

# RETAIL

First Half 2019

# EXPERTS

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# RETAIL SNAPSHOT

MARCH 2019	AVERAGE GROSS FACE RENT	MOVEMENT YOY	AVERAGE INCENTIVE	LOWER YIELD	UPPER YIELD	AVERAGE YIELD
SYDNEY						
CBD	\$12,825	▲	9.4%	3.9%	5.5%	4.7%
Regional	\$1,950	▼	14.0%	4.0%	5.5%	4.8%
Sub regional	\$1,275	▼	17.5%	5.5%	7.0%	6.3%
Neighbourhood	\$1,000	▼	16.0%	5.5%	7.3%	6.4%
Large Format	\$492	◄	8.0%	6.3%	7.5%	6.9%
MELBOURNE						
CBD	\$7,500	▲	7.0%	4.10%	5.5%	4.8%
Regional	\$1,750	▼	10.0%	3.8%	5.5%	4.6%
Sub regional	\$1,005	▼	16.0%	5.3%	6.9%	6.1%
Neighbourhood	\$765	◄	16.0%	5.0%	6.8%	5.9%
Large Format	\$278	▲	11.0%	7.0%	8.0%	7.5%
BRISBANE						
CBD	\$4,250	◄	19.0%	5.0%	6.0%	5.5%
Regional	\$1,550	▼	15.0%	4.3%	5.8%	5.0%
Sub regional	\$1,050	▼	25.0%	5.5%	7.0%	6.3%
Neighbourhood	\$700	▼	23.0%	5.5%	7.0%	6.3%
Large Format	\$355	◄	15.0%	7.0%	8.0%	7.5%
PERTH						
CBD	\$3,205	▼	15.0%	4.9%	5.5%	5.2%
Regional	\$998	▲	20.0%	5.5%	6.0%	5.8%
Sub regional	\$778	◄	15.0%	6.0%	7.0%	6.5%
Neighbourhood	\$453	▼	20.0%	6.2%	7.5%	6.9%
Large Format	\$203	◄	10.0%	7.2%	8.0%	7.6%
ADELAIDE						
CBD	\$2,650	▼	15.0%	4.8%	6.0%	5.4%
Regional	\$1,425	▼	20.0%	5.0%	6.3%	5.6%
Sub regional	\$675	▼	30.0%	6.0%	8.0%	7.0%
Neighbourhood	\$510	▼	20.0%	6.5%	8.0%	7.3%
Large Format	\$238	▼	15.0%	7.3%	8.3%	7.8%

# NATIONAL OVERVIEW

By Alex Pham  
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## MARKET HIGHLIGHTS

Australian consumers spent nearly \$305 billion at physical stores in the 12 months to March 2019, which is 20 times more than the amount spent on online shopping.

Nine out of ten of the most visited Australian shopping websites in 2018 belong to traditional brick-and-mortar retailers.

The Australian retail property market continues to offer an attractive value proposition and more favourable risk-adjusted returns compared to other developed markets.

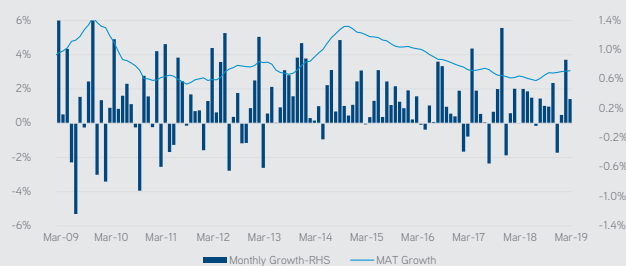
## Retail Market Trends

### Brick and mortar retailing is here to stay

In 2017, a research report conducted by Alibaba's research arm, AliResearch predicted that by 2020 the majority of global retail activity would be conducted on digital platforms. However, at the time of this writing (May 2019), an overwhelming majority of shoppers continue to enjoy the shopping experience at physical stores. In fact, retail spending online has slowed, and the fear of a brick and mortar retail apocalypse has been largely over-exaggerated. Retail sales through physical shopping channels still account for over 90 per cent of the total commerce activity globally (Statista 2018). This figure is even stronger for Australia with over 94 per cent of retail activity taking place within physical stores. Also, retail sales growth has been maintained at a stable trajectory, relatively in line or better than economic growth.

Over the 12 months to March 2019, Australian retail sales have jumped by 3.1 per cent, the fastest pace of growth since August 2017. The retail sector has outperformed the economy as a whole, which grew by 2.3 per cent over the year to December 2018. According to the Australian Bureau of Statistics (ABS), Australian consumers spent nearly \$305 billion at physical stores in the 12 months to March 2019, which is 20 times more than the amount spent on online shopping of \$15.6 billion. While online retailing continues to grow, its momentum has moderated over the past 12 months. Estimates by the National Bank of Australia (NAB) show spending on online retailing has risen by 5.0 per cent YoY in

### National Retail Sales



Source: Colliers International

### Online Retail Sales (% growth rolling 12mth)



Source: Colliers International, ABS, NAB

March 2019, which is remarkably slower than the corresponding figure of 15.2 per cent a year ago. In light of this, Amazon Australia also reported underwhelming results for its first full year of retail operation with only \$106 million in revenue in the financial year 2018 (Macquarie Research). This equates to 0.58 per cent of the Australian online retail market (ABS data) and about 0.033 per cent of the overall retail market. To put this in context, if Amazon were a shopping centre it would be about the same size in turnover as Chullora Marketplace in Chullora, New South Wales or Gateway Plaza in Geelong, Victoria. In comparison, Australia's largest shopping centre Chadstone generated a moving annual turnover (MAT) of 2.1 billion by the end of December 2018.

The slowdown of online retail growth and the lacklustre performance of Amazon Australia confirm the many challenges that pure-online retailers are facing in Australia. According to research by Rakuten Marketing, Australian consumers continued to prefer brick and mortar shops over online shopping. Only 2 per cent of shoppers in Australia would purchase exclusively online compared to the comparative figure of 7 per cent in the US. Furthermore, numerous case studies have indicated that online and offline retailing in Australia are complementary as opposed to supplementary as an overwhelming number (78 per cent) of Australian consumers continue to shop both online and offline simultaneously (Rakuten Marketing, 2018). As such, Colliers International believes that the future of retail is neither exclusively online nor offline, but a mix of both and brick and mortar retail will continue to play an essential role within an omnichannel retail world.

## The emergence of “boundaryless” retailing

Australian retailers have recognised the importance of multi-channel retailing and are increasingly adopting the new approach. Our analysis of data from CupoNation reveals that 9 of the top 10 most visited Australian shopping sites in 2018 belonged to traditional brick and mortar retailers. JB Hi-Fi led the pack with the most popular retail website attracting over 74 million local visits in 2018. The runner-up was Australia’s leading retailer of home improvement and outdoor living products Bunnings Warehouse, which attracted almost 69 million visits to its online website over the 12-month period. This is despite a slowdown in the residential market and with Bunnings yet to have a full-line e-commerce platform. Woolworths (#4) and Coles (#6) were also amongst the top 10 as the supermarket giants beefed up their ‘Click & Collect’ retailing strategy. The top 3 major discount chains Kmart (#5), BigW (#9) and Target (#10) also made the cut as well as household goods retailer Harvey Norman (#8). Kogan was the only pure online retailer on the list. More importantly, the rise of e-commerce sales has not resulted in the cannibalisation of in-store sales as multi-channel retailers continue to report positive same-store sales growth across their physical stores.

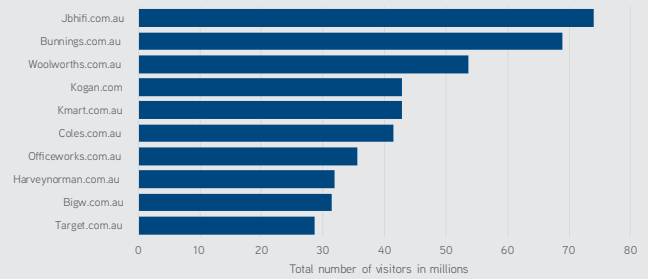
Our anecdotal evidence also suggests that there is a positive correlation between an increase in website traffic and a rise in physical footfalls by omnichannel retailers. This is consistent with findings from retail research house Retail Drive, which showed that 67 per cent of consumers would research products online before purchasing them in brick and mortar stores. This is a reflection of a paradigm shift in consumer behaviour toward a web-influenced in-store purchasing activity, which is often called Research Online, Purchase Offline (ROPO). We forecast ROPO will become a significant trend that dictates the purchasing behaviour of Australian consumers, particularly of the millennial and digital native generation.

## From clicks to bricks: Online retailers are getting physical

Major e-commerce retailers have also realised the tremendous benefit of having a physical presence and are making the leap from clicks to bricks. Amazon is a good case in point. The global online retail giant has been rolling out a chain of convenience stores called Amazon Go across the United States. These stores feature the latest retail technologies, including; biometric recognition, sensors and deep learning algorithms to assist and automate much of the purchasing process. Amazon is planning to open up to 3,000 stores across the US by 2021. With an average area of 200 sqm per store, this would be equivalent to 600,000 sqm of space required. This will be in addition to Amazon’s other physical retail offerings, including; Amazon Books, Amazon 4-Star stores and Amazon-owned Whole Foods supermarkets, which continue to expand rapidly.

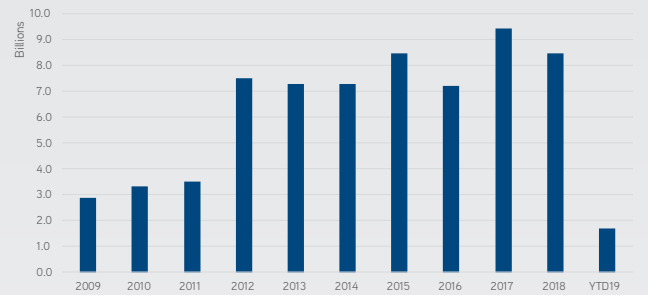
On the other side of the Pacific, Chinese multinational e-retailer Alibaba is also extending its push into brick and mortar retail. Its proprietary grocery retail chain Freshippo or “Hema” in Chinese has

### The top 10 most visited Australian shopping sites



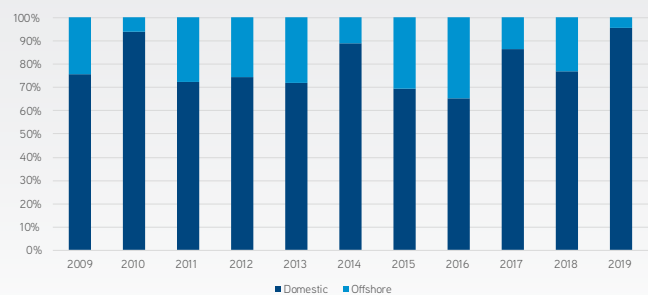
Source: Colliers International, Cuponation

### Total Investment Value



Source: Colliers Edge

### Investor Composition



Source: Colliers Edge

expanded to 135 locations by the end of April 2019. Hema is a part of Alibaba’s ambitious “New Retail” strategy which sees the world’s largest e-commerce company investing almost \$10 billion, so far, into brick and mortar retailers. They include home improvement chain Easyhome, electronics retailer Suning, food retailer Sun Art and a partnership with one of the largest retailers in China, Bailian Group, which operates 4,700 stores nationally. The opening of Alibaba’s first physical shopping mall in Hangzhou called More Mall marks another big leap in its effort to blend both the digital and physical retail worlds.

