



Beyond COVID-19

The shifting foundations in retail property

How might the retail
property landscape
change in the new reality?



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The shifting foundations in retail property.

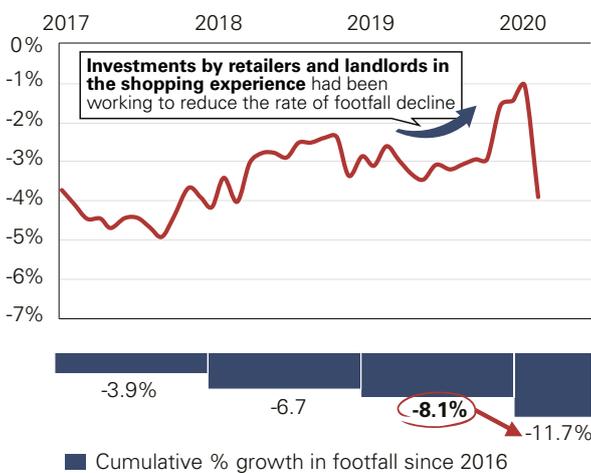
The onset of physical distancing measures swiftly changed consumer behaviour – from how much people buy online, how often they visit physical stores and what days and times they shop, to how far they travel on each shopping journey.

The role of bricks and mortar retail was transformed overnight by the coronavirus pandemic (COVID-19). For retailers and landlords, the potential that these changes may be permanent further challenges bricks and mortar channels, given the high fixed-cost of building, operating and trading.

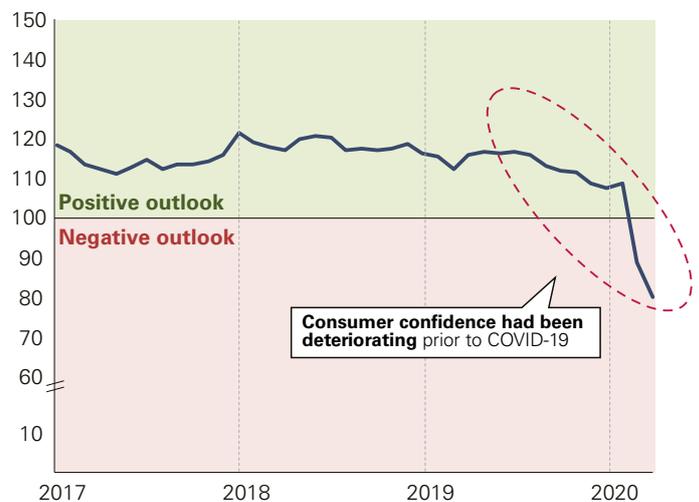
Bricks and mortar retail is a 'volume game' – the higher the footfall, the more time consumers dwell and the more confident consumers are in their financial wellbeing – the more money they spend with retailers, who can then pay rent to landlords and make a profit. The COVID-19 physical distancing measures and the resulting recession work against all three of these value drivers – footfall, dwell times and consumer confidence.

The challenges facing the retail industry are not new, they have been building for years. COVID-19 has simply accelerated and amplified cracks that were already visible. Retail precinct footfall had been in decline for years as ecommerce penetration grew – recording 8.1 percent in cumulative footfall losses over the 3 years to 2020. Retailer profit margins and retail landlord yields were being squeezed, since 2017 and consumer confidence had been in decline for most of 2019 following a turbulent year of Royal Commissions, rising public concern regarding the cost of living and house prices, stagnant wage growth, prolonged drought, the Black Summer bushfires, and other severe weather events. COVID-19 adds to this already complex context for retailers and landlords.

Australian retail footfall¹ had been in decline for years before COVID-19
12 month rolling average YoY growth rate²
Jan 2017 – Mar 2020



Australian consumer confidence
Index (>100 = positive outlook)
Jan 2017 – Apr 2020



Notes: (1) Based on ShopperTrak data, ShopperTrak uses in-store foot traffic counters to collate foot traffic data; (2) Growth rate from previous to current year's 12-month average (e.g. Jul 16 - Jun 17 vs Jul 15 - Jun 16).
Sources: Livewire Markets, Chart of the day: foot traffic for Australian retailers; AFR, Weak retail spending an unintended consequence of the banking royal commission; Savills Research Quarter Time Nation Retail Q4 2019; ANZ - Roy Morgan Australian consumer confidence; KPMG analysis (2020)



Retailers and landlords face this challenge together, supported by a newly minted code of conduct, JobKeeper and a temporary moratorium on insolvent trading laws to enable collaboration and value sharing through the downturn.

Given the robust nature of tenant and landlord negotiations in the past, both sides will be carefully thinking of ways to shift the balance of power in their own favour. Success will depend on trust, and for some pairings, this will be difficult.

To shape a view on how the retail property landscape may respond, KPMG Strategy has worked together with retail mapping platform, GapMaps and KPMG's real estate practice to examine how shopping journeys have changed, how bricks and mortar retailers and landlords can re-engage the 'new consumer', and how the relationship between landlords and tenants might evolve as COVID-19 eases.

