

Development trends

Retail



This Info Data report, the second of Davis Langdon's insights on emerging retail development trends, provides some key data for our clients and industry colleagues.

Innovative thinking |

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Industry Overview

What an investment shopping centres continue to be! With over nine million of us now owning a slice of the shopping centre pie, retail spending continues to be a major contributor to the Australian economy.

Towards the end of the year 2000, Australia's population was some 19.16 million with total retail spending in the order of \$150 billion per annum. Of this, shopping centres generated in excess of \$50 billion in retail sales, employing nearly half a million people.

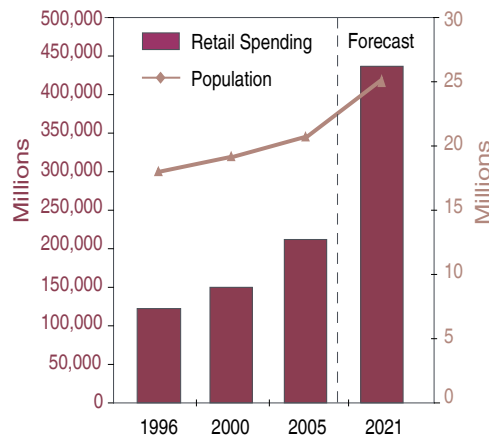
Today, Australia has 20.70 million people with total retail spending having increased some 41% to \$212 billion per annum. That equates to a 30% increase in retail spending per capita over a 5 year period or 6% per annum.

More specifically, as the *Australian Financial Review* recently reported: "over the past decade, the heavyweights of the Australian Shopping Centre industry – the 65 top regional shopping centres – have grown in size by around 38 per cent".

Not bad considering our population has only increased around 15% during the same period ...

The combination of an expanding Australian economy, rising population growth and the shift away from local or community shopping as Australians search for the 'under one roof' retail experience has led to increased demand for consumer goods resulting in increased retail spending.

According to the Australian Bureau of Statistics, in 2021 our population could be in the order of 24.88 million, an increase of 20.2% on today's figures. If total retail spending increased 42% during the same period that our population grew 8%, then hypothetically, total retail spending could grow in the order of 106% over the next 15 years. Just imagine how many additional square metres of shopping centre space that would require!



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What downturn?

There has been much talk and prediction amongst leading market analysts and investor companies of a downturn in the retail market due to slowed growth, reduced turnover, tightening rents, higher vacancy rates and compressed yields.

Indeed, other economic indicators such as the uncertain residential market, higher oil prices, interest rate increases and poor consumer sentiment have fuelled predictions of a downturn.

However, on average, retail spending has continued to forge ahead – growing at a rate of 5.9% per annum over the last 20 years and 6.2% per annum over the last 5 years. Although growth has slowed at times to around 3%, it remains positive growth and this has contradicted the static market that some had forecast.

So what about building approvals?

Building approvals for the retail sector are running well above the 20 year trend, averaging annual increases of 17% per annum during the past 5 years – almost double the 20 year average of 9.4% (see Figure 1).

Retail building approvals topped \$4.2 billion across the year to July 2006. While this outstripped immediate expectations, there are indications of a leveling out in the market.

As a proportion of all non-residential activity in dollar terms, the retail sector accounts for 15-20% of the nation's total building approvals. Compared to other non-residential activity, it is second only to the commercial sector which accounted for \$5.1 billion in approvals during the year to July 2006 (see Figure 2).

Retailers and shopping centre owners show no sign of slowing down development of additional retail space, continuing to look for opportunities to expand their business and increase their market share. According to a research report by Jones Lang LaSalle, over one million square metres of national retail space would have been added to the retail market in 2006 representing a 43% increase on 2005 retail supply. This is the highest level of proposed retail construction since 1999.

Leading the field in the construction boom is 'bulky goods' space, mainly for expansion of the national chains such as Bunnings, IKEA, and Harvey Norman. Indeed, of the million square metres in new construction, the bulky goods sector accounts for just over a half of this at around 515,000m².

In Davis Langdon's experience over the last five years, those institutional and private developers that have been rather 'bullish' and less conservative seem to have come back time and time again – improving their bottom line.

As market share continues to dictate, we see this trend continuing – at least in the short to mid-term.

