Employment Lands

Retail Report

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Introduction

The retail sector serves an important role in the community. Retail allows consumers access to a broad variety of goods and services. The retail industry is also important to the economy through the high volume of transactions and the large number of workers employed across the state.

This report provides an analysis on the value of retail building approvals from 2021 ABS data (as at October 2022). This data provides information about retail buildings primarily used in the sale of goods to intermediate and end users including the value of alterations, additions and conversions (worth over $50,000). The data is used as a proxy to provide an estimate of the level of development activity across the retail industry in NSW. The report also contains commentary on the demand for retail property given structural changes in the sector, the ongoing impact of COVID-19 and the macroeconomic environment.

Value of Retail Approvals in 2021

Analysis of ABS data shows the value of retail development approvals, including additions and alterations, by district during the 2021 calendar year. Figure 1 shows Greater Sydney has most retail approvals by value. Figure 2 breaks this down by district, and in terms of LGAs, the City of Sydney had the highest value of approvals (14 per cent of the total), with Blacktown in second (7 per cent). Examples of the approvals contributing to these results is included in Table 1.

Figure 1. Value of Retail approvals in Greater Sydney and Rest of NSW in 2021

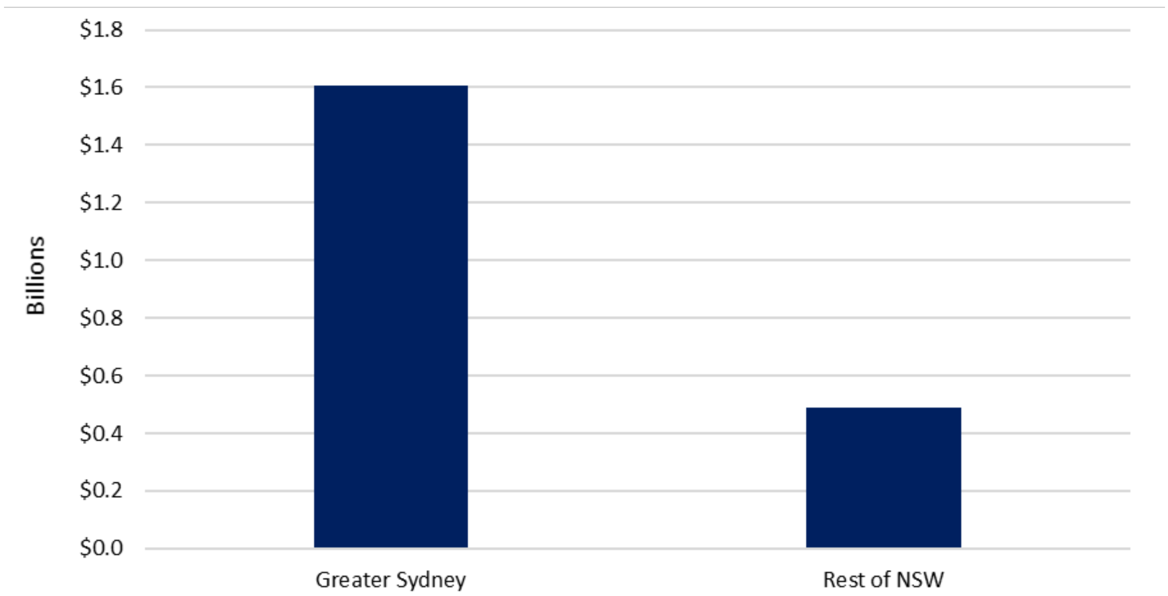


Figure 2. Value of Retail approvals by District in 2021

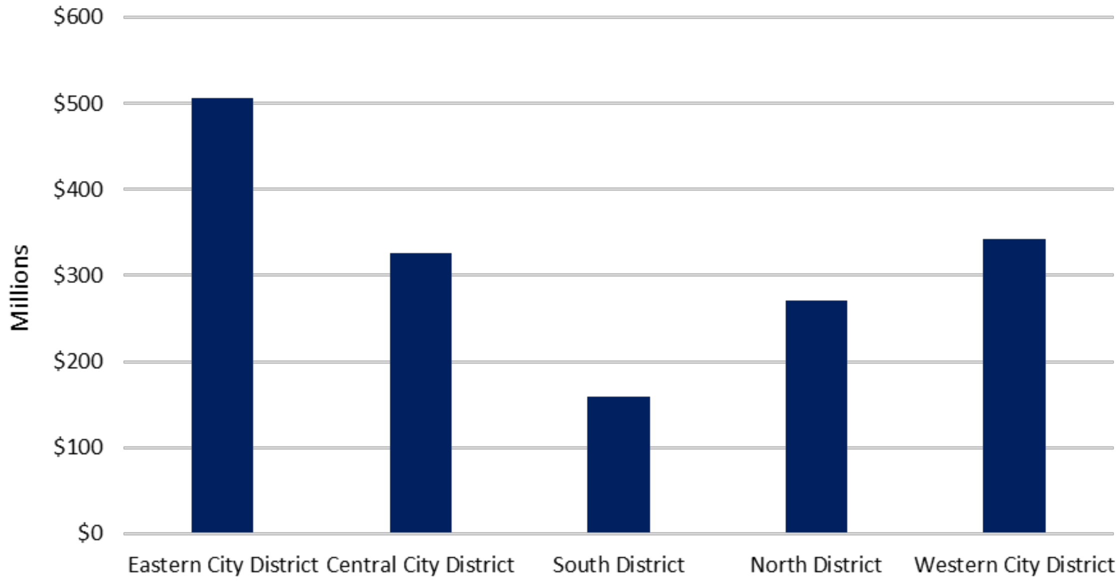


Table 1. Examples of retail approvals

LGA	Suburb	Project	DA Value[1] ($m)	Approval date
City of Sydney	Sydney	Harbourside Shopping Centre Redevelopment	708.0	25/06/2021
Ryde	Macquarie Park	Macquarie Centre Redevelopment	195.5	20/10/2021
Byron	Byron Bay	Gallagher Street Commercial & Community Development	42.0	15/09/2021
North Sydney	Neutral Bay	Waters Road & Grosvenor Street Mixed Use Development	40.0	09/04/2021
Camden	Leppington	Woolworths Leppington	32.2	04/06/2021

[1] DA value may include non-retail components.