What we've learned is that:

- Living local has triggered a rebirth of village shopping
- A new rhythm for the 'weekly shop' is emerging
- Great safety experiences equal great customer experiences
- Tenants and landlords face a classic 'prisoner's dilemma'

The acceleration of ecommerce growth is one of the most critical changes impacting the viability of retail property in Australia. You can find out more in [*Beyond COVID-19: Retail survival and revival.*](#)

Living local has triggered a rebirth of village shopping

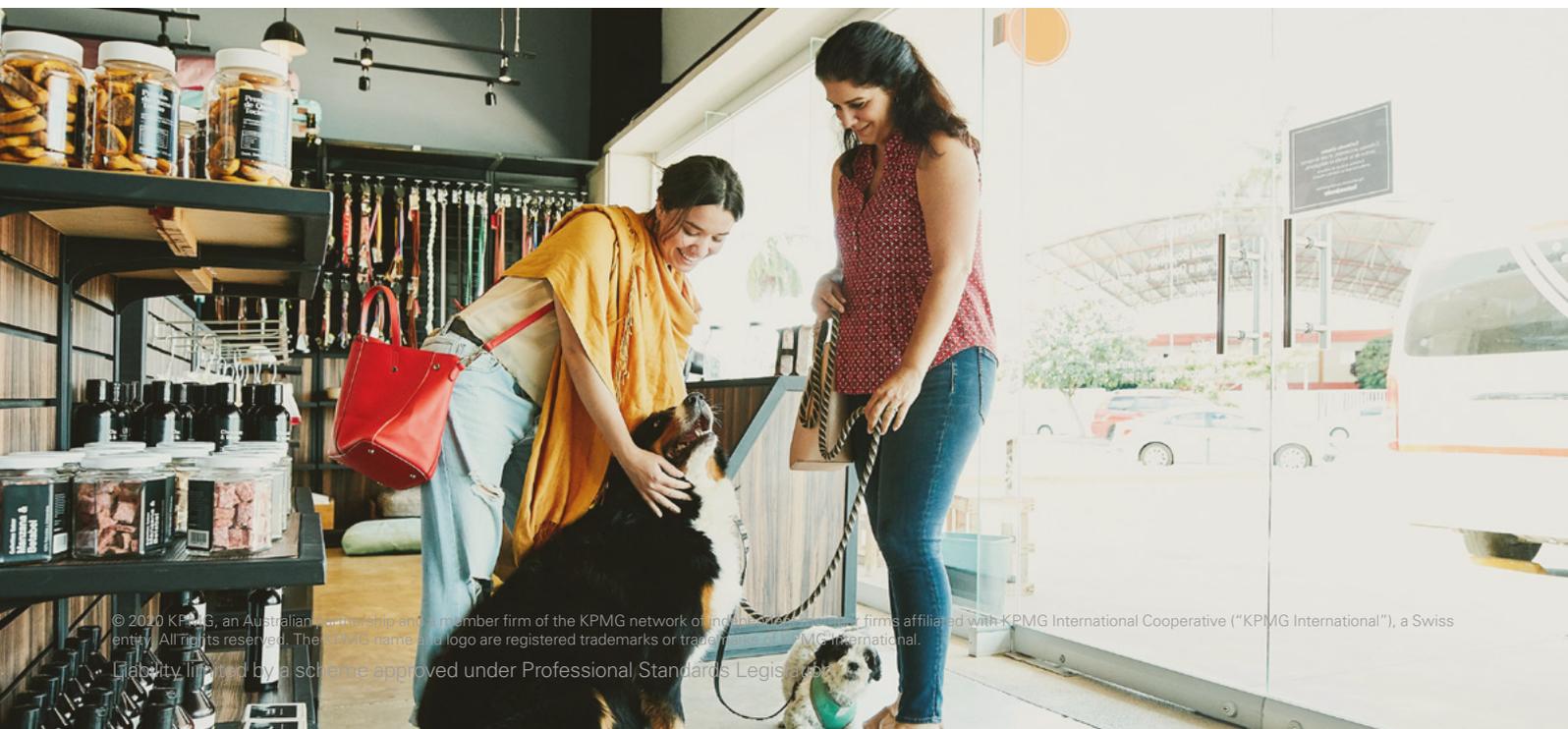
All retail precinct formats have experienced a significant decline in footfall during the COVID-19 restricted period, ranging from a 32 to 87 percent decline in April 2020, compared to a pre-pandemic baseline. However, the decline has not been uniform with some clear winners and losers of traffic and we wait to see if there are long term impacts.

Three precinct formats have won share of footfall in the declining market – small shopping centres, medium shopping centres and large format standalone stores. These formats have several structural advantages:

- their value proposition of local and convenient shopping for everyday categories such as fresh food, grocery, liquor and pharmacy positioned them well to benefit from demand surges in essential products,
- they are generally ‘closer to home’ or in ‘the local village’ meeting travel guidelines; and
- they generally do not require long walks through enclosed and potentially crowded spaces to visit, making them potentially less of a health risk.

