Commercial

HERRON
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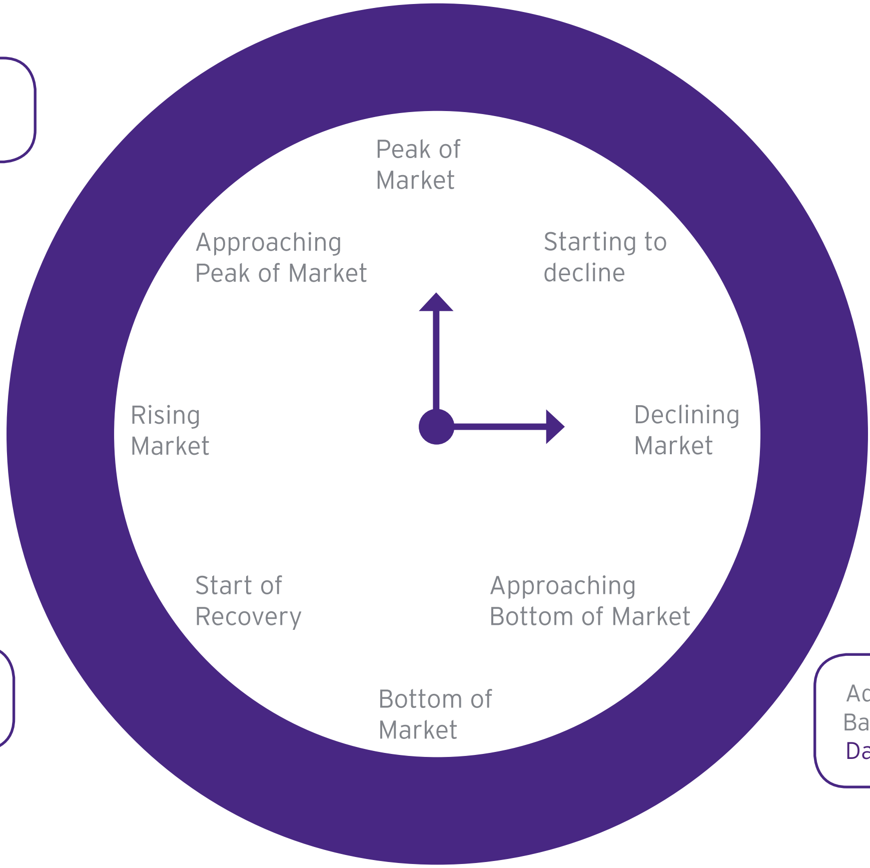
COMMERCIAL

National Property Clock
October 2018
Retail

Brisbane
Coffs Harbour
Lismore
South East NSW
Tamworth

Canberra
Gold Coast
Melbourne
Sydney



Ballarat
Bendigo
Burnie-Devonport
Launceston
Mid North Coast
Newcastle
Sunshine Coast

Alice Springs
Echuca
Gippsland

Cairns
Mildura
Toowoomba

Adelaide Hills
Barossa Valley
Darwin
Hobart
Iron Triangle
South West WA

Adelaide
Emerald
Gladstone
Mackay
Perth
Rockhampton
Townsville
Wide Bay

Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

The evolution and revolution of property isn't just about residential holdings. Commercial real estate must also keep up with change so it can grow along with the demands of its stakeholders.

And retail is certainly counted among those property sectors in a state of flux. The growth in online shopping means retail bricks and mortar is attracting a new breed of tenant and property owners must adapt if they want to stay ahead.

In this month's issue, we take a look at the changing faces of the retail property sector.

Sydney

The retail sector in Sydney has had some challenges of late.

The continued threat of online shopping has taken the edge off the market in this sector to some degree but we are seeing new ideas, adaptation and a change in landscape to cater for changing demands of both consumers and tenants.

Within the CBD we have seen an increase in high-end retail tenants. Expansion of some high-end retailers is evident, for example the recent opening of Chaumet in Westfields. CBD assets remain strong as infrastructure improvements progress and speculation about the impact continues to drive areas of the market. Rental growth is evident in this market as tenants try to secure their positions within the CBD. We are therefore seeing good tenant demand from luxury and well-known brands that are looking to establish flagship stores or prominent positions.

Within regional and subregional centres, we are seeing a shifting trend towards destination style retail precincts. In particular we are seeing the use of food and restaurants as an attraction. A focus has also been given to food courts as a lure for shoppers.

