THE FIVE MEGATRENDS THAT WILL TRANSFORM THE FUTURE OF SHOPPING CENTRES IN AUSTRALIA

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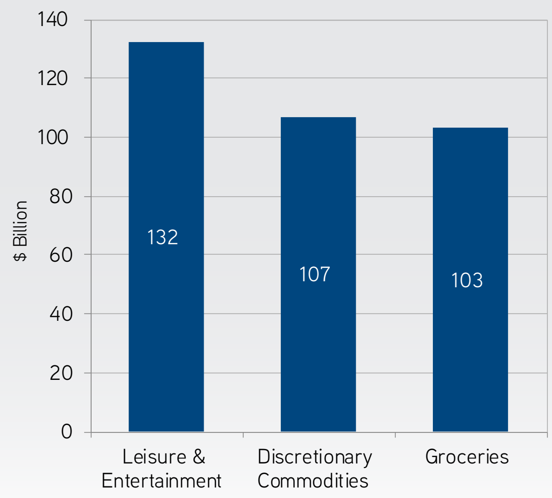
There is no denying that the global retail sector is navigating through uncharted waters as consumers fundamentally adjust their priorities and behaviours. However, despite global headwinds, the Australian retail property market has remained relatively resilient and continues to grow. This is because Australian shoppers continue to enjoy the shopping experience in brick-and-mortar stores. Approximately one-fifth of Australian consumers prefer to shop exclusively offline, the highest proportion of any country within the Asia Pacific region according to surveys by Rakuten Marketing in 2018. As a result, retail sales at brick-and-mortar stores in Australia still account for about 95 per cent of all retail activity, outperforming the US (90 per cent) and the UK (82 per cent).

There are many factors that have underpinned the resilience of the Australian retail property market, but the main catalysts include:

- Australian shopping centres are predominantly anchored by supermarkets and food-based retailers, which are more defensive against online retailing.
- The average visitation per catchment ratios across shopping centres in Australia are amongst the highest in the world.
- Per capita supply of retail space in Australia is still relatively low compared to other developed markets.
- The Australian population continues to grow at one of the fastest rates in the world, with the bulk of this growth being underpinned by growth in the working-age population.
- Australian consumers are distinctive to the rest of the world, with a strong sense of attachment to the local communities and favouritism towards fresh produce and locally-made products.

Furthermore, numerous case studies have shown that online and offline retailing in Australia are complementary as opposed to supplementary as an overwhelming number (78 per cent) of Australian consumers would shop both online and offline simultaneously (Rakuten Marketing, 2018). Only 2.0 per cent of Australians would buy exclusively online, one of the lowest rates in the world. In comparison, 7.0 per cent of American consumers are making their retail purchases online exclusively (Google Surveys, 2018). As such, Australian retailers are increasingly adopting a multi-channel retailing strategy for their business. Notwithstanding the sound fundamentals, Australian shopping centres must continuously reinvent themselves to be relevant to the future generation of shoppers.

What do Australians spend on?



Source: Roy Morgan (2018), Colliers International

In this white paper, Colliers International examines the megatrends that are shaping the future of Australian shoppers and the actions that owners must take to future proof their assets.

1. Welcome to the experience economy

Australia has well and truly transitioned into an experience economy. Australian consumers are spending significantly more on entertainment and leisure activities than discretionary commodities. Previous research studies have shown that shoppers are willing to spend more for the same product or service if they receive a positive experience during the buying process. The rise of the experience economy will have defining implications on the Australian retail property market. Landlords must re-assess in-store strategies and tenancy mixes to bring the shopping experience to the next level. In addition, new performance metrics such as 'experiences per square metre' will become more prevalent in the future in addition to the traditional metrics of 'revenue per square metre' or foot traffic. According to the latest data from Roy Morgan Research, over $132 billion was spent on lifestyle and leisure services compared to $107 billion spent on material merchandises and $103 billion on groceries over the 12 months. In other words, Australian consumers are putting a greater emphasis on experiences that enrich their lives rather than material objects.

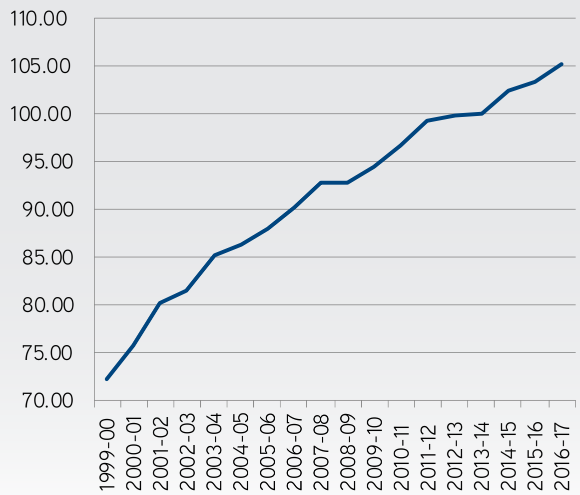
Against this backdrop, the concept of selling experiences has transcended beyond theme parks and theatres to all aspects of business. As customers unquestionably desire experiences more than ever in an experience economy, with products and services to become commodity-like being replicated and outsourced with relative ease. The ability to provide a memorable experience that wraps around the product or service is the only way for companies to differentiate their offerings against future competition.

2. The rise of retailtainment

One of the most effective ways to create a memorable experience for the consumer is to transform the shopping function from a boring chore into a pursuit of happiness. This can be done by combining various aspects of retailing, entertainment, music and leisure to arouse consumer physical and emotional sensations during the journey. This concept is described as "retailtainment" and is now in full swing across the retail world. In Australia, retail centres are unreservedly embracing this approach and increasingly anchor their centres around entertainment and leisure concepts. The presence of entertainment activities within shopping malls will not only act as a magnet to attract foot traffic, but also entice customers to spend more and stay longer. Museums, indoor sports centres, night clubs, wedding venues, concert spaces, Mini Golf courses, eSports arenas, etc. are some of the popular retailtainment options that are gaining popularity across shopping centres around the world.

