

Shedland to Shiny Buildings - the Growth of Bulky Goods Retail in Australia

Lois C Towart

BBus AssocDipVal FAPI ASIA

Stantons Research

P.O. Box 322

Glebe NSW 2037

Telephone & Fax (02) 9571 7782

lois.towart@stantonsresearch.com.au

www.stantonsresearch.com.au

Lois C Towart has over 20 years experience in the Australian property industry she is the principal of Stantons Research and independent property research consultancy. She has held positions in Agency Research, Investment Banking, Funds Management, Valuations and Academia.

Abstract

Bulky goods retailing occupies a niche between industrial and retail with elements of highway retailing. This article looks at the evolution of this asset class into a sector in its own right.

Keywords

Bulky Goods Retail

Introduction

Bulky goods retail in Australia has truly come of age and is now being recognised as an asset class in its own right; while occupying the niche between industrial and retail it now has enough critical mass and momentum to comprise specialised multi asset investment vehicles. The sector is truly ubiquitous and is found all over the developed world (even in Vladivostok) under a variety of monikers. It has achieved considerable growth in the last decade and its evolution reflects the changing nature of the two asset classes that it comprises, both industrial and retail.

Estimates of the sector size in either square metres or total turnover across the country vary, furthermore it is difficult to quantify fully as while purpose built centres can be measured, development in precincts (where the retailer type can vary) is much more difficult to accurately measure.

Characteristics

Bulky goods retailing is in the niche between industrial and retail with elements of highway retailing. Notwithstanding this there are a number of defining characteristics of any bulky goods centre and precinct.

- Large functional windowless rectangular single storey buildings with standardised facades. This cheaper construction translates into cheaper occupancy costs.
- Emphasis on value retailing, retailers aim for volume rather than mark-ups.
- Reliance on car transportation and exposure, with large car parks on site and main road locations preferred (adequate amounts of car parking is essential).
- Capable of being located in metropolitan and regional areas, not unique to any locality.

International Evolution

Big box retail was first noticed in the United States in the mid 1980's, and with the hallmarks of warehouse buildings, car access, large bulky items being sold and concentration of similar retailers in the same centre (a power centre) it was hailed as a new type of retail. These power centres contained big box retailers, category killers, discounters, warehouse clubs and other value orientated retailers.

The development of this sector arose from problems being experienced in the traditional US shopping mall industry. In the mid 1980's a number of department stores (which were anchor tenants) went into bankruptcy, changes in tax laws made financing more difficult and construction costs of new centres escalated. Coupled with the maturation of the mall sector (resulting in market saturation in some localities) developers looked for a new asset class that could be constructed on hitherto unexploited sites, were not tied to existing retailers and had cheap construction costs.

Furthermore this new type of retailing was driven by consumer demand. The rising proportion of baby boomers in the population and increasing female participation in the workforce resulted in consumers that placed greater value on their

Terminologies

Like any international property use there are a plethora of terminologies used to describe this sector.

Bulky Goods Retail (PCA Definition) – A medium to large sized shopping centre dominated by bulky goods retailers (furniture, white goods and other homewares), occupying large areas to display merchandise. Typically contain a small number of specialty shops.

Key features: generally located adjacent to large regional centres or in non-traditional retail locations (i.e. Greenfield sites and industrial areas); purpose designed, built and operated, generally with a layout of outlets around a central, landscaped area and an overall design and colour theme to promote the appearance of an integrated development; and generally greater than 5,000 m² (GLAR) in size.

Big Box Retail – US Term for a stand-alone building typically larger in size than traditional stores, uniform in appearance with one or more retail businesses, ample amounts of parking, facing a major road, accessed primarily by automobile, with a regional level catchment area and receiving profits from sales volume rather than price mark-ups.

Note: this (fairly standard) US definition defines big box by the type of store – not the type of goods being sold.

Power Center – US term for a centre, which is anchored by three or more big-box retailers and/or category killers and ranges from 25,000m² to more than 100,000m².

Category Killer – US term for a store with a narrow focus of specialisation (eg toys, pet food, beds/mattresses, fitness equipment, automotive accessories) able to deliver goods at a lower price than more broad-lined retailers due to the greater buying power.

