue to show very strong interest in entering Australia, evidenced by the recent opening of 'fast fashion' global retailers Uniqlo and H&M in the Melbourne CBD, joining the previously arrived Zara and Topshop. Though not all global retailers are expected to succeed, their entry is reshaping the shopping centre landscape, putting some downward pressure on rental levels, as they are seen as 'must-haves' and have a strong bargaining position.

Most new international retailers have, and will continue to enter the Australian market in the major capital cities, starting generally with flagship stores in the CBD's of these cities (if sites are available) and then expanding their footprints at the larger/more successful department store anchored shopping centres in the suburbs. While this is not directly relevant for shopping centres/retail strips in the North Coast region of NSW, the indirect impacts would be that residents seeking out these retailers will travel to do so and spend money beyond the region, for example at Robina Town Centre or Pacific Fair on the Gold Coast, or in Brisbane or Sydney.

As part of the fallout of the post-GFC trends, Australian department stores and, even more so, discount department stores have reported generally poor results, particularly Target and Big W. Over the past two years, Target has reported same store sales declines of 3.3% in 2013 and 5.3% in 2014. Big W has reported same store sales declines of 0.7% and 3.1% over the same period.

One of the repercussions of these trends has been a greatly reduced level of interest in new store locations by discount department store operators, other than Kmart which continues to trade solidly (though not spectacularly) and is still looking to open at least some new stores in sub-regional type locations. By contrast, both Big W and Target are now much more focused on locating at the larger and/or strongest department store based centres, and are generally less inclined to consider locations at metropolitan discount department store based centres or in provincial cities – locations which those chains were aggressively seeking in the pre-GFC period.

Online retailing has combined with dampened expenditure on discretionary retailing generally to place some significant pressures on some retail categories

over the past 3 – 4 years. At present online retailing accounts for almost 6% of total retail sales in Australia, and has been growing at rates between 15% – 20% annually over the past few years. However, the rate of growth has now started to decrease (down from 20+% to around 7% over recent months) and many retail categories have not been particularly impacted.

The combination of factors which has led to a rapid deceleration in the rate of growth of online retail purchasing by Australian consumers has included the following:

- A much weaker Australian dollar in recent times, which is expected to stabilise around 0.7 – 0.8 USD, closer to its long run average.
- Improved competitiveness, and pricing, of bricks and mortar retailers, which have also significantly improved their online offers, thereby helping to reduce the attractiveness of online retailing relative to bricks and mortar retailing.
- Increasing bricks and mortar presence of international retailers within Australia which previously were only available via the online channel to Australian consumers.
- The general shift to more food purchasing (both take-home food and in particular take-away food and cafés/restaurants) which in Australia enjoys only minimal online penetration.

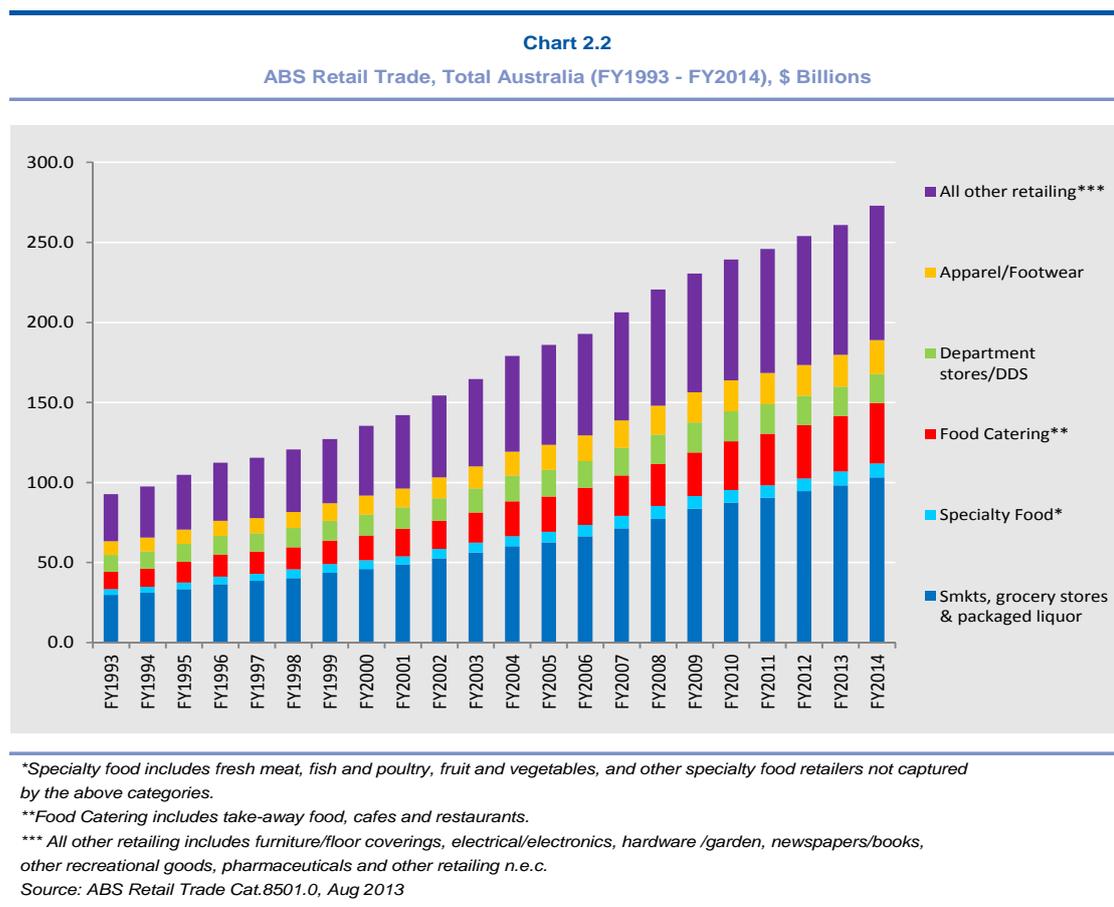
The extensive physical improvements of major shopping centres now underway throughout Australia – a trend which is generally more relevant to major metropolitan areas rather than regions such as the North Coast region of New South Wales – is yet another factor which in the future will improve the attractiveness of bricks and mortar retailing relative to online. However, centres on the North Coast will need to remain relevant to their trade areas and refresh/refurbish where necessary (e.g. Coffs Central in Coffs Harbour) to ensure they minimise the impacts from online retailing.