Figure 1 - Retail Turnover vs Retail Building Approvals (past 20 years)

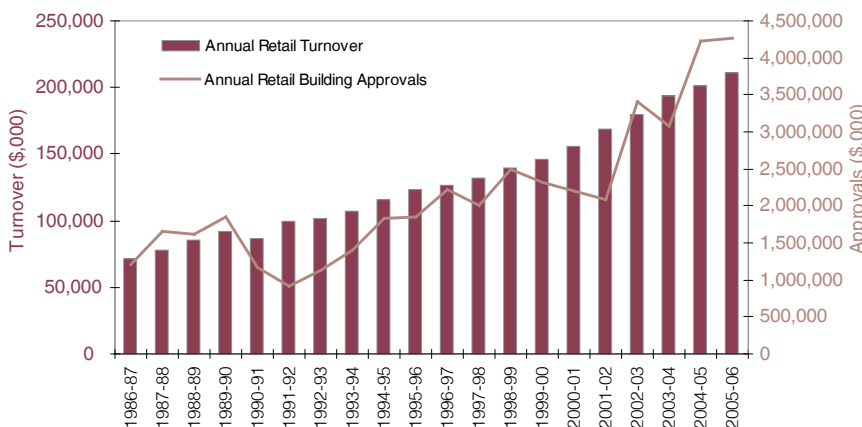
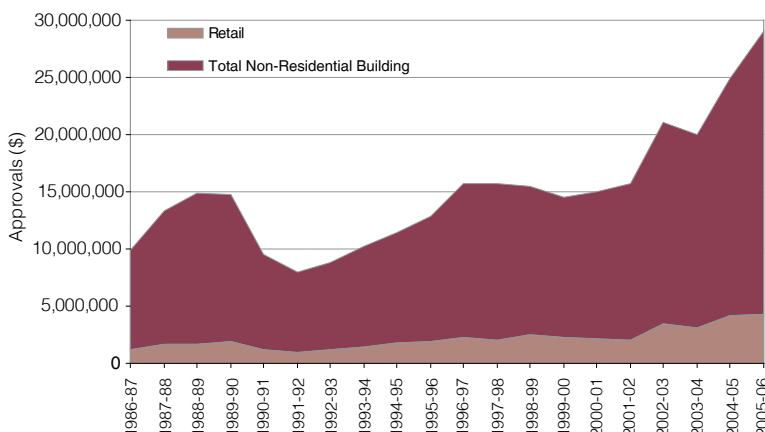


Figure 2 - Retail Building Approvals (past 20 years) as a proportion of all Non-Residential Building Approvals



Threats to the growth of shopping centres

Internal versus External Malls

A recent trend to save costs in shopping centre construction, particularly for smaller centres, is to externalise the mall area. Instead of having a fully enclosed, air conditioned mall space with terrazzo tiles, a cheaper alternative is to have a covered, weather-proof mall that utilizes the spill air from conditioned shops.

Advantages:

- › reduced construction costs
- › reduced air conditioning requirements and running costs
- › introduction of fresh air through active design measures such as louvres

Disadvantages:

- › shopfronts may need to be incorporated into construction capex rather than incentives budget
- › Part J of the Building Code of Australia (BCA) may require more stringent controls on the air conditioning to shops, in turn reducing the consumer comfort levels
- › external paving products may need to be considered in lieu of terrazzo

E-commerce

Four to five years ago, the advances in on-line computer retailing software and the increasing household ownership of computers was said to have a major impact on the longevity of 'bricks and mortar' retailing. A survey by the Property Council of Australia in October 1999 found that 54% of survey respondents believed that e-commerce would be a threat to retailers. Later in 2000, Macquarie Bank examined

the trend and found that only 5% of Australians had made purchases over the internet.

Although there is an element of e-retailing particularly in music, books and travel, the impact on high street and shopping centre retailing has, at this stage, been negligible. CB Richard Ellis estimate that e-retailing represents only about 5% of the market or some \$6 billion of retail transactions.

Rod Cornish of Macquarie Bank once stated that "people tend to research on the 'net' and then buy at retail centres". Probably one of the main reasons for this is that people continue to enjoy 'the retail experience' and the social interaction associated with shopping and shopping centres.