Parking is also a key consideration for retail shoppers and we are seeing increased use of technology to aid parking within large shopping centres. Additional services such as valet services, concierge services and car washes remain popular but, like parking technology, they've been in existence for some time now.

The main increase in supply is within local centres that service new residential subdivisions. Again, these have a destination style appeal to them along with the standard supermarket anchor.

Tenant mix also remains a focus for retail centres. This is a proven attraction for shoppers and therefore continues to be a high priority.

Restaurants and bars in the inner city remain in demand. As local strip shops struggle to compete with nearby centres, a change in focus has been witnessed in some areas. Late night trading has become popular along local strips in some areas and restaurants and small bars are certainly popping up in most suburbs. These shops tend to be below 100 square metres and are therefore more affordable to tenants, making them a popular choice.

Also within the inner-city areas, new development of mixed use sites has seen an increase in supply of retail space. Most new development, particularly along the arterial roads, requires a component of ground floor retail under planning requirements. We have noted longer vacancy periods for these but are seeing increased demand as tenants adapt to the locational challenges and capitalise on the trade from local residents.

Looking to the future for retail, the need for local convenience centres is likely to continue as will the demand from luxury brands looking to showcase their goods. However, innovation is needed to ensure that local retail strips and centres remain relevant. That said, the market has performed well over the past twelve months indicating that there is still good demand.

South East NSW

The broad changes being experienced across the retail industry are clearly demonstrated within the Wollongong CBD which has seen a transition to a higher concentration of food and beverage businesses after a concerted effort by Wollongong City Council to activate the night time economy. This has seen many traditional retailers being replaced by wine bars, cafés, restaurants, boutique bakeries, niche supermarkets and the like, and even serviced based businesses. Nowhere is this more evident than in the city's largest shopping centre, GPT's Wollongong Central which has a new food court, a food hall within the new format David Jones department store and an entertainment focus with the opening of Holey Moley mini golf that also incorporates a bar and a range of games and activities.

As in most locations, demand for large floor plates is limited with retail tenants seeking to reduce occupancy costs by utilising smaller shop fronts in the range of 50 to 100 square metres. Taken the ongoing changes and tenant movement, retail rents have remained static for a prolonged period, with incentives required to lease vacant space and extended letting up periods of up to twelve months being common in some locations.

Buyer demand for retail investments remains strong with yields typically ranging from five per cent to 6.5 per cent, although most sales have been at price points below $2.5 million. One would have to look at the relatively buoyant bulky goods sector for yields at higher price points with The Goods Guys Warrawong selling in May 2018 for $7.15 million, reflecting a yield of 7.65 per cent and rate of $2,708 per square metre of lettable area. This property is within the region's pre-eminent bulky goods precinct, which has recovered over the past two years with low vacancy rates now evident along the corridor.

Lismore

The Lismore retail market has been reporting weaker activity with falling sales and falling margins, even prior to the 2017 flood event. Recently the Lismore City Council reported the Lismore CBD business statistics, demonstrating a vacancy rate of 10.25 per cent, with 54 shopfront vacancies currently within the CBD.

There has been an increase in incentives and lease free periods to entice new tenants with reports of landlords dropping rents in order to avoid their tenants vacating.

Lismore is in a state of flux with the main CBD transitioning into a service and food destination rather than the traditional retail precinct, now being fulfilled by Lismore Square. The CBD provides a more affordable retail option in relation to rent, with the food and services industries providing the main source of potential retail clients. There have been limited sales within the CBD within the past three years.

We believe the retail and commercial market has moved toward the upper end of the cycle. Reports indicate the larger capital city markets of Sydney and Melbourne have weakened which could indicate a peaked market. This creates some uncertainty in a market that is already flat.

The long-awaited refurbishment of the Masters site in South Lismore has in recent times acquired national tenants Spotlight, relocating from the CBD, and BCF. There have been rumours of additional national tenants and a local bulky goods business in the remaining space, but nothing has been confirmed.

The question remains whether this creates improved diversity for Lismore or is reinforcing the drift away from the CBD and its transition to more service industries.

