SHOPPING CENTRES IN AUSTRALIA

VITAL STATISTICS

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Prepared for :

SHOPPING CENTRE COUNCIL OF AUSTRALIA

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TABLE OF CONTENTS

LIST OF TABLES

List of Tables cont…

LIST OF CHARTS

List of Charts cont…

Introduction

This report has been prepared for the Shopping Centre Council of Australia and provides a statistical overview of the size and composition of the retail market in Australia, and the shopping centre component of the market in particular. To this end the market has been segmented into a number of key categories, including Central Business Districts (CBD), Regional Centres, Discount Department Store (DDS) based centres, Supermarket Centres and all Other Retail.

The report outlines the trends in the retail and shopping centre markets and the key segments over recent years, specifically detailing the distribution and growth in retail floorspace and sales over this period. In addition, comparisons are made with the structure of the United States retail market.

The report is divided into five sections as follows :

* ***Section 1** provides a background to the retail industry in Australia, listing the key definitions used, detailing the floorspace provision and sales performance by category of centre, and identifying relevant demographic and economic data as well as other key factors which influence the retail industry.*

* ***Section 2** details the dimensions of the retail market in Australia, including the distribution of retail sales and floorspace by key categories of the market.*

* ***Section 3** outlines the structure of the retail industry, detailing the number and amount of floorspace in each category, and listing the owners/managers and shopping centres in the country.*

* ***Section 4** analyses the supply of retail floorspace in Australia, measuring the growth in floorspace by category against retail sales growth, population growth and also outlines the vacancy rate in shopping centres. Comparisons with the provision and performance of retailing in the United States are also made in this section.*

  ***Section 5** provides a discussion of shopping centre economics, both from the retailer's and owner's perspective.*

Key Findings

The Australian Shopping Centre Industry is one of the major sectoral contributors to the Australian economy, and particularly to total Australian employment. The purpose of this report is to detail the size and nature of the shopping centre industry in Australia and to outline the contribution that the industry makes to the overall economy.

The key findings of the report are :

- *The Australian retail sector currently records total sales of $132.8 billion, which represents an average annual spend of $6,961 per person. Retail sales growth has averaged of 5.1% per annum since 1992.*
- *There are 918 shopping centres in Australia, comprising 64 regional centres, 225 DDS based centres, and 629 supermarket based centres.*
- *The 918 shopping centres contain 11.1 million sq.m of retail floorspace, equivalent to 29% of total retail floorspace in Australia.*
- *Shopping centres in Australia recorded total retail turnover in 1999/2000 of $57.9 billion, which is 44% of all retail turnover recorded in Australia.*
- *Australian shopping centres currently achieve an average trading level of $5,208 per sq.m.*
- *Sales per square metre levels in shopping centres have increased at an average of 3.5% per annum, compared with 3.1% per annum for all retail.*
- *Australia currently has some 167,500 retail shops of which 45,300 (or 27%) are situated in shopping centres.*
- *A major study undertaken by this office for the Australian Shopping Centre Council has measured the direct contribution to Australian GDP made by the shopping centre component of the retail industry. This analysis is the first of its kind and amongst other things measured :*

    the total employment contributed by shopping centres;

    the total salaries and wages paid to people employed in the shopping centre industry; and

    the contribution of the shopping centre industry to the economies of each of the states and at the overall Australian level.

- *The shopping centre industry in Australia makes a direct contribution to GDP of 2.8%. This figure can be compared with the contributions of the mining industry (3.8%); agriculture; forestry and fishing (2.9%); electricity, gas and water (2.2%); accommodation; cafes and restaurants (2.1%); and cultural and recreational services (1.7%).*

Key Findings

- *Australian regional and DDS based shopping centres had a total of 1.82 billion customer visits in 1999/2000, or around 35 million visits per week.*

Key Findings

- *Given Australia's population of 19.2 million people, the level of visitation to shopping centres in Australia equates to around two visits per week per person to a regional or sub-regional centres.*
- *Australia has an average provision of retail floorspace per person of 2.0 sq.m of which 0.58 sq.m per capita is provided in shopping centres. By comparison, the United States has a total retail floorspace provision of 3.3 sq.m per capita of which 1.95 sq.m per capita is provided in shopping centres.*

SECTION 1

INDUSTRY BACKGROUND

1.0 INDUSTRY BACKGROUND

KEY DEFINITIONS

CBDs

The retail component of the Central Business Districts of the capital cities of each state and territory.

Regional Shopping Centres

A regional shopping centre is defined as a major retail facility provided within one integrated building structure, incorporating at least one full scale department store, as well as a wide range of other retail facilities. For the purposes of this report no centre which does not contain at least one full scale department store is included within the regional centre category.

The Property Council of Australia defines three categories of regional shopping centre, namely :

- *Super Regional*
- *Major Regional*
- *Regional*

The key differences relate to the size of each type of regional centre, with Super Regionals typically being in excess of 85,000 sq.m , Major Regionals ranging in size between 50,000 and 85,000 sq.m, and Regional centres which are not Super Regional or Major Regionals ranging in size between 30,000 and 50,000 sq.m.

For the purposes of broad classification however, when discussing the shopping centre industry, it is preferable to work with the broader notion of Regional Shopping Centres, incorporating all of the three sub-categories detailed above. The key factor which has historically determined whether or not a shopping centre is classified as a regional centre is the inclusion of at least one full range department store within the centre.

Discount Department Store (DDS) Based Centres

DDS based centres are smaller, typically sub-regional facilities built around one or two major DDSs and one or more supermarkets. DDS based centres are typically around 20,000 sq.m in size and usually, but not necessarily, include specialty shops. In a small number of cases DDS based centres throughout Australia may also include a small junior department store component. Typically, the department store in question is around 5,000-6,000 sq.m in size, however, neither the department store component nor the total size of the centre in these cases is sufficiently large to enable the Centre to be classified as a regional centre.

1.0 INDUSTRY BACKGROUND

The Property Council definition which corresponds with this category of centre is Sub-regional Centres, and the terms "DDS based centre" and "Sub-regional centre" tend to be used interchangeably throughout the industry. Less subjective term "DDS based centre" eliminates the argument of whether or not a centre may be classified as a sub-regional centre even if it does not include a discount department store. In a small number of cases where centres are sufficiently large, the owners may argue that those centres are still sub-regionals even though they do not contain a discount department store.

Supermarket Based Centres

Supermarket based centres are usually less than 10,000 sq.m in size and comprise one or two major supermarkets (i.e. stores with a floorspace of more than 1,000 sq.m) along with a collection of food and non-food specialty shops and services in the same enclosed area.

The Property Council of Australia uses the definition Neighbourhood Centre to cover this category. Again however, the less subjective definition of supermarket based centre makes clear what is necessary for a centre to fit into this classification.

Other Retail

Other Retail comprises the balance of retail floorspace and includes a number of different sub-categories as follows :

- *Strip centres which are traditionally provided along streets and thoroughfares and are not comprised in one building under one roof. These centres can range from a collection of few shops to very large centres in excess of 50,000 sq.m. The great majority of Other Retail floorspace is provided as strip centres*

- *Homemaker/Bulky Goods Centres - medium to large sized shopping centres dominated by bulky goods retailers (i.e. furniture, white goods and other homewares), occupying large areas to display merchandise. Typically these centres contain a small number of specialty shops and are generally larger than 5,000 sq.m in size.*

- *There are about 30 such centres in Australia, and examples include the Supa Centa in Moore Park in Sydney, Jindalee Homebase in Brisbane, and the Highpoint Homemaker Centre in Melbourne. In virtually all cases, these centres are not fully enclosed, but are provided as a series of large retailers in an open air environment with shared carparking. The Supa Centa in Sydney is one of the few examples of a showroom/warehouse centre which is fully enclosed.*

- *Themed Centres are typically located in resort areas to cater for specialist tourist needs, which do not normally include a supermarket. There is only a handful of such centres throughout Australia, and examples include Darling Harbour in Sydney, Southgate in Melbourne, Fisherman's Wharf and Marina Mirage in Surfers Paradise.*

1.0 INDUSTRY BACKGROUND

- *Markets - these are really prevalent only in Melbourne, where there are some seven or eight quite successful markets. In total terms they account for minimal proportions of either total retail floorspace or total retail sales.*
- *Freestanding shops are individual retailers located in positions removed from other shops and this category can include supermarkets, category killers, bulk retailers, homemaker shops etc.*

REGIONAL SHOPPING CENTRES

Table 1.1 details the average size, composition and sales recorded for Australian Regional Shopping Centres in 1999/2000.

Key features of the regional shopping centre category in Australia are the following :

- *There are currently 64 Regional Shopping Centres in Australia (including centres under redevelopment) located in the five mainland states and the ACT.*
- *Regional centres in Australia average 62,495 sq.m of floorspace per centre, including 58,500 sq.m or 94% occupied as retail floorspace.*
- *Regional Shopping Centres account for 3.75 million sq.m of retail floorspace, or 9.7% of total retail floorspace in Australia.*
- *The average amount of vacant space per centre is 670 sq.m or 1.1% of total space.*
- *Regional centres in Australia recorded average retail sales of around $280 million each in 1999/2000.*
- *Average turnover per square metre for Australian regional centres is $4,840 per sq.m.*
- *Estimated total retail sales recorded by Regional Shopping Centres in Australia for the year were $17.9 billion, compared with total national retail sales of $132.8 billion. Total retail sales includes spending at retail food and non-food shops. It does not include gambling expenditure nor does it include the purchase of motor vehicles or any motor vehicle related expenditure. These are all classified as non-retail expenditures.* ***The market share of total retail sales accounted for by regional centres nationally is therefore 13.5%.***

1.0 INDUSTRY BACKGROUND

Table 1.1
Australian Regional Shopping Centres
Average GLA and Turnover Performance, 1999/2000

Tenancy Type	Average GLA Sq.m	Average GLA % of Centre	Average Turnover $'000	Average Turnover $/Sq.m	Growth 99-00 $/Sq.m*	Growth 99-00 Volume
Department Stores						
Myer	16,930		50,604	2,989		
Grace Bros.	19,079		47,627	2,496		
David Jones	14,563		43,647	2,997		
Major Department Stores	16,687		47,529	2,848		
Other Department Stores**	8,383		15,514	1,851		
Department Store Provision	**19,140**	**30.6%**	**53,266**	**2,783**	**7.4%**	**11.8%**
Discount Department Stores						
Big W	7,818		29,472	3,770		
Kmart	7,422		22,522	3,035		
Target	7,512		20,735	2,760		
DDS Provision	**11,737**	**18.8%**	**35,816**	**3,051**	**-1.0%**	**1.6%**
Full Range Chain Smkts						
Woolworths	4,283		39,065	9,120		
Coles / Bi-Lo Fresh	3,806		30,213	7,937		
Franklins Fresh / Big Fresh	3,232		22,293	6,898		
Total Full Range Chain	3,882		32,269	8,314	2.3%	
Other Supermarkets						
Franklins No Frills	1,954		16,529	8,460		
All Other Supermarkets	2,659		16,327	6,141		
Total Other Supermarkets	2,114		16,483	7,797	-2.4%	
Supermarket Provision	**6,935**	**11.1%**	**57,258**	**8,257**	**1.8%**	**4.8%**
Mini Majors						
Clothing & Softgoods	1,084		3,777	3,485		
Hardware	1,391		2,498	1,796		
Furniture/Bulky Goods	2,241		15,731	7,019		
Toys	2,885		6,324	2,192		
Other	1,472		4,262	2,896		
Mini Major Provision	**3,317**	**5.3%**	**10,861**	**3,274**	**3.1%**	**6.0%**
Retail Specialties						
Food Specialties	2,579		23,493	9,110	2.9%	7.7%
Non-Food Specialties	11,809		84,774	7,179	3.1%	8.3%
Retail Services	1,233		8,936	7,246	5.0%	9.4%
Total Traditional Specialties	**15,621**		**117,202**	**7,503**	**3.2%**	**8.3%**
Large Specialties (>400sq.m)	1,779		8,933	5,023		
Total Retail Specialties	**17,400**	**27.8%**	**126,136**	**7,249**	**3.2%**	**9.1%**
Total Centre (Retail)	**58,529**	**93.7%**	**283,337**	**4,841**	**3.1%**	**7.6%**
Vacant Space	670	**1.1%**				
Non-Retail Specialties	3,295	**5.3%**				
Total Centre	**62,495**	**100.0%**				

** This percentage represents growth in $/Sq.m levels for those centres where two years trading results are available*
*** Other Department stores include Harris Scarfe and Aherns*
Source: Jebb Holland Dimasi

1.0 INDUSTRY BACKGROUND

DISCOUNT DEPARTMENT STORE BASED CENTRES

Table 1.2 shows the size, composition and turnover performance for a typical Australian DDS based centres in 1999/2000. The information presented in Table 1.2 is based on a detailed survey of around two-thirds of all DDS based centres in Australia. DDS based centres in Australia surveyed by JHD (Table 1.2) recorded average retail turnover in 1999/2000 of $104.2 million per centre.

The centres included in the survey, however, tend to be the larger centres which include substantial specialty components. The centres not included in the survey are generally smaller, and achieve lower average turnover levels, than those 134 centres for which benchmark data are provided in Table 1.2.

The most important features of this sector of the shopping centre industry are the following :

- *There are currently 225 DDS based centres. DDS based centres are located in each state and territory with the exception of the ACT.*
- ***Total retail sales recorded by Australian DDS based centres in 1999/2000 were $19.8 billion, which represents a market share nationally for these centres of 14.9% of total retail sales.***
- *Typical DDS based centres in Australia which include a substantial specialty store component average 23,528 sq.m of floorspace per centre, including 21,779 sq.m or 93% of the total centre occupied as retail space.*
- *DDS based centres account for 4.3 million sq.m or 11.3% of the total retail floorspace in Australia.*
- *The average amount of vacant space per centre is 446 sq.m or 1.9% of total space.*
- *Average turnover per square metre for Australian DDS based centres is $4,780.*

1.0 INDUSTRY BACKGROUND

Table 1.2
Australian DDS Based Shopping Centres
Average GLA and Turnover Performance, 1999/2000

	Average GLA		**Average Turnover**		**Growth 99-00**	
Tenancy Type	Sq.m	% of Centre	$'000	$/Sq.m	$/Sq.m*	Volume
Discount Department Stores						
Big W	7,369		23,303	3,162		
Kmart	7,328		19,544	2,667		
Target	7,343		14,487	1,973		
DDS Provision	**8,790**	**37.4%**	**22,936**	**2,609**	**1.3%**	**2.0%**
Other Department Stores**	4,224		7,737	1,831		
Department Store Provision	**410**	**1.7%**	**732**	**1,787**	**2.3%**	**17.7%**
Full Range Chain Smkts						
Woolworths	3,914		34,747	8,878		
Coles / Bi-Lo Fresh	3,745		28,610	7,640		
Franklins Fresh / Big Fresh	3,017		21,703	7,193		
Total Full Range Chain	3,671		29,577	8,056	1.9%	
Other Supermarkets						
Franklins No Frills	1,798		11,546	6,422		
All Other Supermarkets	3,683		22,355	6,070		
Total Other Supermarkets	2,444		15,252	6,240	-4.1%	
Supermarket Provision	**5,663**	**24.1%**	**44,483**	**7,856**	**1.4%**	**2.1%**
Mini Majors						
Clothing & Softgoods	1,131		2,830	2,502		
Hardware	1,637		1,981	1,210		
Furniture/Bulky Goods	1,800		5,009	2,783		
Toys	2,589		4,083	1,577		
Other	1,206		3,063	2,539		
Mini Major Provision	**719**	**3.1%**	**1,736**	**2,413**	**1.1%**	**8.3%**
Retail Specialties						
Food Specialties	1,222		9,118	7,464	2.7%	2.1%
Non-Food Specialties	3,809		19,991	5,248	3.7%	4.4%
Retail Services	574		2,878	5,012	6.5%	7.0%
Total Traditional Specialties	**5,605**		**31,987**	**5,707**	**3.7%**	**4.0%**
Large Specialties (>400sq.m)	593		2,322	3,913		
Total Retail Specialties	**6,198**	**26.3%**	**34,309**	**5,535**	**3.8%**	**4.5%**
Total Centre (Retail)	**21,779**	**92.6%**	**104,196**	**4,781**	**2.1%**	**3.1%**
Vacant Space	446	**1.9%**				
Non-Retail Specialties	1,304	**5.5%**				
Total Centre	**23,528**	**100.0%**				

** This percentage represents growth in $/Sq.m levels for those centres where two years trading results are available*
*** Other Department stores include Harris Scarfe and Aherns*
Source: Jebb Holland Dimasi

1.0 INDUSTRY BACKGROUND

SUPERMARKET BASED CENTRES

The average size and turnover performance for a sample of supermarket based centres are detailed in Table 1.3 adjacent. The centres included in this survey tend to be larger centres and comprise around 10% of all supermarket based centres in Australia.

The key findings to note are as follows :

- *There is a total of 629 supermarket based centres currently provided in Australia of which 64 were surveyed for the purposes of establishing the benchmarks shown in Table 1.3.*
- *The supermarket based centres surveyed have an average of 8,823 sq.m of floorspace per centre, including 7,669 sq.m of retail floorspace, or 87% of the total centre.*
- *Nationally supermarket based centres represent 3.1 million sq.m of retail floorspace, or 7.9% of the total retail floorspace nationally.*
- *The average amount of vacant space per centre surveyed is 311 sq.m or 3.5% of the total centre.*
- *The supermarket based centres in Australia which were surveyed recorded average retail sales in 1999/2000 of $50.7 million each.*
- *Average turnover per square metre for supermarket based centres is $6,610 per sq.m.*
- ***Estimated total retail sales recorded by supermarket based centres annually in Australia is $20.1 billion, representing 15.1% of the total available retail market.***

Table 1.3
Australian Supermarket Based Shopping Centres
Average GLA and Turnover Performance, 1999/2000

	Average GLA		Average Turnover		Growth 99-00	
Tenancy Type	Sq.m	% of Centre	$'000	$/Sq.m	$/Sq.m*	Volume
Full Range Chain Smkts						
Woolworths	3,561		33,383	9,374		
Coles / Bi-Lo Fresh	3,680		25,661	6,973		
Franklins Fresh / Big Fresh	2,976		24,012	8,069		
Total Full Range Chain	3,512		28,711	8,176	1.2%	
Other Supermarkets						
Franklins No Frills	1,884		13,593	7,214		
All Other Supermarkets	2,836		16,592	5,850		
Total Other Supermarkets	2,144		14,411	6,722	-4.6%	
Supermarket Provision	**4,252**	**48.2%**	**34,242**	**8,052**	**0.6%**	**1.0%**
Mini Majors						
Clothing & Softgoods	928		2,290	2,468		
Hardware	1,098		1,825	1,662		
Furniture/Bulky Goods	1,689		10,581	6,266		
Toys	0		0	0		
Other	1,121		4,295	3,831		
Mini Major Provision	**459**	**5.2%**	**1,778**	**3,873**	**3.4%**	**5.5%**
Retail Specialties						
Food Specialties	797		5,118	6,420	3.1%	6.0%
Non-Food Specialties	1,517		7,424	4,894	4.3%	5.4%
Retail Services	360		1,277	3,544	8.1%	5.3%
Total Traditional Specialties	**2,675**		**13,820**	**5,167**	**4.2%**	**5.6%**
Large Specialties (>400sq.m)	283		877	3,095		
Total Retail Specialties	**2,958**	**33.5%**	**14,696**	**4,969**	**4.4%**	**5.7%**
Total Centre (Retail)	**7,669**	**86.9%**	**50,716**	**6,613**	**1.7%**	**2.3%**
Vacant Space	311	**3.5%**				
Non-Retail Specialties	842	**9.5%**				
Total Centre	**8,823**	**100.0%**				

** This percentage represents growth in $/Sq.m levels for those centres where two years trading results are available*
*** Other Department stores include Harris Scarfe and Aherns*
Source: Jebb Holland Dimasi

1.0 INDUSTRY BACKGROUND

TRENDS IN RETAIL SPENDING

Real growth in retail spending is driven essentially by population growth and real income growth. However, in addition to this, retail spending growth also depends on the degree to which people choose to direct their real income increases to retail expenditure rather than other forms of expenditure, i.e. real growth in retail spending per capita.

A distinction is drawn between real growth and inflationary growth when talking about retail spending. "Real growth" represents, as the term implies, the growth components which increase the size of the retail market in real terms i.e. population growth and real spending per capita growth. Inflationary growth on the other hand represents simply an increase of retail prices. The two factors combined (real growth plus inflationary growth) constitute the <u>total growth</u> in the retail market.

Thus for example over the past 15 years the real growth in available retail expenditure throughout Australia has been around 2.1% per annum, comprising 1.1% annual population growth and 1.0% real per capita expenditure growth. On the other hand, total growth in retail spending over this period has averaged around 6.1% annually, comprising real growth of 2.5% annually plus inflationary growth of 4.4% annually.

Chart 1.1 shows the growth in total retail turnover in recent years, as compared with growth in total disposable income.

Chart 1.2 shows that the share of disposable income directed to non-retail expenditures has generally increased slightly over the past decade, whereas the share directed to retail expenditures has generally decreased slightly. For example, the proportion of total disposable income spent on food declined between the mid 1980s and the early 1990s. A 1% reduction in share of national disposable income between 1986 and 1991 represented about $2 billion annually in food sales.

Since the early 1990s, there has been a turnaround in the national share of disposable income devoted to food expenditure, so that the 2000 ratio is only slightly lower than the 1986 ratio. This change has reflected the growing resurgence in food expenditure and the time pressures on the Australian population, which have in turn resulted in the need for much more value-adding to retail food sales. This has occurred in the form of café and restaurant expenditure but also in the manner in which supermarkets now package and present their ever widening food offers.

Chart 1.2 also shows the increase in the share of disposable income devoted to gaming expenditure (i.e. all legal forms of gambling other than racing, including lotteries and poker machines). Over the past 15 years the proportion of household disposable income directed to gaming expenditure has doubled from 1.6% to 3.1%. Australians are now expected to direct around $12-$13 billion annually on gaming activities, which is equivalent to about 9% of the total retail market.

The chart also shows other sectors in which there has been substantial growth, in particular services (holidays, medical services, education, etc.) and entertainment (including gambling).

In total between 1986 and 2000 the share of disposable income devoted to retail purchases (food and non-food) has remained stable, falling only slightly from 30.6% in 1986 to 30.3% in 2000. Since 1992 the share of disposable income directed to retail expenditure has been increasing, reflecting the upswing in consumer spending on retail items following the recession and the technological innovations which have broadened the retail market, adding items such as mobile phones, computers and DVD players to the retail spectrum.

