

THE AUSTRALIAN

'Flight to quality' to sideline suburban malls

ELIZABETH REDMAN THE AUSTRALIAN 12:00AM November 3, 2017

Top-quality high street retail property has a brighter outlook than shopping centres as suburban living becomes less appealing to the millennial generation, according to a US-based real estate asset manager.

Department stores were the centre of problems in the US retail market and the three biggest players could shed \$US25 billion (\$\$32.4bn) in sales over the next five years, Dallas-based L&B Realty Advisors executive vice-president Eric Smith said.

Mid-sized shopping centres filled with specialty retailers selling commoditised goods were also at risk as consumers switched to online purchases.

The comments come amid worries over the outlook for local retail landlords as weak wages growth weighs on consumer spending and US-based online commerce juggernaut Amazon prepares to roll out its full retail offer in Australia, while department store Myer has been in focus after downgrading its targets this week.

“Our outlook is, it’s a flight to quality so it’s going to be a bifurcated market,” Mr Smith told *The Australian* on the sidelines of the Atchison Consultants Global Real Assets Forum in Melbourne.

“If you look at department stores, they’ve been in trouble for 15 years,” he said, adding Macy’s, Sears and JC Penney had shed \$US25bn in sales over the past five years and would lose a similar amount in the next five years.

There was a risk of the Australian market being complacent about the entry of Amazon, and the “more proactive” that bricks-and-mortar stores were in response, “the better off they’re going to be”.

Mr Smith was upbeat on non-mall, high street retail, “certain areas in really big cities where if you came in from somewhere else internationally, you would go there to shop”.

Suburban areas broadly were falling out of favour with millennials who preferred to live in inner-urban areas. “That mall is a product of the suburban sprawl that the United States has had. Everything is reversing and coming back into the city,” he said.

International retailers such as Zara and H&M “stay packed” in high-traffic areas such as New York City. “But if you have a humdrum store and you don’t have your branding figured out, you don’t have products that people want to buy, you’re dead.”

Even as eateries and experiences were becoming more important for malls, centres that had been performing well would continue to do so, but weaker malls would go into decline.

Shopping centres filled with specialty retailers such as electronics stores or linen stores — known as “power centres” — were at risk as consumers could easily buy those products on Amazon.

Some older malls had even been repurposed as online commerce distribution centres

ELIZABETH REDMAN