Ballina

The Ballina retail sector appears to be in a healthier position than Lismore with lower vacancies and more stable rents. The Ballina CBD faces some similar issues to Lismore with two shopping centres removed from the CBD and also a large bulky goods centre within the industrial estate. Ballina is likely to sustain a good retail presence within the CBD given the nearby office uses, close proximity to the river, the number of motels within the main street and the overall influence of tourism.

Byron Bay

Byron Bay is a very strong tourist based market, which continues to perform well on the back of improving tourist numbers, the relatively compact nature of the CBD and the lack of any large shopping centre facilities. Construction of the new centre at Byron Plaza South is likely to create an additional supply, however the traditional CBD's proximity to the beach is likely to maintain its strength.

Alternative styles of accommodation for retail uses are being utilised within the industrial area, located approximately three kilometres to the west of the CBD, which are a reflection of affordability and the marrying of unapproved/illegal residential and retail components.

Coffs Harbour

New retail development in Coffs Harbour is limited with an ongoing oversupply within the CBD strip centre.

There is some infill retail or mixed-use development in the planning stage.

It would appear that specialty retails are under some pressure with an increasing trend towards food and coffee based retails being more active within the market.

There has been a trend for some retails to relocate to bulky goods or industrial zoned precincts where rents are more affordable (in the range of $150 to $180 per square metre). Generally, prime CBD rentals for smaller spaces has reached in excess of $750 per square metre. There appears to be a market preference for location within shopping centres where pedestrian activity is strong as opposed to strip street locations.

The limited development of new retail space centres around design features such as modern extensive glazed shop fronts with compact and adaptable floor plates.

Secondary retail space is slightly oversupplied with rentals in the range of $270 to $330 per square metre for predominantly older space ranging from 150 to 300 square metres.

Redevelopment of good quality mixed use commercial and residential accommodation in Woolgoolga and Sawtell is edging retail rental levels upwards.

Albury and North-East Victoria

Given the impact on retail of on-line selling, it appears that retail space is now being taken up by food outlets, specialised retail products and telephone companies.

The food outlets are dominated by coffee shops and cafes but there has been an increase in upmarket lunch-time and after hours restaurants that offer alcoholic beverages. The specialised shops opening up cater for an array of desires, including vapour smoking rooms with specific regional art decor. Telephone companies need to be visible and retail outlets still offer the best view.

As the requirement becomes more specialized, the retail outlets required tend to become smaller. Cafes and coffee shops will take advantage of what's available but an external area that allows alfresco dining appears important.

Victoria

Melbourne

The wider Melbourne retail leasing market continues to see varied results.

The Melbourne CBD and inner suburban retail strips have continued to evolve throughout 2018, underpinned by population growth, changes in consumer behaviour and varied consumer confidence. Whilst some segments of the market continue to experience strong results, likely a reflection of the limited quality stock available, other areas have seen declining rents and tenant demand.

There are a number of factors driving the current trends and changes within the CBD's retail leasing market. Melbourne City Council has forecast that the population of the CBD will grow by over 50 per cent in the next ten years driven predominantly by overseas migration. The implementation of vertical suburbs, incorporating ground floor and podium retail uses and upper level residential apartments, is becoming more popular as developers seek to maximise site utilisation and amenity for residents.

National and international retails are taking advantage of population growth and the centralisation of retailers through the establishment of flagship stores in prime locations. Luxury retailers such as Longines, Fendi and Brooks Brothers opened new flagship stores within the CBD in 2018 and Apple's plans for a global flagship store within Federation Square continue to take shape. These retailers appear to be opting for a more centralised model of retailing appealing to consumers demanding a more convenient and interactive shopping experience.

For larger national and international retailers, this new approach does appear to be working. Demand for retail space within regional and super regional shopping centres has strengthened throughout 2018. Conversely, smaller retailers unable to sustain the higher rental rates demanded by these centres have struggled with these effects, compounded by the vacating anchor tenants along older retail strips unable to provide the convenient experience modern consumers demand.

Retail strips such as Chapel Street, South Yarra and Bridge Road, Richmond are continuing to experience a shift away from traditional retailing such as clothing towards service and food based uses. This is due to numerous factors including retailers now preferring to be located within the Melbourne CBD and major shopping centres such as Chadstone together with increased online shopping for fashion items which reduces the need for a physical store presence. With the ongoing increase in population due to numerous apartment projects there will likely still be demand for retail space within these precincts for various types of uses, particularly food and service based, on a longer term basis.