These shifts in expenditure patters over time are determined by various factors including in particular :

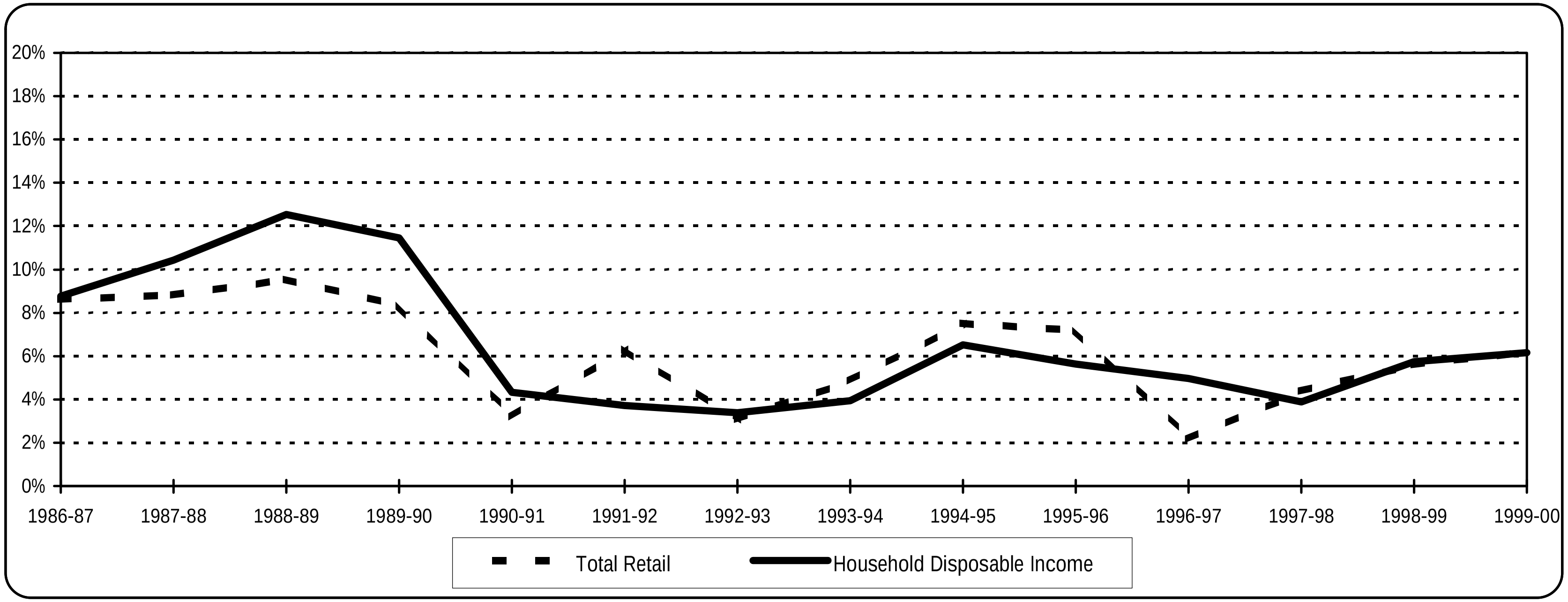
- *Social changes, e.g. increasing numbers of married women in the workforce (more than 53% of all married women in Australia are now in some form of employment) which has increased the time pressures on families on the one hand, but also increased the level of disposable income available to them. They are therefore willing to trade off time saving for increased expenditure on prepared food or on services (child minding, holidays, etc.).*

- *Relative supply - The increased availability of casinos and poker machines, in particular, has driven gambling expenditure. In this respect, issues such as trading hours become very important, because if shopping centres are not open on Sundays, for example, it means that the "supply" of available retailing is reduced. People looking for leisure pursuits on Sundays will choose to do something else other than spend their money on retail goods if shopping centres are not able to open.*

- *Relative costs - Reduced real cost of air travel, for example, has stimulated spending on holidays.*

Australia, 1986 - 2000 **Chart 1.1**

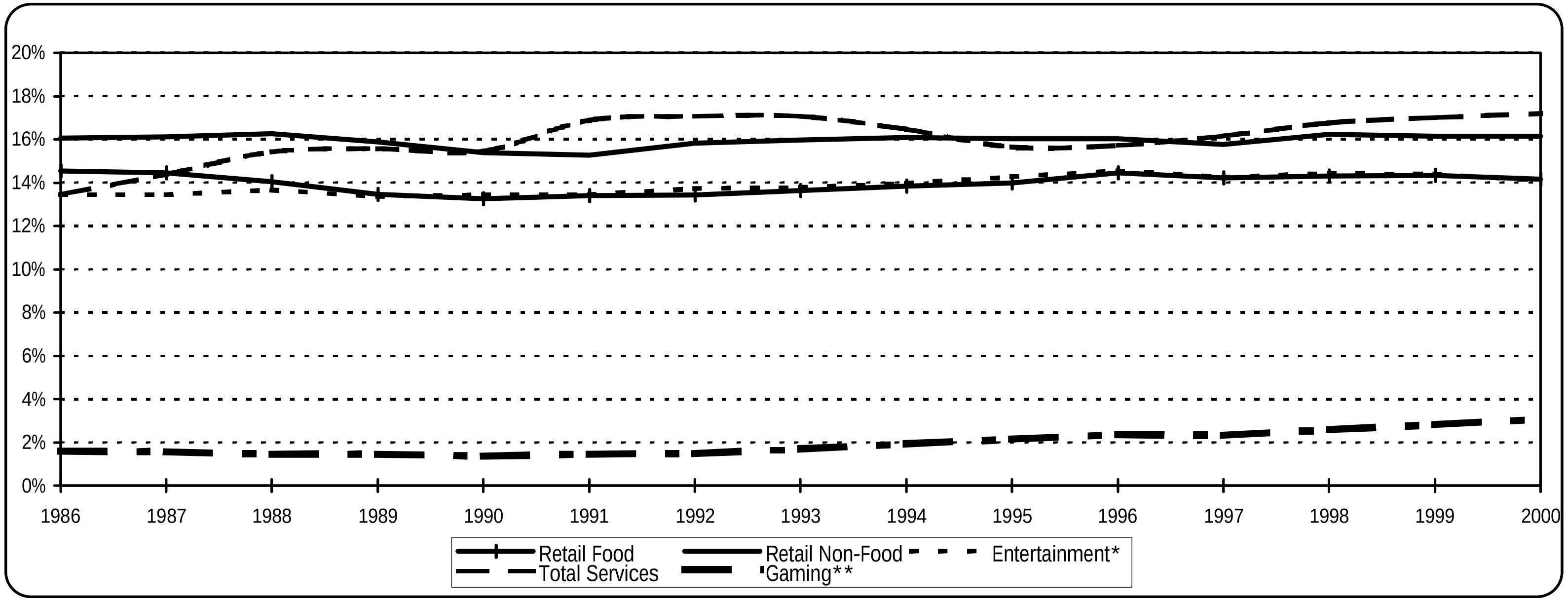
% Growth in Total Retail Sales (Moving Annual Trend) vs Household Disposable Income



Source: ABS

Australia, 1986 - 2000 **Chart 1.2**

Share of Disposable Income



** Entertainment includes National Account categories Recreation & Culture and Hotels, Cafes & Restaurants, and excludes gaming expenditure which is also included in this category by the ABS*

*** Gaming is all legal forms of gambling other than racing, including lotteries, poker machines, casino gaming and the like*

Source: ABS; Tasmanian Gaming Commission

SECTION 2

AUSTRALIAN RETAIL MARKET

2.0 AUSTRALIAN RETAIL MARKET

The main characteristics of the total Australian retail market are as follows :

Retail Spending and Recorded Turnover

- *The Australian Bureau of Statistics (ABS) recorded total retail sales of $132.8 billion in 1999/2000 which, given a total population of 19.2 million, represents an average of $6,916 per person (see Chart 2.1 and Chart 2.2). Recorded retail sales per capita vary across the states, ranging from $6,219 per head in Tasmania to $8,422 per head in the ACT.*

- *Chart 2.3 shows the average retail expenditure per capita by Australians, by state. Estimated retail expenditure per person in Australia was $6,767 in 1999/2000, ranging from $8,702 in the ACT to $5,937 in Tasmania.*

- *The differences between the figures in Chart 2.2, measuring recorded retail sales per person and Chart 2.3, which measures retail spending per person, are due to :*

  - *Expenditure flows from one state to another (e.g. Victorians holidaying in Queensland who will spend on retail goods and services in Queensland for the period of their holidays).*

  - *Expenditure from overseas visitors, which forms part of total recorded retail sales.*

  - *Slight sampling differences in the two approaches. Recorded retail sales are measured by the ABS based on an annual survey of retailers, whilst estimated retail expenditure is based on Household Expenditure Surveys (HES). These surveys are also undertaken by the ABS, but every five years, based on a wide sample of Australian households.*

Retail Floorspace and Turnover Per Square Metre

- *A total of 38.3 million sq.m of retail floorspace is currently provided in Australia (see Chart 2.4).*

- *Of the total retail floorspace provided in Australia, some 11.1 million sq.m is contained in shopping centres, recording sales of $57.9 billion in 1999/2000. All shopping centres combined therefore achieved 44% of total retail sales from 29% of retail floorspace (see Chart 2.5 and Chart 2.6). The term 'shopping centres' as generally used throughout the industry and particularly in the popular media however tends to refer only to the 'large' shopping centres, i.e. regional and sub-regional centres. These two categories combined account for only 21% of all retail space nationally, and for 29% of all retail sales nationally.*

- *Those states and territories in which shopping centres record the highest retail sales per sq.m also have the least restrictive trading hours. The average level of retail sales per sq.m in Australian shopping centres is $5,208 per sq.m, ranging from $5,735 per sq.m in New South Wales to $4,416 in South Australia (see Chart 2.7).*

2.0 AUSTRALIAN RETAIL MARKET

- *The Supermarket Centres category accounts for 8% of floorspace nationally and 15% of national retail sales. Supermarkets, particularly chain supermarkets which account for the bulk of the floorspace provision in these centres, trade at substantially higher levels in dollar per sq.m terms than all other forms of retail floorspace (see Chart 2.8).*

- *Average annual growth in total retail sales between 1992 and 2000 was 5.1%, increasing from $89.1 billion in 1991/92 to $132.8 billion in 1999/2000 (Chart 2.9). Retail sales growth in real terms has increased over the past three years. The pattern of growth across all five retail floorspace categories (see Chart 2.10) is less uniform but in all cases sales have increased.*

- *The distribution of retail sales and floorspace between shopping centres and all other retail is similar across the states and territories, with Tasmania having the lowest proportion of sales and floorspace in shopping centres (reflecting the absence of regional centres from that state), while Queensland and the ACT have the highest proportions (see Chart 2.6 and Chart 2.11).*

- *Average annual growth in retail sales per sq.m for all retail space between 1992-2000 was 3.1% per annum, increasing from $2,713 per sq.m in 1992 to $3,463 per sq.m in 2000. Over this period shopping centres have averaged annual growth of 3.5% per annum while growth in all other retail floorspace averaged 2.4% per annum (see Chart 2.9 and Chart 2.10).*

- *Australia currently has around 167,500 retail shops, of which 45,300 or 27% are in shopping centres (see Chart 2.13).*

- *An analysis of Gross Domestic Product (GDP) by industry, as estimated using the chain volume measure, indicates that percentage increases recorded in the retail industry, have been broadly in line with percentage increases in total Gross Domestic Product (GDP) between 1992-2000. The Retail industry averaged growth of 3.8% per annum over this period compared with 4.2% per annum for GDP in total (see Chart 2.14).*

- *Chart 2.15 shows the contribution to Australia's GDP of the shopping centre industry specifically, as well as the contribution of the retail sector as a whole. The analysis is provided by state and shows that the shopping centre component of the retail industry provides a direct contribution to Australia's GDP of 2.8%. The measured direct contribution to the Australian GDP does not include indirect support of other industries, e.g. the wholesale industry.*

- *The direct shopping centre industry contribution of 2.8% to Australia's GDP compares with the contributions of :*

Mining	*3.8%*
Agriculture, forestry and fishing	*2.9%*
Electricity, gas and water	*2.2%*
Accommodation, café and restaurant	*2.1%*

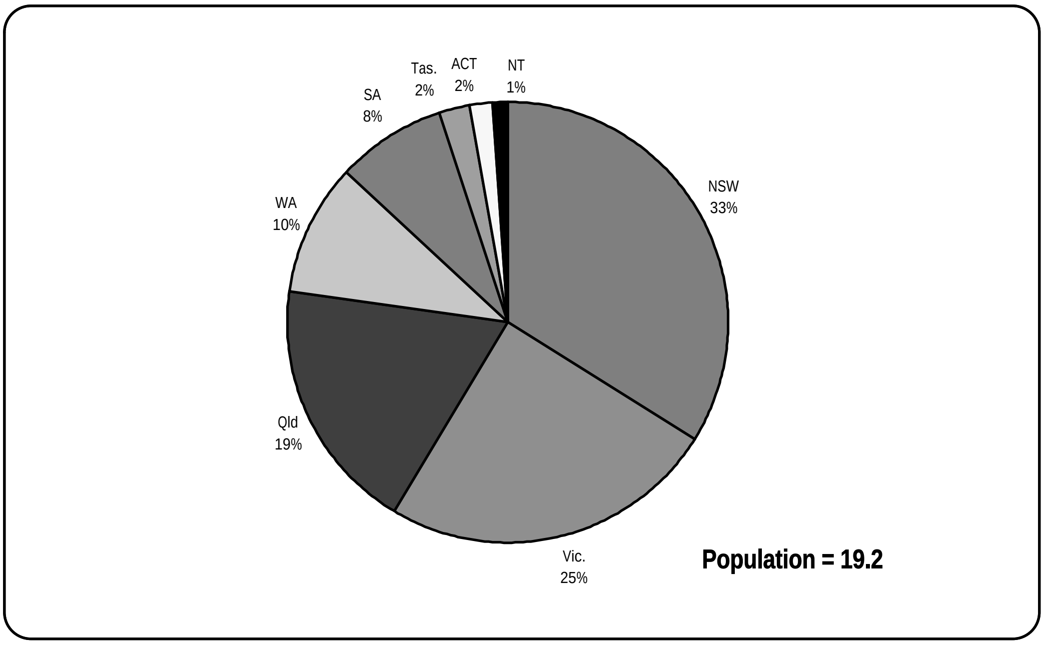
2.0 AUSTRALIAN RETAIL MARKET

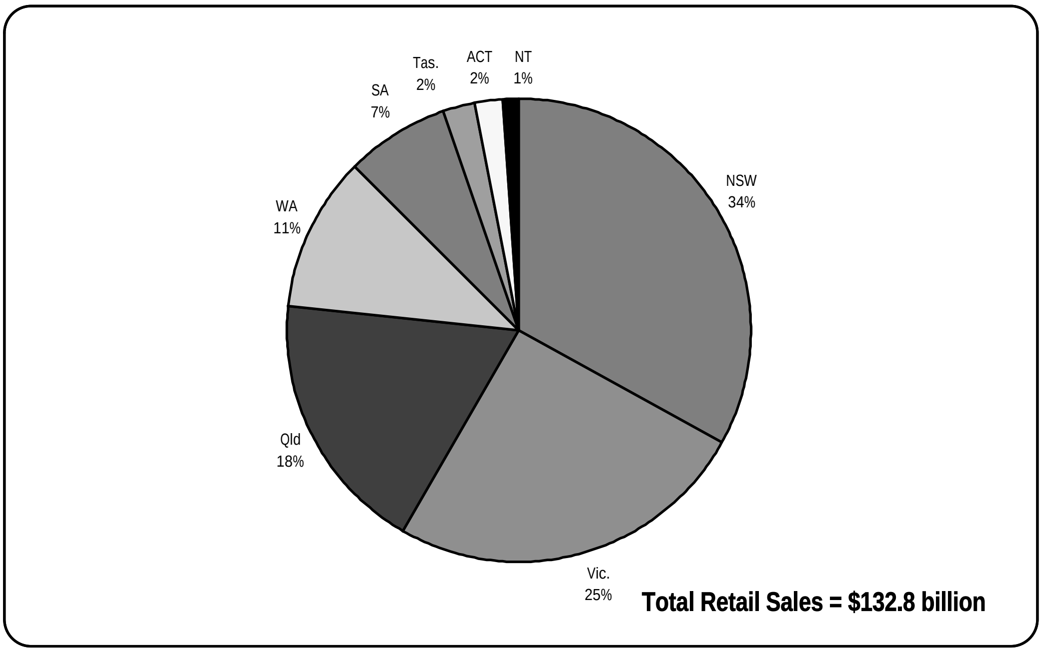
Cultural and recreational services	*1.7%*

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.1**

Share of Population & Retail Sales by State, 1999/2000



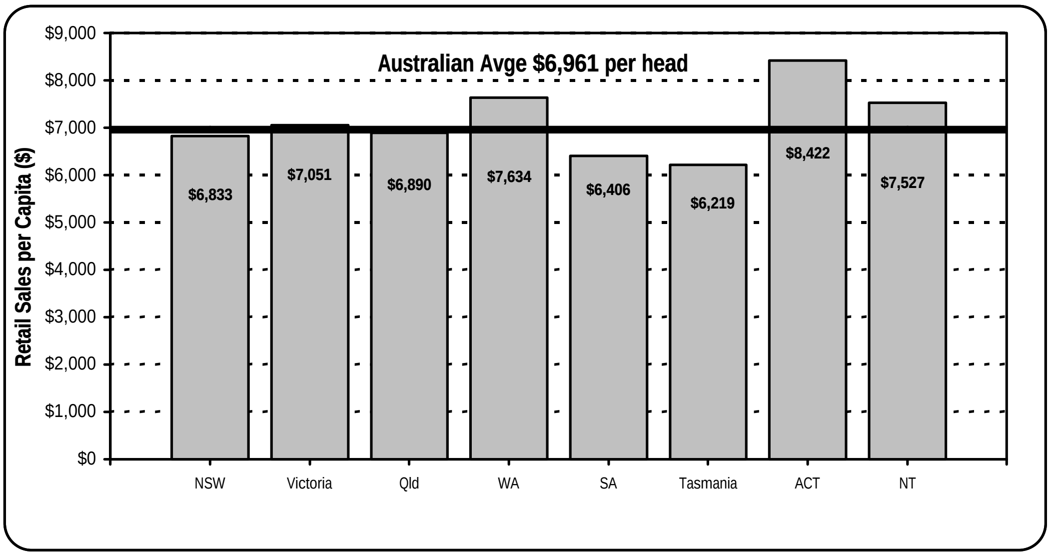


Source : ABS; Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.2**

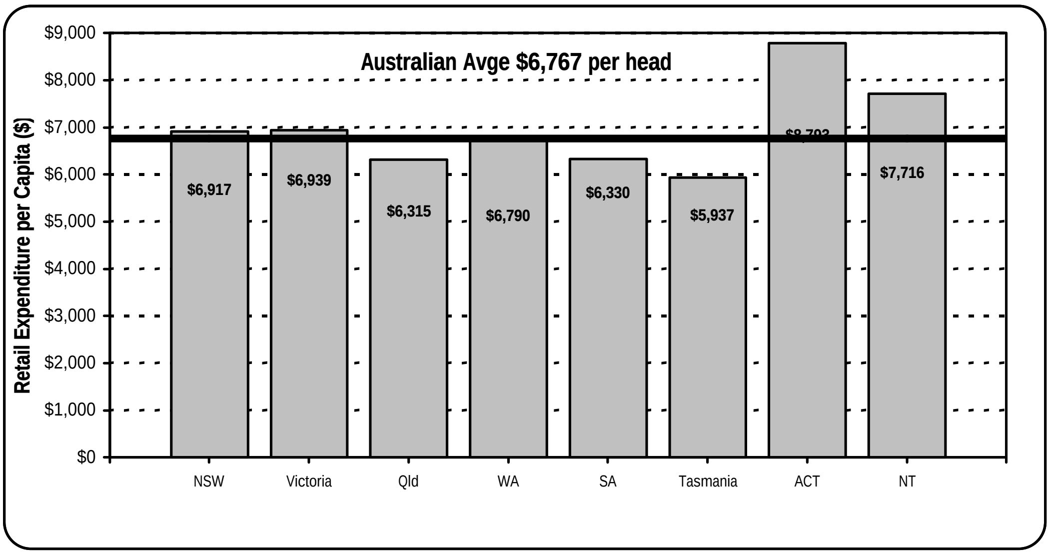
Recorded Retail Sales Per Capita by State, 1999/00



Source : ABS; Jebb Holland Dimasi

Australian Retail Market **Chart 2.3**

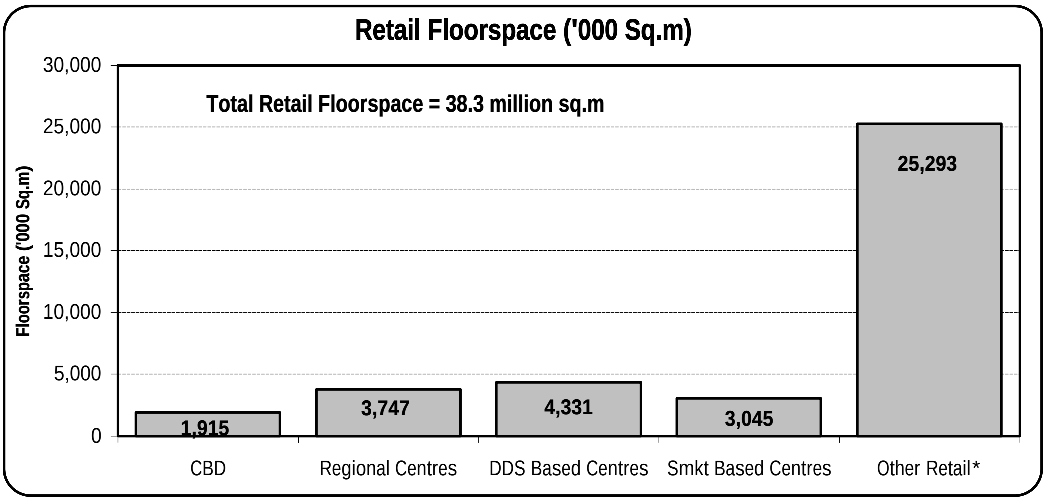
Estimated Retail Expenditure Per Capita by State, 1999/00

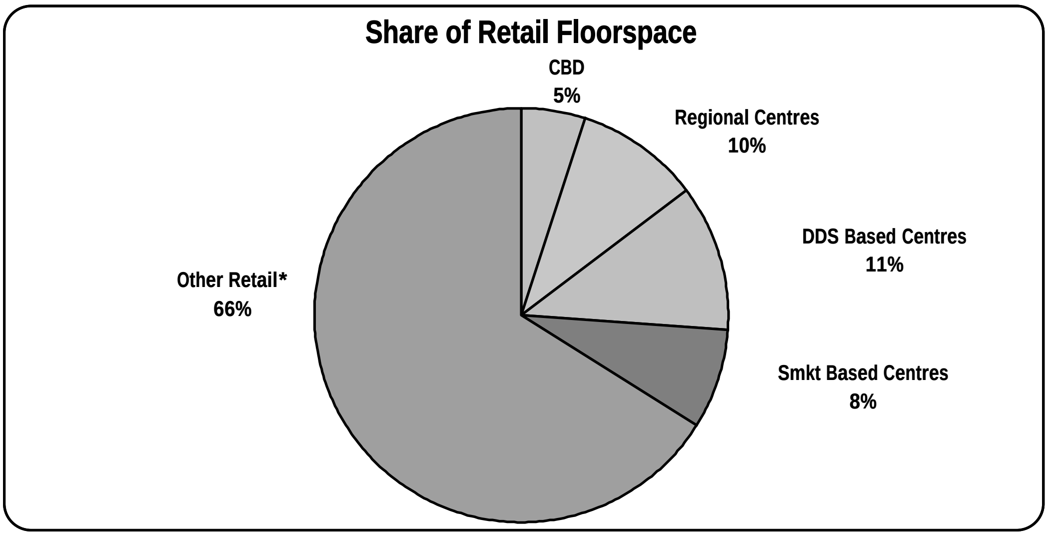


Source : ABS; Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.4**
Retail Floorspace by Category of Centre, 1999/2000



