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Queensland Bulky Goods



Key Points

- Growth in the Bulky Goods retail category has moved negative by 2.8% year on year to July 2009. A loss of \$272 million in turnover for the year
- Rents have come back by a little over 10% during 2009 following the easing in 2008
- Queensland population is growing at 2.5% annually necessitating around 45,000 new dwellings per annum ensuring the strong demand for household wares will continue
- The Australian dollar fell by more than 30% against the US dollar a little more than a year ago but has regained much of it lost ground in the last 2 months favouring importers and subsequently consumers.
- Bulky Goods centre looking good value at yields around 9.5% or better.

Introduction

The bulky goods market in Australia has emerged as the fastest growing of all retail sectors over recent years. Somewhat of a hybrid between typical retail and industrial (showroom) property, the market has rapidly evolved from simple stand-alone showroom units along major arterial roads to warehouse superstores and homemaker centres.

The success of bulky goods developments has been spurred on by a number of factors, but primarily, a change in consumer shopping patterns has underpinned the strong performance of the sector. Typically, bulky goods retailers provide an extensive range of products across one or two categories of merchandise. This is in complete contrast to department stores which generally provide a more limited range of products per category, but cater to a wide array of merchandise categories.

Consumers are increasingly demanding the level of category specialisation and product choice provided by bulky goods retailers when considering major purchases. Because of this, retail turnover in bulky goods retail has grown strongly whilst department stores have performed more modestly. Further, with the advent of bulky goods centres, which group together complementary bulky goods retailers, consumers can shop between a number of stores providing specialised product ranges across a number of merchandise categories at competitive prices.

This has emerged as the preferred shopping option for consumers who are considering purchasing major household items.

Supply

Queensland retail centre composition, as monitored by the Property Council of Australia (PCA), in 2009 by type is outlined below:

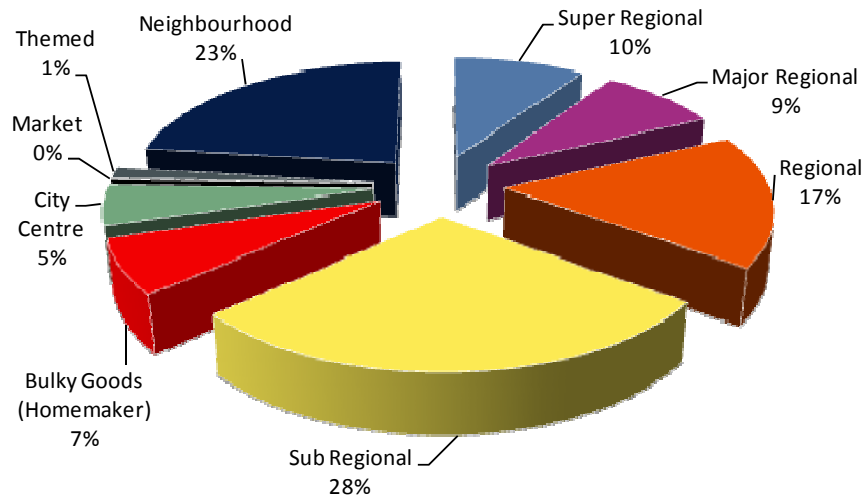
Centre Type	Total Area (m2)	Share (%)	Number	Average Size (m2)
Super Regional	423,561	9.40%	4	105,890
Major Regional	388,248	8.60%	6	64,708
Regional	768,959	17.00%	20	38,448
Sub Regional	1,279,442	28.30%	65	19,684
Bulky Goods (Homemaker)	315,532	7.00%	21	15,025
City Centre	233,382	5.20%	25	9,335
Market	6,209	1.40%	1	6,209
Themed	60,491	1.30%	11	5,499
Neighbourhood	1,036,170	23.00%	215	4,819
Total	4,511,994		368	12,261

Source: PCA, Savills Research

Bulky Goods Overview



Queensland Retail Composition



Source: PCA / Savills Research

At this juncture, the PCA does not include all Bulky Goods centres in its Shopping Centre Directory. There are many privately owned centres for which detail are not yet held and there are exclusions such as Bunnings warehouses and a multitude of stand-alone bulky goods outlets and retail showrooms. If all bulky goods outlets were taken into account, it is estimated that it would add further 600,000 to 700,000 square metres to the area already monitored by the Property Council. This rivals the retail space offered by Neighbourhood centres.

Despite this amazing growth which represents almost a doubling of this retail category in Australia over the last four years, it pales in comparison to the UK retail market where retail warehousing accounts for more than 30% of the capital value of all retail centres reported in 2007. This would suggest there is still some capacity to grow in some States.

