Baker consulting

Australia in the Global Shopping Centre Industry

An international comparison and explanation of retail sales, retail floorspace, sales productivity and occupancy costs in Australia, Canada, New Zealand, UK and USA

Report to Shopping Centre Council of Australia
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Purpose of Report

This report compares key universal shopping centre metrics across five countries: Australia, Canada, New Zealand, United Kingdom and USA. The emphasis is on Regional shopping centres[1] because these lend themselves to the best 'like-for-like' comparison. The study primarily addresses two questions: Do shopping centres perform differently across countries that have similar levels of development, similar cultures and the same retail brands? And if they do perform differently, why?

The study updates and expands upon a comparison of retail and shopping centre metrics for Australia and the US that was carried out for the Shopping Centre Council of Australia in April 2011.[2] The earlier report clearly showed that shopping centres in Australia and the US performed differently at the time, and explained the underlying reasons for the divergence.

Extending the same analysis to a broader country grouping is useful because it gives us clearer insight into the relationships between shopping centre performance and the various factors that affect it. Why, for example, do Australian Regional shopping centres have such strong productivity? Why do retailers in UK Regional shopping centres face higher occupancy costs relative to sales than their counterparts in the other countries? Why do retailers in US Regional centres face the lowest?

It is hoped that the insights herein will improve understanding, raise the level of public discourse and improve public policy around the important issues of retail tenant and shopping centre performance.

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[1] For ease of exposition, the term 'Regional shopping centre' is used in this report to include both Regional and Super Regional shopping centres. According to ICSC's Asia-Pacific Shopping Centre typology, a Regional shopping centre has 500,000-800,000 square feet of leasable area and a Super Regional is a larger version sized upward of 800,000 square feet. Both have a mix of discretionary and non-discretionary retail merchandise plus entertainment, personal services and eateries. Since this type of shopping centre is found in all five countries, it makes a good basis for comparing cross-country performance.

[2] "US and Australian Shopping Centres: An exposition and explanation of their relative peformance with respect to sales per square metre and occupancy costs".

Data Sources

A variety of data sources have been used in compiling this report. In some instances these could be taken verbatim; in other cases they have required adjustment to ensure greater accuracy and comparability across countries. Due to the absence of any formal surveys or benchmarks for a number of the metrics in several countries, it has been necessary to base some estimates on a combination of company reports and information/views conveyed to the author personally in conversations with industry professionals 'on the ground'. This process, which is akin to piecing together a jigsaw puzzle, is common practice among research professionals. Nonetheless, the reader should bear in mind that there is some unavoidable margin for error in the data.

Principal sources on a country-by-country basis are:

Australia

Australian Bureau of Statistics, Urbis Retail Averages, Property Council of Australia Shopping Centre Directory, Shopping Centre Council of Australia, International Council of Shopping Centers (ICSC), JLL Research, Organization for Economic Cooperation and Development (OECD), Company reports.

Canada

Statistics Canada, ICSC, CBRE, OECD, Company reports
Private correspondence with industry professionals

New Zealand

Stats New Zealand, New Zealand Council of Shopping Centres, Colliers International, OECD
Private correspondence

United Kingdom

Office of National Statistics, ICSC London office, Green Street Advisors, Revo (formerly British Council of Shopping Centres), Cushman and Wakefield, OECD, Company reports

USA

US Census Bureau, ICSC, National Association of Real Estate Investment Fiduciaries (NCREIF), OECD, Company reports

1 Excecutive Summary: Main Findings

The Study

This report compares a range of retail and shopping metrics across five countries: Australia, US, Canada, New Zealand and UK. These countries were chosen primarily for three reasons:

1. They are all developed countries that are culturally similar, have a common shopping centre industry heritage and are geographically dispersed.
2. Their shopping centre industries are often compared, sometimes in a way that is careless, inaccurate or misunderstands the context for the metrics being presented. A key objective of this report is to clear up some of those inaccuracies and misunderstandings.
3. It is possible to obtain or estimate from the five countries the minimum amount of data usable for meaningful comparison.

Among the metrics compared are:

- Retail sales and floorspace
- Shopping centre sales and floorspace
- Productivity of retail space, defined as sales per square metre (sq.m)
- Regional/Super Regional shopping centre floorspace and productivity
- Regional shopping centre occupancy costs, defined as the costs paid by a tenant to a shopping centre landlord in return for operating a store.

Retail Sales

- The retail industry is an important economic driver in each of the five countries, accounting for between 17% and 24% of all economic activity (Chart 1, p.6). Of the five, the US has by far the strongest retail sales per capita (A$16,259 in 2017), compared with an average of A$11,872 for the other four countries (Chart 2, p.7).

- The differential between the US and the rest is partly because of higher US average disposable incomes.

- Trading hours are also a factor – in the US they are mostly deregulated and retailers and shopping centres decide for themselves when to open. In the UK, Australia and Canada particularly, trading hours are subject to regulation that is mostly aimed at protecting small shops. The various regulations have collateral damage – they dampen retail spending, reduce employment, shift and compress the timing of purchases, and force consumers to pay higher prices during regulated hours.

Shopping Centre Floorspace

- In Australia, the UK and New Zealand, shopping centre floorspace per capita now lags the US and Canada by a considerable margin. The US has an estimated 1.97 sq.m per capita of shopping centre leasable area, followed by Canada with 1.41 sq.m. At the other end of the continuum is the UK, with only 0.42 sq.m per capita. Australia is in the middle of the pack with an estimated 1.02 sq.m (Table 1, p.10).

- Some of the differential can be explained by differences in planning regimes. In the US, planning controls have historically been hands-off and development-friendly; in stark contrast, UK planners have tried to protect smaller retailers by adopting a be-kind-to-High-Streets approach and made strenuous efforts to maintain their vibrancy by restricting shopping centre development in densely populated areas.