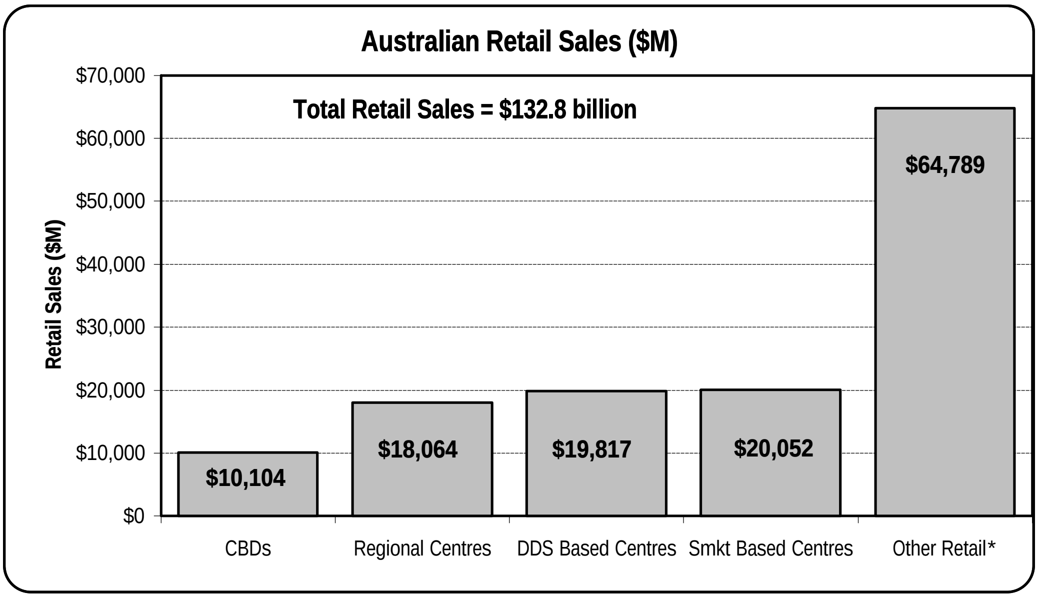


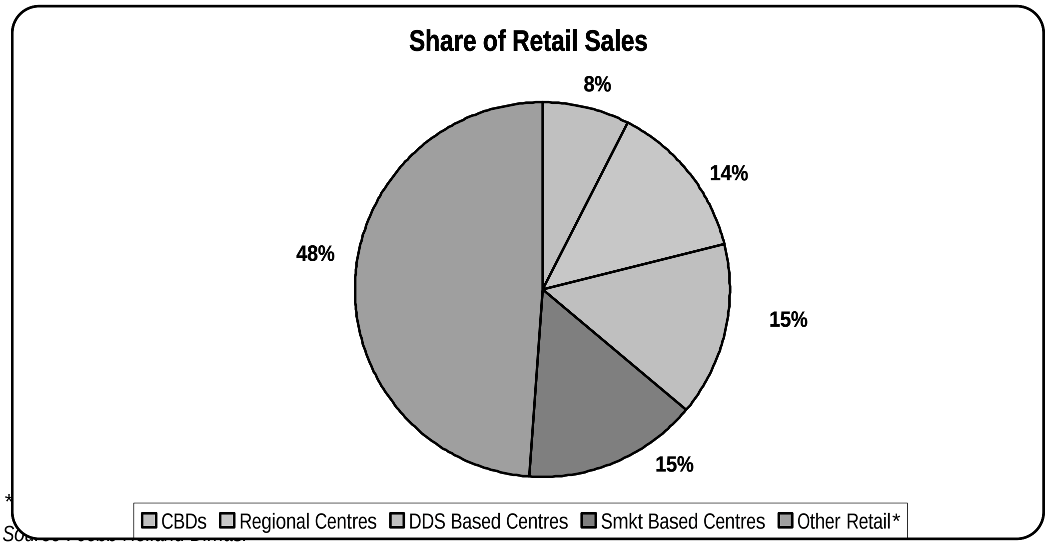
** Other includes strips, bulky centres, freestanding stores and other retail centres*
Source : Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.5**

Retail Sales by Floorspace Category, 1999/2000





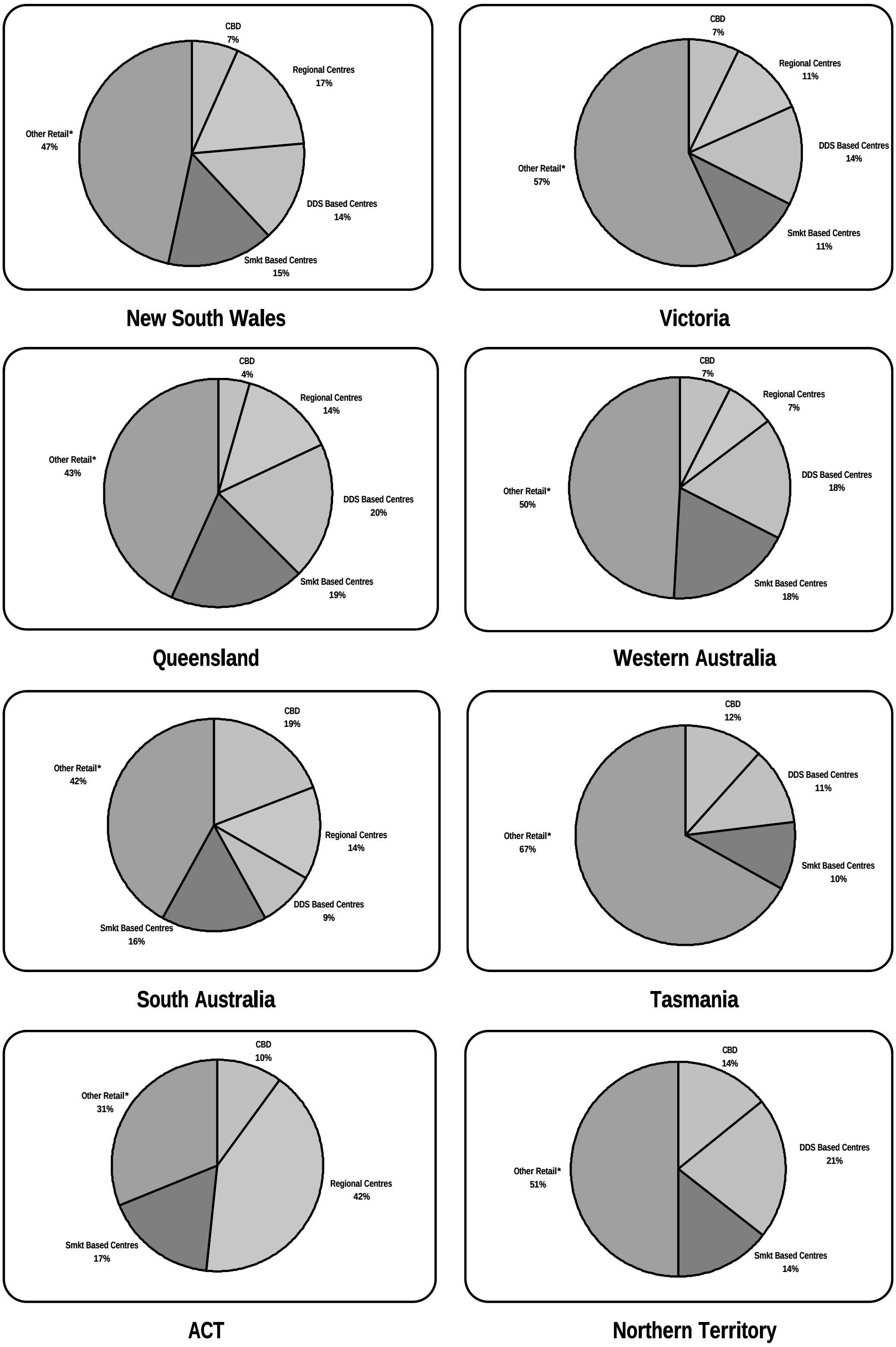
** Other includes strips, bulky centres, freestanding stores and other retail centres*

Source : ABS; Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.6**

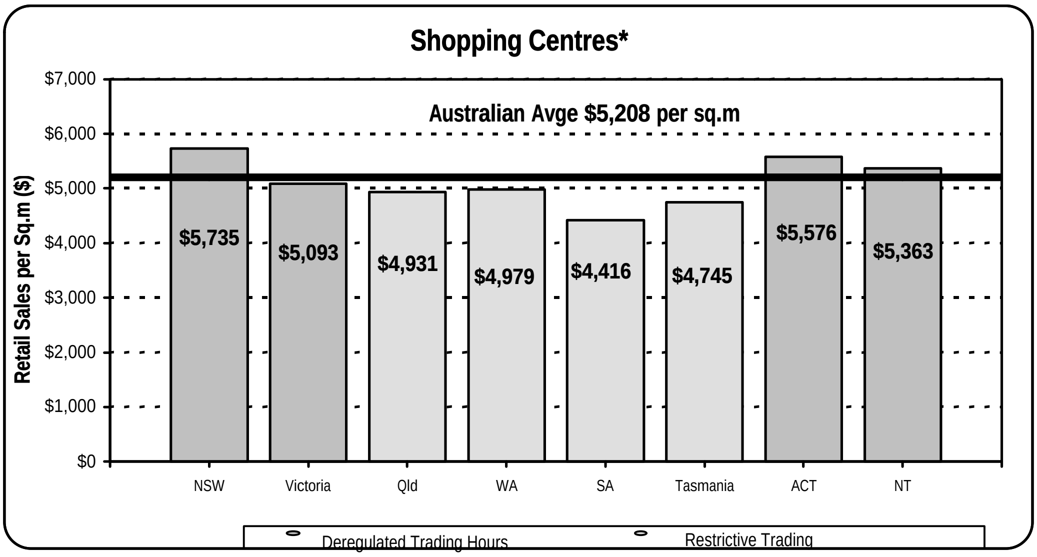
Share of Retail Sales by Category by State, 1999/2000



** Other includes strips, bulky centres, freestanding stores and other retail centres*
Source : ABS; Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

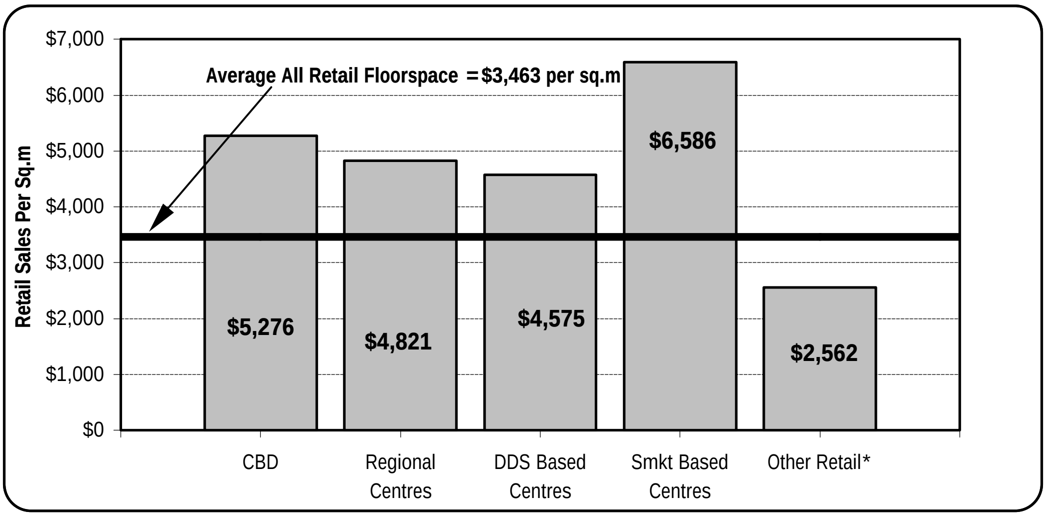
Australian Shopping Centres **Chart 2.7**
Retail Sales Per Sq.m by State, 1999/2000



** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres)*

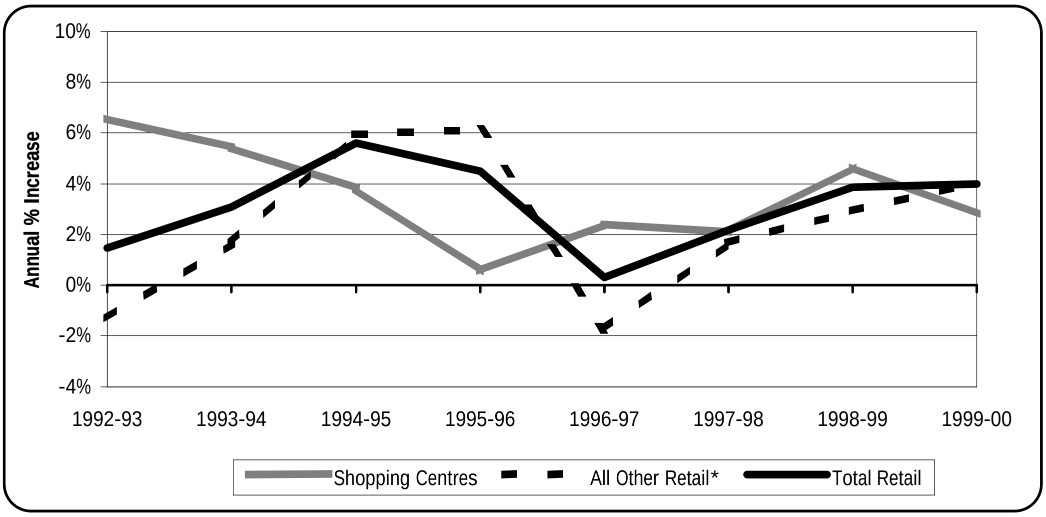
Source : ABS; Jebb Holland Dimasi

Australia Retail Market **Chart 2.8**
Retail Sales Per Sq.m by Category of Centre, 1999/2000



** Other includes strips, bulky centres & freestanding stores*
Source : ABS; Jebb Holland Dimasi

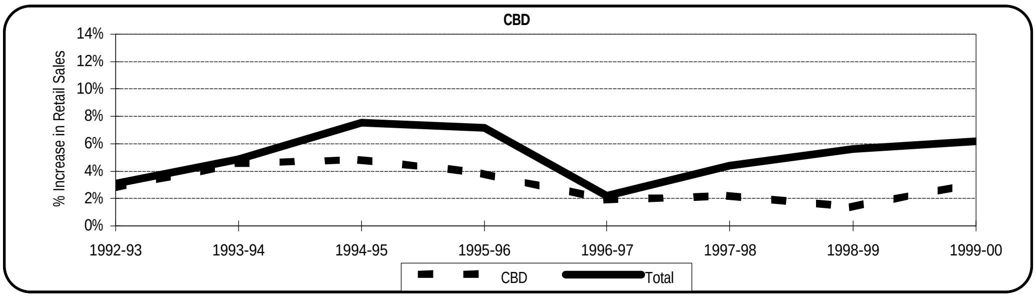
Australian Retail Market **Chart 2.9**
Trends in Sales per Sq.m by Shopping Centres and All Other Retail*, 1992-2000

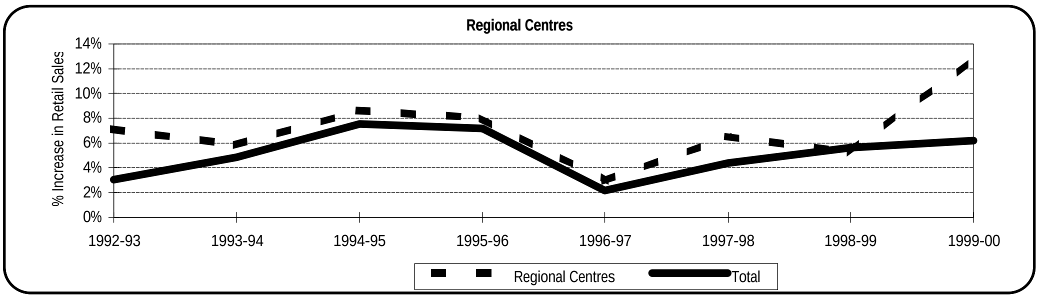


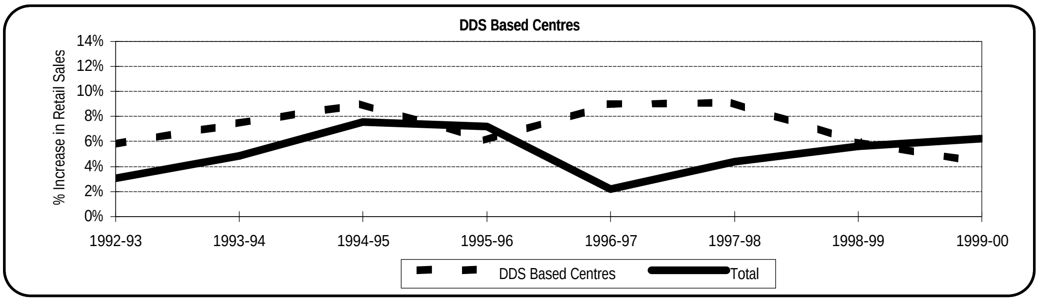
** Other includes strips, bulky centres & freestanding stores*
Source : Jebb Holland Dimasi

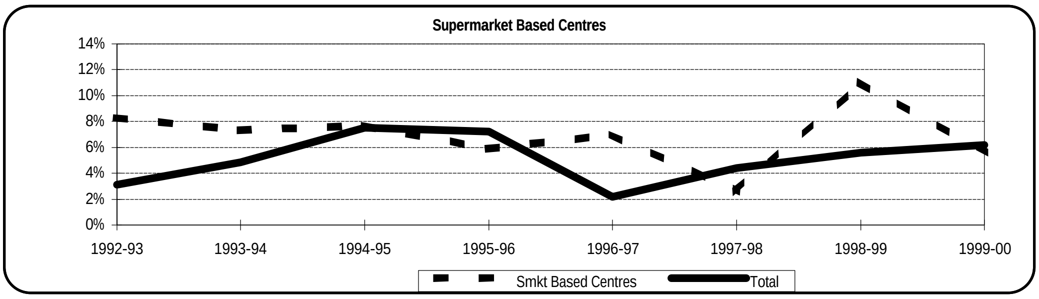
2.0 AUSTRALIAN RETAIL MARKET

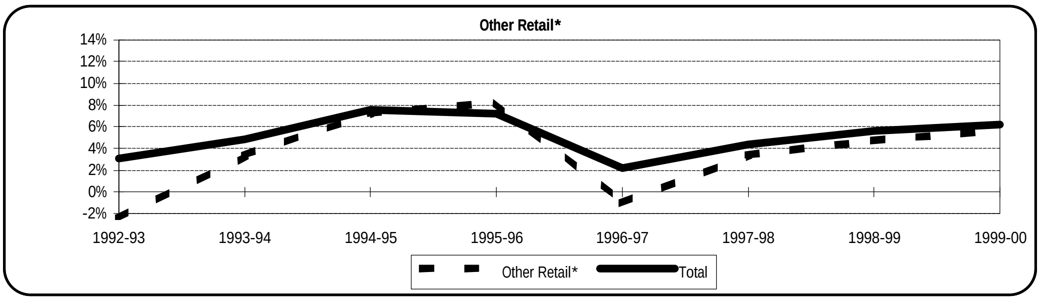
Australian Retail Market **Chart 2.10**
Retail Sales Trends by Category of Centre and in Total, 1992-2000









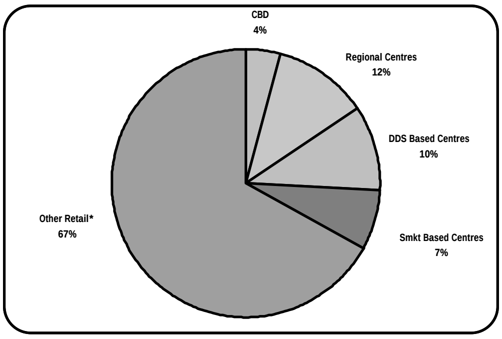


** Other includes strips, bulky centres & freestanding stores*
Source : ABS; Jebb Holland Dimasi

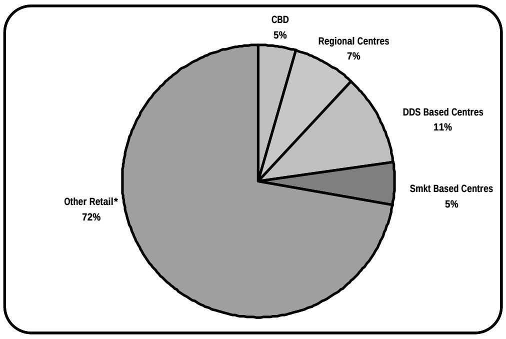
2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.11**

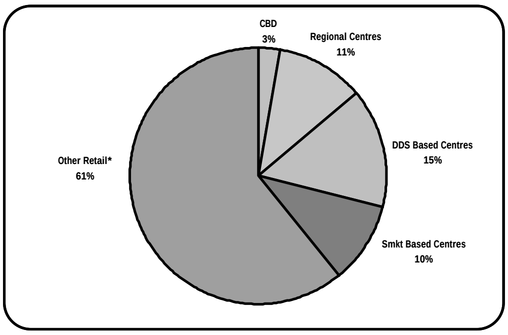
Share of Retail Floorspace by Category by State, 1999/2000



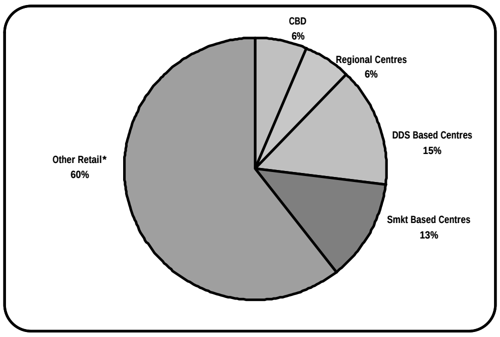
New South Wales



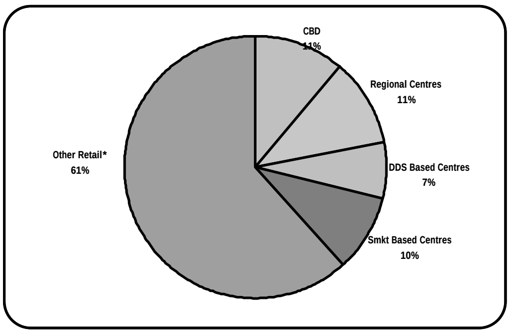
Victoria



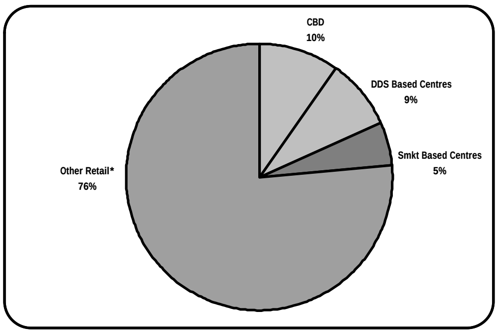
Queensland



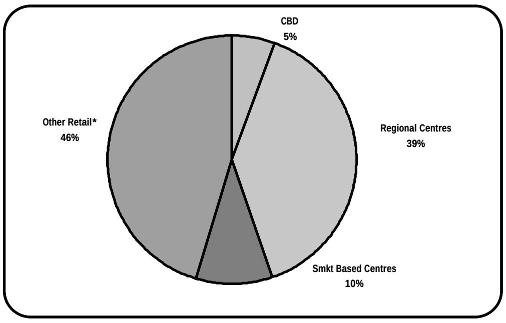
Western Australia



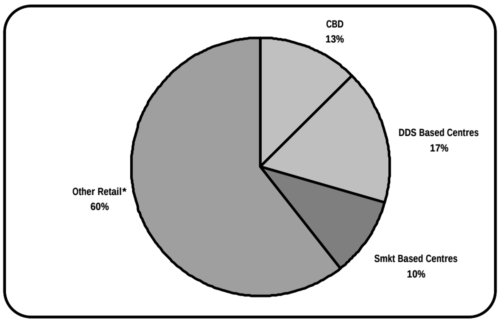
South Australia



Tasmania



ACT

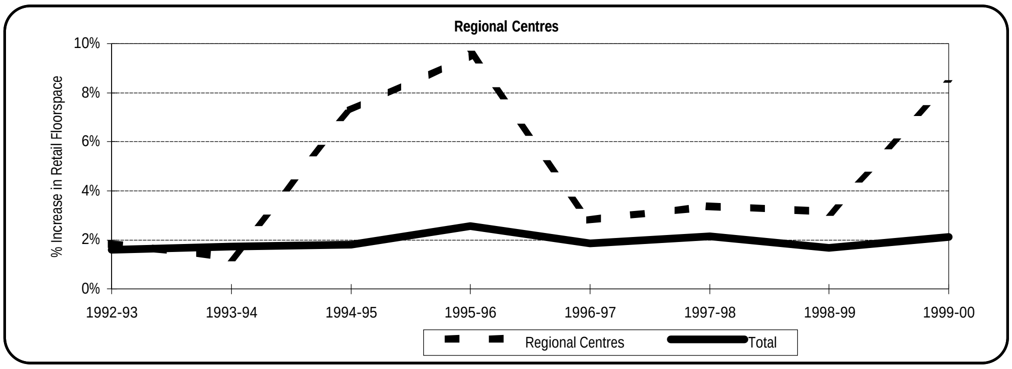


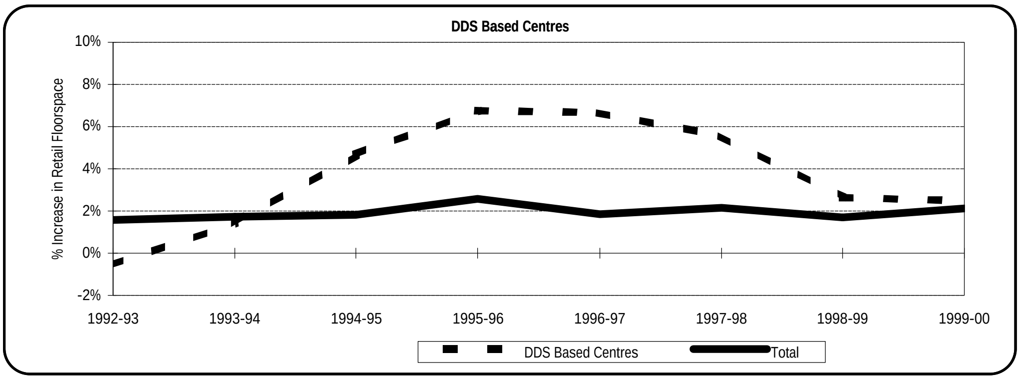
Northern Territory

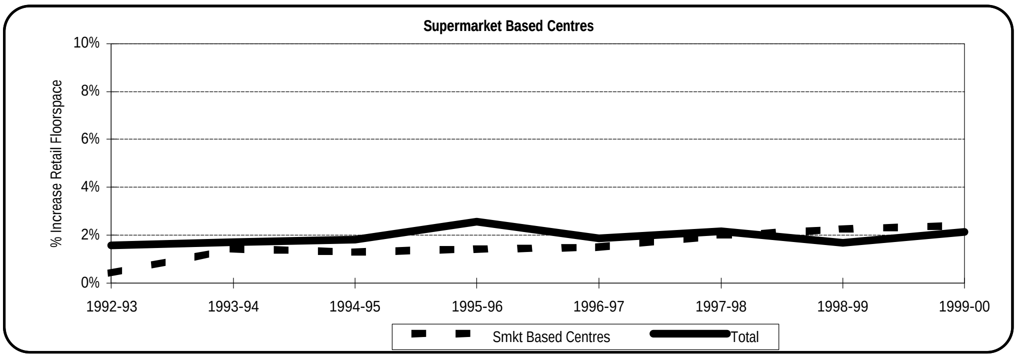
** Other includes strips, bulky centres, freestanding stores and other retail centres*
Source : ABS; Jebb Holland Dimasi