Some caution, however, is warranted with the proliferation of the bulky goods category as there has been a gradual departure from the initial concept of this type of retailing which was to provide large space for cheap rents. Expensive sites and costly construction led to unsustainable rents at the top end by mid 2007.

The strong construction activity seen between 2005 and 2007 was significantly subdued in 2008 and has virtually dried up in 2009.

New centres under construction are shown in the table below:

Centre	Address	Suburb	Area (m ²)	Completion
Bunnings Warehouse	27-33 Boundary Rd	Narangba	3,600	Dec-09
Mitre 10	Anders & Brisbane St	Jimboomba	1,500	Dec-09

Source: Reed Construction Data / Savills Research

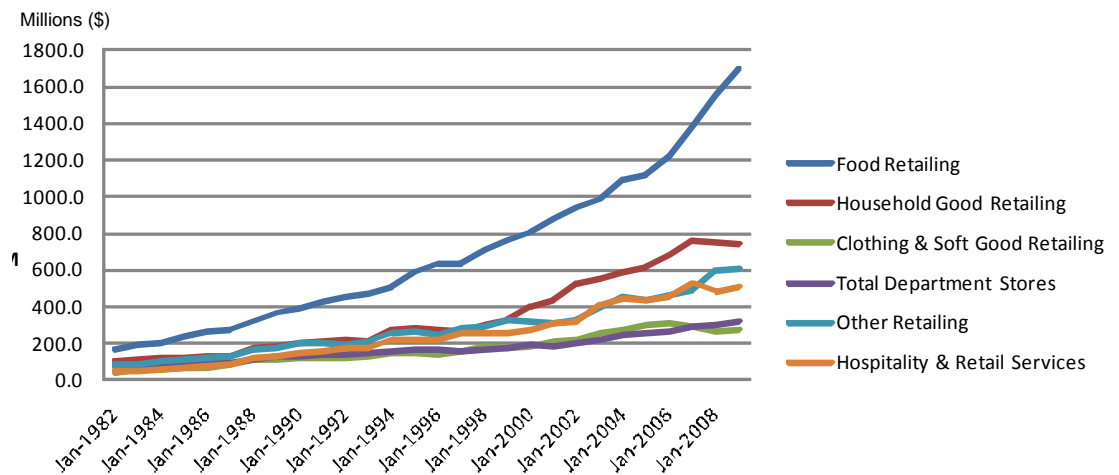
Demand

Queensland, in particular, with its strong current population growth of 2.5% for the year to December 2008 (+112,000) ultimately means more than 45,000 new dwellings are required annually to maintain the 'status quo'. While new dwellings are not keeping up with demand currently, there is still good growth in household goods coming from this source and there will be a catch up at some point which will benefit the bulky goods sector.

Of concern at the moment is that general households have eased back their spending significantly so that despite growth from new dwellings and price growth, 'Turnover in Total Household Goods' for the year ended July 2009 declined by 2.8% on the previous year. This is a loss of \$272 million in bulky good retail trade for the year. Prior to this Household Good Retailing had been growing in excess of 8% (5 yr average) as demonstrated in the chart below.

Food retailing contrasts sharply against the other categories with its particularly strong growth led by supermarket trade. This growth has been further boosted during the economic downturn at the expense of restaurants, cafes etc.

Queensland Retail Turnover (MAT) Seasonally Adjusted 1982 - 2009



Source: ABS / Savills Research

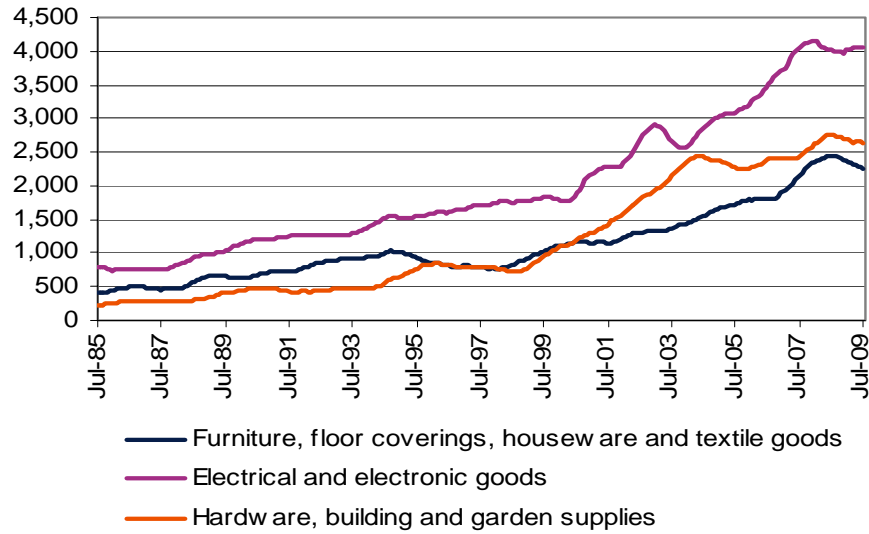
The following chart breaks up the components of "Household Goods" into three categories of 'Furniture', 'Electrical' and 'Hardware'.