One of the interesting implications of the increasing volume of online retail sales is the increased demand for industrial warehousing space for storage and

distribution, which is playing out in increased demand for industrial land in appropriate locations.

Clearly, food catering (cafes, restaurants and take-away food outlets) are quite immune to the online retailing trend, and that category has continued to grow very strongly, including in the post-GFC period. Similarly, take-home food retailing (food and groceries purchased at supermarkets, specialty stores, fresh food markets) is relatively immune to online retailing, with Australians having shown relatively limited interest in purchasing their food and groceries online. Again, the take-home food category has continued to grow strongly, even in the post-GFC period, as previously noted.

Chart 2.2 shows the shifts in relative contribution to total retail sales in Australia over the past two decades.



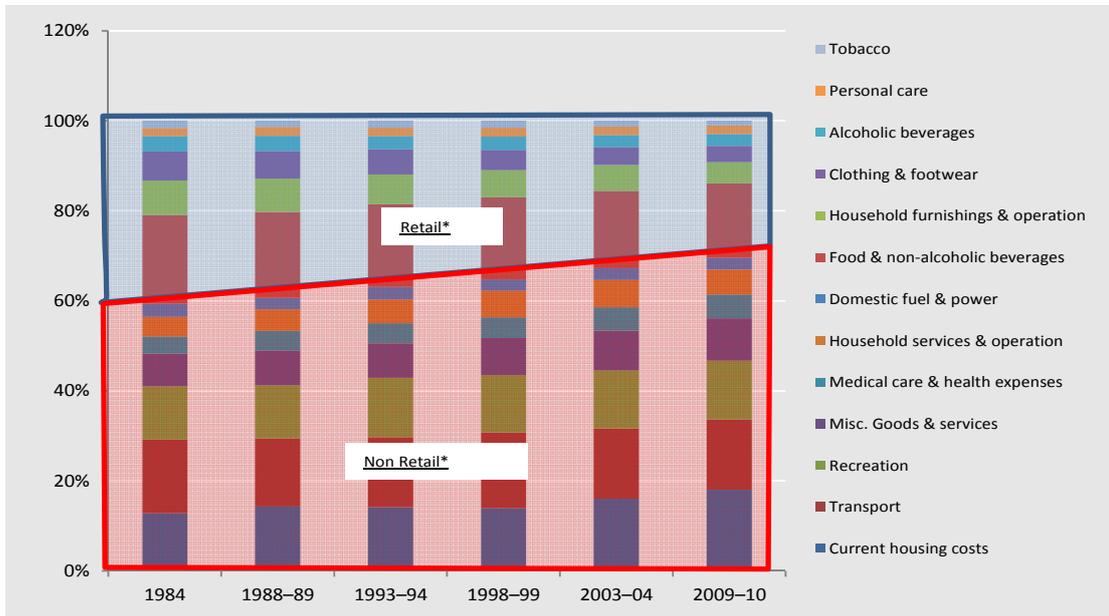
Real growth in retail sales has also been negatively impacted in the post-GFC period by a range of economic and social factors. Firstly, there has been an increased rollout of cheaper goods, particularly by mainstream retailers. For example, Kmart is increasingly sourcing directly from overseas suppliers and driving down prices in the discount department store sector. Shoppers are also increasingly using the internet to purchase retail goods, with lower prices being one of the most important considerations.

