HERRON TODD WHITE COMMERCIAL

Retail

November 2019

National Property Clock: Retail

Entries coloured purple indicate positional change from last month.

Peak of Market:
Brisbane
Canberra
Central Coast
Coffs Harbour
Gold Coast
Ipswich
Melbourne
South East NSW
Sunshine Coast

Approaching Peak of Market:
Sydney

Starting to Decline:
Geelong
Illawarra
Mid North Coast

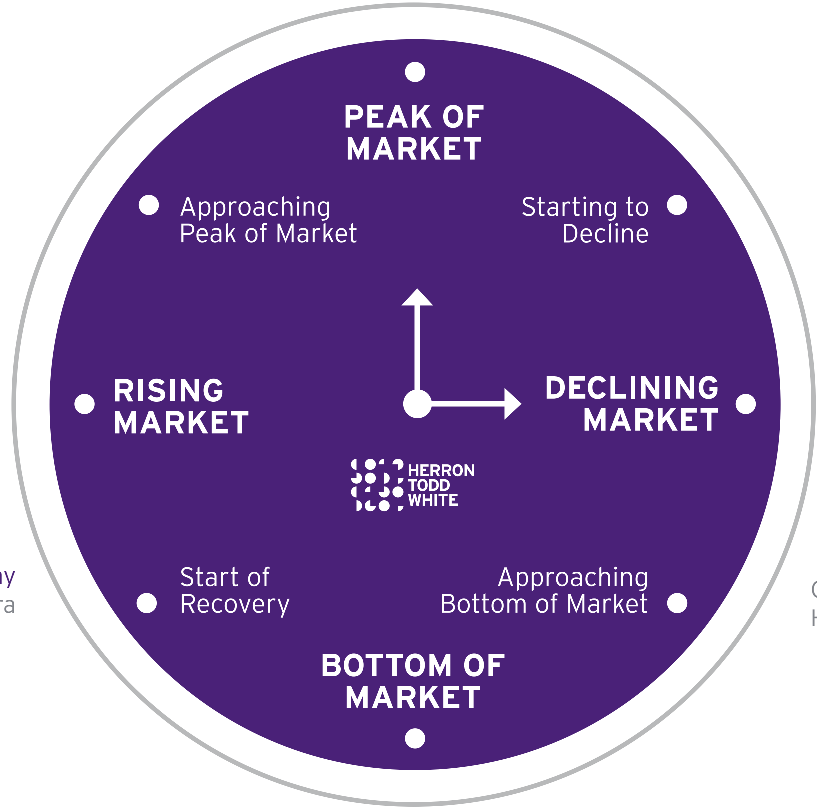
Rising Market:
Ballarat
Bendigo
Burnie-Devonport
Launceston

Declining Market:
Balina/Byron Bay
Echuca
Gippsland
Lismore
Newcastle
Toowoomba

Start of Recovery:
Adelaide
Adelaide Hills
Barossa Valley
Mackay
Mildura

Approaching Bottom of Market:
Gladstone
Hobart
Rockhampton
South West WA

Bottom of Market:
Alice Springs
Cairns
Darwin
Emerald
Perth
Townsville
Wide Bay



Liability limited by a scheme approved under Professional Standards Legislation.

This report is not intended to be comprehensive or render advice and neither Herron Todd White nor any persons involved in the preparation of this report accept any form of liability for its contents.

New South Wales

Overview

2019 is drawing to a close and it's time to look back over the retail property sector and see how we've tracked. This is your location-by-location review with a localised and nuanced take on the good and not so good of retail property this year.

Sydney

The retail market in Sydney has seen moderate growth over the past twelve months as a result of increased demand for good investment assets, growth in rental income and generally lower vacancy rates, despite the continued threat of online shopping and generally negative perception of the retail market.

We have noted that some retail precincts and shopping centres are working hard to keep up the levels of foot traffic and as such are adapting to changes in the market and demand. This has helped to retain vacancy in some areas. We are of the opinion that those landlords who adapt to the changes in the market may fare best.

Food and beverage outlets have certainly been popular this year. This part of the market has been driving tenant demand.

As a result of adaptation and increase in demand from food and beverage retailers, we have seen rental rates remain generally stable this year following a general increase in 2018.

The Sydney CBD remains strong, as infrastructure improvements and new development continue and speculation about the impact of these continues to drive areas of the market.

Within the CBD, tenant demand originates from high end and luxury goods as well as food and beverage, with retailers keen to secure their positions within the CBD as infrastructure improvements, mainly the light rail, get closer to being completed and the pedestrian shopping areas of the CBD are revitalised.