Amazon and Alibaba aren’t the only traditionally pure-play online retailing companies embracing the trend of smart and borderless retailing. eBays, Bonobos, Warby Parker, Untuckit, Casper, Hointer, Dollar Shave Club and many more once online-only players are making concerted efforts to gain a presence in the brick and mortar retail space market. Whilst many of these examples have been largely concentrated in the US and China, the two largest retail markets in the world, we believe these trends will soon catch up with the rest of the world and particularly Australia over the coming years.

## Investment Market

The Australian retail property market continues to offer an attractive value proposition and more favourable risk-adjusted returns compared to other developed markets. While investor appetite has remained positive, volumes were relatively constrained compared to previous years. A total of \$8.25 billion in retail assets (over \$10 million) have transacted in Australia during 2018. This is 12 per cent lower than the corresponding figure in the year prior. The lower volumes were due to several factors, including a lack of quality assets on the market coupled with mixed sentiments. The market has entered 2019 on a high note with over \$1.68 billion worth of assets transacted since the beginning of this year. Listed groups and major retail owners continue to focus on their core assets while implementing a recycling program out of non-core facilities. On the other hand, value-added and opportunistic funds are extremely acquisitive in the market for assets that are exposed to repositioning and upside potential.

High-quality centres in metro locations, underpinned by strong catchments and trading performance, continued to attract strong yields and solid demand. New South Wales was the most active retail market since the beginning of the year with over \$900 million transacted. Queensland also registered strong investment

activity with a total transaction value of \$528 million over the year to date. Stockland contributed to the bulk of transaction activity in Queensland over the period with the divestments of three non-core assets. Stockland Caloundra in Caloundra North was reportedly in DD with Charter Hall for \$105 million while Stockland Cleveland and Toowong Retail and Commercial Centre were sold to private investors for a combined value of \$143 million. Victoria registered slightly over \$135 million of retail asset transaction since the beginning of this year, with its market being supported by the substantial population and job growth.

By investor type, the investment market remains dominated by local investors, who have purchased a total of \$6.47 billion (79 per cent of total) in 2018 and close to \$671 million (89 per cent) in 2019 YTD. Local investors were led by private high net worth individuals or opportunistic funds with a healthy appetite for value-added assets and an active asset management strategy. Direct investment from offshore groups since the beginning of this year originated largely from China, Malaysia and New Zealand. However, the real extent of offshore capital is difficult to estimate as we understand there is a significant level of capital from overseas groups, particularly from Europe, Middle East and Japan, channelling their capital into Australia via local investment vehicles.



Marina Square, Wentworth Point  
Managed by Colliers International

# NEW ZEALAND

Retail | First Half 2019



By Chris Dibble

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## MARKET HIGHLIGHTS

Retailers face challenging market conditions, but recent data helps support more positive conditions ahead

Vacancy rates remain low, but supply rises in some locations will provide a dampening on rent rises

Investment yields remain broadly steady, but high levels of enquiry remain for prime retail assets

## Complex conditions for retailers

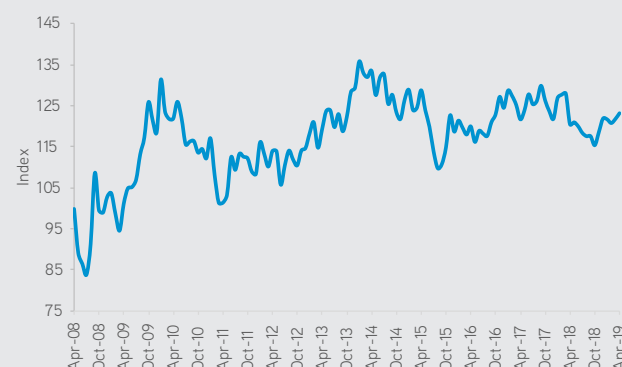
Retailers are operating in a challenging environment, but they remain resilient. The negative influences like growing online retail sales, minimum wage rises and lower residential value growth in the main centres of Auckland and Christchurch are influencing the sector. However, these are well-known features of the market and many are well-placed to navigate their way through these tougher times.

There are also a number of positive features emerging. This includes the latest low in unemployment figures and high participation rates which show a steady and confident business environment. Wage growth was also up and above inflation, albeit modestly. The ANZ-Roy Morgan consumer confidence survey remained positive, with a net 46% of respondents believing it was a good time to buy a major household item, up 8% from the previous survey.

## Raft of new international retailers

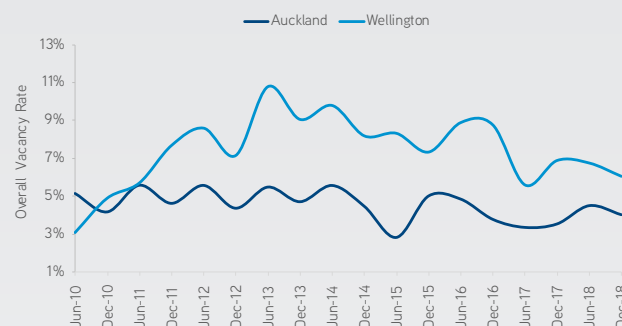
Auckland CBD's retail scene will see a raft of new international retailers set up shop over the next few years as new property and infrastructure developments unlock the central city's retailing opportunities.

### ANZ-Roy Morgan Consumer Confidence



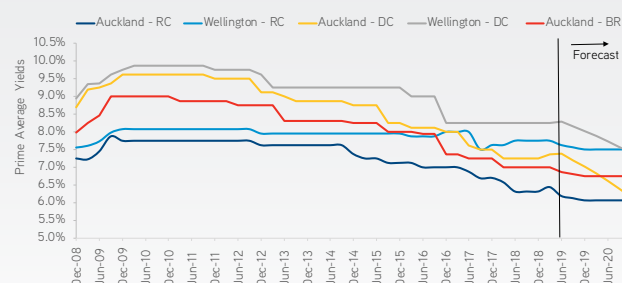
Source: ANZ-Roy Morgan, Colliers International Research

### Strip Retail Vacancy Rate



Source: Colliers International Research

### Average Prime Yield



Source: Colliers International Research

New and expanding international retailers to operate in Precinct Properties' Auckland CBD Commercial Bay development include:

- Christian Dior Perfumes and Beauty
- Mecca
- L'Occitane
- Sandro
- Maje
- Kate Spade
- Hugo Boss
- Furla
- Herschel Supply Co
- Ghost Donkey
- GENUINE Liqourette
- Saxon + Parole

But, it is not just Commercial Bay that is attracting international retailers to Auckland, with UK branded clothing company Superdry opening its first store in Queen Street, Auckland in March 2019.

The Westfield Newmarket flagship store, with completion expected in late 2019/early 2020, will also see the opening of the first David Jones department store in Auckland and Coco Republic along with a number of other international retailers to be named closer to completion dates.

International retailers H&M is also popping up in a number of new stores around the country, with Tauranga, Hamilton and Wellington CBD bringing the total to eight stores since their first opening 19 months ago.

## Supply pipeline in Auckland approaching NZ\$2b in value

Westfield Newmarket will add over 88,000sqm to Auckland's total retail supply in late 2019 when it is expected to open with a host of new retailers. The NZ\$790 million development represents 11.6% of total existing supply and 48% of total supply currently under construction in Auckland's main retail precincts. Kiwi Property Group, owners of Sylvia Park, is going ahead with a NZ\$223 million galleria expansion as well. Commercial Bay will add approximately 18,000 sqm of new space which also runs into the hundreds of millions of dollars. Flat Bush in southern Auckland, will be expanding with the 45,000 sqm NZ\$200m Ormiston Town Centre. Botany Town Centre, Auckland's second largest mall, will also be increasing floor space with a NZ\$78 million development. These comprise the major developments, but there are also a number of other developments across Auckland that will push the total value of new retail space close to the NZ\$2b level.

## Mixed bag for main centre retail vacancy

The Auckland CBD overall retail vacancy decreased to a record low 1.5% in our December 2018 survey. Vacant space halved to just 1,700 sqm. Auckland region's strip retail vacancy rate is now at 4.0%, down slightly from six months ago, but up from 3.5% a year ago. Shopping Centre vacancy is at 2.2%, the lowest in two years.

The overall Wellington retail vacancy rate reached the second lowest level in eight years at just 6.1%. Although trending down steadily since the 2013 peak, the vacancy rate is still above the long-term average. The low vacancy is a result of new leasing activity, but also a reduction in available space from the removal of earthquake damaged premises. The Wellington CBD prime retail vacancy rate reached its lowest point since late 2012.

## Rent increase reprieve for some, but not all

Auckland CBD rents have remained flat over the past year at \$2,775 per sqm, however, we forecast rents to increase to approximately \$2,850 per sqm over the next year due to new developments pushing up rates. This performance is similar to average regional centre rents which remained at \$1,250 per sqm but is forecast to increase to \$1,290 per sqm by the end of 2019.

Wellington CBD prime gross retail rents have edged back slightly over the past quarter reflecting the stock availability and higher vacancy rates. Regional centre rents remained flat after a strong period of growth experienced last year. Bulk retail gross rents also remained flat after solid growth.

Christchurch retail rents are also relatively flat with the central retail precinct achieving rents typically ranging between \$700 per sqm to \$1,250 per sqm.

## Transaction activity solid

Around one in every four sales in New Zealand in 2018 was in the retail sector, signalling the sector's prominence. Transactional data for the first quarter of 2019 provides a similar story. Despite the solid levels of activity, investors are undertaking significant due diligence and hold stringent investment criteria. This has led to many prime retail sectors recording little movement in average yields over the past year, with some lower quality, regional premises experiencing yield softening.



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## MARKET HIGHLIGHTS

The ongoing tourism boom continues to drive the growth of luxury retailers in Sydney.

Strong competition by cosmetics and beauty brands for prime positions on Pitt Street Mall.

24-hour trading will be a boon to retailers and property owners.

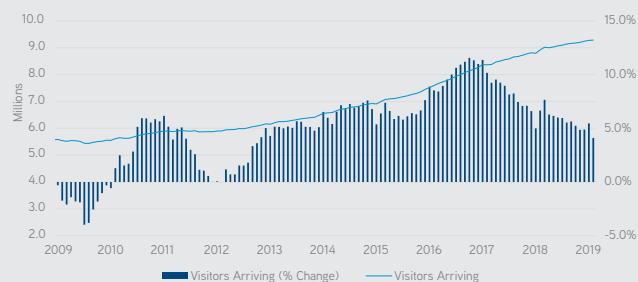
Urban regeneration to transform the CBD retail landscape.