- Australian planning regimes are also assertively interventionist with a view toward various public policy outcomes. Among other things, they have corralled commercial development in 'activity centres' and restricted the kinds of merchandise that can be sold in 'bulky goods' centres. However, being a highly urbanised country with a lot more space than the UK has given Australian shopping centre developers more opportunities for growth.

Retail Floorspace Outside of Shopping Centres

- The majority of retail floorspace in all five countries is located outside of shopping centres in CBD and suburban strips or in freestanding 'big boxes', such as home improvement superstores and Walmart-type supercentres in North America.

- Total retail leasable area – that is, including both shopping centre and non-shopping centre space - in the US is estimated at 4.6 sq.m per capita, with Canada in second place on 3.1 sq.m and the UK fifth with 1.9 sq.m. Australia is again in the middle of the pack with an estimated 2.3 sq.m per capita (Chart 3, p.11).

- Predictably, since the US and Canada have by far the most floorspace per capita, they also have the least productive floorspace on average with sales per sq.m estimated at just over A$3,000. Australia, UK and New Zealand, which all have roughly the same amount of floorspace per capita, perform at a similar level of productivity with an estimated sales per sq.m just in excess of A$5,000 (Table 2, p.12).

Productivity of Shopping Centres

- Australia has the most productive Regional shopping centres of the five countries with specialty tenants estimated to generate just over A$10,000 per sq.m in 2017, excluding GST.[3] This is 53% higher than in the US, where the same kind of shopping centres produce average sales per sq.m of A$6,526 (Chart 4, p.14)

- The sales-generating power of Australian Regional shopping centres compared with their counterparts elsewhere – and particularly in the US – is due to several factors. Specifically:

    1. *Competing retail floorspace*: The US has substantially more retail floorspace than Australia outside of Regional shopping centres, which has a dilutive effect on the performance of the Regional centres themelves.

    2. *Tenant mix - supermarkets:* In Australia, supermarkets are universal Regional shopping centre anchor tenants and tend to drive more foot traffic and attract more frequent customer visits than shopping centres anchored only by traditional general merchandise department stores, as in the US and Canada. This superior traffic-driving ability of supermarkets has knock-on benefits to small tenants located in the same centres.

    3. *Tenant mix – fresh food shops:* fresh food shops are always a key tenant cluster in Australian Regional centres, occupying more than 16% of specialty tenant space according to the Urbis Retail Averages. These are typically high volume retailers, which, like supermarkets, attract frequent customer visits all year round. In US Regional centres, food specialty space is negligible by comparison.

    4. *Tenant mix – services:* Australian Regional centres have significantly more space than US Regional centres allocated to personal services and food catering (Chart 5, p.16).

    5. *Store sizes*: Average specialty store sizes are much bigger in the US than in Australia and the other three countries analysed in this report. According to the Urbis Retail Averages, the average Australian Regional centre has about 238 specialty stores with an mean footprint of a little over 100 sq.m. A US Regional centre of approximately the same size typically houses fewer than half that many specialty stores and they are twice as large. Within each merchandise category, there tends to be an inverse relationship between store size and sales per sq.m. - larger stores usually have wider aisles and broader, deeper assortments with highly variable selling power, with the less successful merchandise diluting the productivity of the more successful.

[3] The principal source for industrywide shopping centre productivity data in Austalia is the Urbis Retail Averages, wherein sales are only reported with GST included. For 2017, Urbis reported sales per sq.m of A$10,759 for specialty tenants. The author has used this number as the basis for an estimate of sales per sq.m excluding GST.

Occupancy Costs

- The average occupancy cost ratio is the total occupancy costs paid by a retail tenant divided by total sales. Occupancy cost ratios are clearly lower in North America and higher in the UK, Australia and New Zealand. (Table ES1 below)

- The five countries fall into two categories: those with relatively low occupancy cost ratios (the US and Canada), which are associated with low rates of occupancy and high levels of retail supply per capita, while those with relatively higher occupancy cost ratios (Australia, New Zealand and the UK) are associated with high occupancy and relatively lower levels of retail supply per capita.

- The relationship between occupancy cost ratios, occupancy and retail supply is intuitive Economics 101: where there is a lot of competing retail space as in North America, demand for Regional centre space will be lower, vacancy will higher and there will be downward pressure on occupancy costs.

Table ES1. Regional Shopping Centre Occupancy Cost Ratios, Occupancy and Retail Supply

Country	Occupancy Cost Ratio	Occupancy	Retail Supply Per Capita (sq.m)
Canada	14.0%	92.5%	3.1
USA	13.4%	90.9%	4.6
New Zealand	16.8%	97.7%	2.2
UK	20.5%	97.5%	1.9
Australia	17.8%	98.5%	2.3

Sources: ICSC, Green Street Advisors, Urbis, Baker Consulting, CBRE, REIS, Colliers International, company reports, private correspondence.

2 Australia in the Global Shopping Centre Industry

2.1 Introduction

This report compares a range of retail and shopping metrics across five countries: Australia, US, Canada, New Zealand and UK. These countries were chosen primarily for three reasons:

4. They are all developed countries that are culturally similar, have a common shopping centre industry heritage and are geographically dispersed.
5. Their shopping centre industries are often compared, sometimes in a way that is careless, inaccurate or misunderstands the context for the metrics being presented. A key objective of this report is to clear up some of those inaccuracies and misunderstandings.
6. It is possible to obtain or estimate from the five countries the minimum amount of data usable for meaningful comparison.