Warehouse Club Store - A no-frills, cash-and-carry discount store. They are “members only” retailers and usually customers must be members and pay dues.

Retail Park – UK and US term for a grouping of three or more retail warehouse type stores built as a single entity, having shared parking and access. They can also include non retail elements like office space and hotels; furthermore they can often have a “motor park” which is a group of car dealers.

time. When a particular purchase was the prime objective these consumers preferred to go to a location where it could be undertaken efficiently and quickly. These new centres arose to meet these requirements.

The migration over the Pacific (and the Atlantic to the UK) saw a change of name into Bulky Goods Retail. While the Australian retail sector was not facing the same structural problems that the US faced in the mid 1980's, by the early 1990's the same demographic forces drove the development of this sector.

Australian Evolution

In Australia the bulky goods style of retail is not new; it was in evidence since the 1970's with developments on industrially zoned land fronting major roads. These properties were large warehouse/showrooms with car parking at the front and they sold a variety of larger items (furniture, whitegoods). The development of specialised bulky goods centres in the 1990's was an expansion of this concept; these centres were a collection of like retailers, located on major roads, generally on industrial zoned land, with warehouse/showroom construction and ample easily accessible car parking.

In this early development phase these Australian centres contained bulky goods and homewares and while many of these shops were category killers (beds, pine furniture, whitegoods), it has only been in the last 5 years that non-homewares category killers have become notable inclusions. This slower development can be attributed to the lack of specialist retailers in this category in Australia at this time. It has been only in the last 5 years that numbers of golfing, pet food & accessories, fitness equipment, automotive and baby goods stores have achieved critical mass.

The arrival of these retailers has seen many commentators and established shopping centre owners throw up their hands in horror and gasp "but they're not bulky". However this overlooks the fact that the terms bulky goods retail along with big box retail were a convenient (at the time) classification given to a particular type of industrial/retail activity, they never did explicitly describe the types of goods being sold. Many of these category killers sell items that are bulky (golf bags, dog kennels, exercise bicycles, mufflers) however they sell a range of goods across the size spectrum, something originally that general furniture retailers did not do (although now many general furniture retailers also sell general homewares and bric a brac).

The Australian experience has been one of considerable expansion in the last decade with predictions of market saturation in the mid 1990's being proved incorrect. These original predictions were based on the perception that bulky goods retail developments were similar to regional shopping centres; that is, the market could only support a finite amount of space per capita and any new development required an anchor tenant to proceed. However this per capita space has been increasing as the numbers and types of retailers has expanded and discovered unexploited market niches.

The bulky goods retail sector has come a long way in Australia in the last 10 years; furthermore it has avoided the US problem of centres going dark, in part due to differences in planning regulations between the two countries. Notwithstanding this, there are a number of trends in the sector that have become more apparent over this decade.

Focus on Precincts

Bulky goods retail is a classic example of the benefits of agglomeration; it appears that the best location for a new development is one near other bulky goods retailers rather than an untested new location. While the sector has grown considerably over the last decade precinct development has led this growth, this development also includes new centres and stand alone premises within established precincts.

This focus on precincts is also demonstrating another development with the rise of smaller centres. In the initial evolution of this sector most new centres were between 15,000 and 30,000 square metres, however in the last five years the mini centre, with a smaller number of occupants, of 7,000 to 10,000 square metres has become popular. These mini centres have particular appeal to developers as a smaller quantum of pre-commitments is needed before construction commences and they can be undertaken on infill development within an established precinct. Furthermore, it is the difficulties of getting any development application for a new centre which is making smaller developments within precincts a more popular alternative to attempting a new large centre in a new location.

Merging with Highway Retail

Like that quote from an episode of the 1970's TV show The Goodies, "if I remember my O level geography, where one is apt to find cream one is also apt to find jam and scones". The same can be applied to highway bulky goods retail; where one finds bulky goods retail one is also apt to find Kennard's Hire, Millers Self Storage, an Aldi store, some car yards and fast food eateries (McDonalds, KFC, Red Rooster, Hungry Jacks, etc).