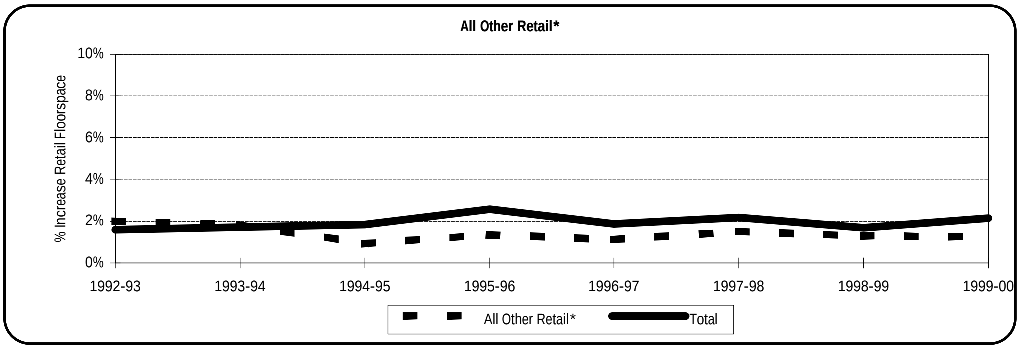
2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.12**
Retail Floorspace Trends by Category of Centre and in Total, 1992-2000







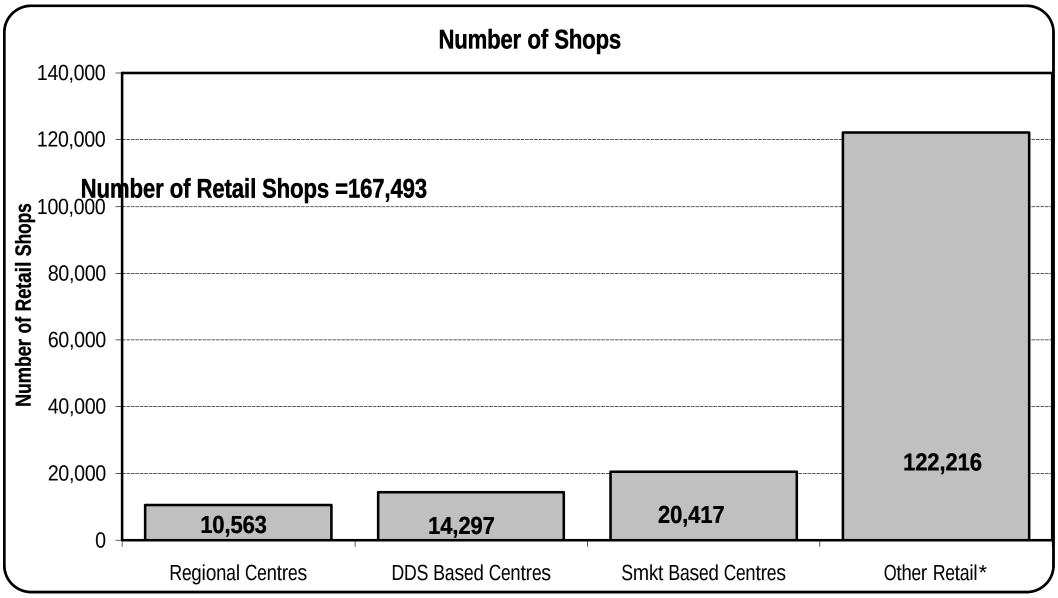


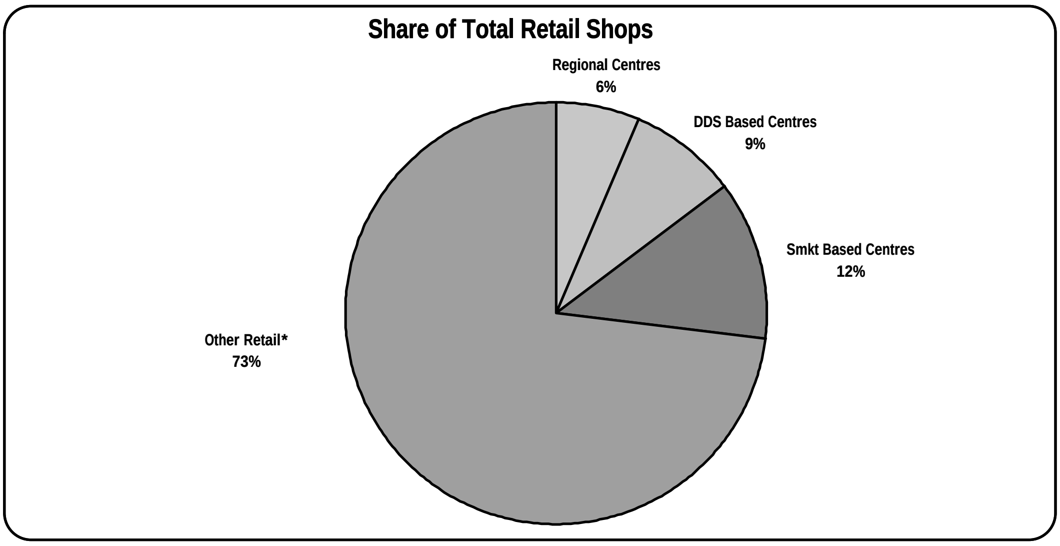
** Other includes CBDs, strips, bulky centres & freestanding stores*
Source : ABS; Jebb Holland Dimasi

2.0 AUSTRALIAN RETAIL MARKET

Australian Retail Market **Chart 2.13**

Number of Retail Shops by Category, 1999/2000



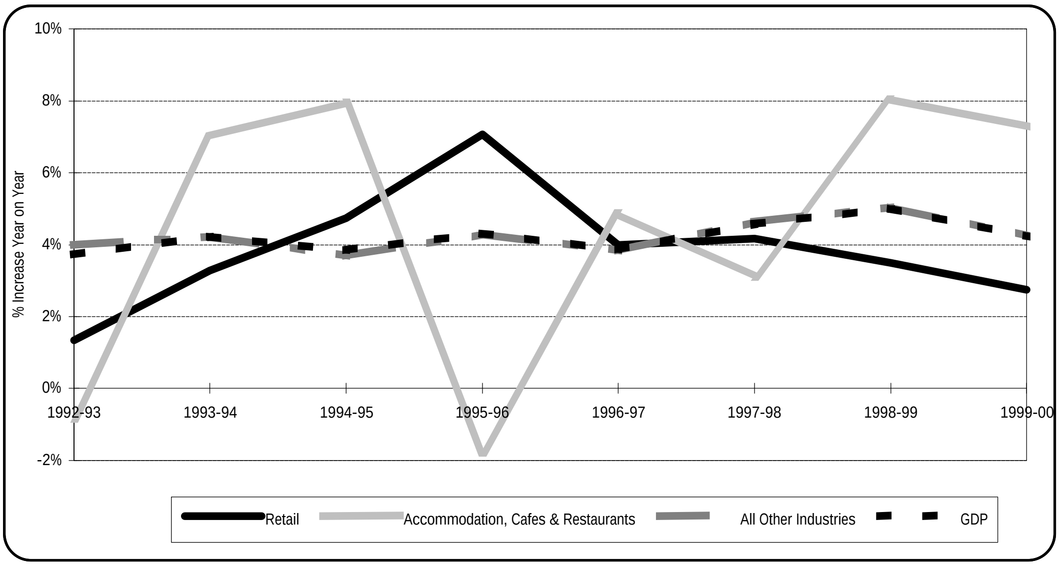


** Other Retail includes all shops in CBDs, strips, bulky centres & freestanding stores*

Source : ABS, Business Register; Jebb Holland Dimasi

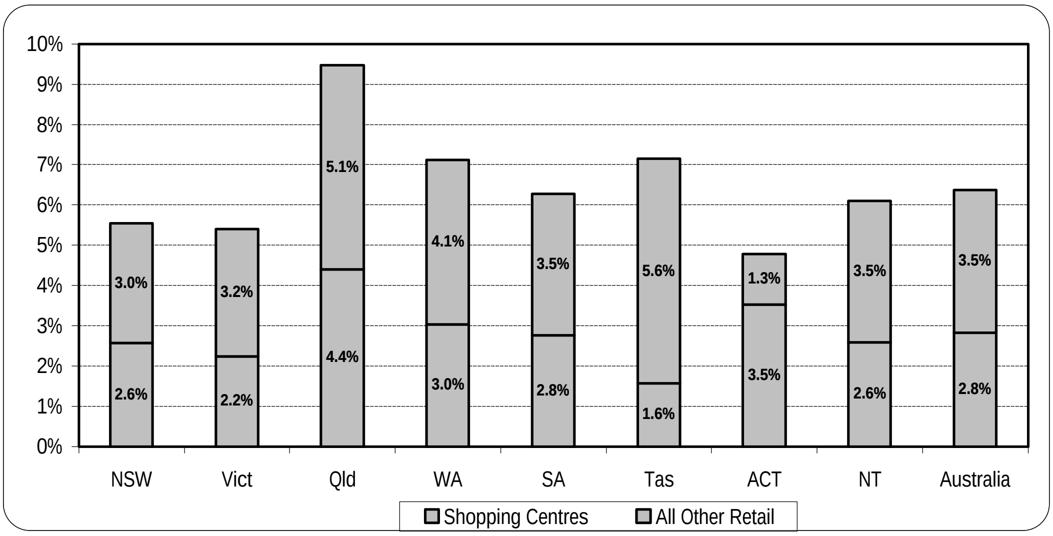
Australia **Chart 2.14**

Real Growth in Retail Industry Contribution to GDP Compared with Other Industries*, 1992-2000



Australia **Chart 2.15**

Percentage Contribution to GDP by Shopping Centres and All Other Retail, 1998/99



** Gross Domestic Product (GDP) is measured at factor cost by industry in this instance and therefore represents the income accruing to the owners of the factors of production.*

*** Other includes agricultural, forestry & fishing; mining; manufacturing; electricity, gas & water; construction; wholesale; transport & storage; communication, finance & insurance; government administration & defence; education; and health & community services*

Source : ABS, National Accounts; Jebb Holland Dimasi

SECTION 3

RETAIL INDUSTRY STRUCTURE

3.0 RETAIL INDUSTRY STRUCTURE

This section outlines the structure of the retail industry and the key points to note are as follows :

- *There are 918 shopping centres in Australia, comprising 64 regional centres, 225 DDS centres and 629 supermarket based centre (see Chart 3.1).*

- *New South Wales has the greatest representation of shopping centres at 286, including 24 regional centres, reflecting its higher population base. Queensland is the next highest state, with 203 centres, including 14 regionals, with the number of centres in Queensland having increased in recent years as a result of high population growth (see Chart 3.2).*

- *Both Tasmania and the Northern Territory currently have no regional shopping centre representation, reflecting the smaller population bases, while the ACT currently has no DDS based centres, as a result of the strict planning legislation. (see Chart 3.2)*

- *The retail floorspace provided in shopping centres is 11.1 million sq.m or 29% of total available retail space, which in 1999/2000 was some 38.3 million sq.m. All other retailing, excluding shopping centres, therefore accounts for 27.3 million sq.m of retail floorspace (see Chart 3.3).*

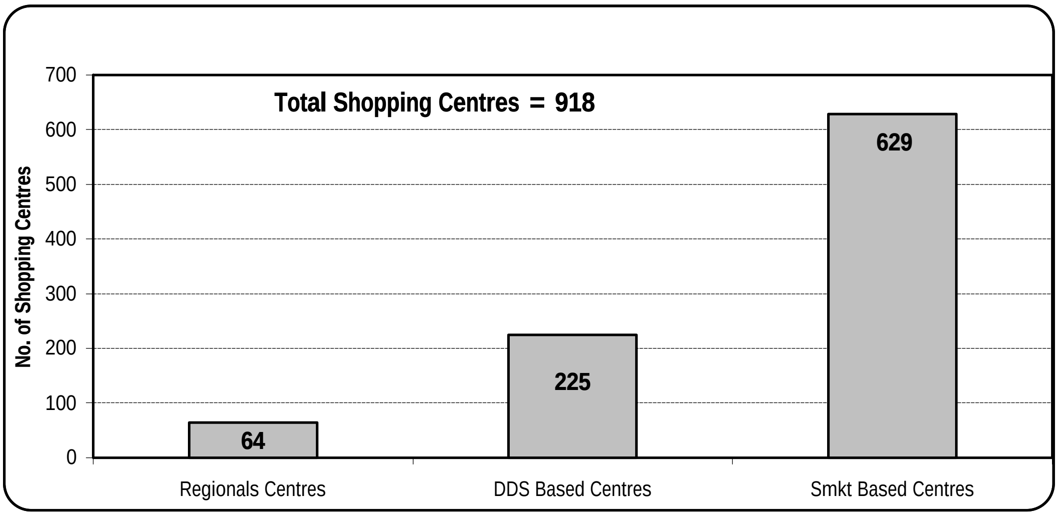
- *Table 3.1 shows the relative sizes of the 24 major owners/managers of shopping centres throughout Australia. This indicates that the Westfield Group is the largest single owner/manager, however the figures shown in Table 3.1 include all centres in which the group has any interest. In some instances Westfield does not own 100% of the centre in question. This also applies in relation to the figures indicated for a number of the leading shopping centre owners and managers. The ownership pattern is therefore much more complex when all part interests are accounted for.*

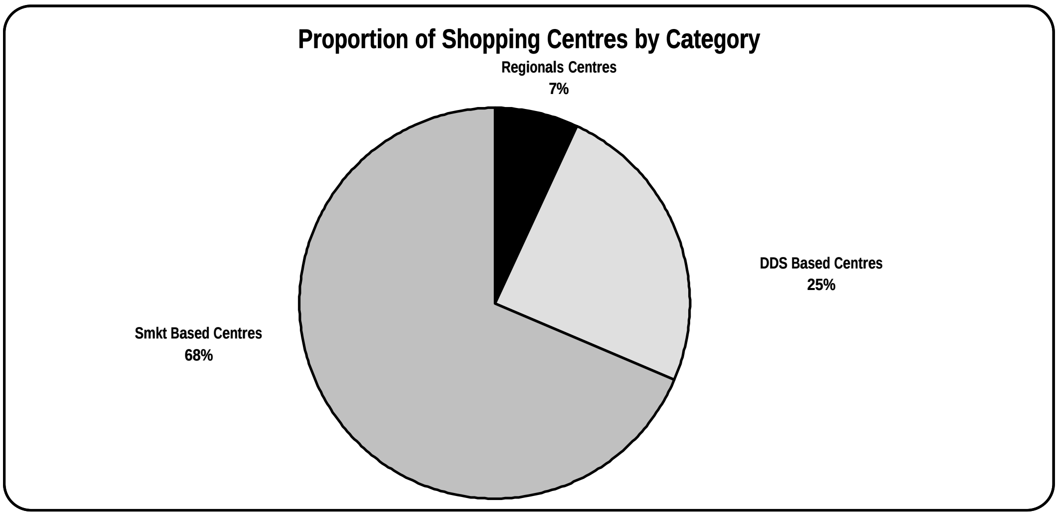
- *Table 3.2 shows the leading regional shopping centres in Australia in terms of size and sales performance, whilst Table 3.3 presents similar information for the leading DDS based shopping centres.*

- *Table 3.4 shows the number of customer visits to regional and DDS based shopping centres. This indicates there were a total of 1.82 billion customer visits made to regional and sub-regional centres in 1999/2000, or 35.0 million visits per week. Each regional centre averaged 10.3 million customer visits annually, or an average of 197,000 people per week. Each sub-regional centre averaged 5.2 million customer visits annually, or almost 100,000 people per week. Given Australia's population of 19.2 million people, this level of visitation equates to around <u>two visits per week by every person</u> to a regional or sub-regional centre.*

3.0 RETAIL INDUSTRY STRUCTURE

Australia Retail Market **Chart 3.1**
Number of Shopping Centres by Category, 1999/2000





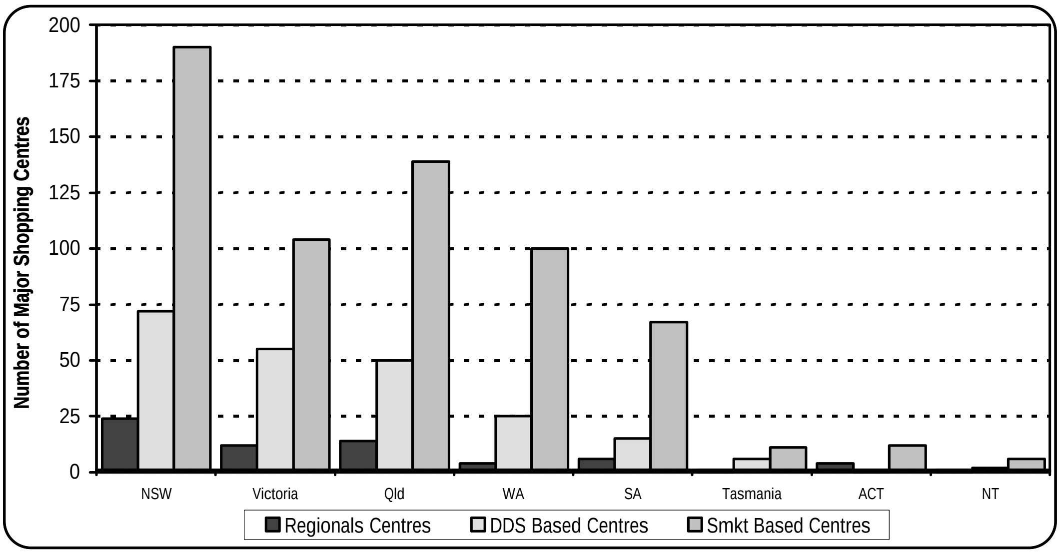
** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres)*

Source : Jebb Holland Dimasi

3.0 RETAIL INDUSTRY STRUCTURE

Australian Retail Market **Chart 3.2**

Number of Shopping Centres by State by Category 1999/2000

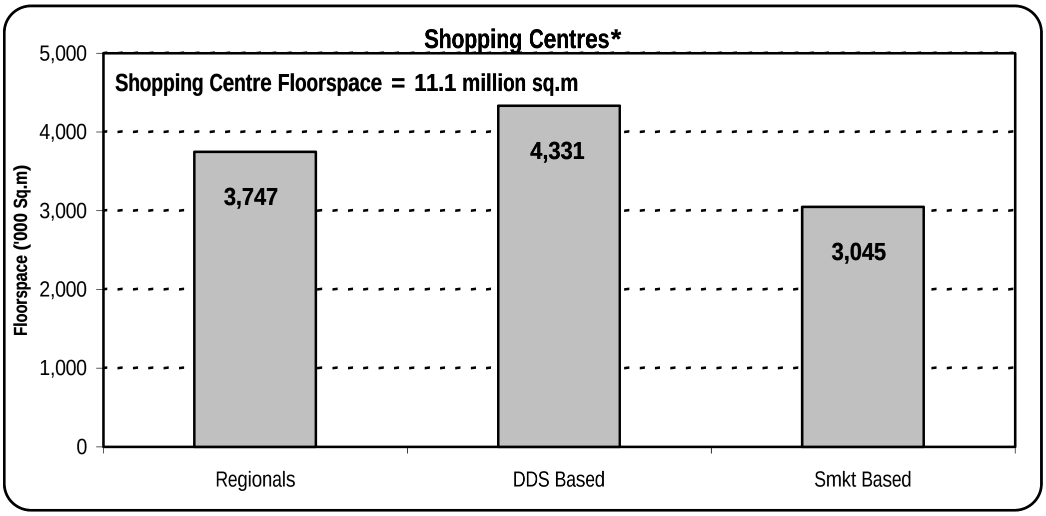


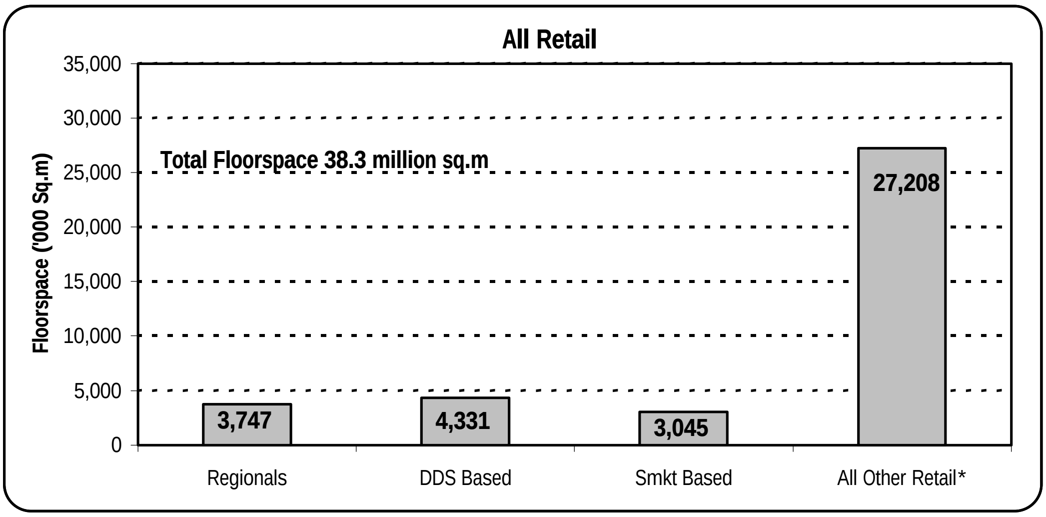
** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres)*