However, comparing shopping centre metrics such as retail productivity, retail floorspace and shopping centre occupancy costs across countries is fraught with challenges. Among them:

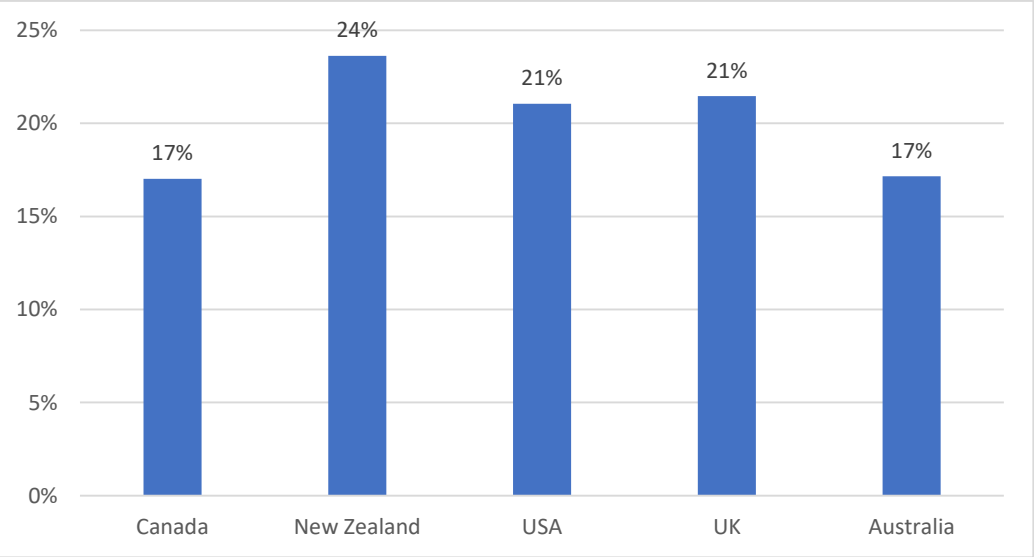
- There is the problem of converting money values to a common currency at market rates that may be volatile or distorting.
- Data is patchy, in some cases because it is so difficult to collect or estimate despite the best efforts of private and public entities, for example the amount of retail space in a country as vast and densely populated as the US.
- The retail industry is not uniformly transparent across countries. Transparency of shopping centre operating data, which is the focus of this report, ranges from very good in Australia and the US through average in Canada and New Zealand to poor in the UK.
- Where actual data benchmarks are not available, they need to be estimated, and these estimates can vary materially depending on the assumptions of the individual analyst.

Despite these problems, a careful cross-country comparison is worth doing so long as the reader understands that there is some judgement involved and some margin for error. The benefits of such a study can be quite substantial in terms of correcting public misconceptions and elevating public policy debates onto a firmer basis in fact.

2.2 Retail Sales

The retail industry is an important economic driver in each of the five countries, accounting for between 17% and 24% of all economic activity. (See Chart 1.)

Chart 1
Retail Sales as a Percent of GDP, 2017

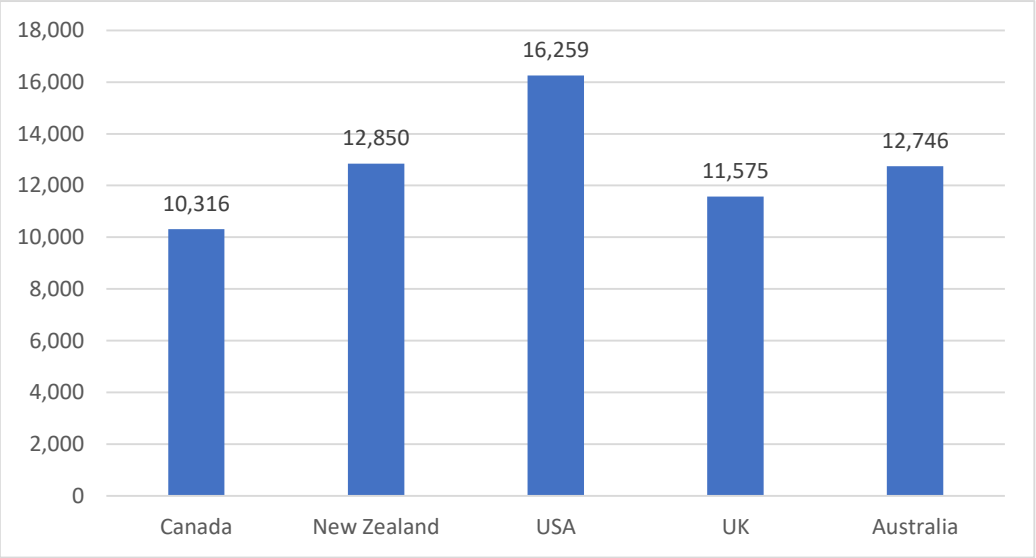


Source: National statistical agencies

While Canada, New Zealand, the UK and Australia are roughly similar with respect to retail sales per capita, the US is an outlier on the high side, with 37% more retail spending per capita than the average for the other four countries. (See Chart 2.)

This differential between the US and the rest is partly because of higher US average disposable incomes and partly because of culture – Americans love to shop and do so 365 days a year with few limitations on trading hours.

Chart 2
Retail Sales Per Capita, 2017-18 (A$)



Source: National statistical agencies
Note (1): Retail Sales include food service but exclude automotive and fuel.
Note (2): Retail Sales are for the latest 12 months available, divided by population at the end of 2017.

2.2.1 Trading Hours

Apart from some local exceptions, trading hours in the US are a matter for the retailers themselves.[4] This applies to hours of the day, days of the week and public holidays. Thus, even on Christmas Day, drug stores, convenience stores, variety stores, some supermarkets and restaurant chains are widely open for business.

Meanwhile in New Zealand, most shops are forbidden to open on Anzac Day morning, Easter Friday, Easter Sunday and Christmas Day.

Trading hours are more tightly regulated in the other countries. England and Wales still have Sunday trading restrictions in place for 'large shops'; specifically, shops with a floor area greater than 280

[4] There are some colourful exceptions. The famous 'blue laws' of Bergen County, New Jersey, backed by a coalition of churches and small business owners, forbids the opening of shopping centres and large stores on Sundays. However, this is only a minor annoyance for the county's residents, who simply drive across the county line to shop.

sq.m are permitted to open for no more than six consecutive hours between 10am and 6pm. They are also forbidden to open on Easter Friday and Christmas Day.

