

Niseko Conference March 2018

Presented by Gregory May of May Estates.

TOPIC:

The likely impact of the growth of online sales on the rental potential & capital value of retail property assets.

1. Australia today as summarised by the ABS.
2. Definition of retail sales & references
3. Data & its limitations.
4. NAB's bold statement in 2017
5. Observations as a commercial real estate practitioner.
6. The evolution of retail space usage.
7. Rental trends.
8. Vacancy trends.
9. Capital values
10. Conclusion.

1. Australia today as summarised by the ABS



Population clock
24,844,900



Consumer price index
1.9%
December quarter 2017



Gross domestic product
0.6%
Quarterly change Sep 2017



Average weekly earnings
\$1,567.90
November 2017



Unemployment rate
5.5%
January 2018

2. Definition of retail sales & references

1 This appendix presents estimates of the value of 'online retail turnover' in Australia (i.e. turnover from domestic online retail sales) from July 2013 and onwards.

2 The estimates are compiled from the monthly Retail Business Survey. The scope, coverage and methodology of this survey are provided in the explanatory notes of this publication.

3 Monthly estimates are presented in current price terms. Original estimates only are available, with a view to publishing seasonally adjusted and trend estimates in the future.

4 The estimates in this appendix are considered experimental. They are subject to evaluation and should therefore be used with caution.

5 The ABS data does not capture cross border or international online activity & is therefore limited in scope.

3. ABS Data & its limitations

KEY STATISTICS

A1 ONLINE RETAIL TURNOVER, Australia, By Type of Activity

Month	Pure-play Online Retail Trade \$m	Multi-channel Online Retail Trade \$m	Total Online Retail Trade \$m
ORIGINAL			
2014			
January	184.1	345.0	529.0
February	170.3	328.0	498.3
March	174.8	360.1	534.9
April	193.5	330.0	523.5
May	203.6	374.7	578.3
June	229.1	373.0	602.1
July	205.1	391.1	596.2
August	209.9	389.3	599.2
September	276.1	375.1	651.1
October	272.8	442.2	715.0
November	292.5	459.8	752.3
December	337.2	526.0	863.2
2015			
January	239.8	425.7	665.5
February	219.6	386.9	606.5
March	272.2	447.2	719.4
April	260.9	436.2	697.1
May	297.2	432.9	730.1
June	324.4	465.9	790.4
July	277.4	473.5	750.9
August	292.2	468.7	760.8
September	318.8	475.8	794.6
October	306.1	473.5	779.6
November	331.3	526.2	857.6
December	343.9	626.0	969.9
2016			
January	260.3	485.3	745.6
February	270.6	425.5	696.2
March	297.3	476.4	773.7
April	296.5	448.9	745.4
May	312.1	488.4	800.4
June	332.1	510.0	842.1
July	313.3	481.0	794.3
August	329.0	501.9	830.9
September	385.5	504.3	889.8
October	391.2	609.8	1 001.0
November	468.9	639.9	1 108.8



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December	510.5	754.6	1 265.1
2017			
January	324.1	578.9	903.0
February	301.3	524.1	825.3
March	334.9	604.2	939.1
April	259.2	568.7	827.9
May	320.9	662.8	983.7
June	335.9	703.3	1 039.2
July	403.3	678.8	1 082.2
August	452.2	698.6	1 150.8
September	447.2	662.0	1 109.2
October	529.3	705.6	1 234.9
November	620.0	890.5	1 510.6
December	590.6	1 011.2	1 601.8

A3 ONLINE RETAIL TURNOVER, Australia, By Type of Activity - Percentage of Total Australian Retail Turnover

Month	Pure-play Online Retail Trade	Multi-channel Online Retail Trade	Total Online Retail Trade
	%	%	%
ORIGINAL			
2014			
January	0.8	1.5	2.3
February	0.8	1.6	2.5
March	0.8	1.6	2.4
April	0.9	1.5	2.4
May	0.9	1.7	2.6
June	1.0	1.7	2.7
July	0.9	1.7	2.6
August	0.9	1.7	2.6
September	1.2	1.6	2.8
October	1.1	1.8	2.9
November	1.2	1.9	3.0
December	1.1	1.7	2.8
2015			
January	1.0	1.8	2.8
February	1.0	1.8	2.9
March	1.2	1.9	3.1
April	1.1	1.9	3.1
May	1.3	1.8	3.1
June	1.4	2.0	3.4
July	1.2	2.0	3.1
August	1.2	2.0	3.2
September	1.3	2.0	3.3
October	1.2	1.9	3.1
November	1.3	2.0	3.3
December	1.1	2.0	3.0
2016			
January	1.1	2.0	3.0
February	1.2	1.9	3.1
March	1.2	1.9	3.2