We have been advised by local leasing agents that tenant demand within these precincts has declined in recent years for various reasons. For example, in previous years Bridge Road incorporated a large number of discount clothing and footwear outlets, however many tenants have now relocated to enclosed discount outlet centres such as Direct Factory Outlets (DFO) in South Wharf and Essendon. Landlords have continued to seek increasing rentals and these have generally become unaffordable for tenants. Retail rents have declined substantially over the last few years and in some instances by over 40 per cent. Local leasing agents have advised that quantum of money and affordability are major considerations for tenants within these strips, particularly local retail operators.

South Australia

Adelaide

Retail spending remains reasonably solid with South Australia's growth the second strongest in Australia behind Victoria. The majority of this spending is within the sub category of cafés, restaurants and catering services which accounts for 18.9 per cent of the market.

In terms of retail trading growth, South Australia sits at a 3.35 per cent growth over the past 12 months, which is in line with the national 50 year growth average of the retail industry at 3.8 per cent. South Australia is second only to Victoria (4.34 per cent) in the past 12 months.

The recent success of the local retail market has been largely due to the rise of café, restaurant and takeaway food services. There has been a rapid increase in the conversion of previous retail shops into food sales, cafes and restaurants, and whilst this has not translated to an equivalent increase in the demand for bricks and mortar tenancies, it has reduced the letting up period for tenancies across the board.

The trend over the past few years has been toward food van sales, which has evolved further with the recent creation of services such as Uber Eats and similar takeaway service providers to convert traditional restaurants offering a full dining experience into takeaway providers.

The result has been a high degree of price sensitivity and a reduction in the performance of restaurants and cafés, particularly destination venues which tend to have greater overheads making them less competitive. No longer are 150 square metre restaurant/café tenancies an indication of success for a business or in high demand by operators. The majority of demand is for zero to 150 square metre tenancies, a basic rustic fit-out, small niche menu with high turnover of customers and stronger online presence to capture Uber Eats users. This eases the demand on operators for on-site car parking and highly trained waiting staff.

There are some instances in Adelaide suburban areas where multiple businesses will share a tenancy through different seasonal periods of the year (warmer wintry cuisines during the cold months and summery salads and BBQ foods during the hot periods). This method limits overheads and ensures consistent traffic through the site.

With demand sitting with the smaller café tenancies, there appears to be limited additional value in tenancies in the areas over 150 square metres. Rental reductions have been common unless the larger tenancies are supported by a strong location, such as an established precinct with a high volume of foot traffic, or a position which affords the venue operator a competitive advantage, such as water front views or prime shopping precincts.

Rental rates for retail tenancies under 150 square metres have remained static given the higher demand, whereas rental decreases are common in retail dining tenancies above 150 square metres. This can also be said for bulky goods retailers that are isolated from shopping centres or homemaker centres. The emergence of online shopping now has almost eradicated the need for an isolated main road showroom. Unless located in a shopping centre or within a bulky goods centre around related brands and retailers where foot traffic is high, isolated retail shops are being converted to office uses, gyms or redeveloped to medium density residential accommodation.

Queensland

Brisbane

Brisbane retail market conditions are continuing to prove fickle with CBD rents stable or softening. Regional, sub-regional and neighbourhood assets however have shown signs of strength in the current market with rental rates increasing from the previous quarter and record yields being achieved in certain neighbourhood assets. Strong population growth combined with increasing interstate migration points to the likelihood of future economic improvement.

Online shopping is continuing to grow at an exponential rate in Australia, almost doubling in growth year on year from 2017. This has accelerated with the recent entry of Amazon into the Australian market. This is impacting Brisbane's retail sector with stores showing a decrease in foot traffic and profitability. The ease of internet shopping is reducing the demand for bricks and mortar stores with companies such as Rhodes & Beckett, Spend Less Shoes and David Lawrence going into receivership over the past 12 months. Major department stores are particularly feeling the effects of online shopping. Myer posted a $486 million loss in its most recent ASX and media release published in September. Major shopping centre tenancies are struggling in these current conditions with lengthy lease up periods evident and landlord flexibility proving key to securing tenants. High end CBD tenancies have remained solid with rental and vacancy rates mostly unaffected by online shopping due to the nature of products sold.