In Canada, trading hours are regulated mainly at a provincial level and range from unrestricted in British Columbia, Alberta and Saskatchewan through moderately regulated in Manitoba and Ontario to draconian in Quebec, where trading hours are subject to restrictions every day of the week.

As in Canada, regulation in Australia is at the state level and, also like Canada, is a patchwork. Trading hours in Victoria, NSW and Tasmania are largely left up to the retailer or shopping centre, except for mandated closure on Anzac Day morning, Easter Friday and Christmas Day. However, onerous and complex mandates govern trading hours remain in Western Australia, South Australia and Queensland, primarily aimed at protecting smaller independent retail operations from larger chains.

Legislation to deregulate trading hours in South Australia was defeated in the state parliament as recently as October. Oddly, one of the arguments advanced by those opposing deregulation is that it would cost jobs, despite the fact that academic studies have shown that when shops are free to open on Sundays, they typically hire more workers and extend the hours of existing employees.[5]

It isn't known how much higher the retail sales per capita numbers presented in Chart 1 would be if retail trading were to be completely deregulated across all five countries. It is worth noting, however, that the most deregulated market – the US – has the strongest retail spending while arguably the most regulated – Canada – has the weakest.

Academic studies on overseas markets have found that where restrictions on trading hours are in force, they are apt to have a number of adverse impacts on consumer welfare:

- They reduce employment.
- They reduce retail spending.
- They shift the timing of purchases.
- They compress the timing of purchases.
- They may also force consumers to pay higher prices.

[5] For a good overview of the academic literature, see Genakos, Christos and Svetoslav Danchev (2015) "Evaluating the Impact of Sunday Trading Deregulation", Centre for Economic Performance, London School of Economics.

2.3 Shopping Centre Floorspace

US mass consumerism has elicited a huge differential with the other four countries in terms of the supply of shopping centre space. (See Table 1.) The demand for shopping centres in the US has been met on the supply side by commercial developers, retailers and lenders generally willing to assume more risk than in other developed countries.

Another important enabler of US shopping centre expansion has been the historically development-friendly attitude of state and local planning institutions. Since municipalities and states are often in competition with each other to attract employment and sales tax-generating activities (which they themselves receive and put to use), shopping centre developers and retailers alike have usually had it easier getting permissions for new projects.

In contrast, the other four countries, particularly the UK and Australia, have more prescriptive planning regimes which control the amount, type and location of new projects. In the UK, shopping centre development has often taken back seat over the years while governments attempted to manage limited space in congested urban areas, and made strenuous efforts to prevent the decline of High Streets and its concomitant impact on small retailers.[6]

Meanwhile in Australia, planners have, among other things, corralled commercial development in 'activity centres' and prescribed the kinds of merchandise that can be sold in 'bulky goods' centres to control the dispersion of shopping facilities.

New Zealand has less shopping centre space per capita not so much because of planning restrictions but plain demographics – it doesn't have the large, densely-populated metro areas of the other countries that can support a lot of large shopping centres.

[6] Eccentrically, some entities that track shopping centre floorspace in the UK define shopping centres very narrowly and exclude retail parks, which are called power centres in North America but have no Australian equivalent. Retail parks and power centres are an important and popular form of shopping centre that are very much included within the shopping centre floorspace estimates in this report.

For these reasons, Australia, the UK and New Zealand now lag the US and Canada by a large margin with respect to shopping centre floorspace per capita. This will likely remain the case despite the fact that the industry in North America is in the process of rationalising, involving the conversion of many shopping centres to other purposes.

Table 1. Estimated Shopping Centre Floorspace Per Capita (Sq.M)

Country	Shopping Centre	% of US	Regional Centre
Canada	1.41	72%	0.31
New Zealand	0.63	32%	0.18
USA	1.97	-	0.29
UK	0.42	22%	0.12
Australia	1.02	52%	0.34

Sources: International Council of Shopping Centers,
New Zealand Council of Shopping Centres,
Baker Consulting, national statistical agencies

2.4 Retail Floorspace Outside of Shopping Centres

Of course, not all retail floorspace – or even the majority of it – is located in shopping centres. To gain a proper understanding of the scale and intensity of the retail industry in each country, it is necessary to consider the floorspace contained in freestanding retail facilities. This includes –

- Freestanding big boxes, such as supercentres and home improvement stores
- The still ubiquitous traditional CBD and suburban shopping strips everywhere in the developed world.

These out-of-shopping centre retail stores exceed the amount of shopping centre floorspace in every one of the five countries under consideration. However, although estimates have been made, there is no precise measurement of how much of this space there is for any of the five. Thus, the estimates presented here should be interpreted as indicative only.

According to the International Council of Shopping Centers (ICSC), shopping centres accounted for 42.3% of all US retail space in 2017. It is reasonable to assume, based on (1) the history and pattern of retail development in Canada and Australia, and (2) the type of retail formats that exist in those two countries, that both countries roughly approximate the US situation, which is to say that somewhere in the range of 40-45% of total retail floorspace is contained in shopping centres.

The UK's aforementioned history of tight planning restrictions, partly with the goal of protecting and prolonging the vibrancy of traditional 'High Street' retail, suggests a much lower percentage of retail floorspace in shopping centres. When also taking into account the likely productivity levels of High Street and other non-shopping centre retail, it is plausible that as little as 20-25% of retail floorspace in the UK is contained in shopping centres.