The Electrical and Electronics category has grown faster than the other two categories and come off less during the downturn.

Bulky Goods Overview



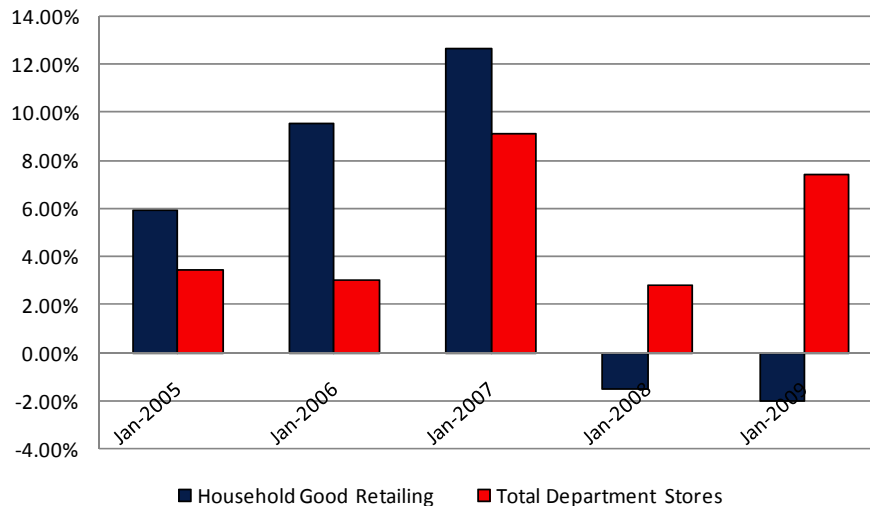
Queensland Retail Turnover (MAT) Seasonally Adjusted 1985 - 2009



Source: ABS / Savills Research

Australians love of electrical and electronic goods is evidenced by the strong growth since 2003.

Queensland Retail Turnover (MAT) Seasonally Adjusted (Bulky Goods vs. Department Store) 2005 - 2009



Source: ABS / Savills Research

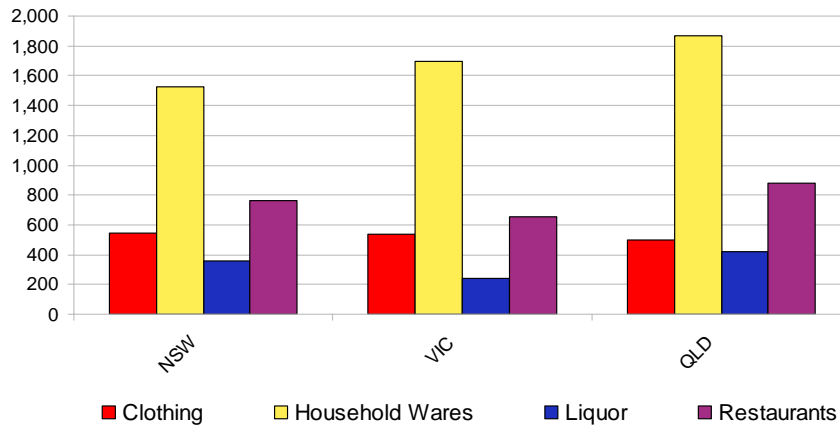
Retail turnover growth in the Department Stores category was less spectacular in the years 2005-2007 as the larger household appliances were being traded increasingly at bulky good outlets and included in the 'household goods' category accordingly. However, during the downturn, Department stores have been aggressive with sales to maintain volumes and this shows up clearly in the chart above.