The downward pressure on the price of retail goods is not only contained to non-food items, with fresh food also experiencing price deflation over recent years. However, this has not been an outcome of the GFC, and has been primarily led by large retailers, most notably by Wesfarmers (Coles supermarkets). The ongoing downward pressure on price has particularly hit some independent traders, who are unable to compete on price as easily as major retailers.

The general outlook for Australian retailing is cautiously optimistic. Although some centres/precincts, catering for the more discretionary spending market, are likely to face increased external pressures (from online retailing, emergence of new formats/retailers).

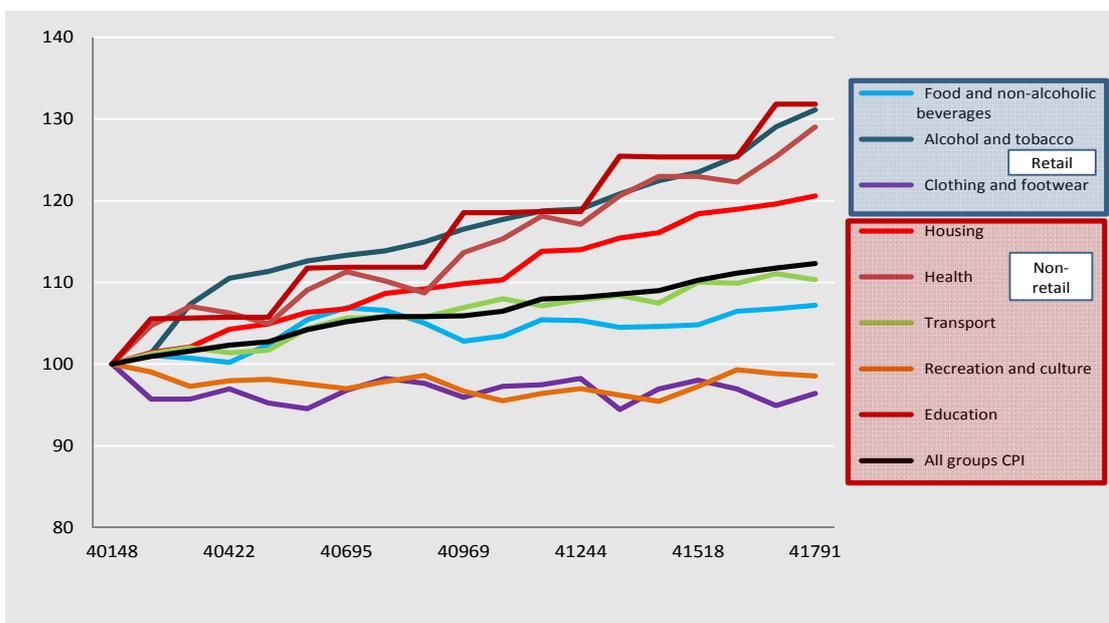
Shopping centres have also increasingly been looking to have a wider range of non-retail uses/services to support the retail offer, in line with the changing expenditure behaviours of Australian households. Charts 2.3 and 2.4 following highlights the pressures on Australian households in relation to the more essential non-retail requirements of the household budget – housing, transport, education and health. Rising costs for these services have resulted in an ever increasing share of the household budget being devoted to non-retail uses, as shown in the chart.

Chart 2.3
Average Weekly Household Expenditure



*NB: Approx 35% of recreation is retail, 20% misc. Goods & services is retail; 23% of household services is retail and 37% of alcoholic beverages is 'non-retail'
Source: ABS Household Expenditure Survey

Chart 2.4
CPI - Selected Groups (Dec 2009 to Jun 2014)



Source: Consumer Price Index

2.2.2 Implications for future retail centre development

The numerous retail developments which have occurred across the municipalities of Far North Coast and the Mid North Coast of New South Wales over the past 15 years are typical of the retail development patterns witnessed generally across Australia over that period. Some examples of the developments completed over this period include the following:

- Expansions of the largest shopping centres provided throughout the region, typically adding discount department stores, supermarkets, and a range of specialty stores, many of which have been national brand stores. Centres which have undergone expansions/developments of this nature include the following:
 - Park Beach Plaza at Coffs Harbour
 - Port Central in the Port Macquarie Town Centre
 - Lismore Square
 - Grafton Shoppingworld
 - Stockland Forster
 - Manning Mall at Taree
 - Ballina Fair
 - Ballina Central
 - Centro Toormina
- Delivery of an increasing number of supermarket developments, via a combination of new neighbourhood centres built on greenfield/brownfield sites, as well as redevelopments of existing stores or vacant sites within town centres, with around 40 new supermarkets added across the total region over the past decade. The following is a list of examples of this type of development:
 - New Woolworths supermarkets at Macksville, Mullumbimby, Goonellabah, Tuncurry, Cabarita Beach and Gloucester.