## Luxury retailing growth is driven by a tourism boom

The ongoing tourism boom continues to drive the growth of luxury retailers in Sydney. Over the 2018 calendar year, Sydney has received nearly 4.1 million international visitors, which was up by 3.2 per cent from a year ago. The Harbour City holds the title as Australia's most popular destination for cashed-up tourists, who spent a total of \$9.7 billion last year, up 4.9 per cent YoY. Mainland China was the top market with 755,000 visitors, who contributed \$3.4 billion to the local economy and retail market. Chinese tourists spent an average of over \$4,500 per person per visit to Sydney. Looking ahead, the number of visitor nights spent in Sydney are expected to increase by an average of 6.1% per annum from nearly 76.3 million in 2016-17 to over 137.3 million in 2026-27.

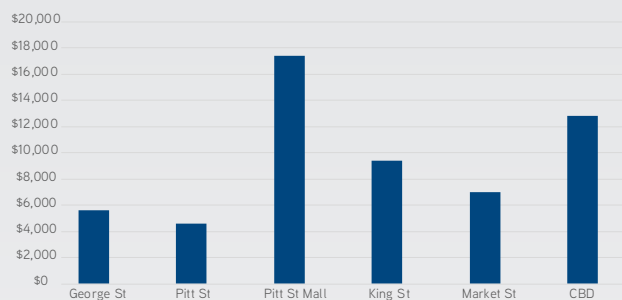
The rise of affluent travellers, particularly from the Asia Pacific region, has provided significant support for the luxury retailing industry in Australia. Luxury retail sales nationally have been rising by 9.1 per cent per year over the 5 years to 2018-19, and this growth is expected to exceed 7.0 per cent over the next five years. Against this backdrop, high-profile openings of luxury brands in the CBD this year include Tiffany & Co's new flagship store at 175 Pitt Street and Hermes at the Trust Building 155-159 King Street. The \$11-million refurbishment of the Louis Vuitton flagship store on George

### AU Visitors (rolling 12mth total)



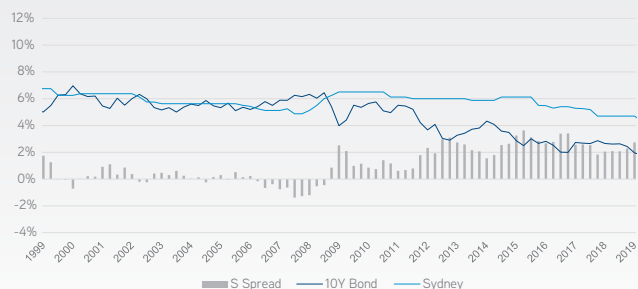
Source: Colliers International, ABS

### 1Q19 Sydney CBD Gross Face Rents (\$/sqm pa)



Source: Colliers International

### Sydney CBD - Yield spread



Source: Colliers International

Street is expected to be completed by late 2019 or early 2020. More international brands continue to circulate the Sydney CBD market. Among those that are seeking flagship locations are Swiss manufacturer of luxury mechanical watches Audemars Piguet, French luxury jewellery and watches house Boucheron, English designer footwear maker Church's and French luxury jewellery and watches house Boucheron.

## The battle of cosmetics brands for prime retail locations

The past six months have seen a burst of activity by cosmetics and beauty brands taking up prime positions on Pitt Street Mall. Australian luxury skin care manufacturer Aēsop is making its new home in the old Sportsgirl store. Another local cosmetics brand Mecca Cosmetica has snapped up the old premise of Sephora, as the French personal care and beauty supplier will be moving to the newly renovated Soul Pattinson building (subject to DA). South Korean cosmetics brand Innisfree is backfilling the old space of Nespresso, which will be relocating to George Street. The fierce competition for exposure within the most expensive retail location in Australia reflects the lucrative trading conditions of the beauty care industry in Australia, which has enjoyed over a decade of uninterrupted growth. Last year Australians spent a total of \$6.5 billion on cosmetics and body care products.

According to Euromonitor research, Australia is one of the top five markets for skin and personal care products and Australian women, on a per capita basis, spend more on skincare and makeup products than all other developed markets. Australian women on average spend over \$3,600 on beauty products each year compared to the corresponding figure of \$2,880 in the US and just \$2,000 in the UK, according to an analysis by online retailer Catch.com.au. However, Australian women don't necessarily consume more than their counterparts overseas, but the products here are more expensive, and there are fewer brands. As a result, we anticipate more international brands will continue to enter the market over the coming years.

## Retail rents remain supported by demand

Gross face rents in the CBD have remained well supported by the robust demand from retail occupiers. With a plethora of new leasing deals recently signed by cosmetics brands, Pitt Street Mall continues to hold the record as the most expensive retail location in Australia with gross face rents ranging between \$12,000 and \$22,900 per sqm per annum. George Street is also attracting a wide range of high-profile occupiers including high-tech showrooms, luxury fashion brands and retail banks as the light rails and pedestrian boulevard begin to take shape. The high-end King Street precinct remains the heart of luxury retailers with gross face rents fetching between \$6,000 and \$12,750 per sqm per annum. On the lower end of the rental spectrum, Pitt Street (excluding Pitt Street Mall) is the most affordable market for retailers such as bars, restaurants and takeaway shops servicing the local business community. Gross face rents on Pitt Street currently range between \$2,750 and \$6,500 per sqm per annum.

## 24-hour trading will be a boon to retailers and property owners

The City of Sydney is considering a plan for 24-hour trading across the entire city centre. Under the proposed plan, the around-the-clock trading zone would stretch from Darling Harbour to Hyde Park and Central Station, allowing businesses and retailers to apply for non-stop trading. The planning reforms are expected to make a

significant contribution to Sydney's night-time economy, which has been impacted by the lockout laws which restrict late-night trading in the Sydney CBD entertainment precinct. The planning reforms are forecast to unlock more than \$27 billion a year across increased retail spending and generate more than 230,000 jobs, according to an analysis by Deloitte Access Economics. Retail property values in the CBD are also expected to rise on the back of the increase in additional rents and revenues generated from night-time trading activity.

## A new wave of tenants coming out of Asia

While the past 12 months have witnessed robust demand from luxury and F&B operators, we are expecting to see a new wave of tenants from a diverse range of industries coming to the market over the next 12 months. Many of these retail brands are based out of Asia and are seeing increased demand from Australian consumers and international tourists. Examples include the Korean duty-free department store Lotte currently on the market for 1,500-5,000 sqm of space, Japanese casual wear designer Uniqlo exceeding expectations at Mid-City and is currently searching for 1,000 sqm on Broadway. Hong Kong-based luxury travel retailer Galleria enquiring for an option of 800 sqm. Jollibee, one of Asia's largest fast-food chains originating from the Philippines, is also seeking space in the CBD. Technology companies are also active in the market for flagship opportunity. Samsung is presently in the market for a flagship store, while Chinese tech firms Huawei and Xiaomi are also actively looking for showroom spaces.



**Birkenhead Point Shopping Centre, Drummoyne, NSW**  
Valued by Colliers International

## Urban regeneration to transform the CBD retail landscape

Over the next few years, we anticipate the Sydney CBD retail landscape will transform from the existing concentric model - with a single retail core currently in the precinct surrounding Pitt Street Mall - to a multiple nuclei model - with several retail clusters spreading across the CBD. While George Street Boulevard has started to emerge as a retail destination, other retail clusters surrounding Wynyard Station, Circular Quay and Central Station are beginning to take shape on the back of major integrated projects in the pipeline. The Wynyard Place mixed-use development to be completed in H2 2020 will generate 7,000

sqm of prime retail space on top of Wynyard Station which is expected to focus on F&B, lifestyle and services supporting the local office worker community. At the Northern tip of the CBD, Circular Quay will deliver over 10,000 sqm of retail space from the CQT (H2 2020) and QQT (H1 2022) developments. This precinct is benefiting from both the local office workers and tourists who would enable weekend and late-night trading. While detail plans are yet to be released, the proposed development of the Central Precinct at the Southern end of the CBD will create a massive opportunity to revitalise the retail landscape in the area surrounding Central Station which caters to a wide range of consumers including students, tourists, office workers and high-rise residents.



135 King Street, Sydney  
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# MELBOURNE CBD

Retail | First Half 2019

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## MARKET HIGHLIGHTS

Queen Victoria Market redevelopment given the go ahead

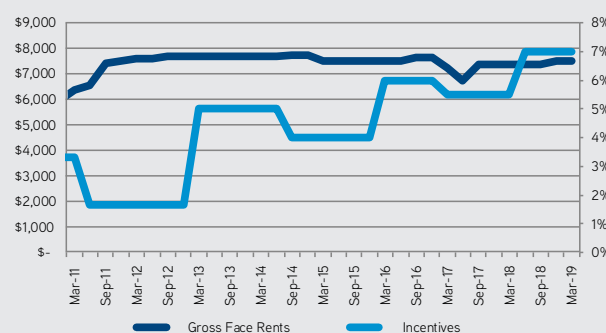
The necessity for premium food & beverage option in new developments

Increasing consumer sentiment to have a flow-on benefit to the retail sector

## Leasing market

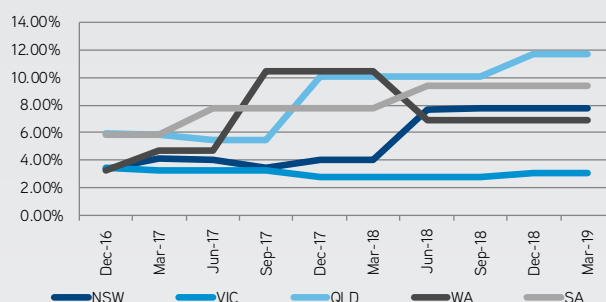
The hot topic for Melbourne currently is centred around population growth, which is exceeding all other Australian cities. Population growth to Victoria is supported by overseas migration, interstate migration and natural increase, which combined is higher than any other Australian state at 2.2 per cent. It is reported by the United Nations that Melbourne has one of the highest population growth rates in the developed world. As the population in Melbourne booms, international retailers are flocking to Melbourne to follow their consumer base including international bubble tea brand Prime's Hai, dessert house chain Hui Lau Shan and fried chicken chain Pelicana, while many others are circulating the market for prime locations. This saw gross face rents grew 1.7 per cent to average \$7,500/sqm.