Brisbane is now entering a phase of strong infrastructure development with major projects totalling in excess of $40 billion in the pipeline. These include the completion of three retail projects in the second quarter of 2018, putting 36,100 square metres of retail accommodation into the Brisbane market. Despite uncertain market conditions, retail development has continued to increase with the expansion of numerous retail precincts across Brisbane. An example of this is The Boulevard development in Buranda which is a three-stage project from the same developers as Emporium. Upon completion, this will comprise high rise student accommodation, office, and retail facilities. We also note that Woolworths will be anchoring two major new retail projects in West End.

The Boulevard, Buranda *(Source: jacksonteece.com/projects/the-boulevard-transit-oriented-development)*

A trend currently becoming evident in service stations across Queensland is the broadening of the retail offering. This trend has caused substantial growth in rents associated with service stations in recent times. The long lease terms associated with service stations have made for appealing investment conditions and have resulted in yields remaining tight. For example, a United Petroleum service station in Virginia sold for $6 million with a lease term certain of 20 years and a market yield of 6%.

Despite leasing uncertainty and the growth of online shopping, investment demand has continued to remain strong. Recent super and sub-regional investor retail sales include fifty per cent of the Grand Plaza Shopping Centre in Browns Plains which sold for circa $215 million at a reported yield of six per cent and fifty per cent of the Indooroopilly Shopping Centre selling to AMP for $810 million at a reported yield of 4.42 per cent. Demand for neighbourhood centres also remains strong with yields firmly around the six per cent mark and limited levels of stock.

The retail sector in general is evolving and adapting to the challenges of the online market and at present the demand for investment stock continues to be high with a limited supply of quality properties.

Gold Coast

Food, glorious food.

Or rather, convenience, glorious convenience. But that does not have the same ring to it, does it?

Traditionally the Gold Coast has been heavily underpinned by tourist retail operators in the beachside strips around Surfers Paradise and Broadbeach. However, the landscape of the city has changed progressively over the past ten years with an increasing focus on hospitality and convenience retail to cater for the growing local population.

This is particularly evident in the northern growth corridor in suburbs such as Coomera and Pimpama which are witnessing unprecedented population growth. In fact, according to the latest figures from the Australian Bureau of Statistics, the Gold Coast suburb of Pimpama has seen the largest increase in population of all of Queensland.

With this surging number of households comes a need to provide complementary retail services and developers have been delivering it in spades. Over the past three years alone in Pimpama we have seen the delivery of the Woolworths anchored Pimpama Junction Shopping Centre, the Rix family owned Pimpama City with over 18,000 square metres of retail space (Coles, Aldi, Best & Less), plus four service stations and numerous stand alone fast food outlets. Also, currently under construction is

Pimpama City *(Source: realcommercial.com.au)*

Go-Zone Exit 49 medical and convenience centre, whilst there are significant land holdings at both the eastern and western ends of Yawalpah Road mooted for further mixed use retail development over the short to medium term.

The common thread amongst these developments? That's right, food and convenience.

Regional shopping centres aside, the prevailing trend for retail development has been moving away from building an excessive number of traditional shops that would have accommodated uses such as fashion and giftwares. Instead, medical, takeaway food, restaurants and commercial services are dominating the landscape. This has been seen by both developers and investors as a safer bet and as a general observation appears to be well accepted in the market place with the majority of centres maintaining good occupancy rates to date.

The southern Gold Coast however has a slightly different dynamic with cafes, restaurants and bars taking the dominant role. The growing population and social shift towards more of a café culture has allowed the number of establishments to surge in recent years, however an emerging trend appears to be that of oversupply.

The Gold Coast Bulletin recently reported that there have been up to four restaurants per week closing on the Gold Coast as an oversaturation of eateries, poor trading over the Commonwealth Games period and high rents take a grip on operators. Is it reported that in the past four months alone, fifty eateries have shut up shop.

Consumers are spoilt for options which means operators are forced to be at the top of their game and / or reinvent themselves constantly to remain relevant in the eyes of the consumer. From an investment valuation perspective, this cements the fact that restaurant operations should be viewed by the market as carrying a higher degree of underlying risk of tenant retention.

Notwithstanding this, the retail investment market is still strong. Some agents are reporting that the heat has come out of the market to a degree, however we are yet to witness any evidence suggesting downward pressure on capital values.