Conversely, destination shopping precincts that offer ‘retail therapy’ and are more focused on discretionary categories such as luxury goods, occasional apparel and entertainment have experienced greater decline. Customers generally travel further to visit these precincts with the intention of spending a large part of their day shopping, eating, or enjoying experiences such as seeing a movie.

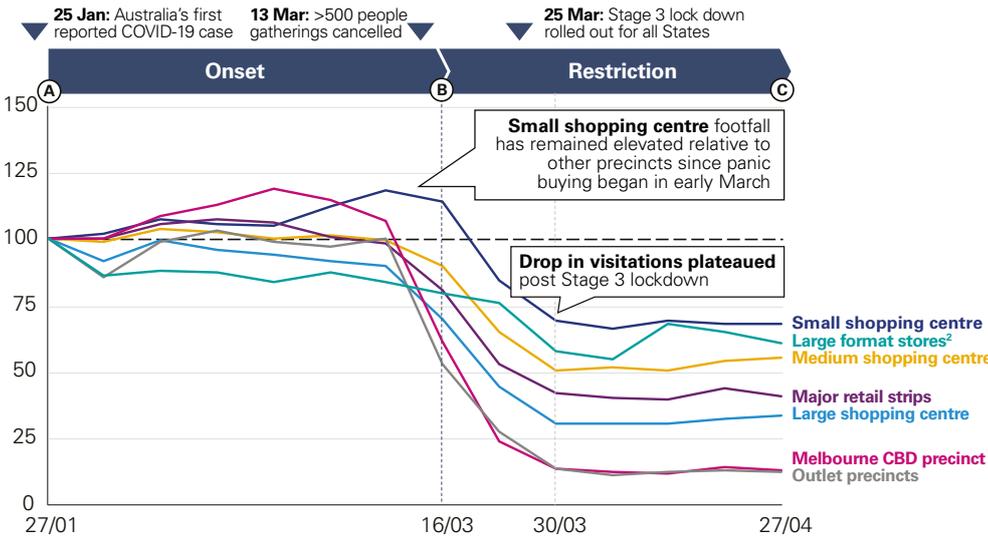
These precincts typically draw more than 60 percent of their footfall from further than a 5km radius of the centre, whereas ‘everyday’ precincts such as small shopping centres typically draw 60 percent of footfall from within a 5km radius of the centre. Therefore, it is no surprise that these centres were significantly impacted by the COVID-19 physical distancing restrictions.



Daily unique visitors by shopping precinct format

Index (week starting 27/01 selected as baseline = 100)
Victoria only

IN COLLABORATION WITH



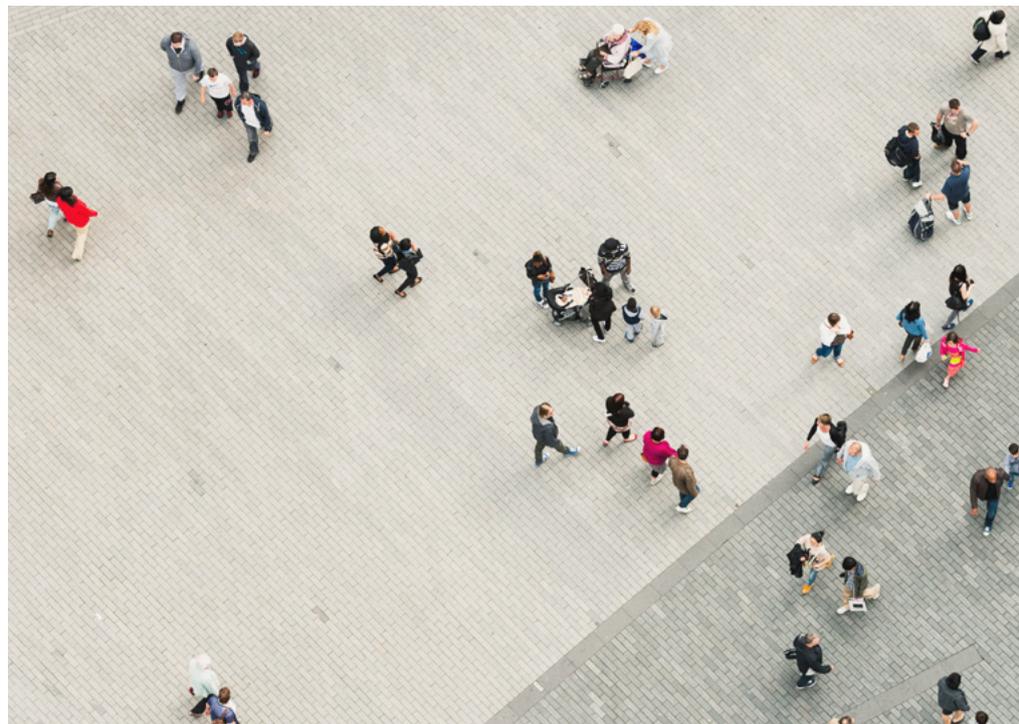
% change by precinct format	Reference periods	
	A vs. B 27/01 – 16/03	A vs. C 27/01 – 27/04
Small shopping centres	14%	-32%
Large format stores ²	-20%	-39%
Medium shopping centres	-10%	-45%
Major retail strips	-19%	-59%
Large shopping centres	-30%	-66%
Melbourne CBD	39%	-87%
Outlet precincts	-47%	-87%