### Melbourne CBD Gross Face Rents and Incentives



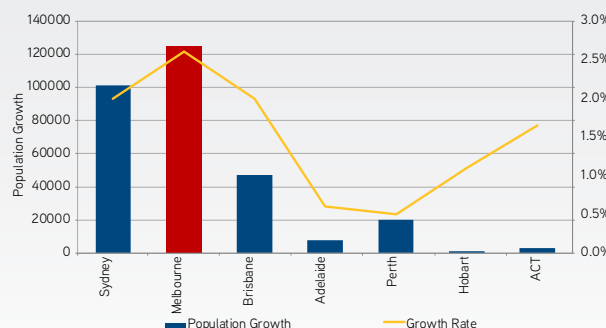
Source: Colliers International

### CBD Vacancy



Source: Colliers International

### Growth by Capital City



Source: Colliers International, ABS 3218

## Queen Victoria market development

The Queen Victoria redevelopment has been given the go-ahead from the Melbourne City Council, with construction beginning on the mixed-use Munro development adjacent to the market. This comprises of two towers of 38 and 10 storeys with a 120-place childcare facility, a family and children's services centre, community centre and kitchen, a city gallery, affordable housing and a 500 space car park. This precinct will be transformed into a pedestrian-friendly space with the anticipation of 24,000 new residents by 2040 and will incorporate interconnecting laneways with retail stores, cafes, and restaurants. The Munro development was purchased by the City Council to protect the Queen Victoria Market from large supermarkets or large chain stores being built in direct competition to fresh food offerings of the market. A boutique hotel, operated by Veriu to open in late 2022 will compliment the Munro development with 111 rooms. The existing car park is proposed to be redeveloped with public open space to be called 'Market Square' to service the city's north. We consider that once completed, the redevelopment of Queen Victoria Market will completely rejuvenate the surrounding retail area and create an uplift in value for adjoining landowners across all asset classes.

## The necessity for premium food & beverage options

Melbourne is regarded as a food and fashion epicentre of Australia. As new premium developments are completed, they are complimented with quality retailers. The new project at 80 Collins Street will comprise of 5,000 sqm of new retail space located on a prime corner with dual frontage to Exhibition Street and Collins Street. The surrounding area is populated with 31 hatted restaurants plus high-end boutiques and luxury brands. The tenant mix includes premium offerings such as Colours Bowls a plant-based eatery, Maverick café, GLACE a boutique dessert house, Handpicked Wines and new restaurant by renown restaurateur Chris Lucas. New developments must offer exceptional options to not only compete with surrounding offerings but also to become a destination in itself. The recently refurbished T&G Building at 161 Collins Street has opened a new café 'Liminal' by The Mulberry Group, who already operate a number of successful café ventures. The interior of the café is enhanced with a high-end finish designed by an award winning design studio.

## Increasing consumer sentiment to have a flow-on benefit to the retail sector

The beginning of 2019 has recorded only one transaction for the year (above \$5 million), the sale of a ground floor gym at 199 William Street for \$5.05 million on a 4.72 per cent yield. We associate the slow start to the year with landlords holding onto assets. A notable sale to the end of 2018 was 620 Collins Street which transacted for \$21.55 million comprising an IGA Supermarket and several adjoining shops for a 4.13 per cent yield.

The outcome of the Federal Election is expected to lead to increased discretionary spending and an increase in consumer sentiment, reinforced with the release of the Federal Budget in April. The Budget included a Low and Middle Income Tax Offset. This was coupled with a growing sentiment in housing and unemployment, given the unemployment rate continues at a record low of 5 per cent. The first stage of the government tax relief will be tax cuts are expected to boost disposable incomes, which will trickle into increased retail spending.



**393 Swanston Street, Melbourne**  
Leased by Colliers International



**Arden Gardens, Canning Street, VIC**  
Managed by Colliers International

By Karina Salas  
Research Manager | Research  
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## MARKET HIGHLIGHTS

Transformation of underutilised areas improves the retail experience in Brisbane CBD

Neighbourhood shopping centres welcome non-traditional tenants to boost foot traffic

Steady rents and increase in incentives reflect moderate leasing conditions

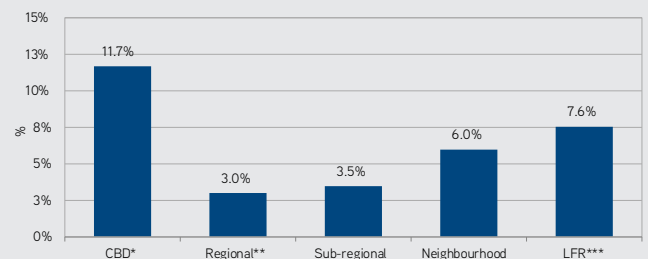
Retail is an essential contributor to the Queensland economy and a significant employer in Queensland and Brisbane GCCSA (Greater Capital City Statistical Division 2). According to Deloitte Access Economics, in 2018 retail was the second largest employer in Queensland supporting circa 259,000 jobs (or the equivalent to 10.5 per cent of the state's labour force), and the third-largest employer in Brisbane GCCSA supporting circa 80,000 jobs (or the equivalent to 9.5 per cent of the city's labour force).

Forecast employment data reveals that the retail sector will remain as a significant employer in Queensland and Brisbane GCCSA over the next seven years to 2025, although employment opportunities are forecast to grow at a more modest rate compared to the employment growth in the region.

## Leasing market

As the retail sector continues to consolidate particularly in the CBD area, we have seen some strategic vacant space in some traditional and well-established shopping centres due to the future introduction of the Queen's Wharf Casino. QueensPlaza is currently locking in tenancies with exclusive brands (including Celine Sunglasses, Christian Dior and Ives Saint Lauren), in the attempt to secure quality tenants prior to the opening of Queens' Wharf in 2024.

### Queensland Retail Vacancy - March 2019



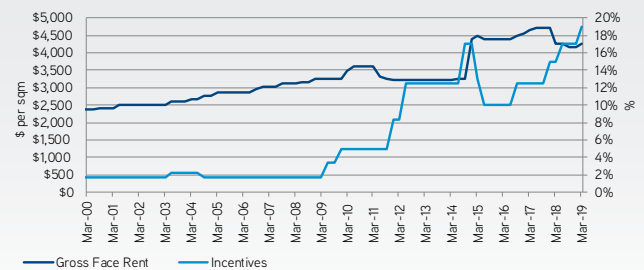
\* average of CBD locations in Queensland

\*\*average of super, major and regional

\*\*\* average of bulky goods and outlet

Source: Colliers International

### Brisbane CBD - Average Gross Face Rents and Average Incentives (2000-2019)



Source: Colliers Edge

The Property Council of Australia (PCA) estimates that the retail vacancy in Queensland CBD has reached 11.7 per cent for March 2019, sitting well-above the Queensland's retail vacancy of 5.97 per cent over the same period. E-commerce retail activity has been a key disruptor for the fashion industry and one of the contributors to high vacant space in the CBD area. As the construction of the Cross River Rail is set to spread the CBD pedestrian traffic from north to south, some retail operators are making cautious leasing decisions awaiting to see the impact on retail demand and foot traffic dynamics.

Colliers International anticipates that some traditional shopping centres will implement a repositioning or redevelopment strategy in the attempt to secure tenancies from strategic retail operators. This is an exciting time for major retail stakeholders as they are able to reposition their centres taking advantage of the current market to future proof their assets.

Brisbane CBD's average gross face rents have remained flat over the past 12 months, currently standing at \$4,250 per sqm and sitting 9.6 per cent below the highest average of \$4,700 per sqm reached in 2017. The steady rents and the increase in incentives to an average of 19 per cent (from 15 per cent a year ago) reflect moderating leasing conditions.

## Brisbane CBD retail experience set to improve

The current transport infrastructure pipeline, including the Cross River Rail and the Brisbane Metro, support the transformation of Brisbane into a metropolitan city needing a more sophisticated, adaptable and mature retail sector.

Colliers International is now seeing new retail trends wherein underutilised areas in hot spots across the city are revitalising, transforming and becoming a popular destination for locals and visitors. One example is the \$109 million Howard Smith Wharves precinct located at Boundary Street and providing an exclusive riverfront dining experience. The precinct commenced operations in late 2018, marking the beginning of a new era of dining and lifestyle. The developer in conjunction with the local council are planning to improve public transport to the new precinct and build a new ferry terminal which will commence construction in late 2019.

The Usher Lane development, located at 171 Edward Street, proposes the construction of dining, café and bar premises into the precinct and is an example of improved underutilised area.

## Mixed-use developments, a new trend in Brisbane metro

Changes in consumer behaviour and customer needs are driving a new era of mixed-use developments across the city. Consumers get attracted to a place to live with the convenience of having integrated amenities and ample of public open space. Some of the most significant mixed-use developments under construction are:

- \$1.1 billion Herston Quarter: Offers a health, education and science precinct, residential and commercial space, retirement and aged care and retail, food and beverage facilities. Retail represents about two percent of the land use.
- \$600 million South City Square located at Woolloongabba: Offers high-density residential dwellings, commercial space, a world-class luxury hotel, restaurants, retail space, a childcare centre and a cinema. It includes about 13,000 sqm of retail, including an underground supermarket and a boutique cinema.
- \$850 million Yeerongpilly Green located approximately 5.5km south to the Brisbane CBD: Offers 1,200 residential dwellings, 20,000 sqm of commercial space and 5,000 sqm of retail space.

As tenancy mix optimisation continues to be a strategic focus for retail property owners, the recently opened Bunnings in Newstead is a clear example of this trend, offering over 17,000 sqm of warehouse, external retail, parking and café. The external retail component adds about 1,600 sqm of space.

In 2018, we saw neighbourhood shopping centres welcoming non-traditional tenants like childcare centres and even swimming schools. This is a new trend driving foot traffic and supporting business activity for retail operators.

## Investment market

Brisbane CBD saw two retail assets (\$10m+) transacted in 2018 totalling \$126 million and sitting below the 3-year average sales volume of \$161 million. The major transaction was the sale of 60 Queen Street estimated at \$95 million to Charter Hall REIT. The sale of the retail component at Festival Towers for \$32 million was transacted at a core yield of 5.5 per cent and offloaded from Marquette Properties to Charter Hall Direct Retail Fund.

Indicative yields compressed about 25bp over the YoY to March 2019, tightening to 5.5 per cent and holding about 70 to 80bp above Sydney and Melbourne's indicative yields.



Central Plaza 1, 345 Queen Street, Brisbane  
Leased by Colliers International

# GOLD COAST

Retail | First Half 2019

By Karina Salas  
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## MARKET HIGHLIGHTS

Domestic institutional investors continue dominating the market

Population growth heavily supported by net interstate migration drives development supply

Supermarket and grocery stores promote leasing activity

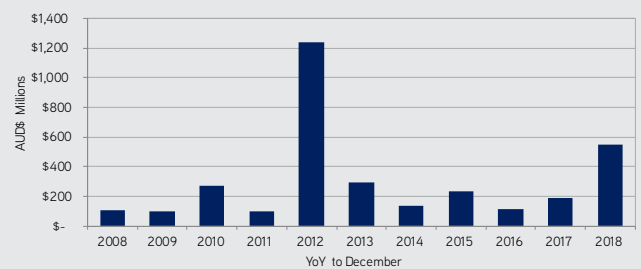
## Investment market

### Highest sales volumes recorded in five years

The retail investment market performed well in 2018, becoming the second-largest market following Brisbane Metro and contributing about 25 per cent of the state's investment sales reported in 2018. The volume of retail transactions (above \$5 million) reached the highest level seen in five years, with \$549 million retail sales taking place in 2018 compared to \$188 million in 2017 and sitting above the 10-year average of circa \$324 million.