Other barriers to on-line shopping include the level of credit card fraud associated with purchases over the internet. This is backed up by a survey from 2004 indicating that three-quarters of consumers are worried about the security of credit card data and personal information.

Today, general consensus in the industry is that e-commerce will continue to increase steadily but will not have a substantial impact on high street or shopping centre retail. A younger, growing population more attuned to the use of computers will no doubt increase internet purchases. But whilst the share of on-line purchases of items such as music, tickets to entertainment events and travel will no doubt further increase, it is doubtful that the trend will extend to items such as fashion, food and groceries. Our insatiable appetite for tangibility and social interaction will ensure that physical browsing continues to rule our mindset.



New challenges in retail development

So what are some of the new challenges emerging in retail development?

As retail returns have slowed and yields have compressed to all-time lows, unfortunately there is also a trend toward initiatives that have the potential to increase costs. Such initiatives include:

- › public / town infrastructure expenditure
- › town centre versus big-box style formats
- › designing for safe buildings – Occupational Health & Safety issues
- › environmentally sustainable development and green issues

Probably the biggest issues emerging in the marketplace relate to the green initiatives and Part J of the BCA. While the Green Building Council of Australia finalises their review of star ratings and sustainable development options for the retail sector, Part J of the BCA has already become mandatory (May 2006).

Part J of the BCA - what is Part J all about?

Part J particularly relates to all Class 5-9 Buildings – not just retail – and aims to set minimum standards to reduce a new building's energy consumption, ultimately resulting in a reduction of greenhouse gas emissions.

In broad terms, the direct construction impacts are likely to include:

- › insulation to walls and ceilings
- › sealing of the building envelope
- › thermal performance of glazing assemblies, particularly the ubiquitous retail roof skylights and external shopfronts
- › air conditioning and ventilation systems
- › interior and exterior lighting
- › external shading requirements

Other aspects of the development likely to be affected include:

- › the positioning of the building on the site relative to the sun
- › the requirement for additional consultants' fees in the form of energy audits for BCA compliance and issue of Certificate of Occupancy (or equivalent)
- › the impact on how materials and performance criteria are specified throughout the trades

- › access required to all services and their components to allow maintenance
- › the use of air-locks or the limited positioning of air conditioning outlets
- › the ratio of site area to Gross Floor Area (GFA) to Gross Lettable Area – Retail (GLAR)
- › construction cost

Probably the most significant issue for retail developers to face is the existing 'big-box' design philosophy. In theory, under Part J, we will no longer be able to have a standard 150mm thick tilt-up concrete panel wall without providing adequate insulation and / or a further internal wall.

What about existing buildings?

The BCA only applies to new buildings or new works being carried out in existing buildings. The BCA requirements are not retrospective.

For existing buildings, state-based legislation addresses any upgrade requirements. Generally, legislation ensures that any new works (alterations or additions) shall fully comply with the current BCA requirements.

The upgrade of existing components will depend on the extent of works proposed and the commercial effectiveness of those upgrades, particularly cost. Furthermore, the extent of any upgrade work will require judgment on the part of the approval authorities as to what is 'reasonable'.

For example, if ceilings were being replaced then it would be reasonable to expect the ceiling insulation to be upgraded to comply as well as the light fittings and any air conditioning ductwork. However, it would not be reasonable to expect the air conditioning plant to be upgraded or the wall insulation or glazing provisions if these components did not form part of the proposed work.

Once again we find that interpretation plays a major role. For further information or assistance, please contact Davis Langdon direct or refer to the following useful websites:

www.abcb.gov.au
www.wers.net

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Designing for safe buildings

– an OHS perspective

– an owner's liability

Property owners have obligations to ensure that their properties provide safe workplaces. The current Occupational Health & Safety (OHS) legislation includes specific reference to designers to achieve these obligations for the whole of the property lifecycle. To mitigate OHS liability prudent developers and property owners can contract designers to ensure they 'have a systematic approach to their design OHS assessments' (a risk management approach) where hazards may affect the property workplace safety. This should also require designers to provide evidence of the effective application of these OHS risk assessments in the design for the whole of the property lifecycle.

OHS Design Risk

Architects, engineers and designers alike have always provided designs that are safe in terms of performance. However, past design practices and BCA requirements do not always ensure that OHS outcomes are resolved in the design.