Source : Jebb Holland Dimasi

3.0 RETAIL INDUSTRY STRUCTURE

Australian Retail Floorspace **Chart 3.3**
Retail Floorspace by Category of Centre, 1999/2000





** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres), while all other retail is defined as CBD, strips, bulky centres & freestanding stores*
Source : Jebb Holland Dimasi

Table 3.1
Leading Shopping Centre Owners & Managers* - Provision & Performance, 2000

Owner	Location of Centres	Category	No. of Centres Owned	Retail Floorspace (Sq.m)	% of Total Retail Sq.m	Retail Sales ($M)	Annual Shopper Visits (mill.)
Westfield	NSW (16), Vict. (4), Qld (4), WA (2), SA (3), ACT (1)	Reg (23), DDS Based (6), Smkt Based (1)	30	1,449,142	3.8%	7,300	280
AMP	NSW (9), Vict. (3), Qld (6), WA (3), SA (2)	CBD (2), Reg (9), DDS Based (11), Smkt Based (1)	23	834,402	2.2%	4,050	170
Lend Lease	NSW (8), Vict. (5), Qld (2), WA (2), ACT (1), NT (1)	CBD (2), Reg (10), DDS Based (5), Smkt Based (2)	19	708,808	1.8%	4,040	155
Centro	NSW (10), Vict. (8), Qld (8), WA (3), SA (1), ACT (1)	Reg (2), DDS Based (21), Smkt Based (8)	31	500,700	1.3%	2,410	95
Gandel	NSW (1), Vict. (6), Qld (1), SA (1), Tas (1)	CBD (1), Reg (4), DDS Based (5)	10	465,921	1.2%	2,240	75
QIC	NSW (2), Vict. (3), Qld (3), ACT (1)	Reg (7), DDS Based (2)	9	427,584	1.1%	1,980	80
Yu Feng	Qld (16)	Reg (2), DDS Based (10), Smkt Based (4)	16	294,840	0.8%	1,300	55
Colonial	Vict. (2), Qld (4), WA (1), SA (2)	DDS Based (8), Smkt Based (1)	9	254,304	0.7%	1,260	55
Commonwealth Bank/CFM	NSW (3), Vic (1), Qld (6), WA (2)	Reg (1), DDS Based (4), Smkt Based (5), Other (2)	12	221,342	0.6%	1,150	45
Armstrong Jones/Merc. Mut.	NSW (1), Vict. (1), Qld (1), WA (4)	CBD (2), DDS Based (7), Smkt Based (1)	10	208,288	0.5%	990	33
MCS	NSW (4), Vict. (4), Qld (3), WA (4), SA (3), Tas (1)	DDS Based (7), Smkt Based (4)	19	206,632	0.5%	1,100	40
Stockland	NSW (6), Qld (2)	DDS Based (6), Smkt Based (1), Other (1)	8	178,167	0.5%	960	35
Deutche	NSW (4), Qld (2)	Reg (1), DDS Based (5)	6	174,329	0.5%	835	33
ISPT	NSW (5), Vict. (2), Qld (3), SA (2)	DDS Based (12)	12	168,165	0.4%	965	65
CountryWide**	NSW (8), Vict. (3), Qld (13), WA (5), SA(1)	DDS Based (1), Smkt Based (29)	30	157,860	0.4%	1,145	38
Pacific Group	NSW (1), Vict. (5)	DDS Based (6)	6	151,525	0.4%	615	31
Perron Investments	NSW (1), Vict. (1), WA (2)	Reg (1), DDS Based (3)	4	134,461	0.4%	575	24
Advance Property Fund	NSW (1), Qld (2)	DDS Based (3)	3	115,887	0.3%	440	18
Suncorp	Qld (3)	Reg (1), DDS Based (2)	3	114,865	0.3%	285	16
Homemaker Retail Trust	NSW (2), Vict. (1), Qld (4)	Other (7)	7	114,831	0.3%	n.a.	n.a.
Mirvac	NSW (3), Vict. (2), Qld (2)	CBD (2), DDS Based (4), Other (1)	7	106,207	0.3%	515	18
National Mutual	NSW (1), WA (1), SA (1)	Reg (1), DDS Based (2)	3	100,419	0.3%	500	21
Intro International	NSW (1), Qld (4), SA (1)	CBD (2), Smkt Based (3), Other (1)	6	98,243	0.3%	515	17
Sussan Corporation	Vict. (1)	Reg (1)	1	81,662	0.2%	390	15

* Shopping centre ownership is not straighforward in Australia with a number of professional fund managers owning shopping centres on behalf of life insurance and superannuation policy holders and 'mum and dad' investors in listed and unlisted property trusts, while companies such as Westfield and AMP frequently jointly own shopping centres, as with Bondi Junction Plaza and Tea Tree Plaza.

** Includes only the enclosed shopping centres managed by the CountryWide Retail Investment Trust. The trust also includes a number of freestanding supermarket properties.

Source: Jebb Holland Dimasi

Table 3.2
Leading Regional Shopping Centres - Provision & Performance, 1999/2000

Centre	Owner	Location	**Floorspace (Sq.m)*** Total Centre	Retail	Retail Sales ($M)	Sales per Sq.m ($)	Shopper Visits ('000's)
Chadstone	Gandel, Gandel Retail Trust	Melbourne	127,000	105,000	625	5,952	14,000
Parramatta	Westfield	Sydney	126,000	105,000	550	5,238	19,300
Southland	Westfield	Melbourne	123,000	110,000	490	4,455	13,600
Miranda Fair	Westfield, National Mutual	Sydney	109,000	95,000	485	5,105	13,400
Warringah Mall	AMP, AMP SC Trust	Sydney	112,000	99,000	475	4,798	13,500
Castle Towers	QIC	Sydney	81,000	69,000	440	6,377	14,000
Pacific Fair	AMP, AMP SC Trust	Gold Coast	104,000	93,000	415	4,462	13,000
Marion	Westfield	Adelaide	123,000	95,000	410	4,316	14,200
Highpoint City	Sussan	Melbourne	105,000	82,000	400	4,878	15,400
Macquarie	AMP, AMP SC Trust	Sydney	88,000	73,000	400	5,479	12,000

* Note that a range of non-retail floorspace, including cinemas & other entertainment, bowling alleys, skating rinks, and financial & other services are also included in these centres

Source: Jebb Holland Dimasi

Table 3.3
Leading DDS Based Shopping Centres - Provision & Performance, 1999/2000

Centre	Owner	Location	**Floorspace (Sq.m)***		Retail Sales	Sales per	Shopper
			Total Centre	Retail	($M)	Sq.m ($)	Visits ('000's)
Casuarina	Lend Lease (GPT)	Darwin	49,000	41,000	250	6,098	10,200
Fountain Gate**	Westfield	Melbourne	46,000	43,000	240	5,581	8,200
Whitford City	Axa	Perth	48,000	38,000	210	5,526	12,500
Morayfield	Leda	Brisbane	42,000	37,000	195	5,270	6,500
Mandurah Forum	Centro	Mandurah	35,000	28,000	190	6,786	6,590
Caneland	Suncorp	Mackay	39,000	36,000	185	5,139	5,370
Rockingham City	Colonial	Perth	46,000	41,000	180	4,390	8,400
Australia Fair	MEPC	Gold Coast	50,000	39,000	175	4,487	12,500
Airport West	Westfield	Melbourne	50,000	43,000	175	4,070	6,800
Grand Plaza	Colonial/Norwich	Brisbane	40,000	33,000	170	5,152	6,200

* Note that a range of non-retail floorspace, including cinemas & other entertainment and financial & other services are also included in these centres
** Fountain Gate excludes the homemaker centre included on the shopping centre site

Source: Jebb Holland Dimasi

Table 3.4
Number of Customer Visits to Regional & DDS Based Centres by State, 1999/2000

Category	No. of Shopping Centres	Number of Customer Visits			
		Annual Visits (All Centres)	Visits Per Week (All Centres)	Avge Per Centre Per Annum	Avge Per Centre Per Week
New South Wales					
Regional	24	268,298,182	5,159,580	11,179,091	214,983
DDS Based (Sub Regional)	72	325,080,000	6,251,538	4,515,000	86,827
Combined Total	96	593,378,182	11,411,119	6,181,023	118,866
Victoria					
Regional	12	131,450,000	2,527,885	10,954,167	210,657
DDS Based (Sub Regional)	55	300,250,000	5,774,038	5,459,091	104,983
Combined Total	67	431,700,000	8,301,923	6,443,284	123,909
Queensland					
Regional	14	122,540,000	2,356,538	8,752,857	168,324
DDS Based (Sub Regional)	50	264,547,619	5,087,454	5,290,952	101,749
Combined Total	64	387,087,619	7,443,993	6,048,244	116,312
Western Australia					
Regional	4	35,600,000	684,615	8,900,000	171,154
DDS Based (Sub Regional)	25	146,475,000	2,816,827	5,859,000	112,673
Combined Total	29	182,075,000	3,501,442	6,278,448	120,739
South Australia					
Regional	6	51,500,000	990,385	8,583,333	165,064
DDS Based (Sub Regional)	15	61,500,000	1,182,692	4,100,000	78,846
Combined Total	21	113,000,000	2,173,077	5,380,952	103,480
Tasmania					
Regional	0	n.a.	n.a.	n.a.	n.a.
DDS Based (Sub Regional)	6	27,000,000	519,231	4,500,000	86,538
Combined Total	6	27,000,000	519,231	4,500,000	86,538
ACT					
Regional	4	49,100,000	944,231	12,275,000	236,058
DDS Based (Sub Regional)	0	n.a.	n.a.	n.a.	n.a.
Combined Total	4	49,100,000	944,231	12,275,000	236,058
Northern Territory					
Regional	0	n.a.	n.a.	n.a.	n.a.
DDS Based (Sub Regional)	2	15,200,000	292,308	7,600,000	146,154
Combined Total	2	15,200,000	292,308	7,600,000	146,154
Australia					
Regional	64	656,650,323	12,627,891	10,260,161	197,311
DDS Based (Sub Regional)	225	1,180,227,273	22,696,678	5,245,455	100,874
Combined Total	289	1,836,877,595	35,324,569	6,355,978	122,230

Source: Jebb Holland Dimasi

SECTION 4

SUPPLY OF RETAIL FLOORSPACE

4.0 SUPPLY OF RETAIL FLOORSPACE

This section analyses trends in the supply of retail floorspace in Australia between 1992 and 2000. Some comparisons with the United States situation are also provided. The following key points can be noted :

- *Average annual growth in total retail sales between 1992 and 2000 was 5.1% per annum compared with an average increase in retail floorspace of 1.9% per annum over this period (see Chart 4.1).*

- *Regional centres in Australia achieved average sales growth of 7.1% per annum compared with floorspace growth of 4.7% per annum between 1992-2000. Annual increases in floorspace and sales have diverged since 1997, with sales growth having outstripped floorspace growth by a substantial amount in the past three years (see Chart 4.1).*

- *Annual increases in the floorspace and sales of DDS based centres over 1992-2000 have reflected the small number of new DDS based centres opened during this period. Average annual growth rates of 7.0% and 3.7% in sales and floorspace respectively between 1992-2000 were recorded by DDS based centres (see Chart 4.1).*

- *Supermarket based centres have averaged sales and floorspace growth of 6.9% and 1.4% respectively between 1992-2000. The strong sales growth performance of the supermarket chains (i.e the main component of these centres) has driven this trend over this period.*

- *Annual growth rates in all other retail (including CBDs, strip and freestanding retail) have averaged 3.8% for sales and 1.9% for floorspace (see Chart 4.1)*

- *The total increase in retail floorspace between 1992 and 2000 closely mirrored the increase in population, although it has been higher than population growth hence leading to some growth in floorspace per capita (see Chart 4.2).*

- *The vacant rate in regional centres is currently 1.1% of total space, compared with 2.3% in DDS based centres and 3.5% in supermarket based centres. The average vacancy level has fallen over the past three years across the three shopping centre types (see Chart 4.3).*

- *Average annual growth in total retail floorspace was 2.0% over the period between 1999/2000, with the highest increases recorded in Queensland, the Northern Territory, and Western Australia, and the lowest increases recorded in Tasmania, South Australia and the Australian Capital Territory (see Chart 4.4).*

- *The provision of retail floorspace now averages 2.00 sq.m per capita across Australia and is highest in Victoria at 2.13 sq.m per capita and lowest in the ACT at 1.81 sq.m per capita (see Chart 4.5).*

- *Australia currently has 29% of total retail floorspace accommodated in shopping centres which generates some 44% of total retail sales. In comparison, the United States has 59% of sales and 56% of floorspace in shopping centres (see Chart 4.6)*

4.0 SUPPLY OF RETAIL FLOORSPACE

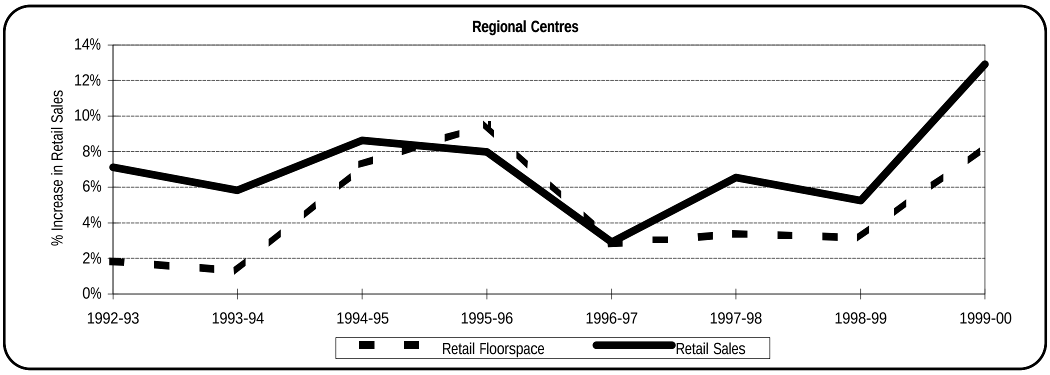
- *Australia has a total of 38.3 million sq.m of retail floorspace, of which 11.1 million sq.m is provided in shopping centres. The United States has 900.8 million sq.m of retail floorspace of which 507.6 million sq.m is in shopping centres.*

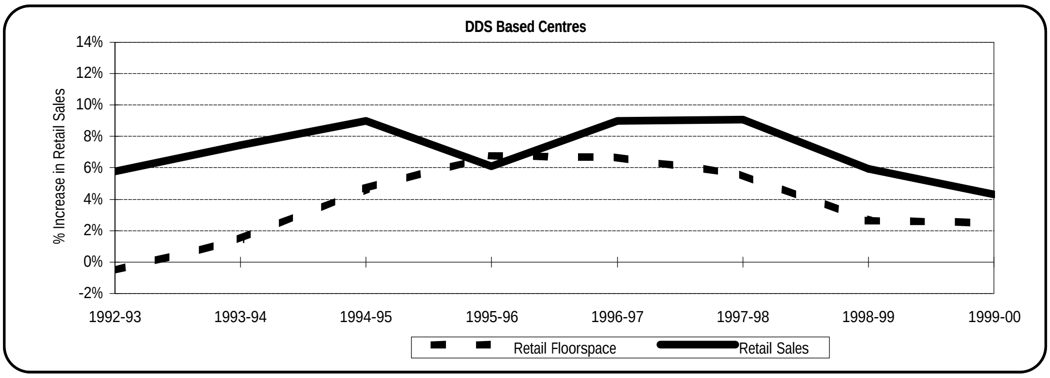
- *Australia's average provision of retail floorspace of 2.00 sq.m per capita compares with 3.31 sq.m per capita in the United States (see Chart 4.7).*

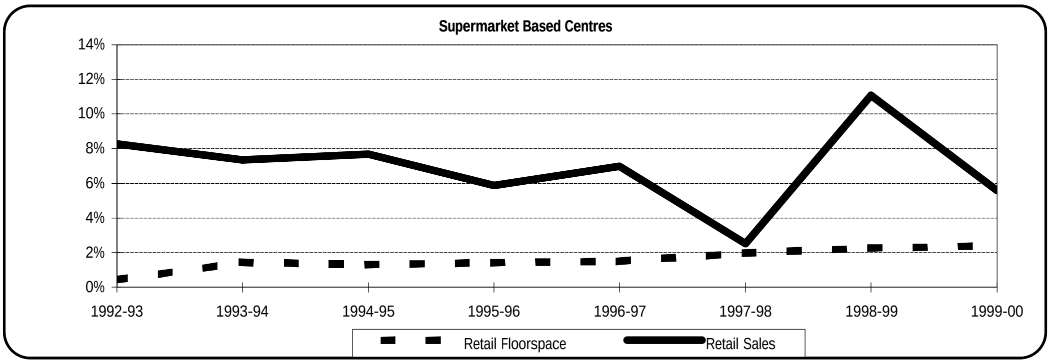
- *The average provision of floorspace in shopping centres in Australia is 0.58 sq.m per capita, compared with 1.86 sq.m per capita in the United States (see Chart 4.7).*

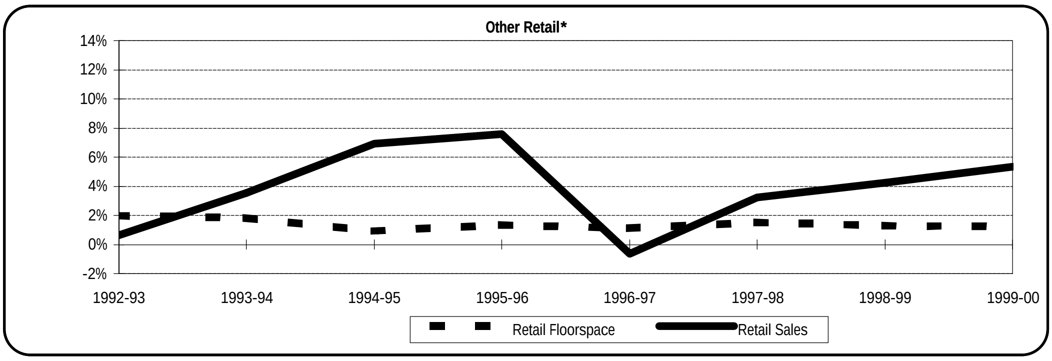
4.0 SUPPLY OF RETAIL FLOORSPACE

Australian Retail Market **Chart 4.1**
Trends in Retail Floorspace versus Retail Sales by Category, 1992-2000







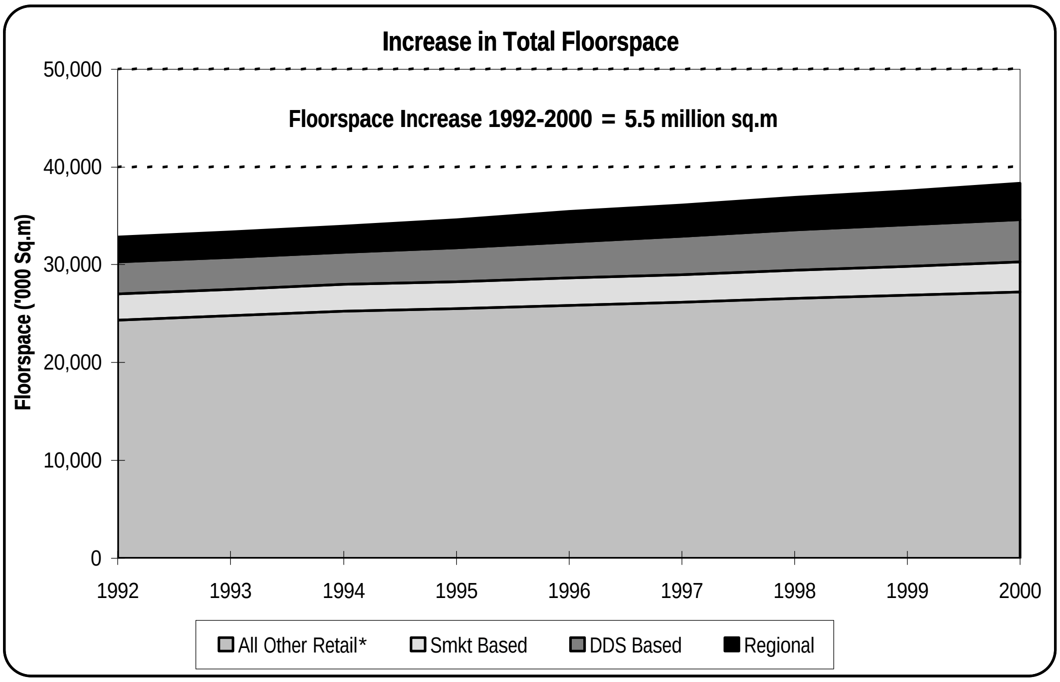


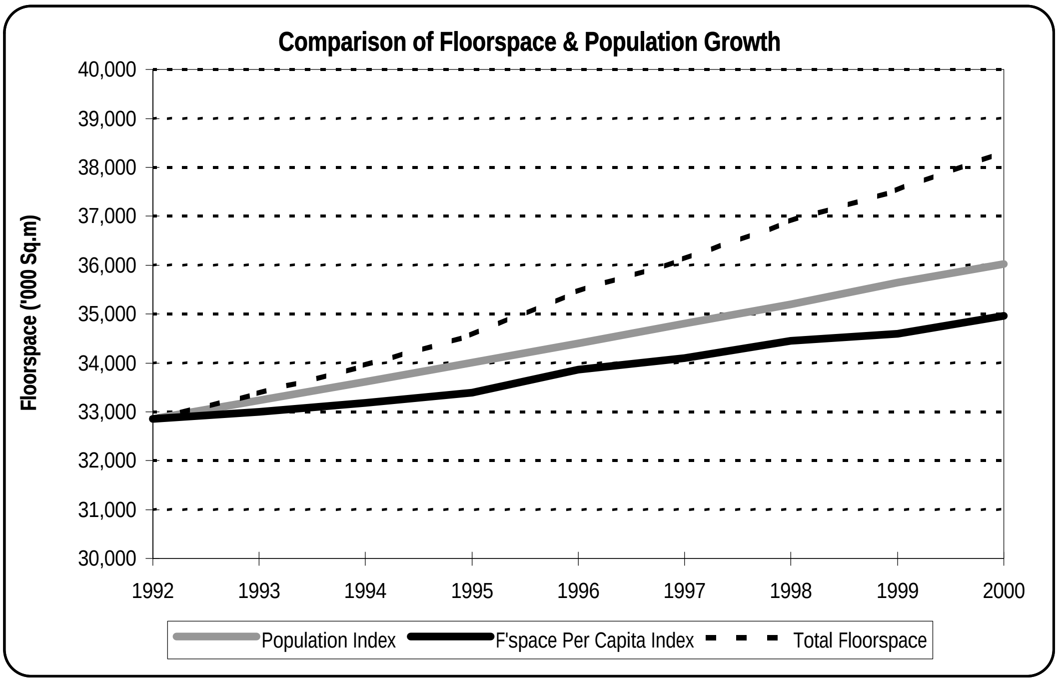
** Other includes strips, bulky centres & freestanding stores*
Source : ABS; Jebb Holland Dimasi

4.0 SUPPLY OF RETAIL FLOORSPACE

Australia **Chart 4.2**

Increase in Retail Floorspace by Category Compared with Population Growth, 1992-2000