There is an affinity between bulky goods retail and other types of highway retailing as both are primarily car transport focussed; even fast food, which is not a "bulky" item, is generally accessed by motor vehicle. Consequently many

retailers in bulky goods developments have a similar strategy to many fast food chains when establishing their industry presence.

One observation that can be made is that, in general, precincts that have good exposure and access to their main highway have been growing faster and have lower vacancy levels (once established) than centres that are modelled on traditional shopping centres with an inward focussing design. This is especially true where the bulky goods precinct can “infect” the surrounding (usually industrial) properties.

Category Killers

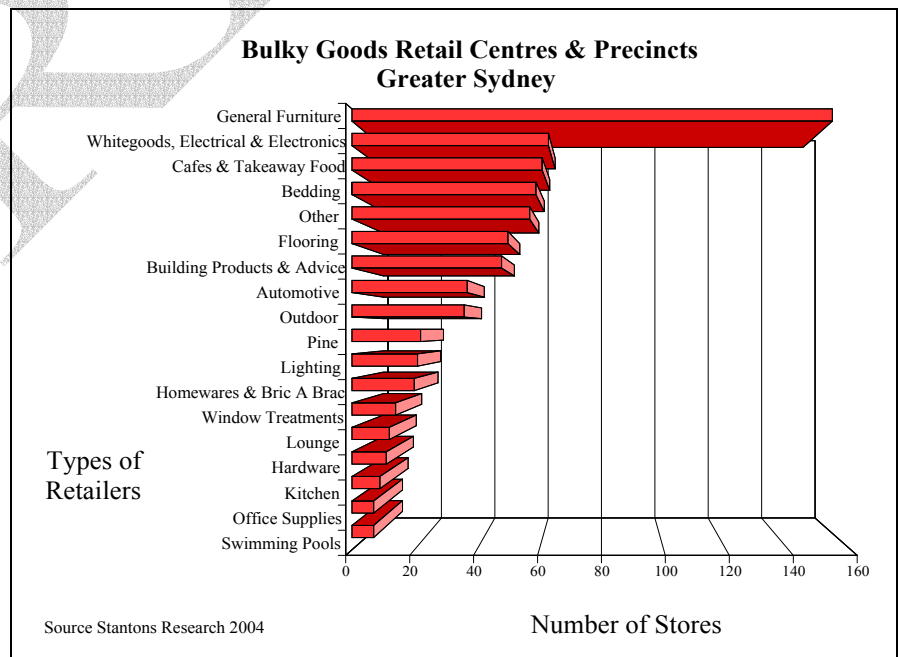
In recent years Australia has followed the US trend incorporating a wider range of Category Killers into bulky goods retail developments. These newer category killers include the following

- Automotive – Super Cheap Auto, Auto Barn, Strathfield Car Radio, Repco, Ultra Tune, Robbos, Bob Jayne T Mart, Car Wash
- Sporting & Fitness – Golf Mart Superstore, Elite Fitness Group, Fitness First, Fernwood, Cycle Shops, Sun Tan Centre, Marine Store
- Personal Goods – Toys R Us, Baby Co, Babies Galore, Liquor, Spotlight, Bossy Babies, Buy Buy Baby, Lincraft, Pharmacy/Vitamin superstore,
- Homewares & Bric a Brac – Picture Framing, Howard’s Storage World, The Linen Factory, Home Depot, Base Warehouse, The Warehouse, Chef King,
- General – Clark Rubber, Aldi
- Pets – Pet Barn, Strictly Aquariums, Pet Care Warehouse, Vet Clinic, Bully Beef Pet Supplies, Animal Hospital

Furthermore the retailers have joined this trend and have rolled out (or already have) their own category killers, Coles/Myer with Officeworks, Liquor Land and Harris Technology and Woolworths with Dan Murphy’s and Dick Smith Electronics.