Notes: (1) The week starting 27 Apr 2020 only covered data for a 3-day period to 29 Apr 2020 as opposed to a full 7-day week; (2) Large format stores index has been averaged across five categories (Hardware, Homewares, Office supplies, Liquor and Leisure).
Sources: KPMG and GapMaps analysis (2020)

Throughout COVID-19, people have rediscovered their local stores and neighbourhood shopping precincts. They have likely established stronger connections with their local business community and saved valuable travel time.

Some of this change may be permanent given the extended duration of behavioural change, and the value of smaller shopping precincts could grow and become more competitive. Given the overall expectation of reduced demand for physical retail space, this growth would come from other precincts such as CBDs or large shopping centres.

The retail landscape will likely sustain permanent shifts between precincts as a result of COVID-19.



A new rhythm for the 'weekly shop' is emerging

COVID-19 saw a shift towards people in desk-oriented roles 'working from home'. This has allowed people to have more flexibility about when they shop for everyday essentials, leading to a noticeable change in shopping rhythms.

Sunday and Monday have become the favoured 2-day shopping window across most retail precincts, with the exception of the CBD. Almost half of all weekly visits are now occurring on these days, compared to a quarter of visits prior to COVID-19.

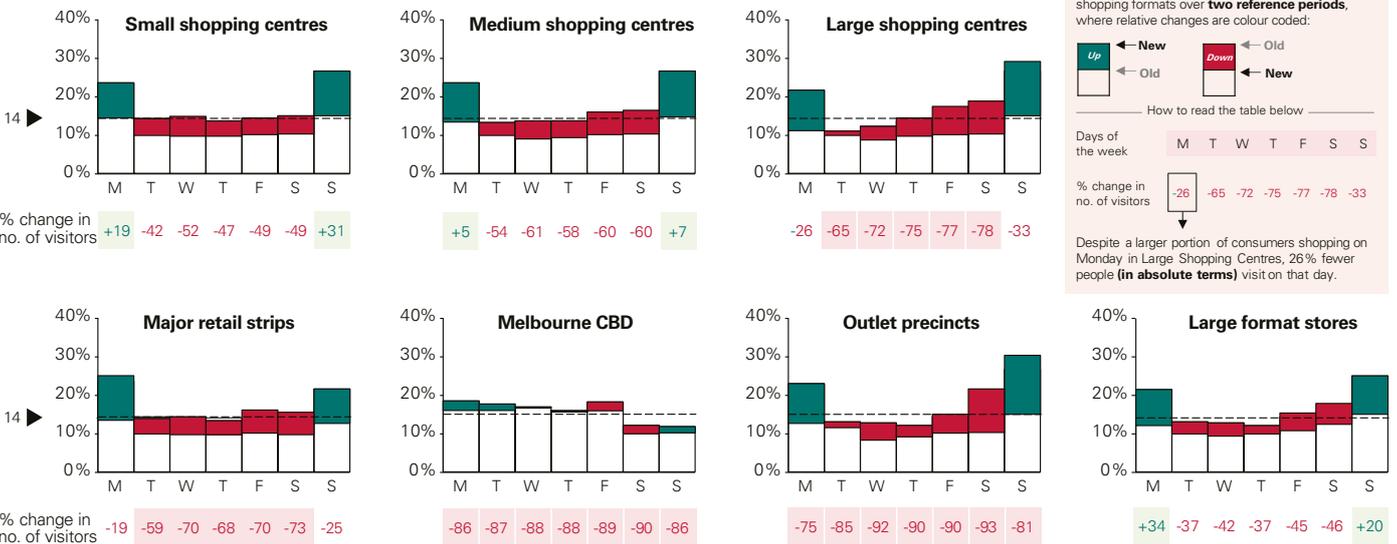
In fact, these days are busier in absolute visitation numbers than before COVID-19 at small shopping centres, medium shopping centres, and large format stores. The shift to Monday becoming the second highest shopping day is intriguing, as it was traditionally the quietest day in the retail week.