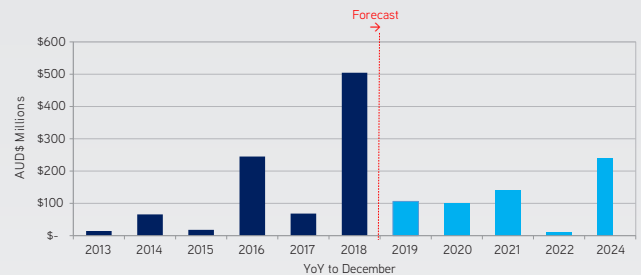
Domestic institutional investors have generally dominated the non-metro retail market over the past decade, and 2018 was not the exception to the rule, with their contribution reaching 58 per cent of the sales volumes or the equivalent to \$318 million. The largest 2018 transaction was the sale of 25 per cent of the stake of Harbour Town Gold Coast in Biggera Waters, acquired by Lendlease for \$180 million at an initial yield of 4.5 per cent. Lendlease purchased the first 25 per cent stake of the asset for \$125 million in 2010, revealing an increase in the market value of the asset of 44 per cent over a period of 8 years. Following this acquisition, Lendlease currently owns 50 per cent of Harbour Town Gold Coast.

Estimated Gold Coast Retail Sales (> \$5 million) (2008-2018)



Source: Colliers Edge

Estimated Gold Coast Investment in Retail Developments (2013-2024)



Source: Cordell Connect and Colliers Edge

Queensland Ratio of Supermarket and Grocery Stores Turnover to Retail Turnover (2009 to 2019)



Source: ABS and Colliers International

Some notable sales in Q4 2018 included the Coomera Square Shopping Centre for \$58.5 million and the Bunnings Warehouse at Burleigh Heads for \$19.7 million. Volumes since the beginning of 2019 in the Gold Coast has been relatively thin with no transactions completed, although there are a number of deals pending.

Colliers International anticipates that over the coming 12 months institutional investors will be challenged by both private and syndicate purchasers due to the value proposition of Gold Coast retail investments supported by the positive yield spreads of up to 100 basis points compared to Sydney and Melbourne's indicative yields. In 2018, yields fluctuated in the range of 4.8 per cent to 7.5 per cent.

Some current buying opportunities include the Stockland Pacific Pines Town Centre, the Sundale Retail Precinct at Southport, Sunland's Lakeview retail Centre at Mermaid Waters and the Old Burleigh Theatre arcade at Burleigh Heads.

## Development supply

Net interstate migration representing nearly 50 per cent of the regional population growth for the YoY to June 2018 has driven residential expansion and the need for new regional and neighbourhood shopping centres developments to service the growing population. Circa \$500 million investment in developments in the Gold Coast were completed in 2018, representing more than 50 per cent of the state's investment in retail developments. The total value of this investment included the construction of the \$470 million Westfield Coomera and the Pimpama City Shopping Centre. These developments are located in the suburbs along the M1 corridor wherein population growth has been significant over the past decade.

According to the Australian Bureau of Statistics (ABS), Pimpama has been the suburb leading the population increase throughout the state, with the number of residents rising by circa 615 per cent over the past decade, from 2,262 residents in June 2008 to 16,134 residents in June 2018. Similarly, the population in Coomera increased 162 per cent over the same period, to reach 16,611 residents in June 2018.

According to the low series projected population data prepared by the Queensland Government, the Gold Coast will continue attracting a larger population increase compared to the state over the 25-years period to June 2041. The regional population is forecast to increase 44 per cent from circa 577,000 residents in June 2016 to circa 831,000 residents in June 2041. This compares to a cumulative 25-years population growth throughout the state of 34 per cent.

With an expected population increase in the Gold Coast of circa 225,000 residents to June 2041, Colliers International anticipates that future development activity may be concentrated on neighbourhood shopping centres in proximity to residential hot spots and high-growth population areas like Ormeau, Oxford and Nerang.

## Leasing market

The dynamics of the retail sector are changing, with supermarket and grocery stores currently driving leasing activity. According to the ABS, supermarket and grocery stores turnover is the largest contributor to the Queensland's retailing turnover, accounting for 35.9 per cent of the state's retailing turnover in February 2019 (compared to the 2018 average of 35.5 per cent).

New retail developments in the Gold Coast occupied by anchor supermarket tenants have been very successful in 2018. Some examples are the three new Coles supermarkets located at Pimpama, Southport Park and Coomera Town Centre commencing operations in 2018. The traditional and well-established retail precinct in Surfers Paradise has become a second-tier precinct needing repositioning to take advantage of the strong tourism activity. Retail activity at Robina Town Centre, Burleigh Heads, Broadbeach and Harbour Town are regions generally performing well and partially supported by dining retail activity.

Colliers International has seen a new trend wherein landlords are more willing to negotiate higher incentives to secure tenancies. Incentives for regional retail leasing currently sit at an average of 20 per cent compared to a 15 per cent average reported about 12 to 18 months ago.

Colliers International anticipates that the retail sector in the Gold Coast will continue evolving and adapting to consumers' needs, with the future of the sector expected to be positive and supported by the low unemployment rate, robust population growth and consistent tourism activity.



**Soul Boardwalk, Surfers Paradise**  
Sold by Colliers International

By Kate Gray  
Director | Research  
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## MARKET HIGHLIGHTS

Food Categories continue to perform well

Annual retail sales growth of 1.8 percent

## South Australian Retail sales – March 19

South Australia's retail sales growth in March 2019 has slowed to 0.11 per cent MoM in seasonally adjusted terms. This has brought annual SA Retail trade growth to 1.87 per cent which is below the national average growth rate of 3.52 per cent.

Trading conditions were mixed across the retail categories with the non-discretionary sectors outperforming the market. Food retailing, the largest retail category by value, has continued to perform well with an annual increase of 2.3 per cent together with Cafes & Restaurants (+3.1 per cent), Household goods (+3.8 per cent) and Other retail services (+4.4 per cent).

## SA retail sales by category

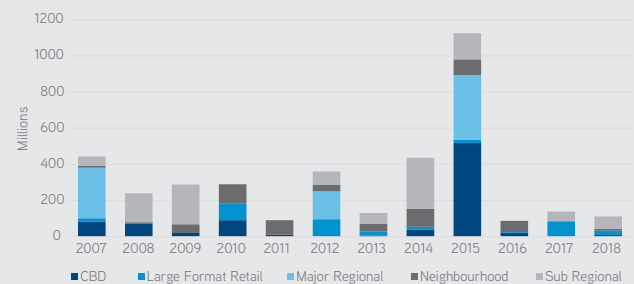
Department store sales fell has seen annual falls of -3.8 per cent while Clothing & Footwear (-8.5 per cent) with both sectors experienced challenging conditions.

The consistent performance of Food retailing continues to support non-discretionary sales, which rose by 2.3 per cent over the 12 months to March 2019.

## SA Retail sales by month

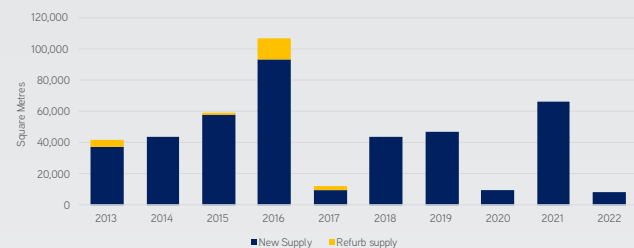
Online retail accounts for around 8 per cent of total retail sales. National growth in online retail has slowed to 0.5 per cent. This is the slowest rate of growth in the NAB online index since its commencement in 2011. According to the ABS online index, multi-channel retailers are growing at a faster rate than pure-play

## Adelaide CBD Office Sales Volumes



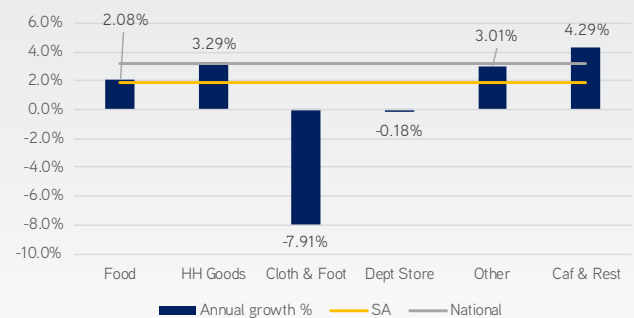
Source: Colliers Edge

## Adelaide Development Supply



Source: Cordell Connect and Colliers Edge

## Retail Sales - SA (% change month on pcip)



Source: ABS and Colliers International

online retailers. This suggests that bricks and mortar stores can be complementary to the online offering. This needs to be considered as part of the design or renovation plans for shopping centres in the future. This could include car park design to allow for specific bays for click and collect orders and, Uber Eats delivery drivers.

## Adelaide Shopping centres

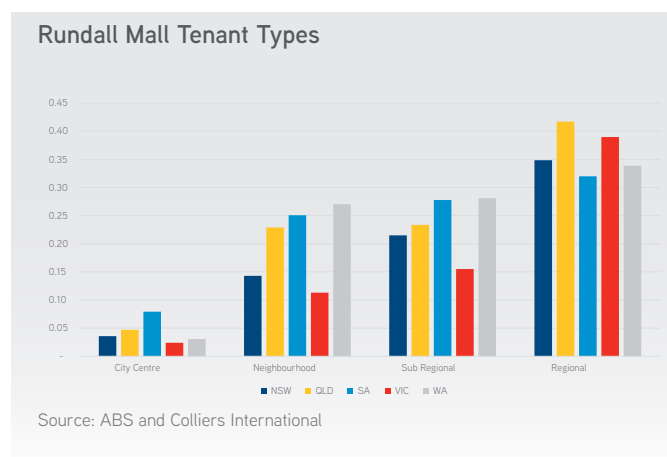
There is a total of 1.422 million square metres of Shopping centre supply in the Adelaide market. Below is a table of the types of retail space.

### Adelaide CBD Office Sales Volumes

Retail Type	m <sup>2</sup>
City Centre	132,920
Neighbourhood	420,293
Sub Regional	465,478
Regional	536,338
Grand Total	1,756,748

Source: Property Council Shopping Centre Directory

Below is an analysis of total square metres per capita by retail type.