Unrestricted Range of Anchor Tenants and Occupant Groups

In Australia, ordinary retail centres require an anchor tenant (supermarket, discount department store, department store); however bulky goods retail centres appear to have no defined anchor tenant (either business or type or retailer). Recent analysis of all major bulky goods centres and precincts in Greater Sydney revealed that even while furniture retailing was a significant component in some centres, in others these stores were in the minority or did not feature at all. This lack further facilitates development, which in Australia is tenant driven, as developers have a wider pool of potential occupants who can underpin any new development.



The main requirement is for a critical mass of the main types of retailers (furniture, bedding, whitegoods/electrical, flooring, etc) not a choice of one of two large retailers, which is the situation faced by conventional shopping centre developers. Furthermore this critical mass situation extends to comparison shopping, precincts that can facilitate 2 -3 outlets across the whole spectrum of bulky goods retailers.

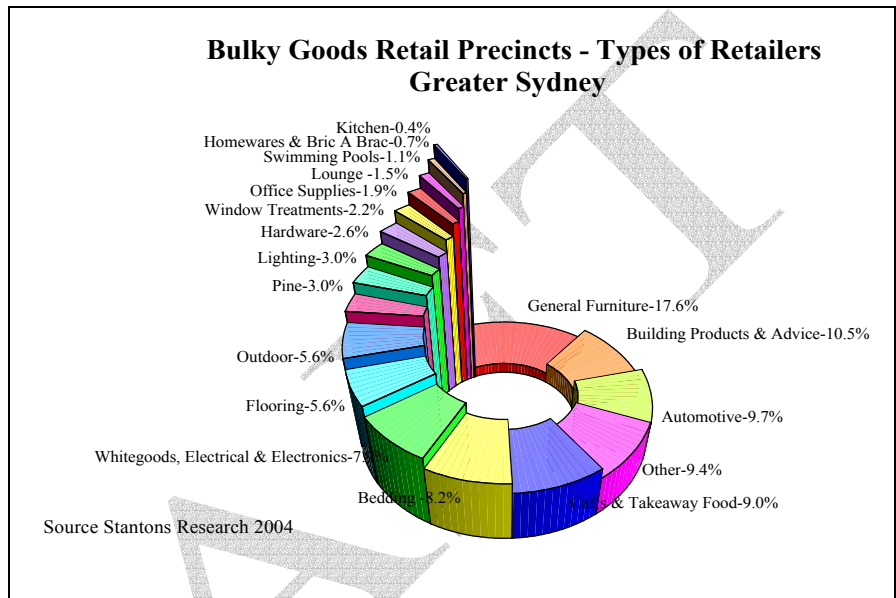
A recent survey of bulky goods retail centres and precincts in Greater Sydney has highlighted a widening of tenant types, as while the two most popular occupant groups are the traditional ones, the prepared food and non homewares groups are increasing in popularity. It will be interesting to repeat this survey in future years to see how the sector evolves.

This widening of retailer types is resulting in a greater product assortment diversification available in bulky goods developments. This in itself is able to increase the resilience of the sector as expanded goods and price ranges in a retail establishment results in even uncommitted shoppers more likely to conclude a visit with a purchase. Additionally this widening of tenant types is particularly significant for the sector, resulting in an asset class that is losing some of its linkage to levels of home building. There are indications that the home building sector is unlikely to continue seeing the strong levels of growth which has characterised previous years, consequently this widening of occupant groups is resulting in an investment class that is less likely to be impacted.