Retail assets with good lease covenants have seen capital growth over the past twelve months. Demand from investors was the driving force in the market this year. Properties with well-established retail tenants and those with underlying future development potential were the most popular. We saw an increase in capital values in the early part of the year and some strong sales with relatively low capitalisation rates.

We caution however that from around July this year we have started seeing a decline in the fringe and secondary markets, in particular a slight increase in capitalisation rates, indicating that demand is slowing and that capital values are declining.

Sydney retail was certainly an interesting market to watch this year with several factors driving the market and differing areas of the market moving at different speeds.

Retail was certainly an interesting market to watch this year with several factors driving the market and differing areas of the market moving at different speeds.

Newcastle

As we move towards the end of the year and start thinking about Christmas parties and Christmas presents for the kids, we at Herron Todd White are taking the opportunity to pause and look back on the year that was in the retail market in the Newcastle area.

Retail activity has been defined by an unusual dichotomy where yields are at or near all-time lows, meaning values remain high, while the number of sales transactions has been very low compared to activity in peak market conditions from 2015 to 2018.

Some further discussion on the state of yields is required at this point. Well tenanted property with tenants that show strong trading history and long lease terms is still very strong and recent interest rate reductions by the Reserve Bank have helped underpin this strong market. We have seen, however, a (small) number of sales that indicate we have come back from peak market conditions, especially for those non-core retail properties that may reflect a higher degree of risk for the investor. Factors such as a secondary location, short lease expiry profile or partial vacancies were not being factored into yields during the market boom and the yield differential between core and non-core retail investment properties was not

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

being adequately built into sale prices. We have seen a number of retail sales of such properties where yields have increased somewhat to reflect these risks. We see further adjustment required in this space, which is happening, albeit at a slow pace given the limited number of retail sales this year. We also anticipate this sales rate to increase somewhat in 2020 with a further easing of lending policy from major lenders.

Now that the light rail has been up and running for some time, we see that a number of retailers on Hunter Street have suffered. Not only during the construction phase, but now with no parking available where the light rail runs along Hunter Street, many retailers have been forced to shut up shop or landlords are now in a position where they either accept lower rental returns or face extended letting up periods. We see these areas being converted from retail to office in coming years. So as we start our Christmas shopping, rather than shopping at Amazon or Googling for a bargain, get out and about in Newcastle and check out what the locals have to offer.

Wollongong

Overall the retail market is headed towards finishing the year as predicted, flat.

The first half of the year was particularly challenging for retailers due in large part to a stagnant housing market however some hope for a recovery has been provided for the second half of the year and moving into 2020 as the housing market recovers, likely being fuelled by the three interest rate cuts. It is hoped that these interest rate cuts will stimulate spending in the retail sector.

Leasing conditions have continued a long term trend of being static given above average vacancy rates and generally soft demand, while supply continues to be introduced to the market given the large number of mixed-use projects completed in the Wollongong CBD over recent times and with additional projects also being developed at present. There is no upward pressure being placed on rental rates with conditions generally favouring tenants.

Buyer demand does exist for quality investment assets underpinned by strong leases as exhibited by the sale of the BWS tenanted retail strata property in Windang for $830,000, a yield of 6.27% and rate of $4,213 per square metre of lettable area, however such sales have been limited throughout 2019.

Lismore

The Lismore retail market has its positives and negatives, so let's start with the facts and figures.

The uncertainty and apprehension surrounding the retail market in Lismore continues although there has been a small number of properties sold which have not indicated any significant decline in yield. We believe the lack of yield movement has been hidden by the nature of the sales which tend to be stronger leased assets with stable tenants. It is envisaged that properties that are vacant or have limited owner-occupier appeal would show a significantly different picture.

Address	Sale Date	Sale Price	Passing Yield (%)
CBA - 86 Woodlark St, Lismore	01/02/2019	$1,110,000	7.25
The Learning Cottage, 28 Keen St, Lismore	01/04/2019	$1,545,000	6.99
Fundies Wholefood Market, 140 Keen St, Lismore	21/12/2018	$815,000	7.84

The elephant in the room is ultimately likely to be the rental market. Lismore has significant vacancies of large retail spaces within the CBD. A quick search of realcommercial.com indicates approximately 38 properties within the immediate retail precinct for lease in Lismore. There are a number of properties that have been vacant for more than three years.

Lismore City Council's shop front vacancy analysis indicated 8.57% in December 2018.