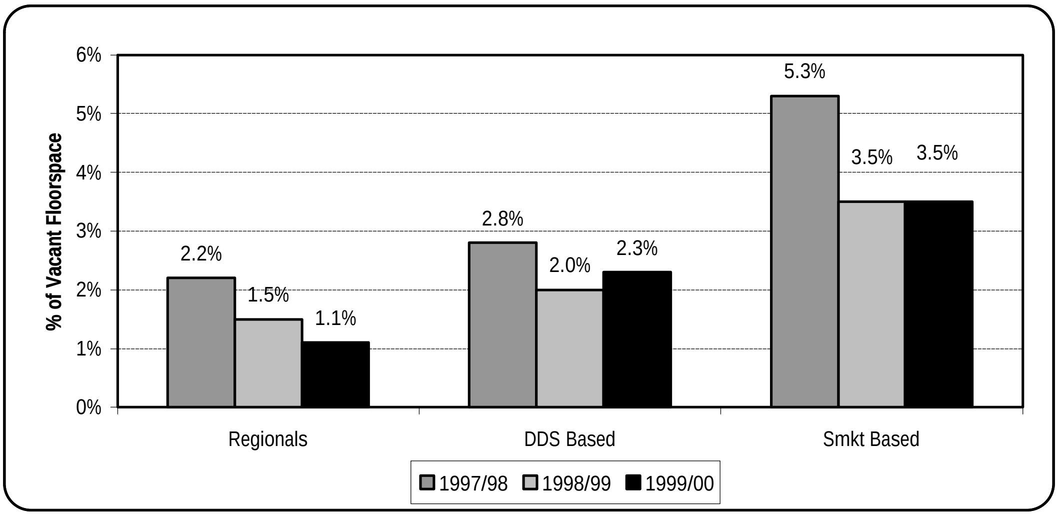




** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (l.e all managed shopping centres)*
For the Australian market all other retail is defined as CBD, strips, bulky centres & freestanding stores.
Source : Jebb Holland Dimasi

4.0 SUPPLY OF RETAIL FLOORSPACE

Australia Retail Market **Chart 4.3**
Vacancy Rates in Major Shopping Centres by Category, 1997/98-1999/00

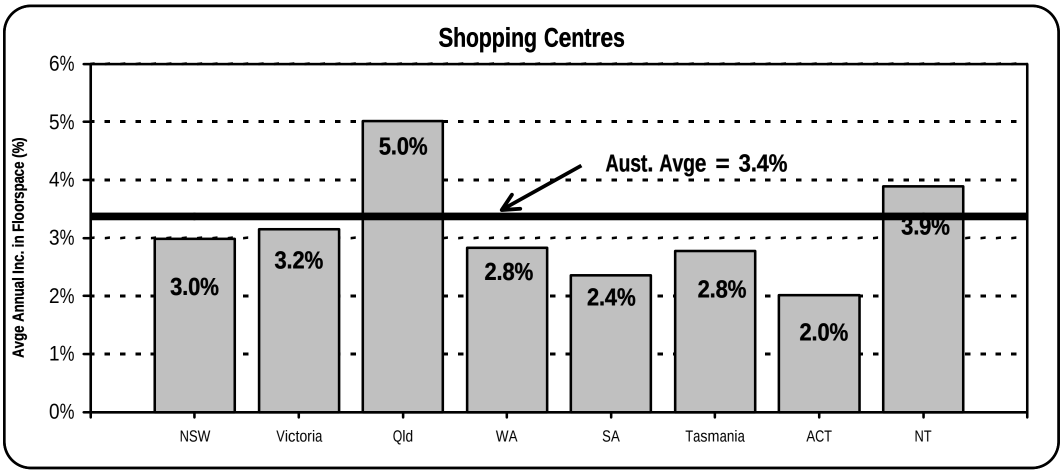


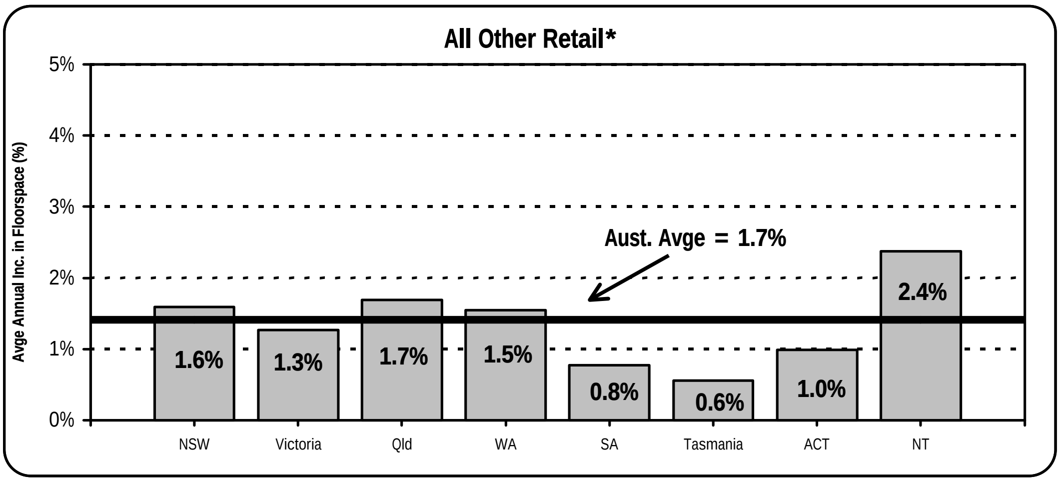
Source : Jebb Holland Dimasi

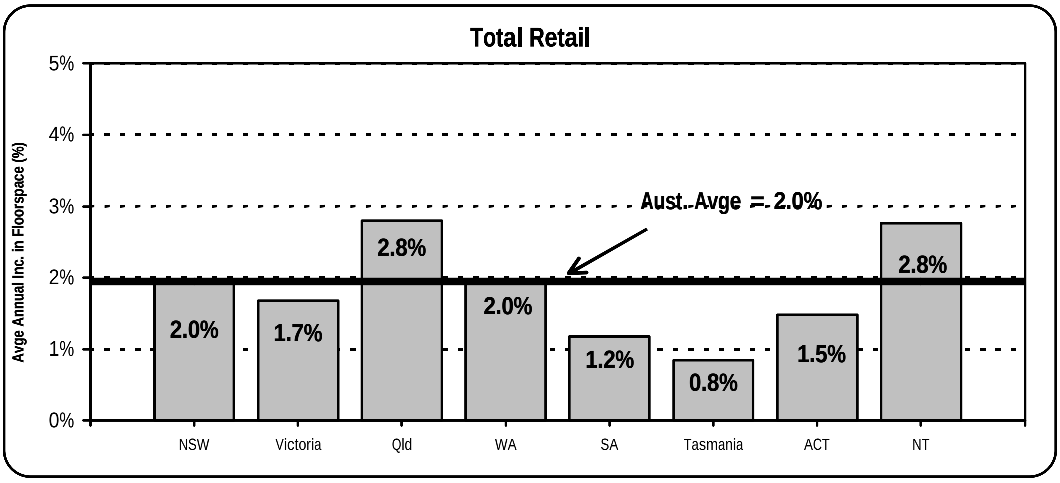
4.0 SUPPLY OF RETAIL FLOORSPACE

Australian Retail Market **Chart 4.4**

Average Annual Growth in Retail Floorspace by State, 1991/92-1999/2000







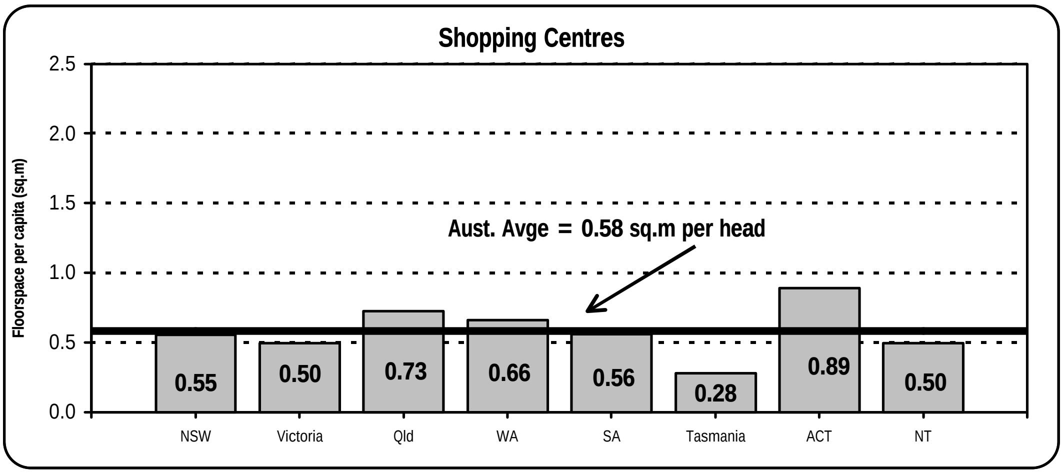
** Other includes CBDs, strips, bulky centres, freestanding stores and other retail centres*

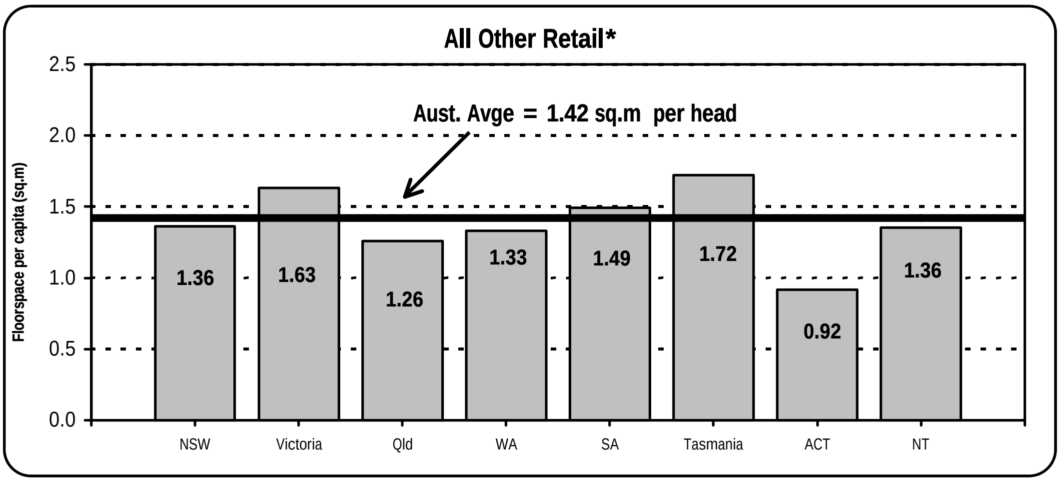
Source : Jebb Holland Dimasi

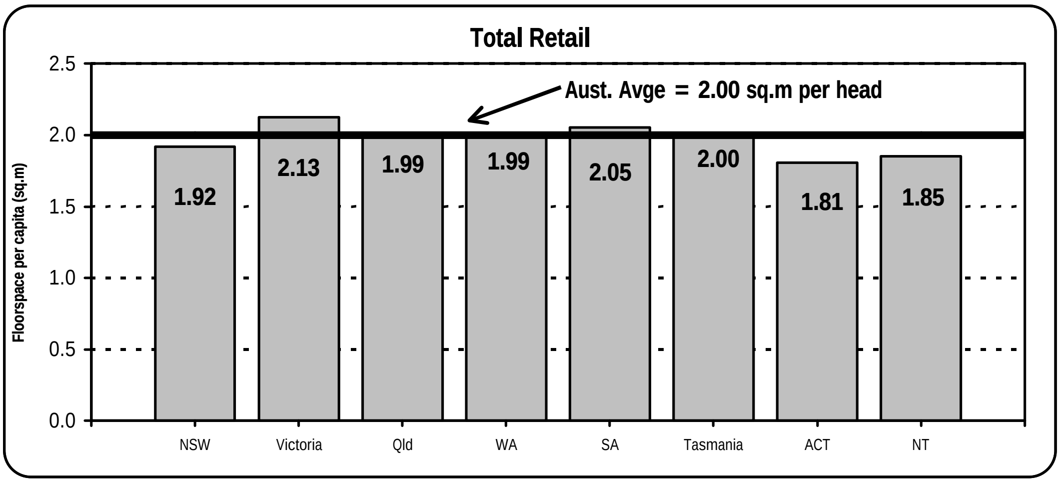
4.0 SUPPLY OF RETAIL FLOORSPACE

Australian Retail Market **Chart 4.5**

Retail Floorspace Per Capita by State, 1999/2000





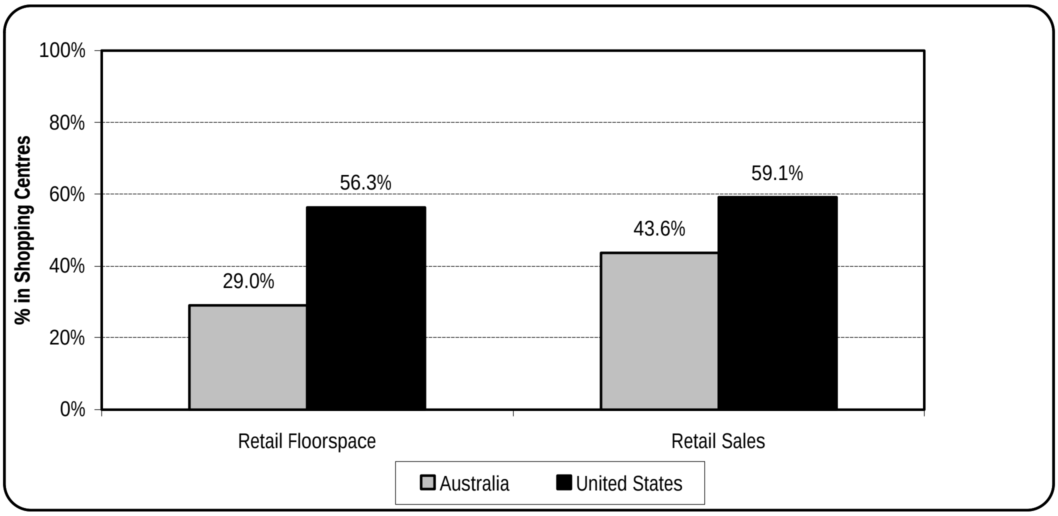


** Other includes CBDs, strips, bulky centres, freestanding stores and other retail centres*

Source : Jebb Holland Dimasi

4.0 SUPPLY OF RETAIL FLOORSPACE

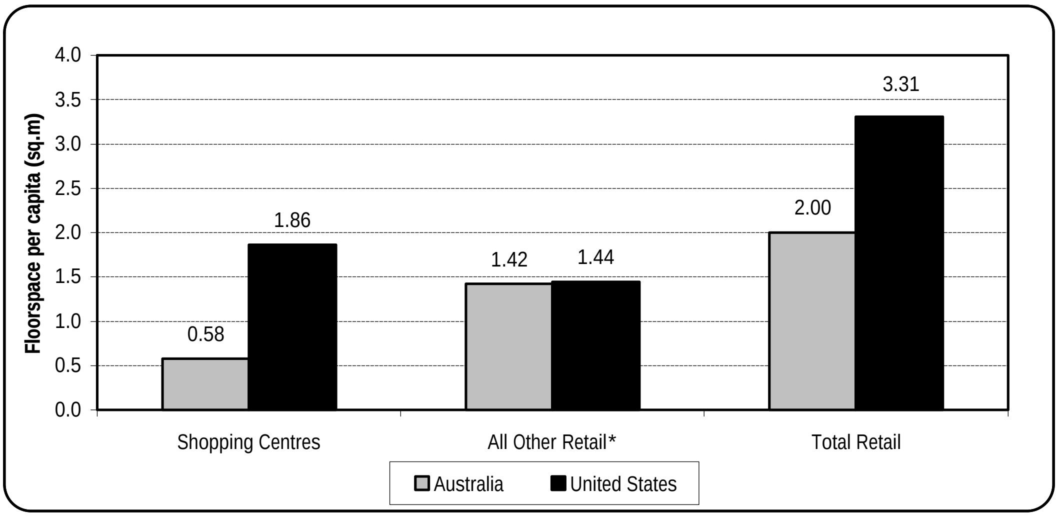
Australia & the United States **Chart 4.6**
Share of Total Retail Sales & Retail Floorspace in Shopping Centres, 2000



** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres). United States shopping centres follow the National Research Bureau definition*

Source : United States National Research Bureau; Jebb Holland Dimasi

Australia & the United States **Chart 4.7**
Retail Floorspace Per Capita by Category, 2000



** Australian shopping centres are defined to include all regional and DDS based shopping centres as well as supermarket based shopping centres with a supermarket of more than 1,000 sq.m (I.e all managed shopping centres). United States shopping centres follow the National Research Bureau definition*

Source : United States National Research Bureau; Jebb Holland Dimasi

SECTION 5

SHOPPING CENTRE ECONOMICS

5.0 SHOPPING CENTRE ECONOMICS

The final section of this report presents an outline of the economics of typical shopping centre, including the important operational parameters for the retailers as well as for the centre owners.

The section therefore discusses the following :

- *Key performance measures for retail businesses.*
- *Typical leases*
- *Percentage rents*
- *Shopping centre valuation*

KEY PERFORMANCE MEASURES FOR A RETAIL BUSINESS

The Profit And Loss Statement for a typical retail business is usually specified more or less as follows :

Typical Regional Centre Specialty Retail Store **Table 5.1**
Indicative Profit & Loss Statement, 1999/2000

Item	$	% of Sales
Sales	800,000	
Less COGS	456,000	57%
Subtotal : Gross Profit	**344,000**	**43%**
Less :		
Salaries/Wages	96,000	12%
Branch Expenses	32,000	4%
Occupancy Costs	104,000	13%
Capital/Equipment Expenses	40,000	5%
Total Expenses	272,000	34%
Subtotal : Branch Profit	**72,000**	**9%**
Less Divisional Costs	32,000	4%
Net Profit/Loss	**40,000**	**5%**

Source : Jebb Holland Dimasi

The expenses are typically categorised as Fixed Expenses (those which do not change in relation to sales, such as management salaries, occupancy costs, insurance) and Variable Expenses, those which vary depending on the level of sales recorded. Variable expenses include things such as casual wages, wrapping, or store specific advertising/promotion.

For chain stores there is also usually a distinction made between branch specific expenses and divisional costs, i.e. those costs which are accrued at head office or state office, but which are then distributed across the chain of stores. Divisional costs include things such as accounting, administration, statewide or national advertising, insurance, credit charges etc.

The key items in the profit report for a retail business as outlined in Table 5.1 above are :

- *Sales*
- *Gross Profit.*
- *Salaries and wages.*
- *Occupancy costs.*

Sales

Sales recorded by a retail business, or a shopping centre, are quoted in various ways, the most common of which are :

- *Total sales recorded per annum.*
- *Annual sales recorded per square metre of floorspace occupied, which in turn is referred to as Gross Leasable Area (GLA).*

The total sales recorded over any twelve month period are normally referred to as the MAT or Moving Annual Turnover. The terms 'sales' and 'turnover' are used interchangeably throughout the industry.

The next two tables outline the sales performance over a financial year period for a typical Australian regional shopping centre. This indicative example reflects the findings of an annual survey undertaken by JHD referred to as the JHD Retail Averages, which surveys virtually every regional centre in the country, as well the majority of sub-regional centres.

Table 5.2 outlines the sales performance and composition of a typical Australian regional centre. The key points which can be noted from this typical regional centre are as follows :

- *Total centre size for Australian regional centres on average is approximately 58,500 sq.m of retail space.*
- *The typical regional centre recorded total annual sales of $283 million, at an average of $4,840 per sq.m in 1999/2000.*
- *A typical regional shopping centre has got some 166 retail stores, of which five are major stores (department stores, DDSs or supermarkets); two are mini-majors; and around 160 are specialty stores.*

5.0 SHOPPING CENTRE ECONOMICS

Australian Regional Centre Benchmarks **Table 5.2**
Sales Performance - 1999/2000

Tenant Type	No. of Outlets	GLA (Sqm)	Sales $M	Sales $/Sqm
Majors				
Dept Stores	1.3	19,140	53.3	2,783
DDSs	1.6	11,737	35.8	3,051
Smkts	2.0	6,935	57.3	8,257
Total Majors	**4.8**	**37,812**	**146.3**	**3,870**
Mini Majors	**2.0**	**3,317**	**10.9**	**3,274**
Retail Specialties				
Food Specialties	35.7	2,579	23.5	9,110
Non Food Specialties	102.3	11,809	84.8	7,179
Services - Retail	17.4	1,233	8.9	7,246
Total	155.4	15,621	117.2	7,503
Large Specialties	3.4	1,779	8.9	5,023
Total Retail Specialties	**158.8**	**17,400**	**126.1**	**7,249**
Total Centre Retail	**165.7**	**58,529**	**283.3**	**4,841**

Source : Jebb Holland Dimasi

In Table 5.2 the centre performance details are presented at a broad category level, particularly the specialty stores (food specialties, non-food specialties, retail services, and large specialties). However, we can delve deeper into the performance of the specialty stores in order to examine the centre's performance at the fine category level. Such an analysis is presented in Table 5.3 attached for the typical regional centre's retail specialty stores.

Some of the key features which can be noted from this more detailed analysis are the following :

- *A typical regional centre has some 155 small specialty stores, each at an average size of about 100 sq.m.*
- *Approximately two-thirds of these specialty stores (102) are non-food retailers, with the remaining third being split between food specialties (primarily foodcourt, take-away food and cafés and restaurants) and retail services.*
- *Specialty stores average around $7,500 per square metre in sales at regional centres, however food specialty stores typically achieve a much higher sales level per square metre than the non-food specialties.*

Australian Regional Centre Benchmarks — **Table 5.3**

Specialty Store Sales Performance - 1999/2000

Specialty Type	No. of Stores	GLA (Sqm)	Sales $000	Sales $/Sqm
Food Specialties				
Fruit & Vegetables	0.8	174	1,431	8,211
Meat	1.2	127	1,483	11,691
Poultry	1.1	76	909	11,917
Seafood	0.7	58	551	9,563
Bread	1.6	117	946	8,109
Patisserie	0.5	24	210	8,944
Delicatessen	0.7	58	572	9,784
Other Fresh Food	0.6	23	202	8,732
Total Fresh Food	7.1	657	6,305	9,599
Other Food	4.9	350	4,126	11,778
Food Court	10.9	556	5,908	10,630
Takeaway Food	7.5	354	3,366	9,506
Eat In Food	5.3	662	3,790	5,726
Total Food Spec.	**35.7**	**2,579**	**23,493**	**9,110**
Non Food Specialties				
Women's Fashion	23.2	2,817	17,342	6,156
Mens Apparel	6.0	734	5,019	6,835
Jeaneries & Unisex	10.7	1,547	10,810	6,989
Footwear	8.2	998	6,867	6,884
Fashion Accessories	5.2	299	2,598	8,687
Jewellery	9.4	660	8,677	13,150
Assorted Giftware	5.3	532	2,657	4,997
Home Electrical/Comm	7.3	946	8,979	9,489
Music, Video & Games	5.4	272	2,001	7,345
Furniture & Hardware	0.7	125	439	3,515
Homewares	5.7	786	4,245	5,399
Pharmacy & Cosmetics	4.3	646	6,189	9,585
Newsagents & Books	5.6	837	5,646	6,743
Discount Variety	0.9	187	824	4,414
Other NF Retail	4.3	419	2,515	6,008
Total Non Food Spec.	**102.3**	**11,804**	**84,808**	**7,184**
Retail Services				
Hairdresser/Beauty	6.6	504	3,022	6,001
Drycleaning/Laundry	1.2	59	257	4,325
Film Proc/Photocopy	3.0	186	2,010	10,783
Key Cutting	0.4	11	100	8,793
Shoe Repairs	1.5	33	317	9,605
Optometrist	3.1	388	2,843	7,321
Video Rentals	0.0	8	11	1,288
Watch Repairs	0.9	15	222	15,084
Other Serv Retail	0.7	28	154	5,508
Total Retail Services	**17.4**	**1,233**	**8,936**	**7,246**
Total Retail Specialties	**155.4**	**15,616**	**117,237**	**7,507**

Source : Jebb Holland Dimasi

- *There is wide variation in sales performance across the finer retail segments, particularly the non-food segments. Thus, for the non-food segments in a typical regional centre average turnover levels per square metre can vary from around $5,000 for assorted giftware and homewares stores, to in excess of $13,000 for jewellery and fine gifts.*

- *Typically the non-food specialty stores are larger in size on average than the food specialties (which are dominated by relatively small foodcourt and take-away food premises). Thus non-food specialty stores account for around three-quarters of the total specialty store floorspace in a regional centre, and generate around 72% of specialty store sales in such a centre.*

These benchmark comparisons provide a good understanding of typical or average sales performance levels recorded by Australia's regional centres and by the retailers within them.