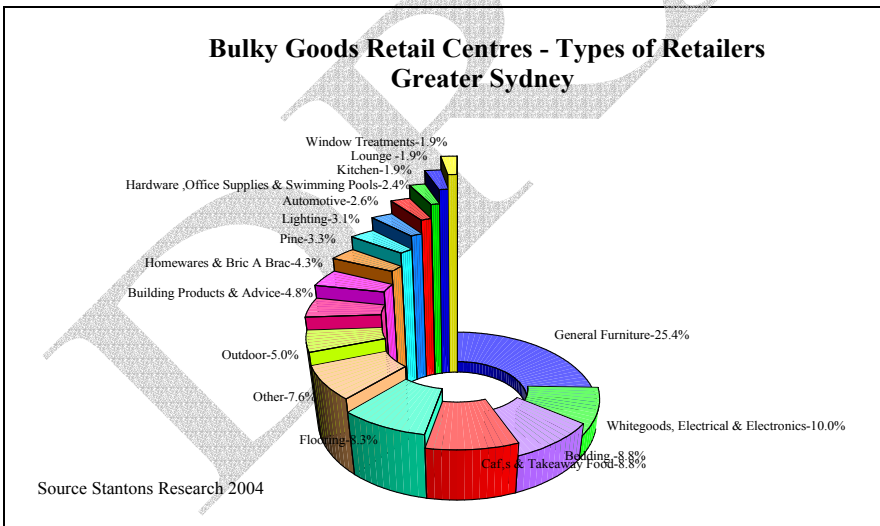
Other non homewares or non category killer occupants that are often found in bulky goods retail developments include.

- Community and education – religious, training
- Second level commercial – finance, professional services
- Prepared food – restaurants (destination), cafes (for patrons) and fast food (destination and patrons)

A comparison of retailer types between stand alone centres and precincts also reveals some interesting trends, as the centres have a greater reliance on traditional homewares compared to precincts. The precincts appear to be swifter to accommodate these new retailers, furthermore in compiling the survey it was noted that new centres were more likely to echo this wider retailer type trend.



The precincts appear to be swifter to accommodate these new retailers, furthermore in compiling the survey it was noted that new centres were more likely to echo this wider retailer type trend.



“Retailisation” of Industrial

Just as the drive for greater efficiencies in the freight industry is changing the operations of logistics operators and driving the demand for ever larger warehouses, the manufacturing and fabrication sectors of the industrial market are also responding to changes.

Industrial businesses that deal with consumers now have a greater emphasis on their retail operations when compared to 5 – 10 years ago. For example a shower screen manufacturer a decade ago would

have had a workshop with an office, if clients came to decide on which product they would be shown samples in a catalogue, component mouldings and perhaps some screens currently being made. Now such a shower screen manufacturer is likely to have a showroom at the front of their workshop with a range of their products made up in situ allowing consumers to see the final product and make a decision based on this appearance.

This growing “Retailisation” of industrial is resulting in a sector where the boundary between light industrial and retail is blurring. There are many examples of light/general industrial area with highway exposure and access which have metamorphosed into bulky goods retail precincts.

Shopping Centre Owners Fight Back

While retailers and property developers have been able to respond swiftly to market changes and openly embraced the bulky goods bandwagon the owners of traditional shopping centres are more constrained. It takes years to plan and construct a traditional shopping centre; furthermore Australian planning regulations restrict the amount and location of retail land, resulting in a sector that is tied to existing sites. In contrast once planning approval is granted an open air bulky goods centre can be constructed in 6 months.

Understandably owners of existing (especially regional+) shopping centres are concerned about the potential competition from the bulky goods sector and have fought new development and expansion of bulky goods centres on the grounds that these uses constitute a retail use and should not be allowed.

This has not been the major shopping centre owner's only strategy they have also joined the bulky goods retailers, with Westfield adding an adjoining 10,000 m² Bunnings store to Westfield Marion in South Australia. The owners of Erina Fair, GPT, have a bulky goods retail component within this centre; moreover GPT has specialised bulky goods retail centres in their portfolio.

As a further strategy the (regional) shopping centre owners have evaluated many of the trends developing in the US and adjusted their Australian approach accordingly. Discount department stores (Wal Mart) in the US moved to power centres, however the regional shopping centre owners in Australia have "headed them off at the pass" and moved this tenant group into their centres in recent years. This has been a particularly astute strategy on the part of the big shopping centre owners when seeing the impact of these discount department stores (the Wal-Mart-ization) on surrounding retail in the US, decided not to wait and allow this tenant group move into a competitive position.

A significant issue confronting the major shopping centre owners is that bulky goods retailers are value orientated, resulting in tenants that may not have the underlying profitability to pay rents at shopping centre levels. Consequently if a centre owner were to incorporate a bulky goods component into their centre, the amount of rental return (per m²) may no be able to provide the required return on capital investment to justify the additional construction.