Distribution of unique visitors by day of the week¹ across retail shopping format

Percent of total – Victoria only

Reference periods A (old shopping rhythm)² and B (new shopping rhythm)³

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How to read guide

Each chart depicts the change in distribution of unique visitors by day of the week across retail shopping formats over two reference periods, where relative changes are colour coded:

- Up (Green): New
- Down (Red): Old

How to read the table below

Days of the week	M	T	W	T	F	S	S
% change in no. of visitors	-26	-65	-72	-75	-77	-78	-33

Despite a larger portion of consumers shopping on Monday in Large Shopping Centres, 26% fewer people (in absolute terms) visit on that day.

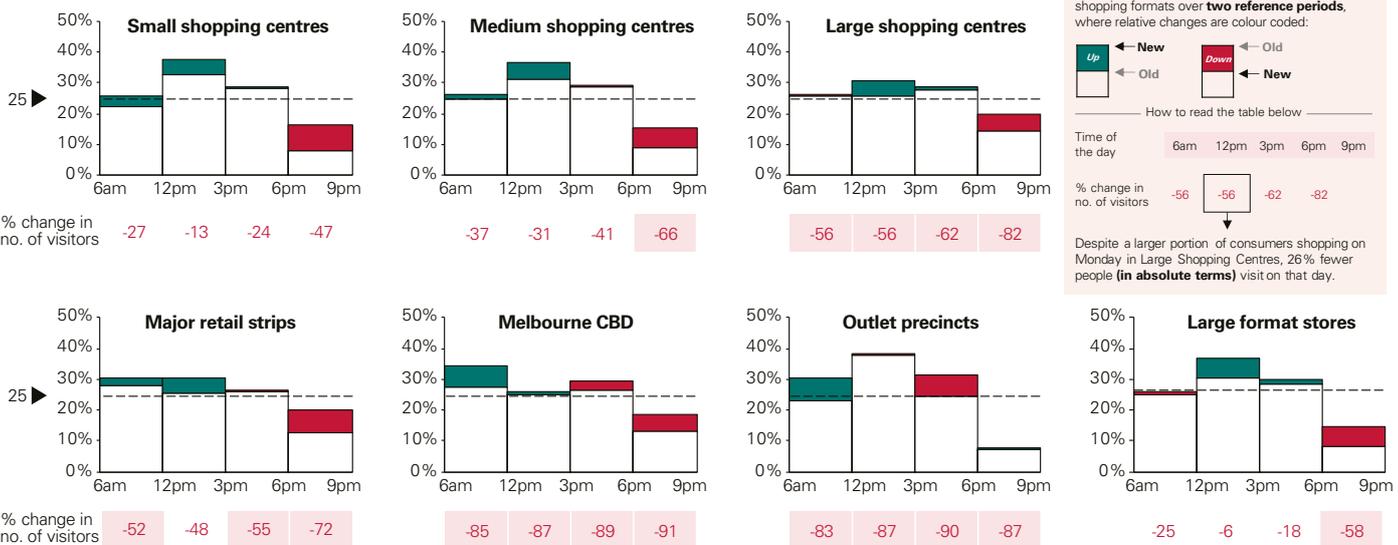
Notes: (1) Measured over a full seven day (Monday to Sunday) shopping week; (2) Reference period A covers the four weeks starting 7 Oct 19 to 28 Oct 19; (3) Reference period B covers a 3 week period, with weeks starting 30 Mar 20, 20 Apr 20 and 27 Apr, excluding the 2 weeks in between for the Easter weekend.
Sources: KPMG and GapMaps analysis (2020)

Consumers have also changed the time of day that they shop. People are heading to stores earlier in the day – either soon after opening or at lunchtime, instead of picking up supplies on the way home from work after 6pm. Morning and early afternoon shopping trips appear to be a luxury of remote working.

However, unlike the adjustment to peak shopping days, the decline in footfall is more evenly spread, with every time block and precinct combination experiencing a decline in absolute visitation.

Distribution of unique visitors by time of day¹ across retail shopping format

Percent of total – Victoria only
Reference periods A (old shopping rhythm)² and B (new shopping rhythm)



Notes: (1) Measured in shopping hour blocks, from 6am to 9pm, excluding shopping hours over 9pm to 6am noting some retail formats are open on a 24-hour basis (e.g. liquor large format retail shops) but this was deemed insignificant in influencing the results; (2) Reference period A covers the four weeks starting 7 Oct 19 to 28 Oct 19; (3) Reference period B covers a 3 week period, with weeks starting 30 Mar 20, 20 Apr 20 and 27 Apr excluding the 2 weeks in between for the Easter weekend

Given the expectation of a sustained shift towards remote working following COVID-19, some consumers will continue to shop this way, and it may be some permanent adjustment. Consumers are effectively ‘smoothing out’ their shopping journeys and fitting shopping around their new working schedules.

This presents important implications for retailers and landlords. If Monday is the new Sunday, and lunchtime is the new after-work shopping journey, workforce planning, re-stocking cycles, security, cleaning, parking management, and marketing and promotion launches need to be adjusted in response.

Great safety experiences equal great customer experiences

Australians' love of the bricks and mortar shopping experience, and the convenience of Australia's large shopping centre network, has played a key role in slowing the growth of ecommerce relative to other countries.