However, it is also the case that hardly any retailer is ever average, i.e. the performance achieved by any retailer in any centre depends on a wide range of factors, some internal to the retailer (e.g. poor ranging, poor management) and some external (e.g. not enough customers being attracted to the centre, a highly competitive environment, etc.)

Even within one centre, the performance levels recorded by the retailers in any one specialty segment can show enormous variation.

As an example, Table 5.4 looks in more detail at the typical variation in performance for all of the specialty retailers in two particular segments at one centre - Foodcourt and Women's & Children's Apparel, both very important segments for a regional centre.

The performance of the foodcourt traders in this centre varies from a McDonalds store which records sales of $2.1 million, at $42,000 per sq.m, to a very poor Indian take-away (small independent operator) which records sales of $250,000 at a level of around $5,000 per sq.m.

The segment of Women's and Children's Apparel is the largest and most important specialty segment for regional centres. In this particular centre there are 18 specialty operators in this segment, recording an average sales per square metre level which at $6,727 is 9.4% above the regional centre average for this category.

There is equally wide variation in the performance level across operators, from a low of only $3,300 per sq.m to a high of $13,330 per sq.m. Most of the fashion stores in this centre, as in all regional centres, are national chains. In dollar terms, sales at this centre averaged $820,000 per annum per fashion specialty, but range from $300,000 to $1.5 million.

Benchmark levels are therefore very important in order to understand what is typical or average, but it is also equally important to understand that there is enormous variability in performance across different retailers, including different types of retailers within the one centre, and even different retailers within the one segment in any one centre. Every retailer in every centre is different, and the reasons for their sales performances are many and varied.

Typical Regional Centre **Table 5.4**
Food Court and Women's Fashion Specialty Traders
Sales Performance - 1999/2000

Specialty Type	Typical Centre Sales $000	Typical Centre Sales $/Sqm	Variation* $000 %	Variation* $/Sqm %
Food Court				
McDonalds	2,100	42,000	279.7%	292.0%
KFC	1,100	22,000	98.9%	105.4%
Coffee & Cakes	1,000	14,286	80.8%	33.3%
Deli	600	20,000	8.5%	86.7%
Donuts & Muffins	500	25,000	-9.6%	133.4%
Kebab	700	17,500	26.6%	63.4%
Carvery	700	17,500	26.6%	63.4%
Indian	250	5,000	-54.8%	-53.3%
Spuds	250	8,333	-54.8%	-22.2%
Total Food Court	**7,200**	**18,947**	**24.3%**	**76.9%**
Women's Fashion				
Cue Design	800	11,429	7.4%	85.9%
Esprit	600	6,000	-19.5%	-2.4%
Harts	550	6,111	-26.2%	-0.6%
Katies	1,400	5,833	87.9%	-5.1%
Noni B	850	6,538	14.1%	6.4%
Portmans	950	7,308	27.5%	18.9%
Rockmans	800	4,444	7.4%	-27.7%
Silhouette	700	8,750	-6.0%	42.3%
Sportsgirl	500	3,333	-32.9%	-45.8%
Supre	1,100	6,111	47.7%	-0.6%
Sussan	1,500	10,000	101.3%	62.7%
Suzanne Grae	900	9,000	20.8%	46.4%
Wombat	1,100	11,000	47.7%	78.9%
Cruise	600	6,000	-19.5%	-2.4%
Oriental Imports	300	6,000	-59.7%	-2.4%
Valley Girl	700	4,375	-6.0%	-28.8%
Bras N Things	1,050	6,563	40.9%	6.7%
Kidz Shack	400	13,333	-46.3%	116.9%
Total Women's Fashion	**14,800**	**6,727**	**-7.7%**	**9.4%**

* Variation from Australian Regional Centres benchmarks across specialty type
ie. Food Court and Women's Fashion

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

Gross Profit (GP)

Definition : Gross Profit equals Sales Less Cost of Goods Sold (COGS).

The gross profit represents what is left over to pay all expenses, and to make a profit, after the COGS is subtracted from the total sales achieved.

COGS is not just the amount of money paid to the suppliers for the purchase of goods sold. Whilst that is the most important component of total COGS, the other elements which make up COGS and can therefore greatly impact on whether or not a particular retailer makes a profit are :

- *Markdowns and discounts.*
- *Shrinkage or loss.*

The degree to which these elements of total COGS can impact on a retail business will depend on the type of business in question, and the general trading conditions. It will also depend, however, on the individual retailer's expertise as merchandisers, and as buyers.

Reductions (markdowns/discounts) of fashion goods for example, either because the retailer picked the wrong trends or because fashion sales were weak for seasonal or other reasons, can sometimes exceed 30% or around one-third of store sales. Problems of this nature have been an issue for many fashion retailers in recent years, most recently and dramatically for Myer Grace Bros in the summer of 2000/01.

Shrinkage through stealing, often by staff, is a particular problem in some categories, e.g. retail liquor. Shrinkage through spoilage is an important factor in fresh food operations.

Therefore, managing the COGS effectively is a fundamental aspect of being a good retailer, through buying wisely, pricing correctly so that large markdowns are not suffered at a later date, and controlling shrinkage.

Like sales performance, the gross profit performance varies enormously for different types of retailers, and needless to say it can also vary enormously for similar types of retailers in any one centre. Again the reasons for this variation may be internal or external to the retailer in question, depending on their own performance as managers and retailers, or depending on external factors such as seasonality, the economy, consumer trends etc.

An indicative broad view of the variation in GP ratios for different types of specialty retailers in a typical regional centre is presented in Table 5.5 below.

5.0 SHOPPING CENTRE ECONOMICS

Retail Specialty Stores, Typical Regional Centre **Typical Gross Profit Ratios, 2000**	**Table 5.5**
Specialty Store	**GP Ratio**
Food Specialties	
Fruit & Vegetable	33%-35%
Meat	35%
Poultry	45%
Bakery	70%
Patisseries	70%
Delicatessan	30%
Food Court	65%
Café/Coffee Shop	65%-70%
Non-Food Specialties	
Women's Fashion	40%-45%
Mens Apparel	40%-42%
Jeaneries & Unisex	45%
Footwear	45%
Fashion Accessories	60%
Jewellery	45%-50%
Assorted Giftware	45%
Music	28%
Pharmacy	35%-40%
Newsagents	25%-28%
Discount Variety	35%-38%
Retail Services	
Hair & Beauty	60%-80%
Optometrists	70%

Source : Jebb Holland Dimasi

These figures are based on discussions with various retailers and retailer associations, however they are merely indicative in order to provide a broad understanding of the approximate levels and the typical range of GP ratios for different retailers. Again it is stressed that every retailer is an individual, and every retailer is therefore usually different to the benchmark average.

It is not possible to provide any rigorous benchmark averages for measures of this type, since the information required in order to be able to do so is simply not available, certainly not in any official, unbiased wide ranging surveys. The information which is available is based on discussions with retailers or retailer associations, and from viewing as many examples as possible.

Gross profit ratios for specialty retailers vary enormously as is evident, from levels under 30% in some cases to levels as high as 70%-80%, particularly for those retailers which are highly dependent on service (e.g. Cafes & Restaurants; Optometrists; and Hair & Beauty). The reason for this is fairly simple - the COGS for these types of retailers is low, since in many instances what they are selling is primarily a service. On the other hand, the salaries and wages costs for these service based retailers are usually high.

Occupancy Costs

After the COGS is deducted, the bulk of the expenses which need to be subtracted in order to determine the profitability of a retail store comprise :

- *Salaries and wages; and*
- *Occupancy costs.*

Definition : Occupancy Cost is the total cost associated with leasing the premises from which the store is operated.

In Table 5.6 below the typical levels and composition of the total occupancy cost for a specialty store in a typical regional are outlined. The example of a regional centre is also contrasted with the typical levels and ratios for a DDS based centre, and distinctions are made between food specialties and non-food specialties.

A food specialty store in a New South Wales regional centre recording an average of $9,110 per sq.m in sales and paying total occupancy costs of $1,240 per sq.m (or an occupancy cost ratio of 13.6%) would be paying roughly :

- *$1,050 per sq.m in base rent*
- *$122 per sq.m in operating expenses, i.e. charges by the landlord for cleaning, security, management, common area maintenance etc.*
- *$68 per sq.m in statutory charges (rates and taxes paid to federal, state and local government).*

5.0 SHOPPING CENTRE ECONOMICS

Typical Regional Centre (NSW) **Specialty Shop Occupancy Cost Breakup, 2000**								**Table 5.6**
Item	**Food Specialties**				**Non-Food Specialties**			
	Regional Centre		**DDS Based Centre**		**Regional Centre**		**DDS Based Centre**	
	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales
Sales	9,110		7,464		7,179		5,248	
Less Occupancy Costs (OC):								
Rent	1,050	11.5%	701	9.4%	1,025	14.3%	547	10.4%
Operating Expenses	122	1.3%	86	1.2%	126	1.8%	70	1.3%
Statutory Charges	68	0.7%	89	1.2%	72	1.0%	66	1.3%
Total Occupancy Costs	1,240	13.6%	876	11.7%	1,223	17.0%	684	13.0%
Subtotal : Sales - OC	**7,870**	**86.4%**	**6,588**	**88.3%**	**5,956**	**83.0%**	**4,564**	**87.0%**
Less Marketing Levy (ML)	37	0.4%	26	0.3%	30	0.4%	19	0.4%
Sales less OC & ML	**7,833**	**86.0%**	**6,562**	**87.9%**	**5,926**	**82.5%**	**4,545**	**86.6%**

Source : Jebb Holland Dimasi

These three components together make up what is typically referred to as the total occupancy cost. In addition, the tenant would normally also be paying a marketing levy, charged by the landlord across all tenants and then spent in promoting the centre. This is typically 0.3%-0.4% of total sales for specialty tenants in a regional centre.

The store would then have some 86% of its total sales left to meet all other expenses and to make a profit.

For a typical DDS based centre the total amount paid in occupancy cost for a food specialty store would be in the order of $881 per sq.m, or around 12% of sales. After also including the marketing levy there would normally be around 88% of sales left for a typical food specialty store in a DDS based centre to pay all other expenses and to make a profit.

The occupancy cost for a retail store therefore comprises :

Rent plus Operating Expenses plus Statutory Charges.

and is the cost associated with occupying the premises from which the retail store is operated. In addition, the marketing levy is effectively part of the total occupancy cost, although for purposes of comparison across centres, it is sometimes excluded from the three components detailed above, and considered separately.

5.0 SHOPPING CENTRE ECONOMICS

Occupancy cost is expressed typically in one or both of two ways :

- *As a dollar per square metre figure (i.e. total occupancy cost paid divided by Gross Leasable Area (GLA)), or*

- *As a percentage of sales recorded (occupancy cost ratio).*

The occupancy cost is also referred to in the shopping centre industry as a total dollar amount paid annually (e.g. $40,000 a year or $60,000 a year). The small retailer often considers his or her occupancy cost primarily in this manner, rather than as a dollar per square metre figure.

The level of occupancy cost paid, expressed as a percentage of sales, varies enormously between major stores and specialty stores. Table 5.7 below indicates the typical variation based on the indicative regional centre example.

Typical Regional Centre **Table 5.7**
Indicative Occupancy Costs by Trader Type - 1999/2000

	Typical Centre		
Tenant Type	$'000	$/Sqm	% of MAT
Majors			
Dept. Store	1,441	120	4.3%
DDS 1	1,645	206	5.1%
DDS 2	1,224	147	6.8%
Smkt 1	643	222	3.1%
Smkt 2	1,806	452	2.6%
Total Majors	**6,759**	**192**	**3.8%**
Mini Majors			
Furniture/Bulky	290	126	1.5%
Clothing and Softgoods	240	200	6.0%
Total Mini Majors	**530**	**151**	**2.2%**
Retail Specialties			
Food Specialties	3,025	1,173	12.9%
Non Food Specialties	11,993	1,016	14.1%
Services - Retail	1,411	1,144	15.8%
Total	16,429	1,053	14.0%
Large Specialties	1,126	633	12.6%
Total Retail Specialties	**17,555**	**1,009**	**13.9%**
Total Centre Retail	**24,844**	**425**	**8.8%**

** Occupancy costs include rent, outgoings and statutory charges, but excludes marketing costs.*
Source : Jebb Holland Dimasi

The occupancy costs paid by the majors at this centre range from a low of 2.6% for one of the supermarkets in this instance to a high of 6.8% for one of the discount department stores (DDSs). Specialty occupancy cost ratios range from 12.9% of sales for Food Specialties on average to 15.8% of sales on average for the non-food specialty stores. Of course there will be individual examples of non-food specialty stores, or indeed food specialty stores, where the occupancy cost paid will be higher than average, and also examples where it will be much lower.

In dollar per square metre terms the occupancy costs paid in this centre vary from only $120 per sq.m for the department store (based on a lease typically negotiated more than a decade ago) to $1,173 per sq.m for the food specialty stores.

Expressed in actual dollars paid per annum, it can be seen that the largest individual contributors to total centre income are the department store, discount department stores and supermarkets which because of their size pay an annual occupancy cost ranging between $1-$2 million each.

Again the variability in occupancy cost ratios across specialty store types is very great, as is the case with sales performance. For the indicative regional centre the variability in occupancy costs across specialty segments, expressed either as dollars per square metre or as a percentage of sales, is indicated in Table 5.8 below.

The variability in occupancy cost ratios even within one specific specialty segment at one centre is also usually great, as this indicative example in Table 5.9 demonstrates again for the Foodcourt and Women's Fashion segments. Substantial variations occur both in total occupancy cost paid per annum, and in dollar per square metre terms.

Again, there are many reasons for these variations, including particularly the individual store's performance as a retailer, the position occupied within the Centre, consumer trends, competitive influences and so on.

5.0 SHOPPING CENTRE ECONOMICS

Australian Regional Centre Benchmarks **Table 5.8**
Indicative Occupancy Costs for Specialty Traders - 1999/2000

Specialty Type	$/Sqm	% of MAT
Food Specialties		
Fruit & Vegetables	722	8.6%
Meat	1,055	8.9%
Poultry	1,206	10.1%
Seafood	1,076	10.7%
Bread	1,193	14.1%
Patisserie	1,441	15.7%
Delicatessen	1,212	12.4%
Other Fresh Food	1,448	16.2%
Total Fresh Food	1,052	10.7%
Other Food	1,063	8.8%
Food Court	1,552	14.5%
Takeaway Food	1,457	15.2%
Eat In Food	860	15.5%
Total Food	**1,173**	**12.7%**
Non Food Specialties		
Women's Fashion	1,000	16.3%
Mens Apparel	1,041	14.9%
Jeaneries & Unisex	1,041	14.9%
Footwear	1,075	15.5%
Fashion Accessories	1,367	15.2%
Jewellery	1,587	11.9%
Assorted Giftware	896	17.2%
Home Electrical/Comm	903	9.5%
Music, Video & Games	1,198	15.7%
Furniture & Hardware	583	16.8%
Homewares	788	15.0%
Pharmacy & Cosmetics	1,082	11.3%
Newsagents & Books	926	13.7%
Discount Variety	580	13.1%
Other NF Retail	820	13.5%
Total Non Food	**1,066**	**14.0%**
Retail Services		
Hairdresser/Beauty	1,043	16.9%
Drycleaning/Laundry	1,040	23.7%
Film Proc/Photocopy	1,404	12.8%
Key Cutting	1,489	17.3%
Shoe Repairs	2,223	23.5%
Optometrist	1,040	14.3%
Video Rentals	269	20.9%
Watch Repairs	2,940	18.8%
Other	859	14.8%
Total Retail Services	**1,144**	**15.6%**
Total Retail Specialties	**1,053**	**13.9%**

** Occupancy costs include rent, outgoings and statutory charges, but excludes marketing costs.*
Source : Jebb Holland Dimasi

Typical Regional Centre **Table 5.9**
Food Court and Women's Fashion Specialty Traders
Occupancy Costs - 1999/2000

Specialty Type	Typical Centre Occupancy Costs $'000	$/Sqm	% of MAT	Variation $/Sqm %	% of MAT %
Food Court					
McDonalds	117	2,340	5.6%	50.1%	-61.6%
KFC	75	1,500	6.8%	-3.8%	-53.0%
Coffee & Cakes	253	3,614	25.3%	131.8%	74.5%
Deli	90	3,000	15.0%	92.4%	3.4%
Donuts & Muffins	83	4,150	16.6%	166.2%	14.5%
Kebab	108	2,700	15.4%	73.2%	6.4%
Carvery	106	2,650	15.1%	70.0%	4.4%
Indian	64	1,280	25.6%	-17.9%	76.6%
Spuds	69	2,300	27.6%	47.5%	90.3%
Total Food Court	**965**	**2,539**	**13.4%**	**62.9%**	**-7.6%**
Women's Fashion					
Cue Design	88	1,257	11.0%	25.8%	-32.5%
Esprit	103	1,030	17.2%	3.1%	5.3%
Harts	101	1,122	18.4%	12.3%	12.7%
Katies	237	988	16.9%	-1.2%	3.9%
Noni B	130	1,000	15.3%	0.1%	-6.2%
Portmans	180	1,385	18.9%	38.6%	16.2%
Rockmans	198	1,100	24.8%	10.1%	51.8%
Silhouette	97	1,213	13.9%	21.4%	-15.0%
Sportsgirl	191	1,273	38.2%	27.5%	134.4%
Supre	177	983	16.1%	-1.6%	-1.3%
Sussan	178	1,187	11.9%	18.8%	-27.2%
Suzanne Grae	116	1,160	12.9%	16.1%	-20.9%
Wombat	104	1,040	9.5%	4.1%	-42.0%
Cruise	102	1,020	17.0%	2.1%	4.3%
Oriental Imports	74	1,480	24.7%	48.1%	51.3%
Valley Girl	179	1,119	25.6%	12.0%	56.9%
Bras N Things	188	1,175	17.9%	17.6%	9.8%
Kidz Shack	48	1,600	12.0%	60.2%	-26.4%
Total Women's Fashion	**2,491**	**1,132**	**16.8%**	**13.3%**	**3.3%**

* Variation from Australian Regional Centres benchmark for relecant specialty segments
ie. Food Court and Women's Fashion
Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

Profitability

In order to understand the significance of the sales performance and the occupancy cost level paid, it is useful to be familiar with the general profitability performance of different types of retailers. In Table 5.10 below a notional example is provided for a range of retailers in a New South Wales regional centre.

The key points to be noted from this notional example are the following :

- *GP ratios vary from a low of 25% for the supermarket to a high of 55% for fresh food specialties.*
- *Occupancy costs as a percentage of sales vary from a low of 2% for a typical supermarket to a high of 16% for fresh food specialty stores.*
- *The net profit ratio varies from a low of 4% for the supermarket to a high of 9% in this notional example for the non-food specialty stores.*

Again it is stressed that these are broad indicative benchmark levels, and that most individual operators will, for a large number of reasons, vary from these benchmark levels.

If we look further into the broad specialty shop categories, and seek to break them down to some finer categories, we might notionally find a picture looking like Table 5.11. These figures however will vary across centres, across retailers, and across time, and the variations will often be great.

Total Centre Retail (NSW) **Table 5.10**

Indicative Profitability Analysis By Store Category

Item	**Dept. Store**		**DDS**		**Supermarket**		**Fresh Food Spec.**		**Non-Food Spec.**	
	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales
Sales	3,000		3,125		14,500		8,627		6,484	
Less COGS	1,890	63.0%	2,094	67.0%	10,875	75.0%	3,882	45.0%	2,723	42.0%
Subtotal : Gross Profit	**1,110**	**37.0%**	**1,031**	**33.0%**	**3,625**	**25.0%**	**4,745**	**55.0%**	**3,761**	**58.0%**
Less :										
Salaries/Wages	450	15.0%	406	13.0%	1,595	11.0%	1,380	16.0%	908	14.0%
Branch Expenses	90	3.0%	94	3.0%	363	2.5%	690	8.0%	389	6.0%
Occupancy Costs	117	3.9%	181	5.8%	305	2.1%	1,165	13.5%	979	15.1%
Capital/Equipment Expenses	30	1.0%	31	1.0%	145	1.0%	518	6.0%	324	5.0%
Total Expenses	687	22.9%	713	22.8%	2,407	16.6%	3,753	43.5%	2,600	40.1%
Subtotal : Branch Profit	**423**	**14.1%**	**319**	**10.2%**	**1,218**	**8.4%**	**992**	**11.5%**	**1,161**	**17.9%**
Less Divisional Costs	180	6.0%	156	5.0%	653	4.5%	345	4.0%	259	4.0%
Net Profit	**243**	**8.1%**	**163**	**5.2%**	**566**	**3.9%**	**647**	**7.5%**	**901**	**13.9%**
Net Profit ($'000)	**2,916**		**1,300**		**2,262**		**65**		**90**	

Source : Jebb Holland Dimasi

Total Centre Retail (NSW) **Table 5.11**

Indicative Profitability Analysis By Specialty Store Type (Notional Example)

Item	**Butcher**		**Foodcourt**		**Restaurant**		**Apparel**		**Newsagent**		**Hair & Beauty**	
	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales
Sales	8,400		13,500		3,000		5,318		5,467		5,600	
Less COGS	5,040	60.0%	4,725	35.0%	900	30.0%	3,084	58.0%	3,718	68.0%	1,680	30.0%
Subtotal : Gross Profit	**3,360**	**40.0%**	**8,775**	**65.0%**	**2,100**	**70.0%**	**2,234**	**42.0%**	**1,749**	**32.0%**	**3,920**	**70.0%**
Less :												
Salaries/Wages	1,176	14.0%	2,700	20.0%	720	24.0%	532	10.0%	328	6.0%	1,400	25.0%
Branch Expenses	504	6.0%	810	6.0%	240	8.0%	213	4.0%	219	4.0%	448	8.0%
Occupancy Costs	1,072	12.8%	1,985	14.7%	846	28.2%	1,000	18.8%	891	16.3%	986	17.6%
Capital/Equipment Expenses	420	5.0%	1,080	8.0%	240	8.0%	160	3.0%	109	2.0%	336	6.0%
Total Expenses	3,172	37.8%	6,575	48.7%	2,046	68.2%	1,904	35.8%	1,547	28.3%	3,170	56.6%
Subtotal : Branch Profit	**188**	**2.2%**	**2,201**	**16.3%**	**54**	**1.8%**	**330**	**6.2%**	**202**	**3.7%**	**750**	**13.4%**
Less Divisional Costs	0	0.0%	0	0.0%	0	0.0%	106	2.0%	0	0.0%	0	0.0%
Net Profit	**188**	**2.2%**	**2,201**	**16.3%**	**54**	**1.8%**	**223**	**4.2%**	**202**	**3.7%**	**750**	**13.4%**
Net Profit ($'000)	**23**		**88**		**6**		**25**		**31**		**52**	

Source : Jebb Holland Dimasi

The key features to note from the notional example are the following :

- *The critical importance of the GP ratio in setting the agenda for everything else that follows. A high GP ratio makes it possible to pay all expenses and make a reasonable profit.*

- *The substantial impact of salaries and wages, typically as the major or second most important expense item.*

- *The relevance of occupancy costs, typically as the second most important or major expense item, vying with salaries and wages.*

One can well understand, therefore, the relevance of occupancy costs, and the reasons why from time to time there is so much focus on occupancy costs, particularly in a tough retail trading environment. Occupancy cost often appears to be the one expense item where most attention is focussed by retailers, particularly specialty retailers, in tough trading conditions.