Hot property is still hot and not so hot property is still pretty hot as well. Here are a few recent transactions:

- Burleigh Connection Road, Burleigh Waters - Anchored by Red Rooster and other fast food operators - circa $8 million dollars - six per cent initial yield.
- Pimpama Convenience Centre (address confidential) - brand new fully leased to local operators - circa $6.5 million dollars - 6.5 per cent initial yield
- Christie Street, Canungra - Foodworks anchored convenience shopping centre in a regional town - sold at auction $3.25 million - eight per cent analysed yield.

Toowoomba

Retail development in Toowoomba suburbs has gone away from traditional convenience centres towards food based retailers such as cafés, takeaways and restaurants. The new centres often contain an outdoor dining component and most have a café tenancy featuring a drive through coffee facility.

Some of the recent food oriented retail developments in Toowoomba include:

- The Intersection, located on the corner of Ruthven and Alderley Streets in Kearneys Spring. Tenant mix includes Subway, Café 63, Oporto, Burger Urge and Baskin & Robins. The Subway and café tenancies contain drive through facilities.
- Coles Express, also located on the corner of Ruthven and Alderley Streets in Kearneys Spring. This project includes the redevelopment of a Shell service station and contains two food tenancies. The larger tenancy with drive through facility has been leased to Pump Café.
- Eastside Village, located on the corner of Herries and Cohoe Streets in East Toowoomba. The centre is anchored by McDonald's and KFC with other tenants including Café 63, Bel Cibo Italian and the Burrito Bar.
- A new car wash under construction on the CBD fringe in James Street. The development will include a small café tenancy with drive through.
- Two new developments proposed in Anzac Avenue in the suburb of Harristown. Both appear to be food focused centres to be anchored by a café tenancy featuring a drive through facility. These proposed developments are located in close vicinity to each other and adjoin a new child care centre currently under construction.

Rockhampton and Gladstone

The retail markets in Rockhampton and Gladstone have been similar in their evolution over the years, from their original beginnings in the heart of their respective CBDs. Whilst retailers continue to occupy these traditional areas, the changing demands of retailers and shoppers, the lack of parking, supply, and general retail economic conditions have resulted in ongoing vacancies within these precincts (East Street and Goondoon Street precincts). Most tenants within these precincts are now generally local retailers and food outlets supporting the commercial businesses in the area. Rentals within this precinct are substantially less than those within shopping centres and the area therefore attracts new retail and commercial businesses that are sensitive to the affordability of the rental.

There are a handful of neighbourhood shopping centres that have evolved from the more traditional convenience centres. Convenience centres were typically anchored by a small grocer and supported by other convenience tenants such as butchers, bakeries, fish and chip shops, post offices etc. The changing way people now shop, including the introduction of online grocery shopping, and the emergence of the larger players in the local markets has resulted in a number of changes including a shift towards larger neighbourhood shopping centres generally anchored by an IGA, Coles or Woolworths supermarket. This has resulted in increased vacancies and issues with rental affordability within the smaller traditional convenience centres. We consider that the retail space will continue to evolve with new challenges created by technology.

As rental levels and affordability have become a critical factor for local retailers and smaller convenience grocers have made way for larger neighbourhood supermarkets, we have also seen a shift in the profile of tenant that retail centres appear to be trying to attract. In many centres, we have seen a slow shift from traditional retail outlets to medical and health focused tenants, who typically can afford the higher rentals that these centres demand.

In terms of what tenants are looking for now as opposed to ten years ago, some of the most notable items are good exposure, good on-site car parking, disability access and single level tenancies. It is becoming increasingly difficult to lease retail tenancies that have no parking or are in double storey walk up buildings.

We have seen a softening of rentals in recent years and an increase in incentives required, seen to a greater extent in Gladstone than in Rockhampton as a result of the local market conditions. We consider that these have now stabilised to a new norm, however for tenancies in secondary locations or with poor presentation, leasing is difficult and extended periods of vacancy are being seen.

Wide Bay

The most notable retail developments have occurred in Kensington and around Stockland Bundaberg. Construction of these projects appears to have slowed and there is plentiful supply of vacant land around Kensington that could cater for future retail developments. Rents remain reasonably stable for retail in general. Some larger tenancies still struggle to lease quickly after a vacancy and price sensitivity is still a risk for larger sized tenancies over circa $60,000 and large CBD retail spaces. There have been no major shifts in yields unless the income of the property is supported by a strong lease to a good quality tenant, with a notable reduction in yields for these assets.