Retail performance overview 2021-2022

Economic recovery, high inflation and structural shifts

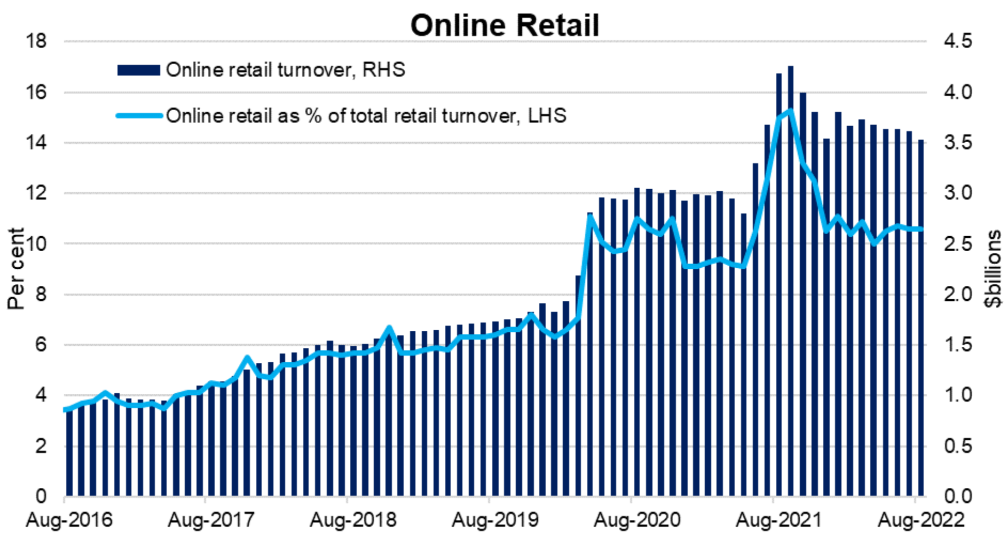
The substantial pandemic support by governments combined with recent strength in the labour market have supported real disposable income, which rose across the pandemic despite the significant decline in economic activity. This support enabled retail spending and broader household consumption to rebound more strongly than expected from last year's Delta outbreak, while also assisting to offset the short-term negative impacts of the Omicron outbreak and floods in early 2022[1].

Nominal retail sales rose 21 per cent in the three months to August 2022, compared with the same period a year ago, the fastest pace of quarterly growth on record since 1983[2]. The biggest contributors to the quarterly growth were the *Cafes, restaurants & takeaway food* and *Clothing, footwear & personal accessory* sectors. These two sectors contributed more than half of the total growth. It should also be noted that the extremely strong nominal retail sales results were masked by high consumer inflation to a degree, with the Consumer Price Index (CPI) in Sydney rising 5.3 per cent over the 12 months to the June quarter[3]. The underlying volume of retail sales is likely to be weaker than what the headline nominal result suggests.

The near-term outlook for household spending continues to be supported by strong labour market outcomes, though growth is forecast to ease over the remainder of 2022 as households' budget come under increased pressure from the rising cost of living. Further out, growth in consumption is forecast to slow as rising prices and higher net interest payments weigh on real disposable income growth and declines in housing prices lower net household wealth[4].

Prior to COVID-19, bricks and mortar retailers were facing challenges from long-term structural shifts such as the rise of online retailing and changes in consumer spending patterns from 'goods' towards 'services. These shifts have resulted in increasing vacancies and declining rents over time, putting downward pressure on retail property valuations. The COVID-19 restrictions have put further pressure on vacancies, rents and valuations. While these temporary headwinds are now easing following the end of restrictions, the long-term structural shifts are expected to continue. Online retailing, as a percentage of total retailing, has now stabilised around 11 per cent, a level much higher than the pre-pandemic average of 6 per cent.

Figure 3. Volume of online retail



Source: ABS Retail Trade, DPE calculations

Retail Property

The strong retail sales results have yet to translate to the overall retail property market. Underlying tenant demand for retail property remains weak. As at June 2022, market rents in both segments were around 10 per cent lower than pre-pandemic levels[5].

Retail shopping centre vacancy rates remain elevated, particularly in the CBDs of major capital cities where the pandemic has had a persistent dampening effect on economic activity[5]. Net CBD asking rents in NSW were stable in Q3 2022, but 5.8 per cent lower than a year ago. In contrast, rents for regional shopping centres were 8.5 per cent higher than a year ago in Q3 2022[6].

References

1. NSW Treasury, (2022), NSW Budget 2022-23, June 2022.
2. Australian Bureau of Statistics, (2022), Retail trade, Australia, August 2022.
3. Australian Bureau of Statistics, (2022), Consumer Price Index, Australia, June 2022.
4. Reserve Bank of Australia, (2022), Statement on Monetary Policy, August 2022
5. Reserve Bank of Australia, (2022), Financial Stability Review, October 2022
6. CBRE, (2022), Australian Retail Figures, Q3 2022