This raises an important dilemma for the shopping centre owner or manager: to what degree can or should the rental or occupancy cost charged reflect the variation in performance year to year by each individual retailer? There are many reasons for variations in trading performance as noted above, and often they can be reasons relating specifically to the retailer in question, or to the wider trading environment, as a result of business or economic cycles.

Typical Leases & Percentage Rents

In order to understand the issue of percentage rents, often also referred to as turnover rents, the types of leases which retailers, both major retailers and specialty stores, enter into need to be understood.

There is no such thing as a standard lease, and these can vary substantially particularly for major retailers but also increasingly for specialty stores. The examples offered below however provide some broad guidance as to the types of leases entered into by different types of retailers.

5.0 SHOPPING CENTRE ECONOMICS

DDS 1, LEASE SYNOPSIS

GLA	: 6,500 sq.m
Term	: 20 years plus 4 x 5 year options
Base Rent	: Year 1: $695,000 gross Year 2: $716,000 gross Year 3 & thereafter : Year 2 gross rent plus turnover (i.e. percentage) rent.
Turnover (Percentage) Rent	: 3.2% of gross sales in excess of Year 2 sales turnover up to $30 million; 2.5% of gross sales in excess of Year 2 sales turnover between $30-$40 million; 2.0% of gross sales in excess of Year 2 sales turnover above $40 million.
Base Rent Review	: None
Contribution to Outgoings	: None

DDS 1 **Table 5.12**
Net Rental Paid

Year	Sales ($M.)	% Grth.	Base Rent ($)	Percentage Rent ($)	Total Rent ($)	% Grth.
1	20.0		695,000	0	695,000	
2	22.0	10.0%	716,000	0	716,000	3.0%
3	25.0	13.6%	716,000	96,000	812,000	13.4%
4	28.0	12.0%	716,000	192,000	908,000	11.8%
5	32.0	14.3%	716,000	306,000	1,022,000	12.6%
6	31.0	-3.1%	716,000	281,000	997,000	-2.4%
7	35.0	12.9%	716,000	381,000	1,097,000	10.0%
8	38.0	8.6%	716,000	456,000	1,172,000	6.8%
9	41.0	7.9%	716,000	526,000	1,242,000	6.0%
10	42.0	2.4%	716,000	546,000	1,262,000	1.6%
		110.0%				81.6%

Source : Jebb Holland Dimasi

DDS 2, LEASE SYNOPSIS

Initial Term	:	15 years from date of completion
Optional Terms	:	4 terms of 5 years each
Tenancy Area	:	4,450 sq.m
Base Rental	:	$175 per sq.m ($654,000 per annum)
Turnover Rental	:	2% of annual gross sales in excess of $220,000
Contribution to Outgoings	:	Contribution is on a pro rata floor area basis. Year 1 contributions to non-statutory outgoings to be limited to a total of $40.00 per sq.m. Thereafter increases in statutory outgoings for any year to be limited to Tenant's proportion of the actual level of increase. Increases is non statutory outgoings for any year to be limited to CPI or 5% whichever is the lesser.
Rent Reviews	:	Rental reviewed each 5 years - Base Rental adjusted to the average total rent paid in the preceding 3 years - Percentage Rental threshold adjusted accordingly.
Centre Promotion Fund (Marketing Levy)	:	Contribution at Tenant's discretion depending upon their evaluation of effectiveness of programme.

DDS 2 **Table 5.13**
Net Rental Paid

Year	Sales ($M.)	% Grth.	Percentage Rent Threshold ($M.)	Base Rent ($)	Percentage Rent ($)	Total Rent ($)	% Grth.
1	20.0		22.00	780,000	0	780,000	
2	22.0	10.0%	22.00	780,000	0	780,000	0.0%
3	25.0	13.6%	22.00	780,000	60,000	840,000	7.7%
4	28.0	12.0%	22.00	780,000	120,000	900,000	7.1%
5	32.0	14.3%	22.00	780,000	200,000	980,000	8.9%
6	31.0	-3.1%	25.57	906,667	108,547	1,015,214	3.6%
7	35.0	12.9%	25.57	906,667	188,547	1,095,214	7.9%
8	38.0	8.6%	25.57	906,667	248,547	1,155,214	5.5%
9	41.0	7.9%	25.57	906,667	308,547	1,215,214	5.2%
10	42.0	2.4%	25.57	906,667	328,547	1,235,214	1.6%
		110.0%					58.4%

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

SMKT 1, LEASE SYNOPSIS

GLA : 4,494 sq.m

Term : 20 years plus a 10 + 5 year option

Base Rental : The base rent in Years 1 to 5 will be $175 per sq.m and percentage rental is payable on the following basis :

1.75% of gross sales over $45,910,000 and up to $55 million;

1.5% of gross sales in excess of $55 million.

The base rent will be reviewed every 5 years to an average of the combined base rent and turnover rent payable in the preceding 2 years. Percentage rental thresholds adjusted accordingly.

Contribution to Outgoings : Outgoings recovery in Year 1 will be $25,000, increasing annually by CPI with a maximum of 8% per annum.

Supermarket 1
Net Rental Paid — **Table 5.14**

Year	Sales ($M.)	% Grth.	Percentage Rent Threshold($M.)	Base Rent ($)	Percentage Rent ($)	Total Rent ($)	% Grth.
1	32.0		45.910	786,450	0	786,450	
2	34.0	6.3%	45.910	786,450	0	786,450	0.0%
3	36.0	5.9%	45.910	786,450	0	786,450	0.0%
4	37.0	2.8%	45.910	786,450	0	786,450	0.0%
5	39.0	5.4%	45.910	786,450	0	786,450	0.0%
6	41.0	5.1%	45.910	786,450	0	786,450	0.0%
7	44.0	7.3%	45.910	786,450	0	786,450	0.0%
8	47.0	6.8%	45.910	786,450	19,075	805,525	2.4%
9	45.0	-4.3%	45.910	786,450	0	786,450	-2.4%
10	48.0	6.7%	45.910	786,450	36,575	823,025	4.7%
		50.0%					4.7%

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

SMKT 2, LEASE SYNOPSIS

GLA	:	4,328 sq.m
Term	:	20 years plus a 2 x 10 year option
Base Rental	:	Year 1: $525,000 gross
		Year 2: $570,000 gross
		Year 3 & thereafter: Year 2 gross rent plus turnover rent.
Turnover Rent	:	1.25% of gross sales in excess of Year 2 sales turnover up to $60 million;
		1.15% of sales between $60 million to $70 million;
		1.05% of sales between $70 million to $80 million;
		1% of sales turnover above $80 million.
Base Rent Review	:	None
Outgoings Contribution	:	None

Supermarket 2
Net Rental Paid — **Table 5.15**

Year	Sales ($M.)	% Grth.	Base Rent ($)	Percentage Rent ($)	Total Rent ($)	
1	32.0		525,000	0	525,000	
2	34.0	6.3%	570,000	0	570,000	8.6%
3	36.0	5.9%	695,000	25,000	720,000	26.3%
4	37.0	2.8%	695,000	37,500	732,500	1.7%
5	39.0	5.4%	695,000	62,500	757,500	3.4%
6	41.0	5.1%	695,000	87,500	782,500	3.3%
7	44.0	7.3%	695,000	125,000	820,000	4.8%
8	47.0	6.8%	695,000	162,500	857,500	4.6%
9	45.0	-4.3%	695,000	137,500	832,500	-2.9%
10	48.0	6.7%	695,000	187,000	882,000	5.9%
		50.0%				68.0%

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

SPECIALTY SHOP 1, LEASE SYNOPSIS

GLA	:	110 sq.m
Term	:	5 years plus 2 x 3 year options
Base Rental	:	$112,000 per annum ($1,018 per sq.m)
Turnover (Percentage) Rent	:	17% of sales (to be paid if percentage rent exceed base rent)
Base Rent Review	:	Every three years, to market
Outgoings Contribution	:	Full contribution on pro rata basis

Specialty Shop 1 **Table 5.16**
Indicative Rental Paid

Year	Sales ($'000)	% Grth.	Percentage Rent %	Base Rent ($)	Percentage Rent ($)	Total Rent Paid ($)	% Grth.
1	650		17.0%	112,000	110,500	112,000	
2	675	3.8%	17.0%	112,000	114,750	114,750	2.5%
3	700	3.7%	17.0%	112,000	119,000	119,000	3.7%
4	725	3.6%	17.0%	122,385	123,250	123,250	3.6%
5	765	5.5%	17.0%	122,385	130,050	130,050	5.5%
6	795	3.9%	17.0%	122,385	135,150	135,150	3.9%
7	815	2.5%	17.0%	133,734	138,550	138,550	2.5%
8	845	3.7%	17.0%	133,734	143,650	143,650	3.7%
9	885	4.7%	17.0%	133,734	150,450	150,450	4.7%
10	925	4.5%	17.0%	146,135	157,250	157,250	4.5%
		42.3%					40.4%

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

SPECIALTY SHOP 2, LEASE SYNOPSIS

GLA	:	87 sq.m
Term	:	5 years plus a 2 x 3 year options
Base Rental	:	$95,120 per annum ($1,102 per sq.m)
Turnover (Percentage) Rent	:	10% of sales (to be paid if percentage rent exceed base rent)
Base Rent Review	:	Every three years, to market
Outgoings Contribution	:	Full contribution on pro rata basis

Specialty Shop 2 **Table 5.17**
Indicative Rental Paid

Year	Sales ($'000)	% Grth.	Percentage Rent %	Base Rent ($)	Percentage Rent ($)	Total Rent Paid ($)	% Grth.
1	900		10.0%	95,920	90,000	95,920	
2	935	3.9%	10.0%	95,920	93,500	95,920	0.0%
3	970	3.7%	10.0%	95,920	97,000	97,000	1.1%
4	1,005	3.6%	10.0%	104,814	100,500	104,814	8.1%
5	1,045	4.0%	10.0%	104,814	104,500	104,814	0.0%
6	1,075	2.9%	10.0%	104,814	107,500	107,500	2.6%
7	1,115	3.7%	10.0%	114,533	111,500	114,533	6.5%
8	1,165	4.5%	10.0%	114,533	116,500	116,500	1.7%
9	1,190	2.1%	10.0%	114,533	119,000	119,000	2.1%
10	1,245	4.6%	10.0%	125,154	124,500	125,154	5.2%
		38.3%					30.5%

Source : Jebb Holland Dimasi

5.0 SHOPPING CENTRE ECONOMICS

The major points which can be noted from the typical lease synopsis presented in the previous six pages for major retailers and specialty stores are the following :

1. *Major retailers negotiate vastly different lease terms to specialty stores. In each instance the deal which the major retailer is able to negotiate depends greatly on the trade-off between the retailer's desire to be in the location and the centre owner/manager's desire to have the retailer as anchor.*

2. *Shopper surveys throughout Australia's shopping centres make it abundantly clear that the centres are visited primarily because of the major retailers which they incorporate (the department stores, discount department stores and chain supermarkets) and this is essentially the key principle on which major shopping centres are based - the major retailers are the 'anchor' stores which generate the customers, whilst the specialty retailers profit from the high level of pedestrian activity created by the major stores' presence.*

3. *Other reasons why the major stores pay much lower base rental levels on a dollar per sq.m basis are :*

    - *The fact that they occupy very large amounts of space (e.g. 6,500 sq.m for a discount department store or 4,000 sq.m for a supermarket, compared with 100 sq.m for a typical specialty store).*

    - *The space they occupy is much lower 'quality' than a typical specialty store - specialty store space is provided on the major thoroughfare and may only be 20 metres in depth, compared with a discount department store which is provided at the end of the centre and may be 80 metres in depth for example.*

    - *Major retailers, particularly supermarkets, operate on much smaller margins than specialty stores, as discussed earlier.*

4. *The nature of turnover or percentage rent clauses tends to be very different for major retailers as compared with specialty retailers. Major retailers usually pay a turnover or percentage rent on sales in excess of an agreed sales threshold, or after an agreed period of time (typically after the first three years). Over time therefore, the majority of major retailers will end up paying some form of percentage rent, and it is the amount of percentage rent which they pay that determines the growth in centre income achieved from the major retailer.*

5. *For specialty stores on the other hand, the percentage rent clause tends to be an 'either or' situation - either they pay the base rental or they pay the percentage rental, whichever is the greater. Thus for example if the applicable percentage rent ratio is 17% as in the example listed earlier for the first specialty store, this means that the retailer will either pay the base rent of 17% of its recorded sales, whichever is the higher. This example shows that this particular retailer ends up paying percentage rent, because the percentage rent ratio is quite high (17%). This however is relatively unusual, as for most specialty retailers the percentage rent*

ratio tends to be lower, thus it is very rarely the case that the percentage rent payable will exceed the base rent payable.

In addition to paying much lower rental per square metre than the specialties, and again depending on the degree to which the major retailer desires representation in a particular centre as compared with the degree to which the centre owner or manager wants that particular major retailer, the major retailer also tends not to pay its full "pro rata share" (i.e. its share based on floorspace occupied) of outgoings. In some instances, although very rarely, leases are structured so that the major retailer in question pays little or no outgoings contribution. In other instances the major retailer may 'pick and choose' the degree to which it pays a contribution to outgoings, depending on its bargaining strength.

In the instances where the major retailer does not pay its full contribution to outgoings, however, the outstanding balance is not passed on to the specialty stores but rather is borne by the centre owner. It is illegal for specialty stores to be charged any more than their 'pro rata share' of total outgoings. In other words, if a specialty store is 100 sq.m in size within a regional centre which totals 50,000 sq.m GLA, then the specialty store in question accounts for 0.2 sq.m of total GLA, and thus is obliged to pay only 0.2% of total centre outgoings.

Typically, specialty retailers pay their full pro rata share of all centre outgoings. Thus if centre outgoings averaged $135 per sq.m, then in the great majority of cases specialty stores in the centre will pay an average of $135 per sq.m in outgoings over and above their base rent.

In recent years in Australia there has been much attention focussed on the issue of occupancy costs in shopping centres, and on lease conditions for specialty retailers in particular. Indeed, the National Parliament's Fair Trading Inquiry in 1996 portrayed the shopping centre industry (i.e. the landlords) as typically being rapacious and often acting in an "unconscionable" manner. This however reflected an uneducated and politically opportunistic view.

The majority of the shopping centre industry has become and will continue to become increasingly professional, and in the main has reached a level now where all the key players understand the relevance of sales performance, and the importance of sustainability, when setting appropriate occupancy cost levels.

It is useful however to have some understanding of where occupancy cost ratios have been, and perhaps where they may go to in the future.

This office has been conducting detailed occupancy cost surveys for the past three years, whilst in the decade prior to that we also tracked occupancy costs as a result of our feasibility studies for centre owners, financiers and developers. However in the years prior to 1993/94, the tracking of occupancy costs for shopping centres was nowhere near as intensive as it has been over the past three years.

5.0 SHOPPING CENTRE ECONOMICS

Our detailed surveys over the past six years have shown the following broad trends in occupancy costs for Australian regional and sub-regional shopping centres. These should be seen as indicative trends as the sample of centres included in our survey has changed from year to year. Table 5.18 below presents our analysis over the past four years.

Australian Shopping Centres **Table 5.18**
Average Specialty Shop Occupancy Costs, 1994-2000

Item	Food Specialties				Non-Food Specialties				Total Specialties			
	Regional		DDS Based Centre		Regional		DDS Based Centre		Regional		DDS Based Centre	
	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales	$/Sq.m	% of Sales
1994	990	14.0%	670	11.4%	940	13.4%	600	11.1%	989	13.7%	660	11.9%
1995	1,012	13.6%	675	11.9%	986	13.6%	600	11.2%	997	13.8%	629	11.5%
1996	1,102	13.7%	733	10.9%	1,011	14.4%	613	11.7%	1,034	14.4%	652	11.7%
1997	1,085	13.2%	747	10.9%	1,030	14.9%	608	12.1%	1,047	14.7%	650	11.9%
1998	1,134	13.1%	736	10.4%	1,017	14.8%	630	12.4%	1,049	14.6%	652	11.7%
1999	1,186	13.0%	765	10.3%	1,066	14.6%	644	12.3%	1,162	14.4%	671	11.6%
2000	1,171	12.7%	791	10.4%	1,026	14.3%	638	12.1%	1,050	13.8%	668	11.4%

Source : Jebb Holland Dimasi

By contrast, figures available to our office in 1990 for a number of regional centres throughout Australia indicated in that year that rent before outgoings for specialty shops in Australian regional centres averaged around 11% of sales. Outgoings (operating costs plus statutory charges) at that time typically contributed a further 1.5%-2%, thus increasing total occupancy costs to around 12.5%-13%.

A similar analysis undertaken in 1986, when regional centres were first starting to grow strongly in Australia, showed occupancy costs at that date for regional centres averaging around $450 per sq.m, which in 2000 dollar terms after allowing for inflation would be equivalent to some $860 per sq.m.

We estimated in 1986, although by no means as rigorously as the surveys undertaken over the past four years, that occupancy costs for specialty shops in regional centres averaged 10.5%-11%. As we have seen earlier, in 2000 the ratio was around 13.8%.

It is clear therefore that occupancy costs as a percentage of sales for specialty stores in regional centres generally increased throughout Australia over the decade 1987-97. There are many reasons for this, including the changing mix of the specialty shop component in regional centres over this period (a gradually increasing emphasis on fashion retailers, for example). The evidence also shows, though, that since 1997 occupancy cost ratios have been slowly decreasing.

The outlook now is for further changes in specialty shop merchandise mix over a period of time, arguably with less emphasis on fashion specialty stores, more emphasis on food and lifestyle specialty stores, and more emphasis on leisure and entertainment stores.

It remains to be seen what will happen as a consequence, however we consider that the average occupancy cost ratio for specialty stores in regional centres peaked in 1997/98 and should continue to decline gradually over coming years. This decrease is expected to occur both as a result of the gradual changes in merchandise mix, and also as a result of sales growth coming through more strongly for specialty store operators over the next few years.

This of course does not necessarily mean that rental levels will not grow, but rather that sales levels on average are considered likely to grow at a faster rate than rental levels over the next few years.

Some comparisons can be drawn with specialty shop occupancy cost levels in regional shopping centres in the United States, although it is by no means possible to do so on a wide spread or rigorous basis at this point. Whilst many claims are made by retailers in Australia about occupancy costs levels and ratios in the United States, we are not aware of any evidence which has been put forward which is based on an extensive survey of comparable centres in the United States.

The structure of specialty retailing in the U.S. is quite different to Australia in that specialty stores tend to be 3-4 times as large, whilst their sales per sq.m level tends to be around half the Australian level. Other factors such as relative labour costs are also important in terms of the overall retail structure in the U.S. as compared to Australia.

Occupancy costs in the U.S. comprise base rental as well as CAM (Common Area Maintenance Costs) and property taxes. The latter two components tend to vary greatly from state to state, but add substantially to the total amount of occupancy costs paid by specialty tenants.

It is not uncommon in the United States for the shopping centre industry to refer only to the level of base rental paid, not including CAM or property taxes. It is possible therefore that some misconception may arise from time to time in that the <u>base rental</u> paid in the United States may be compared directly with the <u>total occupancy costs</u> paid in Australia.

Inspections over recent years undertaken by our office of a number of major regional centres in the United States has shown that once all CAM charges and property taxes are taken into account, the occupancy cost ratios paid by specialty retailers in major regional centres in the U.S. are not necessarily below the typical averages paid in Australia. For example, indicative figures obtained from three major regional centres in late 1997 (one in Denver and two in Chicago), showed the following :

- *Park Meadows, Denver - a regional centre of 145,000 sq.m including 180 specialty stores with an average size of 350 sq.m each and recording average sales of $4,600 per sq.m. These specialty stores paid around $460 per sq.m in base rent (10% of sales) but a further $172 per sq.m in CAM and $38 per sq.m in property taxes. The net result is that specialty tenants paid approximately $670 per sq.m in total occupancy costs or around 14.6% of sales on average.*

5.0 SHOPPING CENTRE ECONOMICS

- *Woodfield Mall, Chicago - a super regional centre of 250,000 sq.m which includes approximately 300 specialty stores. These average 350 sq.m in size and record average sales of $4,300 per sq.m. They pay average base rent of $480 per sq.m but in addition pay a further $151 per sq.m in CAM and $118 per sq.m in property taxes (property taxes in Chicago being very high). The net result is that the occupancy costs paid by the specialty traders in this centre average around $750 per sq.m, or some 18% of sales.*

- *Old Orchard, Chicago - another super regional centre, totalling 168,000 sq.m. The average occupancy cost ratio paid by these specialty stores is comparable to Woodfield Mall, i.e. around 18%, based on comparable parameters.*

This information is not definitive, as it was obtained in broad discussions with management at these centres rather than as detailed statistical information. Furthermore, it covers only a few regional centres in the United States. It does tend to suggest, however, that the picture which is often painted by Australian retailers, of very low occupancy cost ratios in the United States when compared with specialty retailers in Australia is not necessarily accurate, and may in fact be very inaccurate.

5.0 SHOPPING CENTRE ECONOMICS

Shopping Centre Valuation

Finally, Table 5.19 shows the calculation of value for a typical regional shopping centre, and the key factors which determine the centre's value.

Australian Regional Centre Benchmarks **Table 5.19**
Indicative Sales Performance, Net Income Generated & Centre Value

Item	Floorspace (Sq.m)	**Sales** $M	$/sq.m	**Total Rent Paid** $M	$/sq.m
Dept Stores	19,140	53.3	2,783	3.14	164
DDSs	11,737	35.8	3,052	2.20	188
Smkts	6,935	57.3	8,256	1.81	261
Total Majors	**37,812**	**146.3**	**3,870**	**7.15**	189
Mini Majors	3,317	10.9	3,274	0.90	272
Specialty Shops	17,395	126.2	7,253	**17.55**	1,009
Total Centre	**58,524**	**283.4**	**4,842**	**25.60**	437
Outgoings Recovered					
• Majors	37,812			2.04	54
• Mini Majors	3,317			0.45	135
• Specialties	17,395			2.35	135
Plus: Outgoings Recovered	58,524			4.84	83
Less: Expenses (Outgoings Paid)				7.90	135
Total Net Income				**22.54**	
Capitalisation Rate				7.5%	
Centre Value (equals net income divided by cap. rate)				**301**	

Source : Jebb Holland Dimasi

For this regional centre which totals 58,500 sq.m of floorspace, total sales recorded were $283 million whilst the total rental paid by the majors and specialty shops combined is $25.6 million per annum. Although the individual majors pay relatively large amounts in total rent (in excess of $1 million per annum each in some instances), it is clear that the bulk of the total rental is paid by the specialty stores at the centre ($17.5 million out of $24.8 million). This is a fairly typical situation, for the reasons outlined earlier in this report.

The centre incurs expenses or "outgoings" averaging $135 per sq.m, and recovers these in full from its specialties and mini-majors (on a pro rata floorspace basis) but does not get full recovery from the major stores. Therefore the centre pays total outgoings of $7.9 million and recoups $4.8 million of outgoings from its majors and specialties.

The net income available to the owner is therefore $22.54 million.

The value of the centre is then calculated by applying a capitalisation rate (cap rate) to the net income. This capitalisation rate is also often referred to as the yield. For a good regional centre in Australia at present this rate would be in the order of 7.5% - i.e. a prospective purchaser would be prepared to pay an amount to purchase the centre which would then "yield" the purchaser an income return of 7.5%.

The value of the centre is therefore calculated by dividing the total net income ($22.5 million) by the capitalisation rate, resulting in a centre value of $301 million.

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