Landlords and retailers have invested heavily in recent years to enhance the physical shopping experience to create more reasons to stay in shopping centres longer. For example, by adding movie theatres, restaurants, rest areas and constantly having something new to discover in stores. These investments aimed to slow the decline in footfall and increase dwell times and the propensity to spend during each visit. The strategy had been working, visibly slowing the footfall decline rate over the last 2 years, as shown by the chart on page 1 of this report.

Unfortunately, the interventions required to manage safety during COVID-19, such as physical distancing and recommendations to minimise time spent in public spaces such as shopping centres,

are in direct conflict with this pre-COVID-19 strategy, and have further accelerated ecommerce.

Furthermore, older Australians, who are loyal physical-store shoppers, are the most at risk from COVID-19, and are being advised to reconsider visiting busy shopping centres at all.

It is unclear how long these guidelines will be in place, but for the foreseeable future, the safety experience is the customer experience. This will be especially important for the 2020 peak trading in the lead up to Christmas. Over-investing in making customers feel safe will pay dividends.



“ When wiping down the self serve registers is the cleaning of the coin return/front of the register included in the procedure? The stores I visit do not seem to be cleaning them.”

Julie, April 2020

“ Massive thank you to *Retailer*. As a disabled pensioner, their service has been ten out of ten for help and support. *Retailer* has gained myself as a full time customer no matter what.”

Corin, April 2020

“ Once in-store there’s nobody so-called ‘social distancing’ – what’s the point of having entry and exit ways when you’re passed by a person within a foot of you.”

Peter, June 2020

“ Really recommend *Retailer*! They work really hard to help you out and really do care. They have stayed open during COVID-19 and are doing their best under really hard circumstances.”

Tony, April 2020

“ Free deliveries sent to my house at 2am? Appreciate the thought team. It was a surprise to find this on my doorstep when I was getting my essential worker butt into gear to go to work this morning.”

Andrew, May 2020

“ Why are people still working at *Retailer*? People touch everything, pass products around, and STILL handle cash.”

Anthea, March 2020

“ Very disappointed there is no contactless pickup for *Retailer* from either Ipswich stores. Big thumbs down to *Retailer* on this. We are 100% isolating for the safety of our elders.”

Ken, May 2020

“ Please advise staff that wearing the same gloves for everything is not safe food handling practice. Serving, cash handling, food handling, making coffee touching lids all with the same gloves.”

Susan, April 2020

Customers will seek out retail experiences that are either ‘really safe’ or ‘really snappy’ (fast). During COVID-19, when customers share stories about their shopping experiences, they are likely to focus on how safe they felt and how easy it was to get everything they needed quickly.

Retailers and landlords need to consider how to adapt their strategies to shift the focus from driving increased dwell times to driving greater spend velocity and consumer advocacy of the safety experience.

This will be particularly important for the upcoming peak and Christmas trading period, when retailers will be actively working to re-engage the consumer in the bricks and mortar shopping experience.

Tenants and landlords face a classic 'prisoner's dilemma'

The hottest topic in retail is whether the retail property model will change as a result of COVID-19. The simple answer is 'yes', as something has to give.

Fundamentally, Australia has too much retail space. Retailer profits and landlord yields have steadily eroded since 2012, footfall continues to decline despite all the investments being made in the shopping experience, and ecommerce continues to take share from the bricks and mortar channel. Australia was already seeing a steady flow of well-known physically dominant retailers close stores or go into administration before COVID-19.

However, the challenges for retail property are not universal across the sector. Some categories are surging, such as fresh food, pharmacy and technology. Some are truly in 'hibernation' until restrictions are eased, while others are at risk of stalling—particularly in more discretionary categories such as apparel and hospitality.

Similarly for landlords, some shopping precincts are better positioned to recover quickly with the rebirth of village shopping or investments made ahead of the crisis in the retail experience that will quickly re-engage the consumer.

However, this strategy could require stores to be closed, or floor space reduced or repurposed, which will take valuable time that a retailer may not have and could result in regrettable retailer failures.

Even if COVID-19 is quickly resolved, retailers and landlords will need to 'lean in' to create a new and more sustainable retail business model which in turn will require adaptations to the property model.

'Leaning in' means facing into the paradox where the optimal outcome will not be achieved if both sides act purely in their own self-interest – a classic 'prisoner's dilemma'. If retail tenants and landlords protect their own profits at the expense of the other, both will realise a worse outcome than if they had collaborated.

Resolving the retail property issue is therefore about trust – a challenge for an industry well known for being adversarial at times. The COVID-19 context creates a unique opportunity for retailers and landlords to find more collaborative and innovative ways to transform the industry without unnecessary duress.