Total shop front vacancies from council and our recent review are shown below.

Street	Vacancies Dec 2018 LCC	Vacancies October 2019 HTW
Molesworth Street	26	14
Carrington/Conway Streets	8	12
Keen Street	8	8
Magellan Street	2	2
Woodlark Street	1	8
Total	**45**	**44**

Council raw numbers don't tell the true picture with a number of the vacant spaces being very large premises (previously occupied by Fosseys, Country Target, Williams Shoes, Spotlight, Molesworth Street Newsagency, NAB and Spotlight, Rivers and Betta Electrical). They represent very large footprints and on a lettable area basis indicating the picture may appear much worse.

We are aware of a recently negotiated lease in a strong retail position in Lismore which has seen a 16% fall from that achieved in 2010 and 2014 which was flat. We would expect that in weaker locations, this fall could be more significant.

Despite a negative perception, the Lismore retail centre is more than just numbers. Upon walking

The elephant in the room for Lismore retail is ultimately likely to be the rental market.

around the CBD there are some very dynamic businesses with a diverse range of activities which includes retail, restaurant, café, wine bar, music lounge, community services, banking and a trend towards conversion of traditional retail to office. This has created a unique and very eclectic mix of businesses which offer a superior social atmosphere providing an opportunity both for local businesses and the community as a whole. While many major national chains have moved out, the continued diversity and community engagement of the CBD has the potential to grow significantly stronger.

The expansion of the Heart in the City along with Oaks Oval, the strong work within the business houses community and community events such as Eat the Street, Lantern Parade, Tropical Fruits, together with a community which boasts a strong arts community and a philanthropic culture is likely to create a backbone to the retail precinct.

The future expansion of North Lismore residential precinct along with expanding residential areas of Goonellabah Richmond Hill and Chilcotts Grass will create a stronger population base.

Victoria

Melbourne

The Melbourne retail investment sales market has generally remained steady throughout 2019 with firm yields reflecting the limited availability of quality stock and solid purchaser demand. We have seen particularly strong results for well-located properties with long term leases to major national retailers and for those with longer term development potential.

We have continued to see varied results throughout the wider market. There have been a number of examples of heavily declining rents which, when coupled with already sharp yields, is resulting in downward pressure on capital values in some areas.

The Melbourne CBD retail market has experienced reasonable levels of leasing demand within the retail core. The Melbourne retail rental market continues to be impacted by changes in consumer behaviour and varied consumer confidence. There has been an increasing level of tenant demand from food based operators and an ongoing decline in demand from consumer goods retailers throughout the Melbourne CBD, although we are aware of a possible oversaturation occurring within this sector. Subdued consumer spending is causing pressure on retailers' occupancy costs and downward pressure on rents.

Discussions with a number of leasing agents throughout Melbourne has identified an emerging trend whereby tenants are seeking to secure short initial terms, sometimes as short as one year, with a number of further option terms which allows for flexibility in the short term but some security and

> *This reflects a reviewed net income of approximately $53,000 per annum - a near 60 per cent decrease in the net income prior to the review.*

certainty to retain premises should the location prove suitable for the business. From a landlord's perspective, these flexible leasing terms are attracting tenants, covering operating costs and providing for reviews to market should the leasing market improve.

In addition to the above we have also witnessed a number of tenants being more aware of the impact that significant incentives have on the net effective rents. Tenants appear to now be more open to negotiating lower face rents in lieu of rent-free periods or fit out contributions which provides more transparency for the tenant and landlord.

Downward pressures on rents in suburban retail strips persisted throughout 2019 with some areas such as Chapel Street continuing to experience high levels of vacancies coupled with decreasing rental rates. An example of this trend occurred when a seven-year lease to a national retail operator was reviewed to market in August 2019. Prior to the review, the property generated an annual net income of approximately $125,000 (plus outgoings totalling over $16,500 per annum) payable by the tenant. As part of this rent review the tenant negotiated a reduction in lease term to three years together with a reduction in the rent to $70,000 per annum gross, so the landlord is now responsible for the payment of all outgoings. This reflects a reviewed net income of approximately $53,000 per annum - a near 60 per cent decrease in the net income prior to the review.

Conversely, we have also witnessed a number of strong results throughout the Melbourne retail market. Two notable sales that occurred in 2019 are detailed below:

92-94 Church Street, Brighton Source: Google Street View

92-94 Church Street, Brighton

Sale Date: June 2019

Sale Price: $6,900,000

Yield: 3.84%

Rate per square metre of building area: $24,643

Land: Regular shaped 312 square metre allotment

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

Location: Approximately 12 kilometres south-east of the Melbourne CBD

Zoning: Commercial 1 Zone.