May Estates

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	April	1.2	1.9	3.1
	May	1.3	2.0	3.3
	June	1.4	2.1	3.5
	July	1.3	2.0	3.2
	August	1.3	2.0	3.4
	September	1.5	2.0	3.6
	October	1.5	2.3	3.9
	November	1.8	2.4	4.1
	December	1.5	2.3	3.8
2017				
	January	1.3	2.3	3.6
	February	1.3	2.3	3.6
	March	1.3	2.4	3.7
	April	1.1	2.3	3.4
	May	1.3	2.6	3.9
	June	1.3	2.8	4.1
	July	1.6	2.7	4.3
	August	1.8	2.8	4.6
	September	1.8	2.6	4.4
	October	2.0	2.7	4.7
	November	2.2	3.2	5.5
	December	1.8	3.0	4.8

DEFINITION OF ONLINE RETAIL TURNOVER

6 For the purposes of this publication, 'online retail turnover' is the value of turnover of 'retail trade' which is derived from 'online sales'. 'Retail trade' includes those industries defined in paragraphs 5 and 6 of the explanatory notes of this publication. 'Online sales' are defined as sales of goods and/or services where the order is placed by the buyer via the Internet or any other computer network, regardless of whether payment is made online or not.

CLASSIFICATION

7 The estimates are disaggregated between "pure-play" and "multi-channel" online retail trade activity. Pure-play online retail trade includes only the online sales of sole e-commerce retailers (i.e. retailers that trade with consumers solely via an online store and have no physical store). All other online sales are included in Multi-channel online retail trade, comprised of retailers which combine an online store with a physical store and/or other non-traditional means such as catalogues, mail-order and/or telephone-order.

4. NAB's Bold Statement in 2017

INTERESTING RETAIL FACTS from the NAB

E-Commerce or online sales are changing the how we do business today in Australia. Interesting & astounding figures provided by the National Australia Bank estimated that around 71% or \$21.7 billion of the total retail sales that took place in Australia for the year ended December 2016 were transacted online.

This has major repercussions for the retail industry & owners of retail property. It would suggest that we are bound to see continued rationalisation of retail representation on the ground & undoubted challenges in both reviewing & establishing economic retail rental levels & more flexible lease terms.



5. Observations of a commercial real estate Practitioner.

- Retail spaces are changing hands more frequently than previously.
- Retail space is generally harder to lease & vacancy periods are extending.
- Retail rents are either stagnant or reducing.
- There is less activity by chain operators and more reliance on sole or small traders.

6. The evolution of retail space usage.

- More & more space is moving from pure retail to hospitality or entertainment usage.
- The proliferation of new cafes & restaurants is unprecedented in our time.
- The Regional & Sub-Regionals are remodelling public spaces to make them more attractive to consumers to spend time in their centres, hoping that this will impact upon retail sales turnover.
- More & more space is being devoted to entertainment such as cinemas & child minding centres.
- We see major chain store operators either closing or threatening to close large numbers of their stores at a time, which is challenging for Shopping Centre operators.
- It has been reported in the press that a number of overseas chain operators who have entered the market are not happy with the returns on their investments, are may well exist. I recall that Top Shop and GAP were disappointed with the foray into our markets.
- In certain key locations in the capital cities, major retail brands are still prepared to pay significant rents, which are not necessarily justified by the individual turnover of the store, but are seen as promotional staging for their market image & online sales.

7. Rental trends.

I have not been able to find hard evidence on retail rental trends, but my own experience at the coal face has been that owners are pleased if they are able to retain past rental levels.

Real returns on retail property have probably dropped as outgoing expenses such as Water Rates, Council Rates, Land Tax have continued to increase.

Aging assets also tend to create higher repair & maintenance costs.

In the current retail environment, tenants seem to be more demanding in terms of initial condition on handover & assistance with the supply of special services which may be required, such as ventilation & grease trapping.

Banks & highly desirable tenants/operators are using this time to review their rentals downwards or threaten to vacate.

Suburban retail nets seem to range from \$500 to \$1000 psmpa gross.

Capital city rents have a much wider spread of \$500 to \$5,000 psmpa gross

8. Vacancy trends.

- Higher vacancies are definitely being experienced in local centres & suburban areas.
- Certain CBD areas have been badly impacted by the construction of the Sydney Light Rail project.
- I have seen CBD rentals drop by as much as one third over the last 12 months.
- The increasing scarcity of experienced operators in the market has meant that Landlords are more often having to give a new & untried operator a run, just to fill the vacancies.

9. Capital *values*

The capital values of retail property have held up well, mainly because of the following:

- . The current low interest rate environment.
- . Low stock levels on offer.
- . The returns are still much higher than residential property.
- . A general view that the residential market is over inflated.
- . Preference for a bricks and mortar investment over stocks & shares.
- . Growth in the prevalence of personal superannuation funds.

10. Conclusion.

There is no doubt in my mind that the continued growth in online sales has & will continue to have an impact on the future growth in retail rents.

However, the tightening of yields, on account of the current low interest rate environment, the appeal of a visible investment & the incredible growth in personal superannuation funds, has sured up it's appeal and capital value.

It would appear that people will always be attracted to high street investments & find innovative uses for these, despite the online environment.