Bulky Goods Overview



Queenslanders spend more per capita on household goods than the other eastern seaboard States:

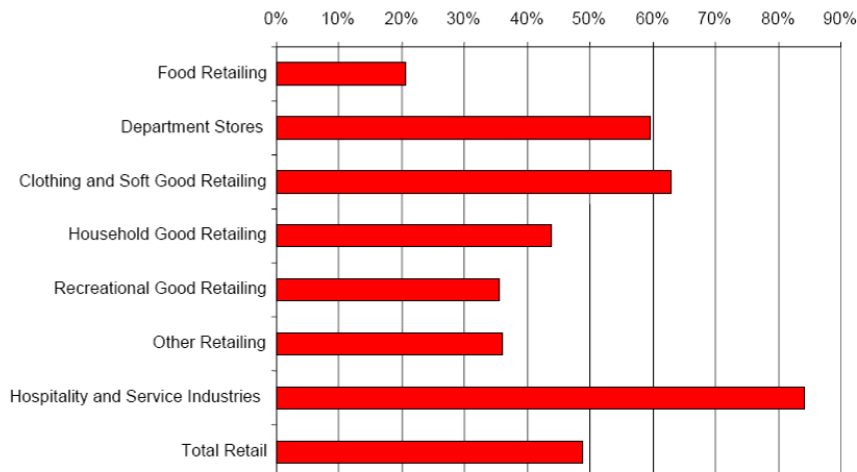
Annual Retail Category Spend Per Capita by State



Source: ABS

A recent study completed for the Victorian Government found that the retail categories of Hospitality, Clothing and Department stores all were more susceptible to economic cycles than other categories, household goods included. However, department stores have taken the challenge with strong marketing and almost constant sales to out-perform bulky goods in the current cycle.

Percent of Variation in Turnover Explained by Economic Cycle



Source: ABS / Savills Research

Rents

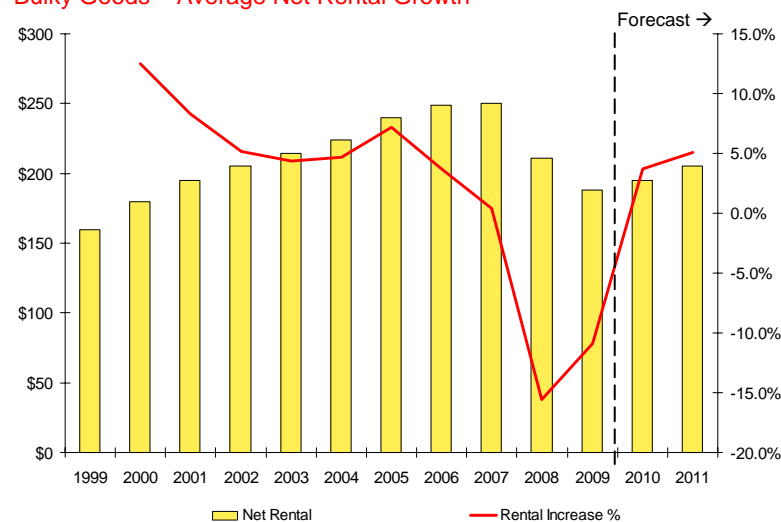
Bulky Goods rents operate in quite a wide range, much the same as other retail but without the sub-sectors, so that size of tenancy, location within the centre, location of the centre and draw of the major tenant all factor in to the rent level.

Average net Bulky Goods rents are shown in the chart below and relate to mid-size to large tenancies. Rents had started to come under pressure before the financial crisis as the asking rents for costly new centres in prime locations exceeded acceptable occupancy cost levels for tenants.

The economic downturn tended to defuse this tension and rents fell to more sustainable levels (for tenants). The rent levels that national tenants are prepared to pay, unless the location guarantees exceptional patronage, may guide developers towards more economic developments.

Some growth in the low end rents has started to occur and Savills forecasts a return to 5%+ growth in bulky goods net rents across the range in 2011.

Bulky Goods – Average Net Rental Growth



Source: Savills Research

Yields

Bulky Goods centres were recognised, particularly between 2002 and 2007, to have great potential for rental growth to continue, fuelled by spiralling turnover growth as a result of lifestyle changes, generally more affordable household wares and, of course in Queensland, that undisputable strong population growth.

To a large extent, cheap products emanating from the Chinese manufacturing boom has helped lead the way in the success of bulky goods stores, together with the technological advances being made in household entertainment products.