Successful examples overseas include the Xanadu Centre in Madrid, sporting a massive indoor ski slope and 15 cinemas, the Mall of the Emirates in Dubai, home to the world's largest indoor snow park or the American Dream Mega-malls in New Jersey and Miami that feature water parks, live theatres, fishing centres and sports arenas. In Hong Kong, the flagship retail complex "K11 MUSEA" is near completion and will boast a 'ultra-high-end' museum curating world-class art collection from around the world. Cirque du Soleil, the world's largest theatrical producer, has recently announced plans to open its first family entertainment centre inside a shopping mall in the Greater Toronto Area. The centre will be the first of many recreation centres to be rolled out by Cirque du Soleil globally. The performance and entertainment centre will offer immersive, creative and participative family experience through Cirque du Soleil-inspired recreational activities, such as bungee jumping, aerial parkour, wire and trampolines, mask design, juggling, circus track activities, dance and more.

Australia Health Consciousness Index



Source: IBISWorld (2018)

In Australia, although the concept of retailtainment is still in its infancy compared to other developed markets, examples such as the Ice Rink in Macquarie Centre, Holey Moley mini golf course in Charlestown Square and Wollongong Central and children play zones are gaining ground and welcome by consumers. However, looking forward we expect Australian landlords to raise their game with regards to more innovative and contemporary retailtainment offerings.

3. Health and wellness uses

Recent years have seen health and wellness spring up as a vital component of the tenancy mix across shopping centres in Australia. Incorporating health and wellness uses within a shopping centre will not only bring better synergies with other uses but also optimise space efficiency. This trend is further supported by the aging of the Australian population and increased spending on healthcare services. More than one in seven Australians were aged 65 and over as at 2017. Senior Australians are projected to more than double by 2057. Clinics, healthcare centres, yoga studios, gyms and wellbeing workshops are some of the more popular uses within this category that are taking up significant spaces in shopping centres across the country and will continue to intensify over the next decade.

Moreover, sustainability initiatives such as green space, solar power, LED lighting and open-air ventilation must be a critical component of the next generation of shopping centres. These initiatives are not only cost-effective but also demand-driven as Australian consumers are increasingly becoming health and environmentally conscious. Research has shown that provision of green walls and community gardens within buildings will lead to increased levels of wellbeing and happiness of both tenants and patrons. This, in turn, will increase property values and lower vacancies over the long run. Installation of solar power panels, LED lighting and more efficient ventilation systems will not only heighten wellness levels but also future proof the asset against rising energy costs in the future.

4. Personalisation and micro-segmentation

Retailers and marketers must constantly find better ways to personalise the customer experience. This is because experience resides in the mind of the consumer and no two shoppers will have the same experience. The more personalised the interaction the richer the experience and the more they will spend. With the help of advanced technologies in recent times retailers are now able to obtain deeper insights into customer behaviours. Companies now know what the shopper wants to buy before they might know themselves. New technologies have also paved the way for a micro-segmentation approach. The goal of micro-segmentation is to precisely segment customers into extremely small groups, even at individual levels.

Shopping centre operators have already been trialling new technologies to take personalisation and micro-segmentation to more intimate levels. Biometric and facial recognition systems upon entry into the shopping centre can recall a customer's previous visits and can predict what they are likely to purchase and whether the correct size is available. Smart mirrors and interactive change rooms will allow shoppers to customise their outfits without the hassle of trying them on. Smart beacons can communicate directly with the customer on the go and track their movement within the centre.

Eye scanners and smart advertising screens can detect the mood of viewers, predicts their age and individual levels, in order to maximise the utility of each customer to the business and to satisfy his or her specific needs. gender and how many times the screens were viewed and for how long. Smart speakers and voice shopping technology will be the next big thing in the retail world. It is estimated around half a million Australian households owned a smart speaker at the end of 2017, a massive increase of 50 folds from less than 10,000 a year prior. According to forecasts by Telsyte, around a third of Australian households (3 million) will have a smart speaker by 2022.

5. Future placemaking will be influenced by the rise of localism

The past decade has witnessed the rise of the localism sentiment within Australia consumers. Once a social and economic phenomenon, localism is becoming a major influence on consumer preferences and purchasing decisions. Neighbourhood residents are becoming increasingly attached to their local community and more involved with the stewardship of the places they share.

This is evidenced by the fact that almost 90 per cent of Australians prefer to shop regularly at their local stores and the majority are very much interested in local affairs and community events, according to surveys by Relationships Australia. Our analysis also reveals that Australian shopping centres have one of the highest footfall to catchment ratios in the world. Of note is Westfield Bondi Junction with a pedestrian to catchment per annum ratio of 46:1, while those for Westfield Fountain Gate and Chadstone are 29 and 21 respectively. More than ever, shopping centres, not just neighbourhood centres but also Regional and Sub-Regional shopping centres, must become more deeply entrenched and connected with their catchment community.

Each locale will have distinct needs and requirements and shopping centre owners need to gain an intimate understanding of the catchment population. The rise of localism will also channel increased demand for additional public and community spaces. Additionally, placemaking initiatives such as community gardens, youth start-up or co-working spaces or child play facilities will become more prevalent across shopping centres of the future. To remain relevant in the future, progressive retailers and shopping centre oweners must engage more deeply with the local residents and integrate themselves within their communities – which is what retail has always been about – a platform for social interactions.

Colliers International looks forward to assisting you with your Retail requirements.

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