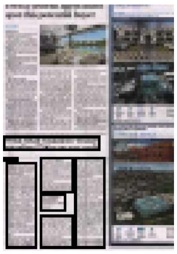

24 Jul 2018
Australian Financial Review, Australia

Author: Robert Harley • Section: Property • Article Type: News Item • Audience : 44,635
Page: 33 • Printed size: 220.00cm² • Market: National • Country: Australia
ASR: AUD 4,450 • words: 541 • Item ID: 985725122

What retail weakness? Frasers spending $700m on new malls

Robert Harley

Frasers Property Australia is developing about $700 million worth of new shopping centres in Australia at a time when shopping centres are facing unprecedented cyclical and structural challenges.

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

But Frasers Property is confident. Its main new projects, 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 matched to their new retailers.

Frasers Property also believes its new format for shopping 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.

Frasers executive general manager retail Peri Macdonald, a 25-year veteran of retail property, calls his new format "super-neighbourhood centres".

They will be larger than traditional neighbourhood centres, typically more than 10,000 square metres, and, along with a supermarket, will emphasise food, food catering and entertainment along with gym, medical and childcare facilities.

Mr Macdonald said these centres would be "less exposed to the impact of online retailing and, more importantly, have a tenancy mix that supports sustainable sales".

Critical to success would be how well the centre served local needs in an environment that was unconventional, he added.

Peter Allen, the chief executive of Scentre Group, which owns, managers and develops Westfield malls in Australia and New Zealand, said much the same about his own regional shopping centres, and $1 billion worth of new projects, at the group's annual meeting in April.

Our shopping centres have evolved into 'living centres'.

Peter Allen, Scentre Group CEO

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

Online retailing, or survival in the age of Amazon, is the biggest challenge facing the shopping centres.

Real estate giant JLL said in its *2018 Australian Shopping Centre Investment Review & Outlook* report 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 online and, while 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 online as they have elsewhere round the world.

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 such as 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 by just 0.2 per cent from 2.4 per cent in 2017-18 to 2.6 per cent in 2018-19.

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

Former AFR Property editor Robert Harley was commissioned by Frasers Property Australia to prepare this article.