Regulatory Approach

The shopping centre owners are not the only group taking steps to control the level of bulky goods retail development. Both state and local planning authorities are concerned about proliferation of retail usages outside designated retail areas and have taken steps to control development.

This can be either through state legislation such as is happening in New South Wales with draft SEPP 66 – Integration of Land Use and Transport. The thrust of this regulation is that further development of a number of activities including bulky goods retail should consider the impact of such a development on transport use, with the intention of encouraging non car methods of transport. Other states have approached this at the local authority level (Western Australia, South Australia, Victoria) where different councils set requirements for bulky goods retail in industrial zoned areas. Some of these regulations allow bulky goods retail activities when the goods sold were manufactured on the premises, where the retail space is less than a percentage (10%) of the total building area or the goods sold are on a designated list.

Controlling this type of development is not confined to Australia, in the US state legislatures (California, Nevada) have debated or passed regulations attempting to contain the development of big box retail and attempting to limit the types of goods sold. Being the US these are vigorously fought on the grounds that they are anticompetitive and pander to special interest groups (existing mall owners). Moreover the US situation is further muddied by the differences in tax rates between items sold, which results in existing retailers being able to fight new developments that contain large levels of food retailing on the grounds that the sale of these items does not add to state taxation revenue.

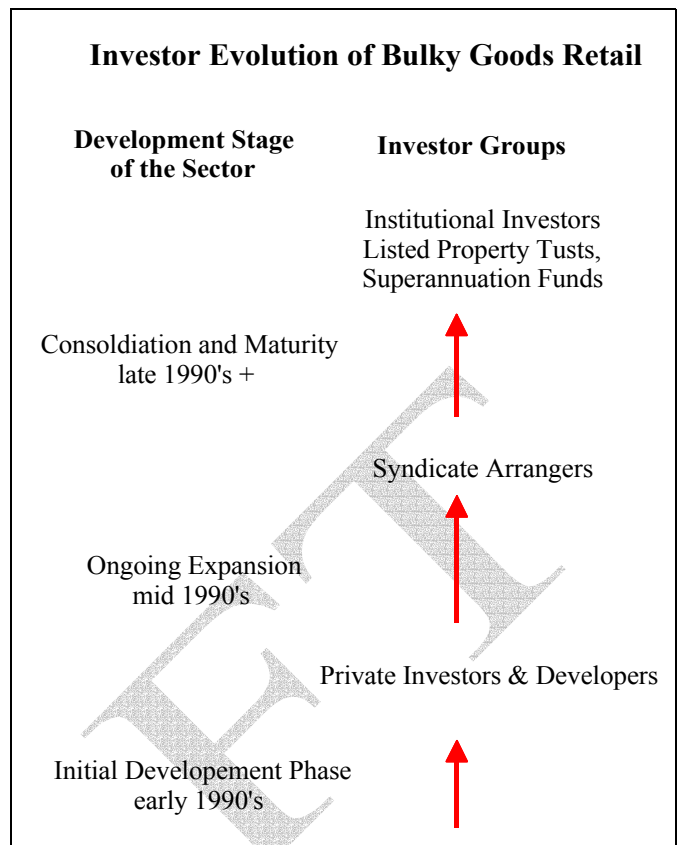
Evolution of Investors in the Sector

Understandably institutional investors, who are in the business of managing other peoples money, are not prone to trail blazing new unproved property sectors and waited until the sector had become established before incorporating bulky goods retail centres into their portfolios. Consequently the initial development in the early to mid 1990’s was in the hands of private investors and developers (no pun intended), these can have a strong appetite for risk and are often willing to pioneer a new sector.

As the sector expanded in the mid 1990’s the syndicate arrangers noticed this new property type (which coincided when property researchers first showed an interest in bulky goods retail); they were attracted to the high yields and the potential for rental growth. As the numbers of bulky goods retailers and retailer types continued to grow in the mid 1990’s the numbers of properties increased, which provided ongoing investment opportunities.