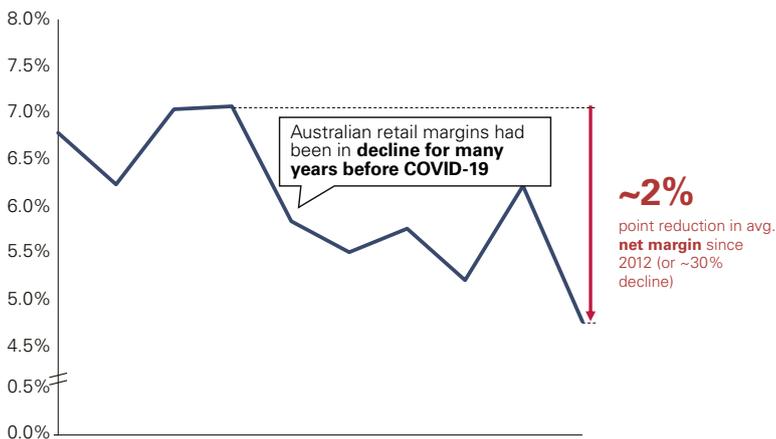
Both sides are under significant pressure and both have options to partially release pressure but neither has a perfect hedge. As the 'prisoner's dilemma' shows, achieving a 'win-win' outcome will require 'give and take' on both sides. Those pairings that can achieve this will ultimately succeed.

For retailers, the lifeline is ecommerce. Even loyal physical shoppers have tried online shopping throughout COVID-19 for items that they have never bought online before. If just a small amount of this new online spend sticks, it will have a significant impact on the viability of some retail properties.

Retailers will need to re-balance their operating models and better connect their physical and digital experience to harness the full potential ecommerce opportunity.

Australian non-food retail net margin

Index (2009 figures = 100)
FY2009 - FY2018



Retailers entering administration/receivership
(non-exhaustive)

Date

G-Star Raw		May, 2020
Colette		February, 2020
Jeans West		January, 2020
Harris Scarfe		December, 2019
Bardot		November, 2019
Napoleon Perdis		January, 2019
Toys R Us		2018
Roger David		2018
Top Shop		2017

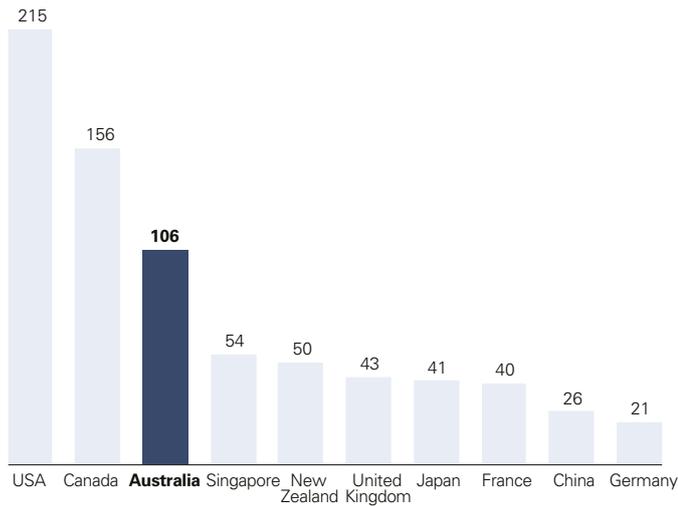
Sources: RBA, competition and profit margins in the retail trade sector; World Bank, World Development Indicators; Business Insider, A look back at the Aussie retailers which have collapsed or gone into administration over the past few years (Accessed May 2020); KPMG & Inside retail, Australian Retail Outlook 2020

For landlords, the lifeline is the constant regeneration of demand for space. However, like the retailers’ lifeline, converting space and tenants takes time. Furthermore, the landlords’ ‘virtual vacancy list’ is now long gone and replacing tenants has become increasingly difficult. So although we have seen empty stores before and the ebb and flow of hopeful new businesses, landlords are having to work much harder to attract new tenants and repurpose their centres to make them relevant to their communities.

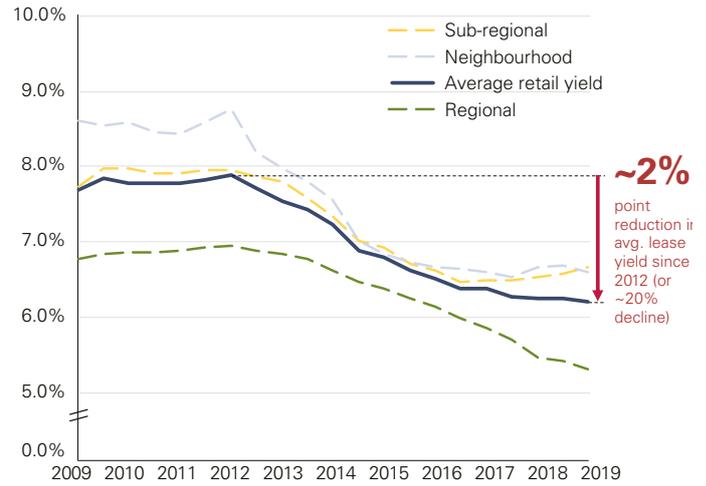
Ordinarily this would not be a great concern for landlords due to their long investment horizons and the relative stability of their tenancy mix. What is different with COVID-19 is that this is a ‘black swan event’ which could precipitate a wave of concurrent retailer consolidations, exits from bricks and mortar and failures that will likely shake even the steadiest investor and lender stakeholder.



