



## The writing on the wall

With all the change happening for retailers these days (online, mobile technology) many people ask me: what does this mean for retail property?

The short answer is plenty, but it depends a little on what sort of retail property you own, as some are more vulnerable than others.



Source: News Ltd

The first thing to understand is that as retail models change, the space requirement of bricks-and-mortar retailers will also change.

For example, the Sears department store chain (in the USA) has just announced the closure of up to 120 stores (3% of its outlets) over the next six months as it cuts its cloth to meet the changing requirements of a new retail world.



## retail postcard

*Highlighting trends and challenges in the retail sector.*

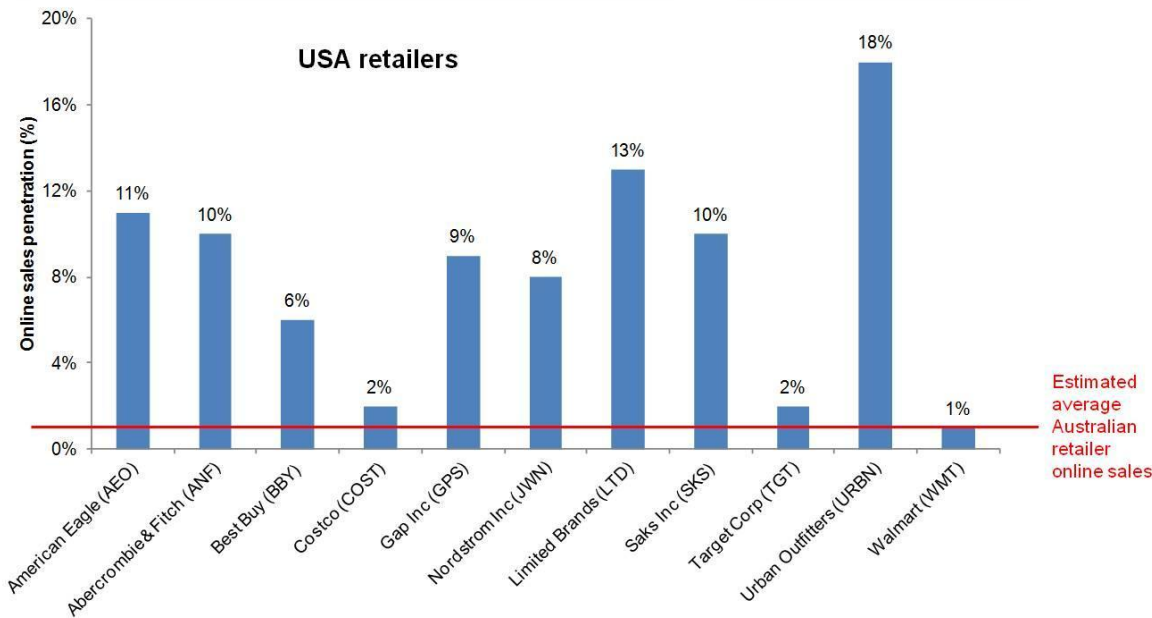
Best Buy, the famous American electronics chain is experimenting with smaller stores and a stronger convenience offer. In fact, in Best Buy you can purchase 40% of its range online and pick it up in store within 45 minutes of your order. At select stores, you even get to use a reserved front-row parking spot if you bought online.

In Australia, Specialty Fashion Group has just announced an earnings downgrade and threatened to axe up to 120 of its 909 stores unless rent reductions of 15% to 20% are achieved.

Myer has acknowledged the changing market and conceded that it will be looking to close some stores and shrink others in response to a changing market place and stronger online offer. Its new stores will no doubt reflect Myer's view of the future. I suspect shorter lease terms may also creep into the deals.

Put simply, while estimates of the precise current impact of online retail in this country vary from 3.5% to as high as 6.0%, these estimates are highly inflated by **pure play** online retailers.

In fact, most Australian bricks and mortar retailers are generating less than 1% of their total retail sales online vs up to 18% by their overseas counterparts.



Source: Citigroup Global Markets (Company reports, Citi Investment Research and Analysis; Ferrier Hodgson: November 2011)



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So, in planning for the future, Australian retailers are now thinking about “omni channel” retailing whereby customers will buy from them in-store, online or even on their mobile phone (which, of course, is a topic for another day). This creates a big question mark over the make-up of the optimal store portfolio for a brand if online/mobile sales reach 3%, 5%, 10% and, yes...even 20% of total sales.

Do these sales add to in-store sales volumes (thereby contributing to overall sales growth) or do they compound negative (or flat) in-store sales growth as customers enjoy alternative ways to purchase their favourite products, effectively cannibalising existing store sales?

Well, that depends a little on the category of retail goods you are looking at, but I believe we will see a global shift in how retailers assess their space requirements over the next five years, with a strong trend to fewer but more experiential retail environments for consumers. This has the potential to put downward pressure on rents (and therefore asset values) as retailers increasingly adopt a more aggressive approach to lease negotiations as the power paradigm slowly shifts.

So which landlords does this impact the most? In my view, everyone – with the possible exception of the big guys running destination super centres (eg: Bondi; Chadstone; Chermside). These centres are well-established drawcards in their own right (best in class) and have sophisticated landlords who are already managing their centres for a changing market.

My point is that as retail models are forced to change, retail property owners will be forced to re-think the strategy for their centres if they want to maintain/grow their net operating income levels. So ask yourself:

- What is the “vision” for the centre to make it relevant and sustainable in its local market?
- What is the “best in class” tenant mix?
- What is the optimal centre infrastructure?
- Which retailers will really be the future drawcards (think foot traffic) for customers?
- Is the centre proactively managed to make sure that the “total experience” for the customer is interesting and exciting from the get go?





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The reality is, shopping centres are just like retailers. If they do not have a clear point of difference, if they are not regularly re-invented, they become stale and uninviting. In the new world of multi-channel retailing, where for possibly the first time retailers have a genuine alternative as to the best channel to market, the old rules may not apply!

Regards

[James Stewart](#)



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