

**RENTAL**  
**TRENDS**  
**REPORT**  
**2021**  
**AUGUST**





# SPOTLIGHT ON SMALL BUSINESS LEASING, PHARMACIES IN WESTERN AUSTRALIA

This report identifies rental trends in the pharmacy retail leasing landscape in Western Australia for the 12 months to 30 June 2021.

Australian lease data and benchmarking company LeaseMap conducted an analysis that included verifying individual lease arrangements and rental agreements of over 50% of all leases throughout the Western Australian pharmacy industry.

## Statistical analysis centred on two main topics:

- Identify changes in effective rents upon lease renewals or market rent reviews.
- Identify potential trends for upcoming reviews or renewals.

## The research investigated:

- All aspects of the contracted lease terms.
- Included substantial data from all major property types: community shopping precincts, major suburban centres, CBD and regional locations.

The rental trends analysis focused on all available lease renewals and market rent outcomes during the 2020-2021 financial year. **Any rent relief applied due to COVID-19 was excluded from the analysis.**

## CHANGES IN MARKET RENTS FOR WA PHARMACY LEASES

LeaseMap examined all available lease renewals, and market rent review outcomes conducted during 2020-21.

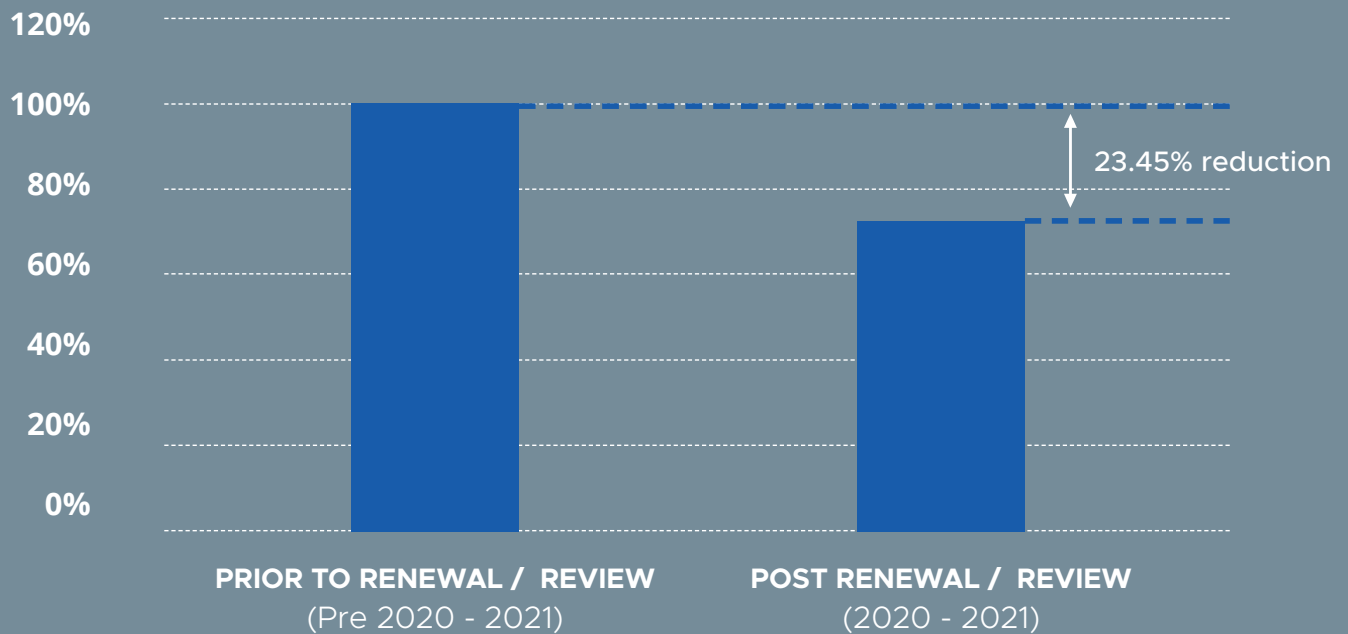
In order to set aside the complicating factors (such as rental abatement, or rental incentives that occur from time-to-time in commercial leasing), LeaseMap compared all scenarios on a like-for-like basis, excluding short-term renewal incentives.

Figure 1 represents the total annual rent prior to the review, compared to the total annual rent post review, excluding any short-term incentives.

The relationship between total annual rent prior to the review and rent post the review reflects a reduction of approximately 23.45%.

## CHANGE IN MARKET RENTS

Figure. 1



### FIGURE 1

(EXCLUDING COVID-19 TEMPORARY RENT RELIEF)

As noted above, this reduction does not include the influence of COVID-19 rent relief, and only represents changes in the underlying rents for those leases that were renewed or underwent a market rent review during the 12 month period to 30 June 2021.

Factors contributing to the reported market changes above are likely to vary based on location type and individual circumstances. Some consistent themes influencing landlords and tenants included:

#### FACTORS INFLUENCING LANDLORDS

- Recently completed retail developments have provided more options for retailers to consider.
- Reduced demand for retail space from tenants including international retail chains and other speciality groups such as newsagencies, in the leasing market.
- The growing consensus that many rent escalation provisions in contracted leases are no longer being agreed, and some unwinding of historical escalations is taking place in the market in order to secure tenants.
- A desire to retain pharmacy retailers as a cornerstone of tenant mix, given the exposure to relatively non-discretionary consumer expenditure.