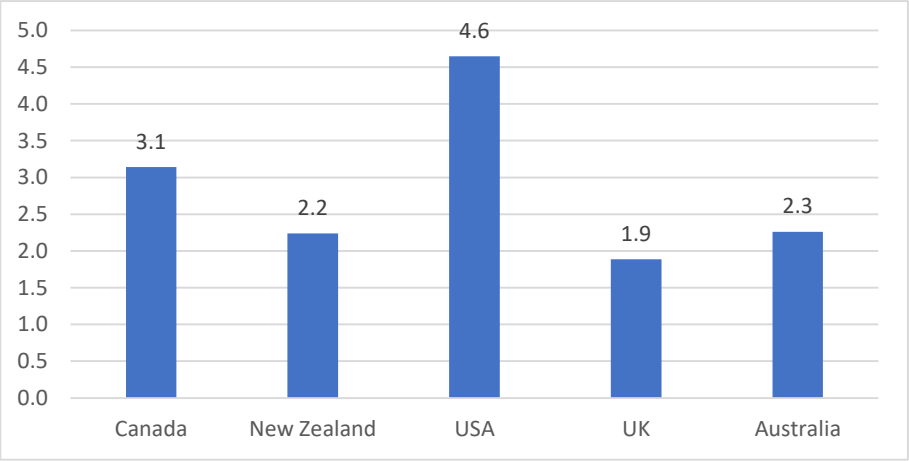
New Zealand is also difficult to quantify but a reasonable analysis suggests that – like the UK – it still has a relatively low percentage of floorspace in shopping centres. New Zealand has a number of smaller urban areas and towns that lack the population density to support large shopping centres but still require a significant supply of strip shopping facilities.

Bringing all of this together gives us the total retail supply per capita levels in Chart 3. As expected, the US leads the way with 4.6 sq.m per capita. At the other end of the continuum is the UK with 1.9 sq.m. Australia is squarely in the middle of the five countries with an estimated 2.3 sq.m.

Australia's positioning relative to the other countries with regard to retail space may be interpreted as a sign that 'the system works'. Analogous to baby bear's porridge that isn't too hot and isn't too cold, there seems to be just the right amount of retail space. Certainly, retailer productivity levels are good and vacancy low for the most part, but care must be taken in making value judgements.

Consider, for example, that in the eyes of a North American shopper, things like accessibility, shopability, choice and price may be inferior in Australia, New Zealand and the UK to what they can enjoy at home. Looked at from the reverse angle, an Australian might see the huge amount of US retail as a wasteful use of land and an engine of sprawl. So the kind of retail we all end up with may be seen as the product of our different cultural choices rather than as a right or wrong.

Chart 3
Indicative Retail Floorspace Per Capita (Sq.M)



Sources: ICSC, New Zealand Council of Shopping Centres, Baker Consulting, national statistical agencies

2.5 Productivity of Retail Space

Of key importance from the standpoint of retail performance metrics is that more floorspace per capita implies more intense competition for the consumer dollar, which might be expected to depress both productivity and rent levels across the board. To explore this theory, we now turn to a comparison of sales per sq.m and occupancy costs across the five countries.

First, we show estimated store-based retail sales per sq.m in Table 2. These are retail sales that exclude e-commerce.[7] As may be expected, the US and Canada have the lowest overall retail productivities, while New Zealand, UK and Australia are roughly in the same ballpark.

Note that 'store sales' don't typically include online purchases that are picked up in the store by the customer (so-called 'click and collect'). In this sense, the meaning of the word 'productivity' somewhat understates the value of the store in the retail ecosystem. It has long been known that even 'pure play' e-commerce retailers cannot exist in a real estate-less bubble. However, the actual total productivity of stores in this sense has not yet been quantified at an industry level.

Table 2. Store Retail Sales and Productivity, 2017

Country	Retail Sales (A$ bil.)	E-Commerce Penetration	Retail Sales, excl. E-Commerce (A$bil.)	Retail Floorspace (mil. sq.m)	Store Sales Per Sq.M ($A)
Canada	378.7	6.6%	353.7	115.3	3,068
New Zealand	62.3	5.4%	58.9	10.8	5,435
USA	5313.3	13.7%	4,585.3	1,518.1	3,020
UK	769.4	15.7%	648.6	125.3	5,174
Australia	315.7	8.8%	287.9	56.0	5,142

Sources: ICSC, Euromonitor
New Zealand Council of Shopping Centres,
Baker Consulting, national statistical agencies

There is no data available on retail rent for the economy as a whole as there is for retail sales, so to analyse rent we have to focus on specific sectors. We do this in the next section of the report by focusing on Regional/Super Regional centres.

[7] E-commerce, of course, is not the sole form of non-store retailing. Some sales are still made from catalogues and door-to-door but these are a small fraction of non-store retail and it is difficult to get a consistent comparison for these retail channels across countries. Since they are relatively small and don't alter the big picture, they have been omitted from this analysis.

2.6 Productivity of the Regional/Super Regional Centre Sector

Regardless of the actual level of sales per sq.m across the five countries, there has been a steady drumbeat of news in recent years to the effect that pedestrian traffic in shopping centres is falling. Certainly, e-commerce has been on the rise and shopping centre operators have been scrambling to adjust to new technology-driven shopping 'journeys' and spending patterns.[8]

There are several problems with a cross-country analysis of pedestrian traffic. First, the counts are carried out by different entities with counting technology that may not be identical – there are numerous different technologies in use and they differ in effectiveness according to placement, lighting levels and consistency and the density of pedestrian traffic itself.

Traffic counting technologies are not employed by retailers or shopping centre operators purely for the marketing benefit a technology vendor derives from aggregating information and putting it out as a national traffic index.[9] Rather, traffic counts are carried out for a variety of research purposes that may demand more or less precision. And of course there are budget constraints as well. These considerations affect the choice of technology, so the way that traffic is captured in, say, a centre in California, may be completely different to the way it is captured in a centre in London or Sydney.

In contrast, sales per sq.m are really only counted in one way, whether your in Warsaw or Wagga Wagga: it's sales divided by square metres. For this reason, we focus on productivity itself.