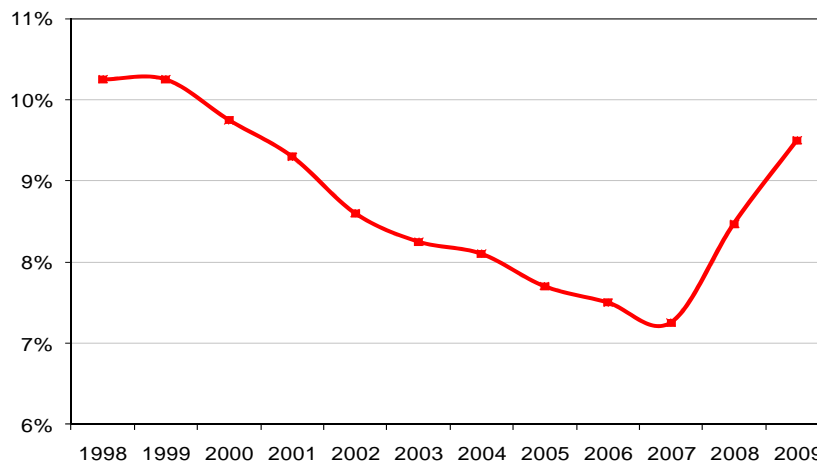
Investors saw the potential for improved turnover and profits emanating from this retail category to translate into higher rents. Accordingly, bulky goods centres were in great favour and yields were being priced to take into account that growth potential.

Added to that scenario was a lot of money in the system and limited availability of good centres on the market. As in other property classes, yields were driven down to a low historic average of 7.25%.

Where do yields go now? Well they are sitting around 9.25%-9.5% on average at market rents showing an approximate 4% risk premium on the 10 year bond rate and some might argue that is about right.

However, potential for rental growth is re-emerging and some tightening in the yields is expected in the next 12-18 months accordingly.

Average Bulky Goods Yields – 1998 – 2007



Source: Savills Research

Recent Sales

Street Address	Suburb	Date	Sale Price	Yield	N.L.A (m ²)	Site (m ²)	\$/m ² NLA
Cnr Pappas Way & Mortensen Rd	Nerang	Jun-2009	\$16,350,000	7.60%	13,856	35,360	\$1,180
Cnr Anzac Ave & Liesel Drv	Rothwell	Jun-2009	\$14,900,000	8.01%	7,407	17,120	\$2,012
Cnr Gibson Rd & Thomas St	Noosaville	Aug-2009	\$7,500,000	9.00%	3,431	-	\$2,186
44-46 Torquay Rd	Pialba	Sep-2009	\$6,700,000	7.55%	1,890	4,137	\$3,545

Source: Savills Research

There are not a lot of sales reported this year but looking at the top two sales above, passing yields appear quite sharp in the current climate but on closer examination, the income of these two centres suggest sub-market net rents of \$90 per square metre and \$161 per square metre for Nerang and Rothwell respectively. There was obviously some significant vacancy and/or under-renting in each of these centres. If an estimated market rent is applied to each centre, the market yields would be well above 10-11% at Nerang and 9% at Rothwell.

Bulky Goods Overview



Key Market Indicators

	Bulky Goods	
	Low	High
Tenant Net Rental (\$/sqm) > 600sqm	150	230
Yield - Market (%)	8.50	10.50
IRR (%)	9.75	10.75
Outgoings Operating (\$/sqm)	10	20
Outgoings - Statutory (\$/sqm)	10	30
Outgoings - Total (\$/sqm)	20	50
Capital Values (\$/sqm)	1,400	2,800

Outlook

This time last year, it looked like Bulky Goods was one sector likely to fall out of favour with investors and consumers alike.

At that point, the Australian dollar (AUD) had fallen 30%, the economic downturn was looking more severe than had been anticipated, high unemployment was forecast and discretionary spending was under threat.

It was considered that as soon as forward import contracts ran out, prices would jump to reflect the higher cost of imports as a result of the weaker AUD, leading to higher prices. This and high unemployment would be enough to undermine consumer retail spending despite the stimulus package.

Well it hasn't quite played out like that.

Retail spending held up better than expected with the help of the stimulus package and the willingness of retailers to be competitive to keep turnover up. There has never been a year in memory with more sales. There have been some winners and losers with bulky goods. Electrical goods have fared better than furniture but on the whole bulky goods have performed better than the hospitality industry.

The Australian dollar has now partly recovered to the pre-crisis levels and is expected to keep appreciating against a weakened US dollar. One cautionary note here is that the US dollar is likely to continue depreciating for the moment and analysts have again suggested that parity with the AUD is imminent, however, the very nature of the depreciating US Dollar is likely to see China re-price its goods when it feels the market can take it. For the moment, however, re-pricing its goods is not good strategy for China while its biggest customer, the US at 300+ million consumers, continues in recession.

Unemployment seems to have pulled up well short of forecast levels and it appears that retail might not take the big hit as expected. Another positive is that Queensland's population growth is as strong as ever and the consequent demand for bulky goods is likely to keep trading buoyant.

While Australia is not out of the woods yet and there may well be some small shocks to retail trade from a jump in unemployment within a year, the biggest threat to the sector is that it gets away from the concept of providing large retail space for cheap rent, allowing retailers to provide a wide range within each good.

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