Description: Improved on the site is an older style two level retail building which provides a total GLAR of approximately 280 square metres

Tenant: Westpac Banking Corporation

Lease: Five-year lease commencing June 2017 with no further option terms

Outgoings: Net lease, tenant pays all outgoings including Land Tax. Westpac Banking Corporation is a listed company and does not fall under the provisions of the Retail Lease Act 2003 therefore pays land tax

Net income: $264,992 per annum

WALE: 3.3 years

481 Toorak Road, Toorak Source: Google Street View

481 Toorak Road, Toorak

Sale Date: April 2019

Sale Price: $8,700,000

Yield: 4.16%

Rate per square metre of building area: $20,714

Land: Regular shaped 422 square metre allotment.

Location: Approximately 5.2 kilometres south-east of the Melbourne CBD.

Zoning: Commercial 1 Zone.

Description: Improved on the site is an older style part two level building, which provides a total GLAR of approximately 420 square metres

Tenant: Australian Liquor Group Pty Ltd

Lease: Five-year lease commencing December 2017 with two further option terms of five years each

Outgoings: Net lease, tenant pays all outgoings including Land Tax. Australian Liquor Group Pty Ltd is a subsidiary of Coles Group Ltd which is a listed company and does not fall under the provisions of the Retail Lease Act 2003 therefore pays land tax

Net income: $362,305 per annum

WALE: 3.67 years

Overall whilst demand for quality retail assets remains strong, particularly for well-located properties which have long term leases and strong lease covenants, there is evidence that tighter commercial lending criteria is restricting access to funds for many potential purchasers. Financial institutions are placing an increased focus on factors such as security of income, lease covenant and length of remaining lease term in assessing serviceability of debt. As a result of the reduction in the borrowing power of purchasers, we are beginning to see a slowdown in the constant price rises seen over the past five-year period.

Queensland

Brisbane

The Brisbane retail property sector has remained relatively stable throughout 2019. Firm yields continue to be achieved across asset types and price points with strong demand from investors for quality retail assets with strong income security.

The recent interest rate cuts and the very poor returns from cash are however again putting downward pressure on property yields for good quality investments, despite an industry consensus in late 2018 and early 2019 that yields had bottomed. We are yet to see widespread evidence of further yield tightening but this is more a function of very limited levels of stock availability and lesser levels of sales activity.

At the lower end of the market, the demand for good quality convenience and neighbourhood shopping centres remains strong with high levels of investor interest from private investors in particular. Such properties generally continue to trade in the six to seven per cent yield range.

There has been strong investor interest in large format retail properties over the past twelve months. The most recent notable sale is of a recently redeveloped Bunnings located at 727 Gympie Road, Lawnton which sold under the hammer for $18.6 million reflecting a passing yield of 4.71 per cent. The property sold with a lease term certain of 9.88 years with fixed annual 2.5 per cent rent reviews.

At the higher end of the CBD retail market, a recent notable and high profile sale was that of 130 Queen Street at the mid-point of the Queen Street Mall. This is a 3,780 square metre GLAR three level retail property which sold for $77.1 million on a reported net yield of 5.71 per cent.

130 Queen St, Brisbane - Sold for $77.1 million   Source: Herron Todd White

More broadly, sub-regional, regional and major regional shopping centres continue to feel the squeeze as the traditionally high rental levels are in many instances not sustainable. Whilst good centres are better at maintaining occupancy, for many centres this is being done on a reduced rental structure which has a direct flow through to values. For secondary centres, the increasing levels of vacancies are becoming harder to hide.

In particular, there will continue to be strong interest in Brisbane's secure income producing properties with strong lease covenants.

6% to 7%

Yield on good quality neighbourhood centres

Much of this pain is still to be worked through and is likely to continue for some time. These pressures are impacting on the higher end investment markets where the sentiment for retail has softened considerably.

Overall, we expect generally stable market conditions to continue for the lower tier retail markets into 2020 on the back of the low interest rate environment. In particular, there will continue to be strong interest in secure income producing properties with strong lease covenants, however many leasing markets are likely to remain difficult and there will be a heightened degree of volatility for both rentals and values for secondary assets.

Gold Coast

Early in the year we commented that the Gold Coast retail market was holding a steady course, although we were on the lookout for a shift in this trend.