Mackay

To help revitalise the Mackay CBD, landlords of vacant premises are being encouraged to allow more pop up shops. It is hoped that this concept will give the opportunity for new would be retailers to gauge how successful their venture would be without committing to a long term lease. Hopefully this will stimulate activity in the city centre and will eventually attract small retailers for longer terms.

We are aware that a major real estate agency / insurance broker is well advanced in the relocation of their premises to a central Victoria Street location which will assist in generating more foot traffic around the city centre.

There has been considerable leasing activity in the bulky goods sector in the northern part of Mackay this year. Super Amart has relocated from Highway Plaza, Mount Pleasant to a tenancy of approximately 5,500 square metres in the old Bunnings building in the Greenfields Precinct at Mount Pleasant for a 15 year term, and World Gym has leased approximately 1,870 square metres for a seven year term. Rents are confidential but incentives were considerable to fill these very large areas.

Beacon Lighting has leased a prominent tenancy at the corner of the Bruce Highway and Heaths Road and Central Queensland's original discount retailer, Silly Solly's, is set to make a comeback in the Greenfields Precinct.

Heading further north, new bulky goods retailers including Fantastic Furniture and Pet Stock have commenced trade in the former Masters building at Richmond. At the time of writing, Anaconda was close to opening. We understand that Spotlight and Nick Scali will also be represented in this complex.

The vacancy rate of bulky goods premises is now quickly dropping as new retail ventures emerge with the resurgence in the local economy and employment levels.

Townsville

The Townsville retail market has evolved over the past ten to twenty years with huge expansions in the northern corridor of Townsville to support the surrounding new housing estates, along with development of convenience and neighbourhood centres to support developing residential estates and suburbs in the general Townsville area.

Fast food outlets offering drive through ability, in particular coffee outlets, have seen a major expansion over recent years, along with fuel station mixed developments including fast food options.

The number of boutique strip retail shops along major arterials has reduced over the past ten years with this space now mostly dominated by professional offices and services and food outlets. Whilst there are still pharmacy and larger bulky retail located within strip retail centres, typically retailers of fashion and homewares are now located within air-conditioned shopping centres or designated retail hubs.

As a result of the rise in on line shopping, we have also seen once retail storefronts relocate to small industrial warehouse properties that offer a small shop front along with warehouse capability to accommodate their on line business. This has helped to reduce overheads such as higher retail rents, making it an attractive alternative.

Sunshine Coast

The retail market on the Sunshine Coast has generally reflected the overall retail markets of south-east Queensland over the past three year

Plaza Markets *(Source: HTW)*

Sunshine Plaza Redevelopment *(Source: HTW)* period. We have seen very strong yield compression for national tenant type holdings appealing to a larger regional style market.

We have also seen some investors begin to change their overall offer for stand alone holdings where appropriate and there's been a re-positioning of some centres, primarily with a new focus towards food and entertainment offerings. Several small neighbourhood centres in secondary overall locations have placed café style tenants as primary tenants and have used these as the main draw to fill surrounding tenancies if the café tenant gets a strong following. There has been a mix of hits and misses with this approach to date, which mainly fluctuates on the quality of the food tenant.

A former bulky goods type retail centre in Maroochydore opposite the southern entrance to Sunshine Plaza has also begun to reposition along the same lines. Recent placement of a health food supermarket, gym and two café style operators has begun to change the dynamic of this centre, which had significant vacancies over the past three year period.

The Ocean Street precinct has remained strong over the past two years, which is another area that has centred on a food and entertainment offering.

The Sunshine Plaza extension is also continuing which will add a David Jones and Big W to the overall offer. This expansion will see the centre increase to 107,000 square metres with a further 100 specialties as well as a renovation of the existing facility and addition of 1,500 car parks.

Northern Territory

Darwin

Last month we were commissioned by the Property Council of Australia to prepare a State of the Market report on the Greater Darwin property sector.

This investigation included a section on the Darwin retail market. This market segment has been dominated for many years by Casuarina in Darwin's northern suburbs. Even today over 20 per cent of the retail space in Darwin is located in Casuarina Square.

