

Super-neighbourhood centres positioned to buck the trend

Frasers Property Australia details retail business strategy

AUSTRALIA, 18 JULY 2018

By Rob Harley

Frasers Property Australia is developing approximately \$700 million¹ of new shopping centres in Australia at a time when the shopping centre industry faces unprecedented cyclical and structural challenges.

It seems counter-intuitive. Consumer spending is weak and retailers are wary. In the malls, the releasing spread – the gap between the old rent and the newly negotiated rent – is going backwards.

But Frasers Property Australia is confident. Its main new projects, like Burwood Brickworks in Melbourne and Ed.Square in Sydney, will be the centrepieces of large mixed-use housing projects that are expected to deliver new consumers, well understood and well matched to their new retailers.

Moreover, Frasers Property Australia believes its new format for the centres, anchored by a supermarket, with an emphasis on food, convenience, community and entertainment, will provide a ‘must-visit’ antidote to the malaise of internet shopping and weakening apparel sales.

Peri Macdonald, Executive General Manager - Retail, Frasers Property Australia and a 25-year veteran of retail property, calls his new format ‘super-neighbourhood’ centres.

They will be larger than traditional neighbourhood centres, typically over 10,000 square metres in size, and, along with a supermarket, will have strong traders in the food, food catering and entertainment sectors along with services like gym, medical and childcare facilities.

Mr Macdonald says such ‘super-neighbourhood centres’ would be “less exposed to the impact of on-line retailing and, more importantly, have a tenancy mix that supports sustainable sales.” Critical to success will be how well the centre serves local needs in an environment that is unconventional, he said.

Peter Allen, the chief executive of the Scentre Group, the owner, manager and developer of the market leading Westfield malls in Australia and New Zealand, said much the same about his own regional shopping centres, and \$1 billion of new projects, at his AGM in April.

“Our shopping centres have evolved into ‘living centres,’ and today are much more than places where people only shop. They are places for experiences, for recreation, for socialising,” he said.

“The centres now offer, in addition to traditional retail, wellness, health, leisure, dining, education, workspace and entertainment options. A lot of these cannot be available on-line.”

On-line retailing, or survival in the age of Amazon, is the biggest, but not the only, challenge facing Australian shopping centres.

Real estate giant JLL reported in its *Australian Shopping Centre Investment Review & Outlook 2018* that the retail sector was “going through a period of adjustment as retailers continue to revise their business models to reflect the globalisation of retail, changes in technology, changing preferences and trends between generations.”

Today 7 per cent of Australian retail turnover is on-line and, whilst the best retailers are embracing the change, with ‘omni-channel’ offerings that combine the power of the web with the lure of hands-on experience, more and more sales will inevitably go on-line, as they have elsewhere round the world.

¹ Based on estimated end value of projects currently under development and existing pipeline

At the same time, the economic cycle has turned against retailing as consumers react to high debt levels, slow income growth and steep cost increases for essentials like energy. The worst may have passed but any recovery will be grinding. Deloitte Access Economics predicts that as wages rise, retail sales growth will increase, but from 2.4 per cent in 2017/18 to just 2.6 per cent in 2018/19.

Forecaster BIS Oxford Economics warned last year in its *Retail Property Market 2017-2027*, that even a forecast slight increase in sales may not be seen in the shopping centre returns because of the “dilution of retail floor space and the continued growth of on-line sales.”

“Moreover there are other challenges to converting turnover growth to additional centre income – such as over-rented shops, high leasing incentives, poorly performing anchor tenants and challenges to retailer profit margins,” according to *Retail Property Market 2017-2027*.

The retailers themselves are pulling back. The rush for market share through new stores is over. More retailers are following the advice of Premier Investments chairman, **Solomon Lew**, who told his investors last year that “if store rents are excessive, and result in shops being unable to trade profitably, we will close the stores in the interests of shareholders.”

Rents have weakened. In 2017, Scentre Group signed over 2,400 leases but the average new rent was 2.4 per cent below the previous figure. JLL predicts that the gap – the leasing spread for specialty stores – will be negative until 2020.

Australian shopping centres are not closing down – not ‘going dark’ – as are some malls in the USA which, with twice the amount of shopping centre space per person than Australia, and much more space devoted to apparel and department stores, are far more vulnerable to the on-line challenge.

But retail in Australia will change and Frasers Property Australia’s super-neighbourhood centres are a proactive response to the sector’s transformation.

END

About Frasers Property Australia

Frasers Property Australia Pty Limited is one of Australia’s leading diversified property groups and is the Australian division of Frasers Property Limited. The company has over 90 years’ heritage in Australia with current activities covering the development of residential land, housing and apartments, commercial, retail and industrial properties, investment property ownership and management, and property management.

Being part of a global group opens up a world of opportunities for our customers. Frasers Property Australia appreciates its customers and rewards their loyalty through Prosperity, a national customer care and loyalty program providing residential customers with generous purchase and referral rewards, plus benefits at Frasers Hospitality’s serviced hotel residences and boutique lifestyle hotels around the world.

Sustainability is at the heart of our operations. The company creates places where resources are re-used, recycled and restored. It fosters new ideas to support people and the planet, and undertakes tangible initiatives to help people lead happier, healthier lives. Driven by a highly experienced team of people committed to delivering memorable experiences for our customers, the core values of our global group are *collaborative, respectful, progressive and real*.

For more information about FPA, visit www.frasersproperty.com.au

About Frasers Property Limited

Frasers Property Limited (“Frasers Property” or the “Company”), is a multi-national company that owns, develops and manages a diverse, integrated portfolio of properties. Listed on the Main Board of the Singapore Exchange Securities Trading Limited (“SGX-ST”) and headquartered in Singapore, the Company is organised around five asset classes with total assets of S\$30 billion as at 31 March 2018.

Frasers Property’s assets range from residential, retail, commercial and business parks, to logistics and industrial in Singapore, Australia, Europe, China and Southeast Asia. Its well-established hospitality business owns and / or operates

serviced apartments and hotels in over 80 cities across Asia, Australia, Europe, the Middle East and Africa. The Company is unified by its commitment to deliver enriching and memorable experiences for customers and stakeholders, leveraging knowledge and capabilities from across markets and property sectors, to deliver value in its multiple asset classes.

Frasers Property is also the sponsor of three real estate investment trusts and one stapled trust listed on the SGX-ST. Frasers Centrepoint Trust, Frasers Commercial Trust, and Frasers Logistics & Industrial Trust are focused on retail properties, office and business space properties and business parks, logistics and industrial properties respectively. Frasers Hospitality Trust (comprising Frasers Hospitality Real Estate Investment Trust and Frasers Hospitality Business Trust) is a stapled trust focused on hospitality properties.

For more information on Frasers Property, please visit www.frasersproperty.com

FOR MEDIA QUERIES, PLEASE CONTACT:

Wise McBaron Communication

Trudy Wise

T +61 2 9279 4770 / 0418 220028

E trudy_wise@wisemcbaron.com.au