Chart 4 shows non-anchor store sales per sq.m for the five countries. As might be expected, the US, with its overall superiority in terms of retail supply, has a relatively lower productivity at its Regional centres. Additional factors accounting for specialty store performance in the US are the tenant mix at its Regional centres and the much larger size of its stores. These issues are dealt with in detail in Sections 2.7.1 and 2.7.2 below.

However, beyond the US, the relationship between total retail supply and Regional centre productivity is not so clear.

Referring back to Table 1 on page 9 though, note the limited supply of Regional centre space per capita in the UK and New Zealand, with 0.12 sq.m and 0.18 sq.m respectively. This, combined with

[8] The US was probably ahead of the rest of the world in moving toward a more leisure-oriented shopping centre experience. It has been several decades since the phenomenal growth spurt in America of so-called 'lifestyle centres', which shifted the emphasis away from general merchandise shopping in an enclosed mall toward alfresco dining and highly edited upscale apparel and homewares retail in an open-air, lavishly landscaped 'Main Street' configuration. These centres are magnets for the affluent but rarely attract the volume of foot traffic typical of a strong regional shopping centre.

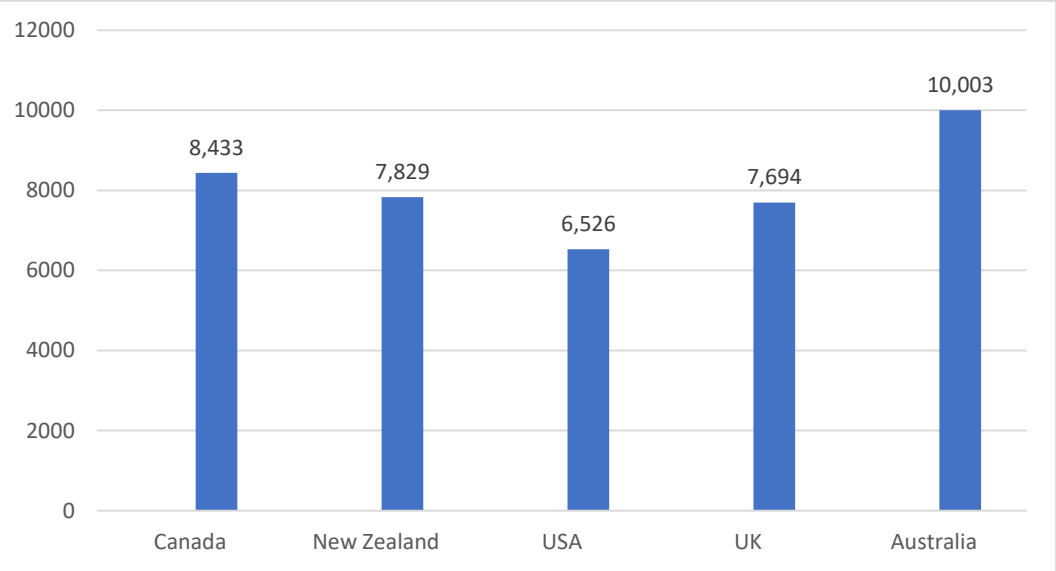
[9] In one instance in the US, a major shopping centre operator ordered all of its traffic counters removed when the vendor began to aggregate it for marketing purposes.

the aged and indifferent quality of so much of the High Street shopping in both countries, is undoubtedly a telling factor behind strong driver of productivity in their Regional centres.

The high productivity of Regional centres in Canada is something of an anomaly in this analysis. Concentration of Regional centre space per capita is approximately the same as in the US and Australia. However, Canadian Regional centres space appears to be of very high quality compared to alternative Canadian shopping formats.

In Australia, the extraordinarily high productivity is partly a function of several factors. It is worthwhile making a straight head-to-head comparison with US Regional centres to understand the divergent productivity outcomes.

Chart 4
Regional/Super Regional Centre Non-Anchor Store Sales Per Sq.M, 2017 (A$)



Sources: International Council of Shopping Centres, Baker Consulting company reports

2.7 Australia vs US Head to Head: Why Such Different Productivity Outcomes?

Australia's Regional shopping centres, on average, clearly outperform their US counterparts with a productivity advantage of 53%. This productivity edge signals the strong desirability of space in Australian Regional centres relative to other shopping formats. It is further reflected in robust occupancy and occupancy cost metrics at Australian Regional centres, as we shall see in Section 2.8.

But why is the productivity advantage so large? There are a number of factors at play, of which three stand out. The first has already been alluded to in the preceding discussion: the US has a lot more floorspace outside of Regional shopping centres that has a diluting effect on the performance of the Regional centres themelves.

The other big factors are tenant mix and store sizes.

2.7.1 Tenant mix

In Australia, supermarkets are universal Regional shopping centre anchor tenants and tend to drive more foot traffic than shopping centres anchored only by traditional general merchandise tenants such as department stores or discount department stores, as in the US.