Whilst the BCA establishes requirements relating to some aspects of safety for occupants, there is a new emphasis on workplace safety that is not always captured by conventional design practices. This additional requirement on design professionals has been formalised by the inclusion of OHS obligations in recent legislation both here and overseas.

Every retail development must be considered a workplace throughout the property lifecycle. Not only are they workplaces for tenants and consumers, but the buildings must be considered workplaces during construction maintenance, refurbishment, demolition and even cleaning. Under all these circumstances, designers must consider the best way to protect the health and safety of people that:

- › are engaged in the construction of the building
- › occupy or use the building
- › maintain, clean and repair the building

In today's world of the 'preferred workplace environment', OHS management models and legislative frameworks, new emphasis is placed on the designers' responsibilities for more assurance (and therefore evidence) of their consideration of design OHS in their design control process.

So how can OHS design be integrated into design processes?

Current responses to OHS legislation have focused on learning the requirements. Sometimes uncertainty can lead to 'OHS design paralysis' or denial: it's the contractor's responsibility. However design OHS workplace requirements can be achieved simply by including an OHS design risk management step in the designers' usual design control practices.

Designers of construction projects, whether architects or engineers, have the opportunity to consider OHS risks in the project's design stage. For example, designers consider the hazards and risks associated with any aspect of the design and make choices about the design, methods of construction and materials used, which could all impact upon the health and safety of those who build, occupy, maintain, clean, renovate, refurbish or demolish the building or structure.

For any of these, risk management involves answering difficult questions including:

- › Which risks, if any, are tolerable?
- › Can intolerable risks be eliminated?
- › If intolerable risks cannot be eliminated, what is the best way to reduce them?
- › How should risk reduction methods be selected?
- › What are the residual risks to be incorporated in the construction contracts or operational procedures?

Construction data

The following should be used as a guide for shopping centre construction. Please note that figures are based on new works undertaken in NSW. For regional or refurbishment variances, please contact Davis Langdon direct to assess your specific requirements.

Gross Lettable Areas	Super Regional >85,000m ²	Major Regional 50,000- 80,000m ²	Regional 30,000 - 50,000m ²	Sub-Regional 10,000 - 30,000m ²	Neighbourhood <10,000m ²	Bulky Goods various
Construction cost per Gross Floor Area (GFA)	\$2,000 - \$3,000/m ² +	\$1,700 - \$2,800/m ² +	\$1,500 - \$2,600/m ²	\$1,300 - \$2,400/m ²	\$1,700 - \$2,200/m ²	\$1,200 - \$1,500/m ²
Construction cost per Gross Building Area (GBA)	\$1,500 - \$2,600/m ² +	\$1,400 - \$2,400/m ² +	\$1,200 - \$2,200/m ²	\$1,100 - \$2,000/m ²	\$1,200 - \$1,800/m ²	\$600 - \$800/m ²
Construction cost per Gross Lettable Area (GLA)	\$3,500 - \$6,500/m ² +	\$3,200 - \$4,500/m ² +	\$2,400 - \$4,000/m ²	\$2,200 - \$3,600/m ²	\$2,000 - \$2,500/m ²	\$1,600 - \$2,000/m ²
Typical % for total design costs	6.0% - 7.0%	6.0% - 7.0%	6.5% - 7.5%	6.5% - 7.5%	4.5% - 5.5%	4.0% - 5.0%
Typical % for project management, cost planning and tenancy coordination fees	2.8% - 3.8%	2.8% - 3.8%	3.0% - 3.8%	3.0% - 3.8%	3.0% - 4.0%	2.8% - 3.3%
Typical % for development management fees	0.8% - 1.5%	0.8% - 1.5%	1.0% - 1.5%	1.0% - 1.5%	1.0% - 2.0%	1.0% - 1.5%
Typical ratio of GLA to GBA *	30% - 60%	30% - 60%	30% - 60%	45% - 55%	75% - 80%	35% - 45%
Typical ratio of carparking area per car	32m ² - 38m ²	30m ² - 35m ²	29m ² - 34m ²	28m ² - 32m ²	26m ² - 30m ²	28m ² - 34m ²

* Figures vary significantly due to carparking configurations

Cover image: Belrose Supacentre, New South Wales. Page 4 image: Caroline Springs Shopping Centre, Victoria.

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