South Australia has the highest level of retail space in CBD and on the higher end for neighbourhood centres and sub-regional centres. There is however an under-representation of regional, major regional and super-regional centres.

## Retail sqm per capita

Total sales during 2018 were \$87.34 million, which was the lowest sales volume recorded for the retail asset class in a decade. Private investors accounted for 51 per cent of total sales volumes with the remaining 49 per cent being purchased by institutional investors. Over 70 per cent of the Adelaide Shopping centre market is owned by private investors. Many of these are long term holders of property and therefore sales volumes, which limits sales volumes in the Adelaide retail market. There is however increased interest in investing in the Adelaide retail market, and therefore we expect stronger retail sales volumes during 2019. There is a 50 percent share of Westfield Marion and Woodcroft Shopping Centre which is being offered to the market which will boost sales volumes in the second half.

## Adelaide Retail Development

The Adelaide retail market expects to see an additional 33,000 sqm of additional retail supply complete in 2019. The largest project to complete is the extension and redevelopment of the Port Canal Shopping Centre at Port Adelaide.

### Adelaide CBD

The Adelaide CBD retail market has several key precincts which include:

- Rundle Mall – premier retail district
- Rundle Street – food and fashion focus
- Hindley Street – entertainment precinct
- Central market precinct – food precinct

Rundle Mall is the premier shopping precinct for the Adelaide CBD, which has some of the most expensive real estate in the Adelaide CBD. Rundle Mall is considered the key flagship location for most national and international retailers. There is a strong fashion focus in this precinct, but there is an increasing representation of personal retail categories. Vacancy along Rundle Mall has remained low with a current vacancy rate of 2.2 per cent. There are only three shops which are not currently occupied in the precinct.

### Rundle Mall Tenant Type

There have been several large redevelopments that occur in this precinct over the last 12 months. The first is the redevelopment of Rundle Mall Plaza which is home to the first H&M in Adelaide, a full line format store including clothing and H&M Home. The second is the redevelopment of Citi Centre, which has seen the food court and several retailers close to make way for a new Romeo's supermarket which has opened in late May. The focus will be on fresh food and higher end prepared food.



Tea Tree Plaza, Modbury, SA  
Valued by Colliers International

Adelaide is a CBD focused city, with most office employment located in the CBD. Over the past five years, the CBD has seen a revival with well over \$4 billion of investment in projects and infrastructure in the CBD.

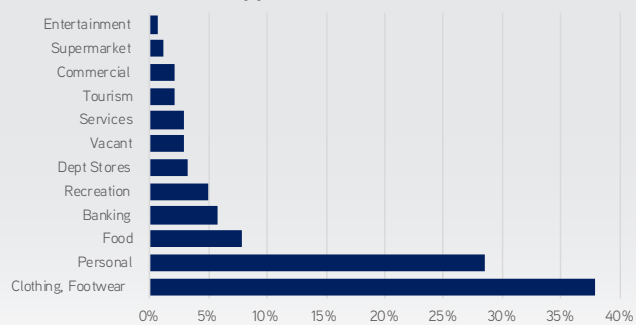
These include;

- Redevelopment of the Adelaide Oval
- Convention centre redevelopment
- New Royal Adelaide hospital and medical precinct
- Tram line extension
- Development of old Royal Adelaide Hospital site, now known as lot 14

This investment has led to a boost in both residential supply in the CBD with over 1,500 apartments under construction and a further 1,600 apartments mooted. This is building the residential population of the CBD which is helping to strengthen the retail market in the CBD.

Tourism is also a key growth sector for the Adelaide CBD and is worth \$6.9 billion to the SA economy. This has grown the 11 per cent over the past year. Occupancy across the Adelaide CBD is running close to 80 per cent and with increase in room rates. Growth in room nights is coming from mostly domestic travellers, but there is an increasing number of international travellers coming to Adelaide. This is leading to an increase in new supply to the Adelaide market being announced. There are around 1,800 new rooms forecast for the Adelaide market over the next three years with brands such as Sofitel, Atura, Westin, Travel Lodge, Crown Plaza, Quest and Sky City all announcing projects in the CBD. Forecasts suggest continued growth in this sector which helps underpin the retail sector in the Adelaide CBD.

### Rundle Mall Tenant Types



Source: ABS and Colliers International

Education is also a key sector for growth with both University of Adelaide and the University of South Australia having campuses in the Adelaide CBD. International students for higher education have grown 27 per cent since 2015 with a strong growth in students from China (up 26 per cent since 2015). This has led to an increase in supply for student accommodation, with three of these projects in close proximity to Rundle Mall. Increasing students in the Adelaide CBD also strengthens the Adelaide retail precincts.

All of the activity in Tourism, residential supply and student accommodation strengthens the Rundle Mall shopping precinct. The current band for rents for Rundle Mall facing properties is in the range of \$1,800/sqm to \$3,500/sqm. Incentives have remained stable at 20 per cent of a lease. With vacancy remaining tight despite new development, it is likely that rents and incentives will continue steady over the next 12 months.



**Coles Norwood, SA**  
Leased by Colliers International

By **Quyen Quach**  
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## MARKET HIGHLIGHTS

Retail turnover has been improving

Record retail space completions over the 2018 calendar year

Neighbourhood IRR's tightened

## Current retail market conditions

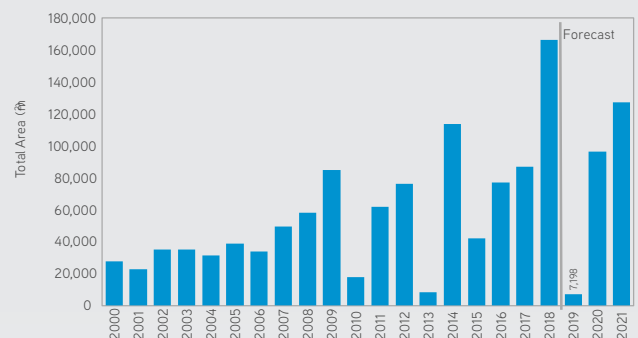
WA's Labour market conditions are picking up and assisting the recovery in WA's population growth. This led to a modest improvement in the overall retail scene, which was reflected in recent retail turnover statistics.

WA's relatively subdued retail conditions, when compared to other states, are likely the result of confidence. Although optimistic, consumers remain cautious. Short-term WA consumer confidence fell back again in the March 2019 quarter. According to the WA Super-CCI Consumer Confidence Survey, 80 per cent expect the WA economy to improve or remain unchanged over the coming June 2019 quarter; down from 82 per cent recorded in the previous quarter. Despite the quarterly fall, consumers remain more confident than they were a year ago.

Consumers continued to be most concerned about the cost of living, the global economic environment, slow wages growth and high household debt. In addition, nearly half (46%) of respondents indicated that the federal political environment had affected their confidence. However, the low-interest rate environment and the recent rate cut by the RBA provided some positive offset.

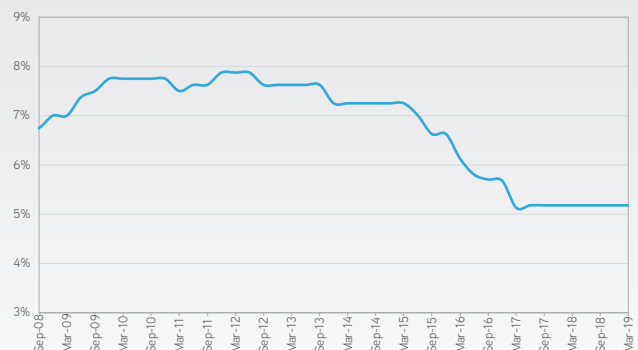
WA seasonally-adjusted nominal retail turnover increased by 1.26 per cent to \$8.57 billion during the March 2019 quarter compared with the March 2018 result. Most retail sectors, with the exception 'Department Stores' and 'Household Goods', experienced growth

## Perth Metropolitan Retail Space Supply (Excluding Bulky Goods/LFR)



Source: Colliers Edge

## Perth CBD Average Retail Yields



Source: Colliers Edge

during the year. 'Other Goods' led the expansion growing 4.08 per cent. This was followed by 'Food' (up 2.85%), 'Café, restaurants etc.' (up 1.88%) and 'Clothing & Soft Goods' (up 1.01%).

The housing market continued to dent 'Household Goods' turnover, with the sector falling 4.11 per cent since March 2018. The industry has seen consistent quarterly contractions and has dropped an aggregate 15.2 per cent since September 2016.

'Department Stores' declined 2.44 per cent over the year. The rise of 'Category Killers' such as JB Hi-Fi, Officeworks, BCF, Supercheap and online competition has impacted the traditional department store model. As a countermeasure, we have seen department stores refitted and in most instances footprints have shrunk alongside their product offerings.

Notwithstanding softer conditions in some sectors, modest growth in other areas of retailing has had a positive impact on retail sector employment, which grew by 10,100 employees (7.9%) in the three months to March 2019. Over the year, employment numbers increased by 17.5 per cent.

Some of this has been driven by the changing shopping centre tenant mix, as landlords shift their focus towards expanding food, hospitality and entertainment offerings. One set of statistics that supports this focus is the WA job vacancies data for 'Chefs' and 'Cooks'. As at March 2019, data from the Department of Jobs and Small Business indicate that 'Chefs' and 'Cooks' job vacancies constituted 2.22 per cent of all WA job vacancies. This was up from 1.18 per cent 10 years ago in March 2009.

Soft trading conditions and the increased availability of space has led some landlords to take a more realistic approach towards rental demands. CBD mall rents, in general, have moderated 5.4 per cent over the year to March 2019 to average \$3,205/sqm. In neighbourhood centres, average rents moderated 3.2 per cent during the year to March 2019.

## Retail supply update

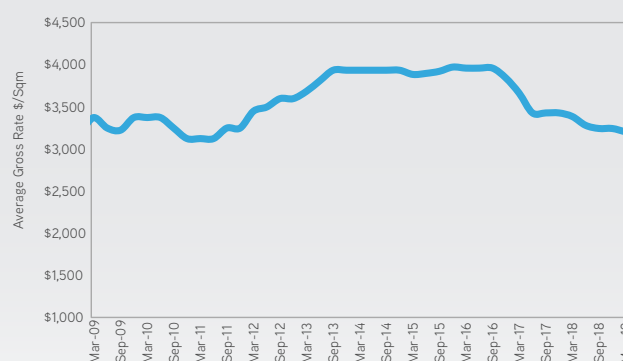
During 2018, Greater Perth saw a record level of retail space supply; with the addition of 166,360sqm of retail space. These additions mostly came from the expansions of major regional shopping centres and new sub-regional centres. Butler Central Shopping Centre and the new DFO at Perth Airport contributed 56,595sqm, while expansion activity at Westfield Carousel, Mandurah Forum and Midland Gate added approximately 90,500sqm.

In the Perth CBD, the \$200 million repositioning of Raine Square reached practical completion in December 2018. The complex has been repositioned to cater for an increased food and beverage offer and a mini fashion precinct in close proximity to the central Murray Street Mall.