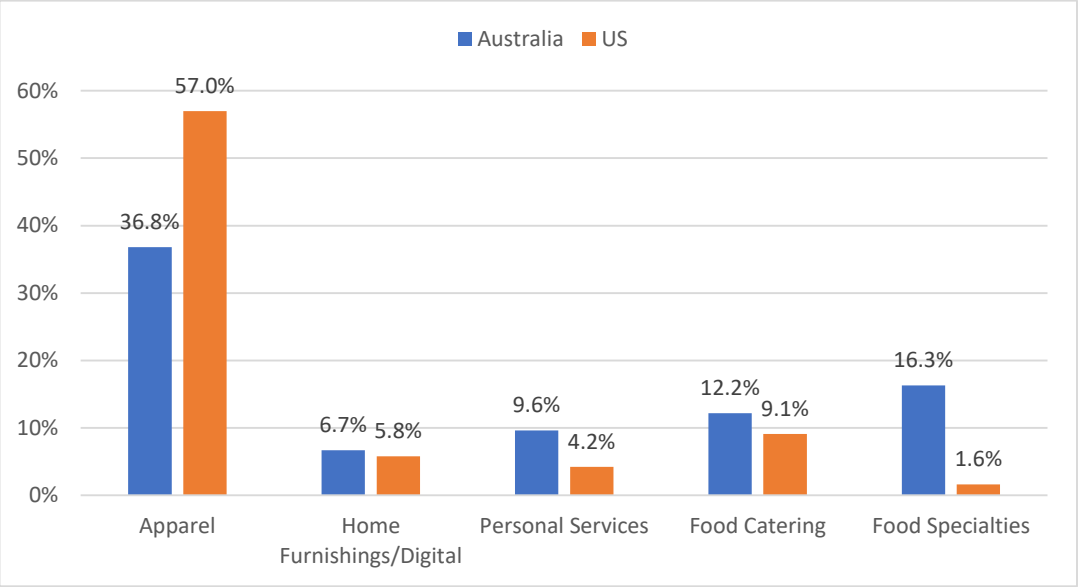
Moreover, fresh food shops are always a key tenant cluster in Australian Regional centres, occupying more than 16% of specialty tenant space according to the Urbis Retail Averages. In US centres, food specialty space is negligible by comparison. (See Chart 5.)

The presence of fresh food shops and supermarkets has a positive impact on Regional centres in two ways. First, they attract frequent visits because people need to stock up on groceries more often than clothes and home furnishings. Second, they attract customers all year round and in any economic conditions, which makes the Regional centres that house them significantly less seasonal and pro-cyclical than Regional centres in North America. Lower seasonality and pro-cyclicality contributes to their productivity advantage.

US centres are far more reliant on apparel than their Australian counterparts, with approximately 57% of non-anchor space allocated to that category, according to ICSC. This compares with the 38% of inline space occupied by apparel shops in Australian Regional centres.

As Chart 5 illustrates, Australian Regional centres have significantly more space allocated to personal services, and food catering.

Chart 5
Percent of Regional Centre Non-Anchor Space Allocated to Selected Categories



Source: ICSC, Urbis, Baker Consulting

2.7.2 Store Size

Average specialty store sizes are much bigger in the US than in Australia and the other three countries analysed in this report. According to the Urbis Retail Averages, the average Australian Regional centre has about 238 specialty stores averaging a little over 100 sq.m. A US Regional centre of approximately the same size as the Australian average typically houses few than half that many specialty stores.

The divergent store sizes have an impact on productivity *within specific merchandise categories.* The relationship between store size and sales per sq.m tends to be inverse. For example, value apparel specialty stores – other things being equal – are likely to be more productive in terms of sales per sq.m than the apparel departments of discount department stores.

Larger stores usually have wider aisles and larger assortments with more variable selling power, with the less successful merchandise diluting the productivity of the more successful.

US retail has traditionally placed greater emphasis on wide aisles, good sight-lines and uncluttered displays, which tend to improve the shopping experience but hamper sales per sq.m relative to tenants selling similar merchandise from a smaller store.

2.8 Occupancy Costs in the Regional/Super Regional Centre Sector

'Occupancy costs' is a catch-all term for the costs paid by a tenant to a retail landlord. The largest component is rent; the remainder consists of fees for management, utilities, maintenance, statutary charges and taxes, insurance and marketing. The ratio of occupancy costs to tenant sales is called the 'occupancy cost ratio', or OCR.

Table 3 presents data on occupancy cost ratios and occupancy for Regional centres in the five countries. The last column also restates the per capita retail supply figures from Chart 2. It should be noted that it is difficult to obtain benchmark occupancy cost data for all countries because of a lack of transparency. Thus, the data for Canada and UK can be regarded as 'consensus estimates' derived from individual company portfolios and conversations with industry professionals.

The average occupancy cost ratio is clearly lower in North America and higher in the UK, with Australia and New Zealand in the middle.

However, of key importance for this analysis is the fact that the countries fall into two categories: those with relatively low occupancy cost ratios (the US and Canada), are associated with low rates of occupancy and high levels of retail supply per capita, while those with relatively higher occupancy cost ratios (Australia, New Zealand and the UK) are associated with high occupancy and relatively lower levels of retail supply per capita.

There is a fairly simple logic to this – where there is a lot of competing retail space, demand for Regional centre space will be lower, vacancy will be higher and there will be downward pressure on occupancy costs. The 'structural' occupancy rate at Regional centres in the US and Canada tends to be significantly lower than in the other three countries in this report.

On the other hand, in Australia, New Zealand and the UK, the fierce competition for Regional centre space emanates from fewer good high-traffic location alternatives than in North America. Thus Regional centre space can be thought of as a relatively established and coveted piece of turf that attracts higher occupancy costs.

However, there is nothing new about this. As far back as the 2008 Productivity Commission report into the market for retail tenancy leases, the Commission conceded: "in larger shopping centres, there is stiff competition by tenants for high quality retail space and competition by landlords for the best tenants, reflected by relatively low vacancy rates and high rates of lease renewals". (pp xxv-xxvi.)

Table 3. Regional Shopping Centre Occupancy Cost Ratios, Occupancy and Retail Supply

Country	Occupancy Cost Ratio	Occupancy	Retail Supply Per Capita (sq.m)
Canada	14.0%	92.5%	3.1
USA	13.4%	90.9%	4.6
New Zealand	16.8%	97.7%	2.2
UK	20.5%	97.5%	1.9
Australia	17.8%	98.5%	2.3

Sources: ICSC, Green Street Advisors, Urbis, Baker Consulting, CBRE, REIS, Colliers International, company reports, private correspondence.

There are other, more nuanced influences on the differential level of occupancy costs across the five countries. Differences in the cost of utilities, labour and tax rates can all have a bearing on the level of total occupancy costs. For example, relatively high labour rates in Australia elevate the cost of cleaning and providing security in shopping centres relative to the other countries.