However, in response to development of new residential suburbs, especially in East Palmerston, we are now seeing development of retail centres to service those residents. The most visible of these is Gateway, adjacent to Palmerston Shopping Centre, which now represents about 15 per cent of the total retail space in Greater Darwin. However, there are also modern developments at Coolalinga (eight per cent), Bakewell (three per cent) and Zuccoli (one per cent). These new centres have changed the nature of retail in Darwin, bringing all forms of retail services to the south-east corridor which is Darwin's major population growth area.

The Darwin retail market is dominated by these bigger players and consequently there are relatively few property transactions that can be classified as retail property sales. Generally speaking, when retail property does become available, it attracts a similar yield to other forms of commercial property in Darwin.

In response, Casuarina Square has reinvented itself as an entertainment destination as well as a retail destination with The Quarter providing a new food style precinct within Casuarina Square itself. Long gone are the days when a property could provide a static retail offering. The focus is now on pop up stores and ancillary services, an important part of why shoppers choose a particular destination.

This can be seen in the Darwin CBD which has struggled for years to compete as a retail destination. Initiatives such as the Laneway series include attractions such as music and entertainment with some success in enticing shoppers back to the CBD.

Casuarina Square's The Quarter *(Source: casuarinasquare.com.au)*

Commercial

Western Australia

Perth

Making waves in the retail sector in Western Australia has been the expansion of major regional and sub regional shopping centres following the removal of the cap on maximum retail floor space and the state government's push to create activity centres.

Expansions of Westfield Carousel, Garden City, Karrinyup, Westfield Innaloo, Midland Gate and Ellenbrook Central are either underway or proposed in the short to medium term.

These expansion projects will have a focus on delivering a better retail experience for shoppers with the creation of food hubs, entertainment options (such as cinemas), health care and in some cases, residential apartments. As a result, some envisage these centres will become community centres in the future as opposed to traditional shopping centres.

It has also brought about the introduction of paid parking which has drawn the ire of Perth patrons, however is likely to become common place and encourage the use of public transport (aligning with state government initiatives).

There is also the much-anticipated opening of Perth's first DFO (Direct Factory Outlet) on the grounds of Perth Airport in October 2018.

The retail property market in Perth, however, continues to face challenging conditions. Demand for retail space remains hampered by restrained consumer spending coinciding with the state's sluggish economic performance.

In the face of these challenging conditions, retailers have been forced to adapt, often seeking much smaller spaces than traditionally sought. Landlords too are warmly welcoming pop up stores to fill vacant tenancies rather than be left with empty shops.

There are increasing instances of lease agreements being negotiated for a two year initial term with a three year option to offer some flexibility to the tenant whilst fulfilling legislative requirements under the Retail Shops Act.

The pressure being applied to high street retail means that traditional neighbourhood strip shop developments constructed during the 1960s and 1970s are likely to represent redevelopment propositions in the not too distant future.

Generally speaking, rental rates for retail premises have experienced a downward trend over the past 12 months with incentives in the form of net rent-free periods or fit out contributions prevalent.

Our team is consistently fielding enquiries from tenants struggling to meet rental payments by virtue of lease agreements negotiated in more buoyant times. Landlords are being faced with the option of renegotiating lease terms to maintain occupancy or alternatively, risk extended periods of vacancy.

On line retail spending continues to grow and place pressure on discretionary retailers.

Conversely, investment grade retail property (for example, neighbourhood shopping centres) remains a highly sought-after asset. Yield compression is evident, largely driven by the low prevailing cost of funds in the current debt finance market, despite the general malaise that's impacting the wider Western Australian economy including softening rentals and an increasing number of business failures and receiverships.

However, there are a certain number of key metrics that informed investors are considering relating to length of remaining lease term (i.e. WALE), financial strength of the tenant(s) and locational attributes, as investors take advantage of the spread between the low cost of debt and large format retail investment yields. Where all or a majority of these metrics are satisfied, very tight yields are being achieved in the current market.

There has been a limited volume of shopping centre sales in Perth during the past 12 months however this is considered to be a function of low stock as opposed to a lack of demand. A metropolitan neighbourhood shopping centre in Perth's northern suburbs anchored by a Coles supermarket did however recently transact at a purchase price of $39.5 million, reflecting an initial yield of 6.1 per cent.

An analysis of the limited volume of transactions suggests yields between 5 per cent and 6.5 per cent are being achieved for securely leased (anchored by an ASX-listed tenant) retail assets (i.e. shopping centres) with large format retail often commanding higher returns.