- New Coles supermarkets at Casino, Grafton South, South West Rocks, Ocean Shores, Coffs Harbour Town Centre, Port Macquarie Town Centre, Kempsey, Grafton and Lake Innes.
- New Aldi stores at Toormina, Kempsey, Byron Bay, Port Macquarie, Taree, Casino, Lismore, Forster, Grafton, Coffs Harbour, Ballina and Tweed Heads.
- Large footprint new store entrants, typically built in homemaker centres or as freestanding locations, the most obvious example being the new Masters hardware superstore being rolled out by Woolworths. That in turn has elicited a competitive response by Wesfarmers' Bunnings Hardware format that has resulted in new Bunnings stores being built at locations which were previously not being considered, as well as existing Bunnings stores being significantly expanded.
- New homemaker centre developments, primarily in the pre-GFC period, though not so much post-GFC, which substantially increased the provision of retail floorspace within the major towns, although that space was generally low turnover space and not built within existing centres. Examples of this type of development include the following:
 - Harvey Norman Centre Tweed Heads
 - Park Beach Homebase
 - Spotlight Centre Port Macquarie

One of the most significant implications of the recent trends in the Australian retail landscape, particularly the arrival of new international retailers, is that the big centres are getting and will continue to get bigger, while the more 'in between' centres have been harder hit and are likely to continue to be harder hit.

Large/successful department store based centres are the natural homes for the new global retailers, which command very large trade areas, and generate enormous sales volumes. Those retailers are simply not interested in locating in lower order centres.

The attraction of the new global retailers to department store anchored centres then has a snowball effect, making those centres even more popular destinations, both for consumers and for the supporting range of specialty retailers, who wish to be located at the best centres where the customers interested in undertaking comparison shopping are visiting.

The cycle described above then continues to make life more difficult for the lower order centres, which in the past have been largely dependent on discount department stores as their primary non-food shopping anchors.

These trends are more pertinent to the major metropolitan areas, in particular the state capital cities, where super regional and regional shopping centres are available – such as Westfield Bondi Junction, Macquarie Centre, Westfield Chatswood, Chatswood Chase, Castle Towers and the like in Sydney, as well as Canberra Centre, Westfield Belconnen and Westfield Woden in Canberra, or Charlestown Square and Westfield Kotara in Newcastle.

In regional cities and towns of the New South Wales North Coast, the issue is not so much that department store anchored centres are getting bigger, since centres of that type generally do not exist. Rather, the more important issue is that additions of new non-food anchor stores (e.g. discount department stores) or expansions to existing centres based on additional non-food anchor stores are considerably less likely to occur in the foreseeable future than they were in the pre-GFC period. This reduced likelihood of further expansions/additions of such facilities is not so much a result of the GFC, but rather the result of the changing retail landscape within Australia, which in part has been driven by the events of the GFC, but certainly not in total.

The trends in the food categories remain strong, and apply to all areas, i.e. major metropolitan areas, provincial cities and towns, and even rural areas. Subject to appropriate threshold population levels being achieved (with a full scale national chain supermarkets typically requiring a population threshold of around 7,000 – 8,000 people to be viable) the rollout of the new supermarket based developments will continue. However, even for supermarkets the rate at which new additions will occur is likely to be considerably slower than has been the case

over the past decade, primarily because many of the existing gaps have been progressively filled. Aldi, for example, has now opened stores at most of the cities and towns across the region, having added around 12 stores over the past decade, so the rate at which new Aldi stores will be added over the next decade is expected to be considerably slower.

In addition, we can expect to see an increased focus on catered food (take-away food, cafés & restaurants) as an important driver of new retail development – the recent refurbishment of The Palms in Coffs Harbour (now Coffs Central) and the proposed expansion of Tweed City being a good example of these influences.

Overall, the future growth of the various retail centres across the Far North Coast and Mid North Coast, be they enclosed, managed malls, town centres or village centres, will be generally more limited and more difficult to deliver than was the case in the 10 – 15 years pre-GFC.

Reflecting the changing priorities of the household budget, shopping centre developments in Australia are now also increasingly looking to incorporate uses such as medical (sophisticated medical centres which contain general practitioners, dental, physiotherapy, massage, and other related uses), gymnasiums, spas, and a wider range of non-retail uses.

Shopping centres/retail strips across the New South Wales North Coast are therefore more likely to be fine-tuned, with generally lower expansion demand than was available in the pre-GFC period – at least in terms of retail uses – over the next decade