Shopping centre¹ space relative to population
2018
Square metres per 100 persons



Australian average retail space yield^{2,3}
2009 - 2019
Percent



Notes: (1) Shopping centres include homemaker, themed and factory outlet centres; (2) Average retail space yield includes NSW, Vic, Qld, WA, and SA regional, sub-regional and neighbourhood centres; (3) Figures only account for Australian East coast retail stores.
Sources: ICSC Research; Savills Research Quarter Time Nation Retail Q4 2019

A win-win solution could be to orchestrate an accelerated transition for both parties. Retailers need landlords to gracefully release them from long lease tails to enable them to rebalance their cost base to offer profitable omni-channel experiences. Landlords need retailers to survive and pay rent until they can repurpose the space they no longer need.

Ultimately, this means the introduction of more flexible lease models akin to those in Singapore, Europe, the UK and the US, where there are often no minimum lease terms, and a higher proportion of turnover rent. But it isn't all 'take with no give' for retailers. Retailers may need to offer a 'clip' of ecommerce revenues to landlords if supporting infrastructure is provided – such as curb side pickup zones, dark stores/ floors, shared click and collect counters, or parcel lockers.

This would create great local solutions for consumers who are shopping on and offline in their local area, increasing their loyalty to both the retailer and the landlord's shopping precinct.

Be prepared and responsive

Amid these challenges, how could Australian retailers and landlords create and share value post COVID-19?

- **Celebrate being local, and stay close to customers who may have reconnected with your property, store or brand through COVID-19.** Continue to invest in your authentic relationship with that community. There is an opportunity to become the safe, trusted destination to experience and enjoy the tactility and physicality of the shopping experience – with transactions happening quickly and seamlessly through technology.
- **Adjust operations and marketing to the new weekly shopping rhythm where Monday is the new 'Sunday shop', and lunchtime is the new 'after-work shop'** – including workforce planning, re-stocking cycles, security, cleaning, parking management, and marketing and promotion launches. Also, review marketing strategies to shift to where the consumer is spending more time online and in their local neighbourhoods.
- **Differentiate your shopping experience by making it very 'safe', or make it 'snappy' by enabling faster shopping journeys.** For example, offer shopping concierge services, introduce senior citizens' shopping hours, and offer pre-booked fitting rooms, especially during the upcoming peak trading and Christmas period.
- **Retailers and landlords need to build trust and work together to consider ways to share the challenges and the opportunities to achieve a win-win outcome and succeed in transitioning their models at the lowest cost.** This could involve experimenting with new store and property service models to create mutually beneficial outcomes.



Definitions used

All data is for Victoria only, as the example state

Retail format	Description
Small shopping centres	<p>A local shopping centre comprising a supermarket and c. 35 specialty shops, with total gross lettable area (GLA) retail less than 10,000 square metres</p> <p>Also referred to as neighbourhood centres by industry participants</p>
Medium shopping centres	<p>A medium sized shopping centre typically incorporating at least one full line discount department store, a major supermarket and c. 40 specialty shops, with total GLA retail between 10,000 and 50,000 square metres</p> <p>Also referred to as sub-regional centres by industry participants</p>
Large shopping centres	<p>A shopping centre that typically incorporates one full line department store, a full line discount department store, one or more supermarkets and over 100 specialty shops, with total GLA retail above 50,000 square metres</p> <p>Also referred to as regional centres by industry participants</p>
Major retail strips	<p>Central area with retail activity near a supermarket. Excludes shopping centres and footfall within supermarkets</p>
Melbourne CBD	<p>Commercial, retail and business centre of a large city (e.g. shops across Swanston and Melbourne Central)</p>
Outlet precincts	<p>Medium to Large centre with products sold at a discount, which does not normally include a department store, discount department store, or supermarket</p>
Large format stores	<p>Large format, freestanding retail sites that are not part of a shopping centre and typically include dedicated or shared car parking arrangements (e.g. Bunnings, Harvey Norman)</p>



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About GapMaps

GapMaps is a cloud-based and easy-to-use retail mapping platform. The platform specialises in location intelligence, mapping and data analysis. GapMaps enable retail businesses to obtain powerful, cost-effective insights about their industry, competitors and customers.

Sectors like Quick-service restaurants, Fast Food, Cafes, Coffee Retail, Fuel, Child Care, Health & Fitness, Retail development, Medical & Health Care and others use GapMaps for important business decisions. GapMaps is being effectively used Asia Pacific region and the Middle East.

Contact GapMaps at info@gapmaps.com for more information.



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