#### FACTORS INFLUENCING TENANTS

- A multi-factored decline in industry profitability over the course of several years due to:
  - Profit reductions as a result of the reduced generic medicine discounts to pharmacies over the past 5-10 years.
  - Significantly increased competition in the pharmacy retail landscape, with the continued growth of discount pharmacy chains and pressure on retail price expectations from consumers.
- Occupancy cost ratios (i.e. rent as a proportion of total business expenses) rising beyond affordable levels, with an increased level of insolvencies, and business closures.
- The progressively increasing proportion of customer expenditure occurring via online channels, as opposed to brick and mortar outlets.



## THE IMPACT OF COVID-19

COVID-19 delivered tangible short-term and powerful impacts to various sectors, including the retail and pharmacy industries. It is too early to fully quantify the scale and implications of longer-term societal changes as a result of COVID-19.

During the height of the pandemic restrictions, physical stores closed, and social distancing became mandated, and there was a dramatic acceleration in the growth of online pharmacy retail to the detriment of bricks and mortar.

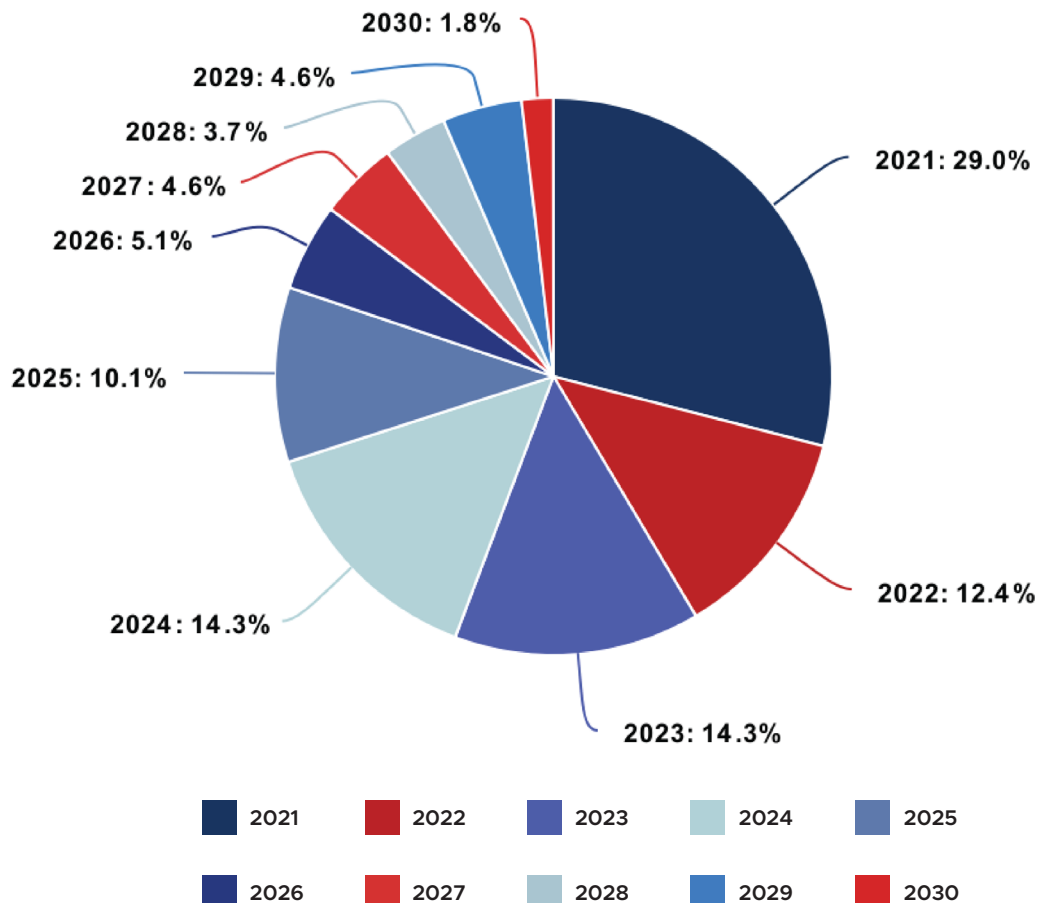
Some anecdotal information reported an increase in online sales of up to 450% for some of the major online pharmacy retailers.

Trends expected to continue for the foreseeable future include: increased proportion of consumer expenditure directed towards online as opposed to bricks and mortar stores, increased working from home arrangements, and reduced domestic and international travel. These factors, together with the withdrawal of government stimulus measures, are expected to place further downward pressure on rentals.

## WHERE TO FROM HERE?

The graph below represents a summary of industry leases for the year in which they are due for renewal. As can be seen, there is a disproportionately high volume of leases due for expiry prior to the end of calendar year 2021. The persistent underlying factors influencing the 23.45% decline in rents during 2020-21 (ex-COVID-19), together with the disruptive and evolving changes due to the lasting economic effects of COVID-19 appear to indicate further softening in rents achieved over the short-to-medium term.

### PROPORTION OF LEASES EXPIRING PER YEAR



## CONCLUSION

In summary, comprehensive analysis reports a decline in ongoing pharmacy rentals by typically 23.45%. The trends influencing the decline in rentals are predominantly structural in nature and are expected to continue with upcoming lease renewals for the foreseeable future.

More detailed and highly localised rental information can be obtained from LeaseMap's Premim Lease Comparison Reports. Each report is individually tailored and benchmarked against similar business lease conditions to provide comparisons on a personalised basis. Premim Lease Comparison Reports include further detail such as rate/sqm, annual review methods, premises size comparisons and much more.

### FOR MORE INFORMATION PLEASE CONTACT:

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