In April 2019, Charter Hall announced a significant leasing coup with Louis Vuitton, an integral part of the fabric of King Street's luxury retail strip decades, committing to approximately 550sqm in the refurbished Wentworth building on Murray Street. This was soon followed by news in May that Tiffany & Co and Kailis Jewellery would also be relocating from Kings Street to Raine Square. The activation of the west-end of Murray Street had seen a number of fashion retailers relocate to this area over the past decade and these new tenants signal the emergence of a new luxury fashion and accessories precinct for Perth's CBD.

Currently, 61,740sqm of retail space is under construction and scheduled to be completed over the next two years; this includes the Karrinyup Shopping Centre expansion which commenced in December 2018. After the record delivery of space in 2018, we expect a significant moderation in new supply in 2019, with only 7,200sqm forecast to be added. Most of the space under construction is scheduled for completion in 2020.

Perth CBD Mall & High Street Average Rents



Source: Colliers Edge

## Investment Activity

There was a significant increase in neighbourhood centre activity in 2018. In total, eight centres transacted within the Greater Perth area for an aggregate of \$180.9 million. This was significantly stronger than 2017, when four centres sold for a \$67.4 million.

Wattle Grove Shopping Centre was a significant transaction for 2019. The centre was completed in 2016 and is anchored by an Aldi store.

Strong demand for retail assets by off-shore investors, privates, syndicators and smaller fund managers over the past three years has driven neighbourhood centre market yields and IRRs lower. Market yields for neighbourhood centres averaged 6.37 per cent in 2018, down from an average of 6.8 per cent in 2015. During the same period, average analysed IRRs contracted from 7.99 per cent to 7.25 per cent.

Larger centres continue to be tightly-held. The only major centres sold over the past year were the Warnbro Centre and Currambine Central, both part of Vicinity Centre's \$630 million, 11-centre portfolio divestment to SCA Property Group during Q3 2018.

## The outlook

WA is transitioning towards a stronger economic position. It has taken longer than most people had expected, but available statistics and signs on the ground are that resource sector activity has started to improve. Population and employment opportunities are continuing to grow, and the benefits will eventually translate into a stronger retail turnover.

Food retailing, café, restaurants, clothing and soft goods may see more consistent improvements over 2019 as a result of population growth. We are also forecasting further moderation in the Perth CBD office vacancy rate. This is expected to underpin better trading conditions for CBD retailers currently enduring challenging trading conditions.

By Alex Pham  
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## MARKET HIGHLIGHTS

Space allocation continues to rotate towards retail categories that can be consumed within the centre such as retail services, entertainment and food catering.

The impact of Big W's closure of 30 stores will be relatively constrained and less severe than the market expected.

Investor demand has remained strong for quality retail assets located in prime and established locations with potential for future development.

## Leasing market Regional Centres

While the overall trading conditions remain challenging, pockets of value remain available in the current retail market. Regional centres that are in prime and established locations supported by healthy geographical catchments continue to perform well and see improving foot traffic. Owners are actively focusing on value creation initiatives to boost asset value through repositioning strategies and tenant mix optimisation. Higher weighting is being given towards retail categories that can be consumed within the centre such as retail services, entertainment and food catering. On the other hand, allocation towards department stores, discount department stores and apparel is shrinking. Additionally, alternative and complementary uses such as build-to-rent, student accommodation, hotels and residential are being activated across the centres that have mixed-use zoning and with proximity to public transport. Nevertheless, Regional centre owners have remained realistic regarding rental levels to maintain high occupancy levels and hold onto quality tenants. Sydney regional centre speciality rents have remained unchanged over the first quarter of 2019 at \$1,950 per sqm per annum, albeit 2.2 per cent lower than a year ago. Melbourne regional shopping centre rents were around \$1,750

per sqm, posting a yearly moderation of 2.8 per cent. Average Brisbane regional rents were steady at \$1,550 per sqm during the quarter but softened by 3.1 per cent from a year prior. Rents in Perth regional centres have stabilised at \$998 per sqm over the last 12 months. Adelaide regional centre rents were static at \$1,425 per sqm in 1Q19, 4.6 per cent more affordable than the same period last year.

## Sub Regional Centres

The trading performance of discount department stores is having a significant bearing on the Sub-regional retail market. Kmart continues to focus on expanding and reinvigorating its store network, opening three new stores and refurbishing 20 stores over the past six months. Big W, on the other hand, is consolidating its operations announcing the repositioning of 30 stores over the next two years. Nevertheless, our analysis of the closing stores reveals that the overall impact on the market is relatively limited with owners of the affected centres, already working on alternative solutions. The total amount of space of the 30 stores amounts to approximately 200,000 sqm, with around 122,000 sqm located within Sub-regional shopping centres. Upon analysing these centres in depth, we expect a large number of these locations can be substituted by Big W's sister brands such as BWS and Dan Murphy's. Other potential back-fill tenants will include Kmart and mini-majors such as Chemist Warehouse, Daiso or even non-retail occupiers such as Anytime Fitness, F45 or potentially large format international brands looking for well-located and performing centres in suburban locations. Our modelling shows the impact on vacancy from these closures will be less than 2.0 per cent spread out gradually over several years.

With continued uncertainty surrounding the DDS sector, rental affordability continues to improve across most locations. Average gross face rents across Sub-regional centres in Sydney decreased by 3.8 per cent from a year ago to \$1,275 per sqm per annum in the first quarter of 2019. Melbourne's rents followed the same trend with a decline of 5.2 per cent over the year to 1Q19 to \$1,005 per sqm. Sub-regional rents in Brisbane were down 5.2% YoY to \$1,050 per sqm. Adelaide has become one of the most affordable retail markets in Australia with sub-regional rents registering around \$675 sqm, 9.4 per cent lower than last year. Interestingly, Perth was the only market that didn't register a decline in sub-regional rents over the past year, holding firm at \$778 per sqm.

## Neighbourhood Centres

Neighbourhood shopping centres continue to offer defensive exposure for retail investors in times of uncertainty. Demand for supermarket and convenience-based shopping centres, particularly from value-add and opportunistic funds, has remained undeterred. Spending on non-discretionary retail categories has been growing at above 4.0 per cent over the 12 months to February and has outperformed growth in discretionary sales since mid-2017. On the back of the strong performance of non-discretionary sales, major supermarket chains such as Coles, Woolworths and Aldi continue to expand their operations while Kaufland is ramping up its retail presence in Australia. The imminent arrival of AmazonFresh is expected to bring more competition to the industry. However, the real impact remains yet to be seen. Amazon's initial entrance to Australia has been falling short of market expectations as Australian consumers remain loyal to brick-and-mortar stores, which still account for 95 per cent of total retail sales. Amazon Australia's revenue for the FY18 was \$106m, which is less than 1% market share of total sales and is about the same size as the MAT of Chullora Marketplace in Chullora, NSW. The current rents for neighbourhood centres in Sydney are around \$1,000 per sqm on average as at Q1 2019 while Melbourne average rents are hovering around \$765 per sqm. More affordable rental levels are observed in Brisbane, Perth and Adelaide with face rents averaging around \$700, \$453 and \$510 per sqm respectively.

## Investment market

### Regional Centres

There was \$1.935 billion worth of regional centres transacted during 2018, which accounted for approximately 23 per cent of the total retail investment value over the year. The regional asset market remains extremely tight and assets are rarely traded. There were only four assets transacted last year with all of them partial interests. The largest single transaction during 2018 was the combined sale of a 50 per cent interest in Pacific Werribee and Pacific Epping for approximately \$1 billion. The centres represented the last two privately owned and managed prime Regional Centres in Victoria. New South Wales and Queensland each saw one asset transacted. Scentre Group acquired a 50 per cent share of Terrace Tower Group's Westfield Eastgardens in Sydney's east for \$720 million on a 4.25 per cent cap rate and in Q2 of 2018 Vicinity sold their 50 per cent stake in Grand Plaza Shopping Centre in Brisbane to Invesco Real Estate for \$215 million at a cap rate of 5.50 per cent.

### Sub Regional Centres

With over \$2.08 billion in transactions recorded across 20 assets, 2018 was a robust year for the Sub-Regional asset class. The active investment activity has continued into 2019 with over \$483 million worth of centres traded in the first quarter of 2019, a ten-fold increase compared to the same period last year. Institutional investors dominated transactions of Sub-Regional centre's

nationally, accounting for 66 per cent of purchaser activity and an overwhelming 89 per cent of vendor activity in 2018. New South Wales and Victoria were the most active sub-markets with eight transactions totalling \$977 million and \$918 million, respectively. The most significant Sub-Regional centre transaction during CY18 was the sale of a 100 per cent interest in Figtree Grove Shopping Centre late last year. The centre was acquired as a Joint Venture between SPH REIT and Moelis in a deal worth \$206 million at a cap rate of 6.0 per cent. The largest transaction over the first quarter of this year was the portfolio sale of Stockland Cleveland and Toowong Retail and Commercial Centre for a combined value of \$143 million to undisclosed investors.

## Neighbourhood Centres

A total of 46 Neighbourhood centres were changed hands over the past year for a total transaction value of \$1.66 billion. Queensland recorded \$564 million worth of transactions in 2018 and by dollar value was the most active state market. The largest individual sale within the sub-sector was Hurstville Central in the Sydney Metropolitan area purchased by an Offshore Unlisted Fund for \$119.5 million. The leasehold property sits directly above the Hurstville train station and sold at a cap rate of 6.07 per cent with 42 years remaining on the leasehold. SCA Property Group were the most active purchaser within the sub-sector, acquiring eight Neighbourhood centres in CY18 (seven of which formed part of the Vicinity Portfolio deal) accounting for over 20 per cent of all Neighbourhood centre sales. 2019 is expected to be another strong year for Neighbourhood centres with over \$114 million worth of assets already exchanged since the beginning of the year. Two major neighbourhood centres transacted so far this year was Liverpool Plaza in Liverpool, NSW which sold for \$46 million at an initial yield of 6.3 per cent and Coburg North Shopping Village in Coburg North Melbourne sold for \$48 million at an initial yield of 4.72 per cent.



**Figtree Grove Shopping Centre, Figtree, NSW**  
Sold by Colliers International

# LARGE FORMAT RETAIL

Retail | First Half 2019

By Alex Pham  
Director | Research  
alex.pham@colliers.com

## MARKET HIGHLIGHTS

Major retailers in the LFR sector has continued to expand and achieve revenue growth.

The LFR market has recorded relatively stable conditions over the past 12 months across most locations in Australia.