In the mid to late 1990’s and early 2000’s the institutional investors moved into the sector, with GPT purchasing the Homemaker Portfolio and the listing of the Bunnings Warehouse Property Trust. The range of property types expanded at this point with the growth of mini centres in precincts producing a wider range of asset sizes for investors.

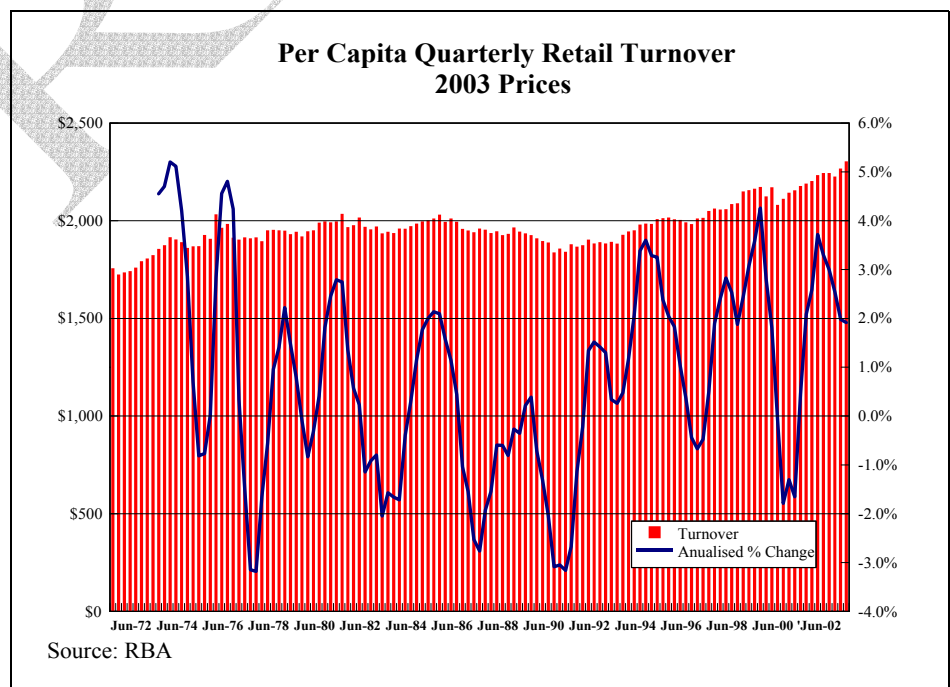
The influx of investment funds has helped transform the sector from essentially “shedland” to the “shiny buildings” loved by the institutional investors. The outcome of this continuing interest across the spectrum of investors has been the firming of yields from the double digits of the mid 1990’s to below 8.0% for selected assets held by institutional investors.



Retail - The Best Years of Our Lives

Another component behind the expansion of the bulky goods retail sector has been the performance of retail throughout the last decade. On a per capita inflation adjusted basis the 1990’s has been a good decade for retailing with improving growth in spending. The annualised change in turnover per capita since 1990 has been 1.07% (even with the impact of the GST); in comparison the annualised growth of retail spending through the 1970’s and 1980’s was 0.6%.

Much of this performance has been driven by macro economic factors with the reduction in tariffs leading to cheaper consumer goods and



improvements in technology resulting in decreasing prices for bulky goods items especially for electronics items. Changes in fashion have also improved the bulky goods sector; traditionally people bought their furniture at the commencement of marriage and didn’t discard anything until it was worn out. Nowadays the trend is for redecorating on a more frequent basis resulting in households more regularly buying furniture, curtains, carpets and whitegoods.

These are factors that may not be repeated in the longer term; thus the growth that has driven much of the property development since the early 1990's cannot be expected to continue indefinitely.

Conclusion

While bulky goods retail has matured, detailed analysis is still difficult due to its fragmented nature; in the later part of the 1990's many industry commentators predicted that the sector had become saturated and that no further centres should be built, history has proved them wrong. While there are a number of industry researchers quantifying the sector this information is closely guarded, furthermore the US experience of centres "going dark" or the "Wal-Mart-ization" reveals a different structure to the Australian market making comprehensive analysis of ideal densities necessary for undertaking planning decisions difficult.

DRAFT