For example, tax rates differ significantly across countries. Table 4 compares property and corporate tax takes as a percent of GDP for the five countries and the OECD average. The UK has a far heavier reliance on property taxes than the other four countries; when corporate taxes and property taxes are taken together, Australia carries the heaviest burden, 262 basis points above the OECD mean.

Table 4. Comparison of Tax Revenues as Percent of GDP, 2016*

Country	Property Taxes	Corporate Taxes	Property+Corporate
Canada	3.78%	3.16%	6.94%
New Zealand	1.96%	4.75%	6.71%
USA	2.46%	2.24%	4.70%
UK	4.19%	2.81%	7.00%
Australia	3.02%	4.31%	7.33%
OECD Average	1.91%	2.80%	4.71%

Sources: OECD

*Australian data is for 2015

Another influence on occupancy costs is shopping centre design and configuration. While Regional shopping centres in Australia, Canada, New Zealand and UK are invariably enclosed and air-conditioned, this is not the case for many US centres. Across the the southern and western states where the climate is warm, open-air regional centres are common and these often require lower common area charges, which may in some instances result in lower occupancy costs.

Another example of how centre design can influence occupancy costs is the fact that US regional shopping centres typically don't have underground parking. Australian centres often do, and these have higher costs associated with lighting, ventilation and elevators.

2.9 Concluding Thoughts

It is clear that the key metrics discussed in this report are largely arrived at by market forces once the initial conditions are set for the participants. Of course, these conditions vary from country to country – for example, disposable incomes, trading hours, planning regimes, labour costs - and these conditions set the playing field for the retail real estate market.

What this means is that a cross-country comparison of retail and shopping centre metrics is always going to be difficult to interpret without an understanding of the native factors that drive the numbers in each country. One of the objectives of this report has been to provide some insight into the kinds of things an observer needs to look for to properly understand the differences in the metrics around the world. Clearly, the tendency of some observers who don't operate in the shopping centre space to sensationalise numbers that haven't been properly vetted or analysed can lead to some misguided pronouncements and conclusions.

The final point to take from the data in this report is that Australia's shopping centre operators and retailers appear to be responding normally and rationally to the forces acting on the retail market. Looking across all five countries, the amount of retail and shopping centre space in Australia is probably about right, productivity is outstanding and occupancy costs approximately where the market suggest they should be. In comparison with outcomes elsewhere, the Australian industry should get pretty good marks.

Table A1. Retail Sales

Retail Sales, 2017

Country	Retail Sales (A$, bil.)	Population (mil.)	Retail Sales Per Capita A$	GDP (A$, bil.)	GDP Per Capita A$	Sales % of GDP %
Canada	378.7	36.7	10,316	2,225.4	60,617	17.0%
New Zealand	62.3	4.8	12,850	263.5	54,399	23.6%
USA	5,313.3	326.8	16,259	25,241.6	77,243	21.0%
UK	769.4	66.5	11,575	3,583.8	53,920	21.5%
Australia	315.7	24.8	12,746	1,840.2	74,287	17.2%

Source: Statistics Canada, Stats New Zealand, US Department of Commerce,
UK Office of National Statistics, Australian Bureau of Statistics

Table A2 Retail Store Sales and Productivity

Store Retail Sales and Productivity, 2017

Country	Retail Sales (A$ bil.)	E-Commerce Penetration	Retail Sales, excl. E-Commerce (A$bil.)	Retail Floorspace (mil. sq.m)	Store Sales Per Sq.M ($A)
Canada	378.7	6.6%	353.7	115.3	3,068
New Zealand	62.3	5.4%	58.9	10.8	5,435
USA	5313.3	13.7%	4,585.3	1,518.1	3,020
UK	769.4	15.7%	648.6	125.3	5,174
Australia	315.7	8.8%	287.9	56.0	5,142

Sources: ICSC, Euromonitor
New Zealand Council of Shopping Centres,
Baker Consulting, national statistical agencies

Table A3. Shopping Centre Supply

Shopping Centre Floorspace

	Floorspace (Million Sq.M)			Floorspace Per Capita (Sq.M)	
Country	**Shopping Centre**	**Regional Centre**	**Population (mil.)**	**Shopping Centre**	**Regional Centre**
Canada	51.9	11.4	36.7	1.41	0.31
New Zealand	3.0	0.9	4.8	0.63	0.18
USA	642.2	94.5	326.8	1.97	0.29
UK	28.2	7.8	66.5	0.42	0.12
Australia	25.2	8.3	24.8	1.02	0.34

Sources: ICSC, New Zealand Council of Shopping Centres, Baker Consulting, national statistical agencies
Note: Shopping centre floorspace is gross leasable area

Table A4. Indicative Retail Supply

Indicative Retail Floorspace

Country	Shopping Centre	Estimated % of Retail Floorspace in Shopping Centres	Retail Floorspace	Population (mil.)	Retail Floorspace Per Capita
	mil. sq.m	%	mil. sq.m	mil.	sq.m
Canada	51.9	45.0%	115.3	36.7	3.1
New Zealand	3.0	28.0%	10.8	4.8	2.2
USA	642.2	42.3%	1,518.1	326.8	4.6
UK	28.2	22.5%	125.3	66.5	1.9
Australia	25.2	45.0%	56.0	24.8	2.3

Sources: International Council of Shopping Centers, New Zealand Council of Shopping Centres, Baker Consulting, national statistical agencies

Table A5 Regional Shopping Centre Occupancy Cost Statistics

Regional Centre Productivity, Occupancy and Occupancy Cost Ratio

Country	Specialty Store Sales Per Sq.M (A$)	Specialty Store Occupancy Cost Ratio	Occupancy	Retail Floorspace Per Capita (Sq.M)
Canada	8,433	14.0%	92.5%	3.14
New Zealand	7,829	16.8%	97.7%	2.24
USA	6,526	13.4%	90.9%	4.65
UK	7,694	20.5%	97.5%	1.89
Australia	10,003	17.8%	98.5%	2.26