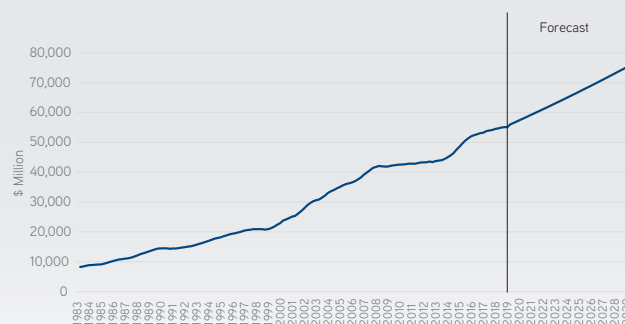
A total of \$1.176 billion worth of LFR centres (including bulky good and outlet centres) have transacted over the year to March 2019.

## Leasing market

### Sustainable population growth to provide long-term support for the LFR sector

Despite a moderation of trading conditions on the back of a slowdown in the housing market, the underlying fundamentals supporting the LFR sector remain sustainable over the long run. Analysis by Colliers International shows that the knock-on-effect from a slowing housing market is expected to be temporary. Changes in house prices had little influence on household spending over the long-run, while population growth was found to account for over 98 per cent of the movements in household goods consumption. In other words, the wealth effect is less significant on household goods consumption than the market might have expected. The Australian population has surpassed 25 million in the September quarter of 2018 and is forecast to grow by around 350,000 per annum over the next 10 years, one of the fastest rates of growth among the developed markets. Our forecasting model suggests that spending on household goods is predicted to grow from \$55 billion as at March 2019 to over \$75 billion by June 2029.

### Household Goods Sales



Source: Colliers International Forecast

This translates to an annual growth rate of over 3.0 per cent per annum or around \$1.9 billion per year over the next 10 years.

Major retailers in the LFR sector has continued to expand and achieve revenue growth. Bunnings, Australia's largest home improvement retailer, is currently constructing 14 new stores across the country. It reported revenue growth of 5.2 per cent and store-on-store growth of 4.0 per cent despite softening in conditions in the residential housing market. Spotlight Retail Group is one of the fastest growing retailers in Australia and is actively rolling out new stores nationally of its flagship brands, Anaconda (Australia's largest outdoor adventure and sports superstore) and Spotlight (Australia's largest fabric, craft, party and home interiors superstore). Affordable furniture retailer Amart Furniture is seeking to grow by about six new stores this year as its sales surpass \$750 million. Amart's upper marker competitor Nick Scali delivered a 7.7 per cent increase to its sales revenue during 2018 with the strong result driven by a continued new store rollout program, which saw five new stores opened in Australia during the year. Five more new stores across the country are expected to be inaugurated over the next 12 months. Super Retail Group also reported strong performance of its Supercheap Auto retail brand with like-for-like sales growth of 4.0 per cent in the first six weeks of the second half of FY19. Six more new Supercheap Auto stores are planned to be opened over the next six months.

## Greater diversification of tenant base

LFR owners continue to reinvent their spaces to attract a broader tenant base with greater emphasis on the categories that provide long-term growth and future proofing of their assets. Retail groups that cater to daily retail needs or can be consumed in-store such as supermarkets, food and beverage, grocery, fresh produce, restaurants etc. continue to gain more footprint within LFR centres. Other categories that are also gaining more traction are those that focus on lifestyle and leisure offerings that are less susceptible to online retailing such as cinemas, play centres, gyms and medical centres. Nevertheless, the optimal tenant mix of an LFR centre should be locale-specific and will be determined by spending patterns of the local catchment population, as well as existing competition in the local market. Space allocation optimisation isn't a one-size-fits-all approach and owners are increasingly tapping into technologies to gain deeper insights into visitor demographics and demand preferences.

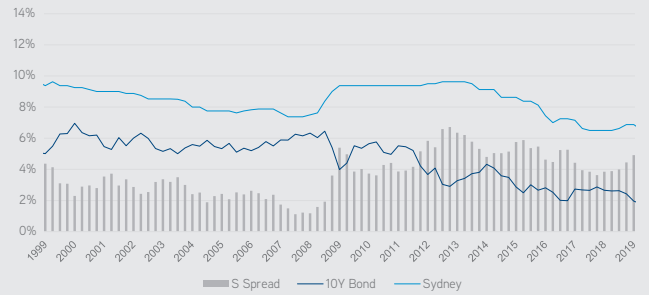
## Rental conditions remain relatively stable

The LFR market has recorded relatively stable conditions over the past 12 months across most locations in Australia due to strong population growth and retail sales performance, Melbourne had the most positive trading environment with gross face rents increasing by 2.8 per cent YoY to \$278 per sqm p.a.. Sydney, Brisbane and Perth experienced stable markets with gross face rents remaining steady at \$492, \$355 and \$203 per sqm p.a. respectively. On the other hand, Adelaide saw LFR gross face rents declined by 3.1 per cent YoY to \$238 per sqm p.a. as at 1Q 2019.

## Investment market

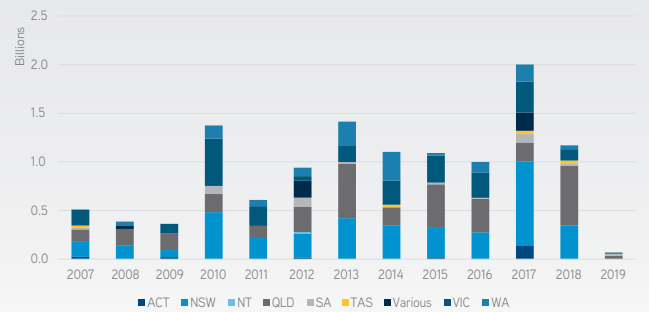
A total of \$1.176 billion worth of LFR centres (including bulky good and outlet centres) have transacted over the year to March 2019, 30 per cent lower than the record transaction level in the corresponding period last year. Queensland accounted for the largest proportion of investment value over the past 12 months with almost \$650 million changing hands, representing more than 55 per cent of the total value. New South Wales also saw prominent sales totalling \$354 million during the year. The largest outlet centre transaction was the acquisition of the 25 per cent stake in the Harbour Town Gold Coast for \$180 million. The Centre was acquired by the Lendlease managed Australian Prime Property Fund Retail at a cap rate of 4.75 per cent in Q4 of CY18. The \$170 million sale of Homemaker The Valley centre in Brisbane was the largest single asset transaction for the Large Format Retail sector in CY18. The centre was purchased by Arkadia in Q3 of CY18 on a cap rate of 7.31 per cent. LFR assets in Sydney are being traded at around 6.25 and 7.50 per cent as at 1Q 2019. Capitalisation rates have remained broadly stable in the capital cities of Melbourne (7.0-8.0 per cent), Brisbane (7.0-8.0 per cent) and Adelaide (7.15-8.15 per cent).

### Sydney LFR - Yield spread



Source: Colliers Edge

### LFR Transaction Value



Source: Colliers Edge



4 & 8 Blaxland Road, Campbelltown, NSW  
Leased by Colliers International

# OUR EXPERIENCE RETAIL

## LEASED



**Coles Norwood, SA**

**3750m<sup>2</sup>**

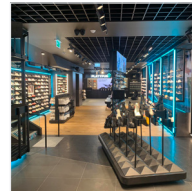
On behalf of ADP Projects  
SA Pty Ltd



**4 & 8 Blaxland Road,  
Campbelltown, NSW**

**700m<sup>2</sup>**

On behalf of Interger  
Property Partner



**135 King Street,  
Sydney**

**649m<sup>2</sup>**

On behalf of Stockland

## SOLD



**Figtree Grove Shopping  
Centre, Figtree, NSW**

**\$206 million**

Sold on behalf of our valued  
client 151 Property/Blackstone



**Gateway Plaza, Leopold, VIC**  
**\$117 million**

On behalf of our valued client  
Vicinity Centres (VERF)



**Keilor Central, Keilor Downs,  
VIC**

**\$113 million**

On behalf of our valued client  
Vicinity Centres (VERF)

## MANAGED



**13 & 17 Blaxland Rd,  
Campbelltown**

**19,500m<sup>2</sup>**

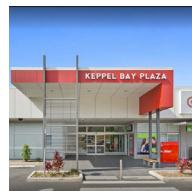
On behalf of Blaxland Rd  
Syndicate



**Warwick Road, Yamanto,  
QLD**

**12,532m<sup>2</sup>**

On behalf of Primewest



**Keppel Bay Plaza,  
Yeppoon, QLD**

**7,821m<sup>2</sup>**

On behalf of Real Asset  
Management

## VALUED



**Westfield Marion, SA**

**137,000m<sup>2</sup>**

On behalf of Lendlease



**Sunshine Plaza & Ancillary  
Properties, Maroochydore,  
QLD**

**94,700m<sup>2</sup>**

On behalf of Lendlease



**Tea Tree Plaza, Modbury, SA**

**89,000m<sup>2</sup>**

On behalf of AMP Capital  
Investors Limited

Note: figures calculated over a 12 month period from 1 May 2017 to 1 May 2018

\* Sales of assets since 2011

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# AUSTRALIA & NEW ZEALAND

## IN THE LAST 12 MONTHS

**989** tenancies covering more than **312,000** square metres



**Mercato on Byron**

**455m<sup>2</sup>**

On behalf of Task Group and Wingate Property Holdings



**33 Russell Street, Melbourne**

**384m<sup>2</sup>**

On behalf of Private landlord. New tenant is Andrew McConnell



**393 Swanston Street, Melbourne**

**230m<sup>2</sup>**

On behalf of Scape

**130** assets totalling over **\$10 billion** value \*Since 2011



**Neeta City Shopping Centre, Fairfield, NSW**

**\$85.3 million**

On behalf of our valued client Arcadia Managed Investments



**Woolworths NSW Supermarket Portfolio, Woolworths Nelson Bay & Woolworths Lisarow**

**\$45.7 million**

On behalf of our valued client Woolworths Group Ltd



**Coles Alderley, Alderley, QLD**

**\$30.2 million**

On behalf of our valued client Coles Group Property Development Ltd

**400** assets totalling over **1.54 million** square meters



**Arden Gardens, Canning Street, VIC**

**6,395m<sup>2</sup>**

On behalf of CBD Development Group



**Coles Port Macquarie**

**4,810m<sup>2</sup>**

On behalf of ISPT



**Marina Square, Wentworth Point**

**1,725m<sup>2</sup>**

On behalf of Billbergia Pty Ltd

**90** assets with a value in excess of **\$28 billion** in value



**Westfield Liverpool, NSW**

**83,000m<sup>2</sup>**

On behalf of AMP Capital



**Garden City Shopping Centre & Ancillary Properties, Booragoon, WA**

**72,800m<sup>2</sup>**

On behalf of AMP Capital Investors Limited



**Birkenhead Point Shopping Centre & Marina and 64 Roseby Street, Drummoyne, NSW**

**33,400m<sup>2</sup>**

On behalf of Mirvac Funds Limited



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**554** offices in  
**68** countries on  
**6** continents

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**\$2.275**  
billion in  
annual revenue

**2**  
billion square feet  
under management

**15,000**  
professionals  
and staff

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