On reflection, we have been surprised by the momentum that has been carried through 2019. Whilst the brakes were definitely applied in the earlier part of the year in terms of market activity, value levels in the most part have held firm.

In a nutshell, most retail investment products

COMMERCIAL

across the coast have performed well, the exception being the tourist retail driven areas (more on that later).

There have been relatively few confirmed transactions of larger supermarket anchored assets. Pacific Pines Town Centre is the only one on the Gold Coast proper to be confirmed to date at $30.8 million, reflecting a shade over six per cent, along with Coles Yarrabilba for $19 million reflecting just under 5.44 per cent. We are yet to hear the result of recent campaigns for Woolworths at Ormeau, Logan Village and Reedy Creek however we are expecting similar results in the order of 5.75 to six per cent.

Local agents report that there are numerous investors patiently waiting in the wings, particularly in the sub-$10 million price bracket. Most are driven to find a return on their capital in the prevailing low interest rate environment and commercial property (including the right retail assets) are being viewed as a safe high return investment vehicle. The challenge has been finding quality investments, as many property owners have a reluctance to sell due to the difficulty in finding a suitable replacement investment.

That being said, yields are the strongest they have been for a long time and rents in the most part remain firm. With the pent up demand from purchasers, it would appear an opportune time for sellers contemplating cashing in their chips.

Although not all that glitters is gold.

The tourist retail market continues the struggle to find its feet. This has been largely driven by the continued supply additions throughout the southern Gold Coast that are detracting attention from the traditional tourism hot spots. Whist tourist

Burleigh Arcade Source: Herron Todd White

Lakeside Source: Urban Developer

numbers are reportedly up, numerous quality traders in the south have been impacting second tier operators in the central precincts and obviously online shopping continues to be an ongoing challenge for those in the major shopping centres.

On reflection, we have been surprised by the momentum that has been carried through 2019.

The knock on effect of this is an increasing rate of business failure, higher and longer vacancies, downward pressure on rents and increasing incentives. Broadbeach, whilst previously a strong performer, is the place showing the most evidence of this trend occurring of late, whilst Main Beach and Surfers were never able to fully recover post GFC.

That aside, what were the major influencing factors in the retail investment market over 2019? In our view, interest rates and the federal election, both of which injected an air of confidence back into the market following a rather uncertain start to the year. Yes, the reduced cash rate is a response to a sluggish economy, and no nothing has really changed post-election, however the mood and attitude of pundits has certainly improved locally which has resulted in a few surprises in the marketplace this year:

- The Lakes Retail Centre (no anchor) - sold in a $20 million deal for a circa six per cent yield
- Old Burleigh Theatre Arcade - Sub four per cent but ended up being a redevelopment play
- High WALE retail showrooms now showing sub six per cent on occasions.

Sunshine Coast

The 2019 year has generally been a strong one for retail asset sales. This has been across the sector generally with yield levels holding at near market peaks and even improving to sub-five per cent for high quality assets in the Hastings Street retail precinct.

Starting with the northern part of the Sunshine Coast, we saw the sale of the Oasis Centre on Sunshine Beach Road for $6.8 million in March, indicating a yield of 5.08 per cent and $8,843 per

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

Overall, the Sunshine Coast retail rental market has shown various factors with some increased tenancy turnover across a range of assets, though vacancy rates are holding firm currently.

square metre. This was a record for the Noosa Junction precinct.

May saw the sale of a stand-alone holding in Hastings Street with Peter Alexander as the tenant for $6.9 million and a yield of 4.99 per cent and $34,673 per square metre. More recently we have seen a strata in Hastings Street contracted for over $4 million with a reported yield of 4.75 per cent and over $65,000 per square metre.

Further south we saw a stand-alone bulky goods facility on the Nicklin Way at Minyama transact at a price of $12.05 million indicating a yield of 6.82 per cent and $3,752 per square metre.

Other sales of note include a mixed use complex in Coolum Beach for $4.55 million and a yield of 6.81 per cent fully leased to a range of local tenants and a two level mixed use complex in Maroochydore for $3.52 million and a yield of 7.51 per cent.

Overall the rental market has shown various factors with some increased tenancy turnover across a range of assets, though vacancy rates are holding firm currently. Tenants are pushing back on any rental increases with overall retail spending generally down, even across tourism markets, which have continued to attract strong tourist numbers.

The retail market is difficult to predict. While interest rates remain low, there is some belief that yields may contract further, however there is also increased tenant risk in the market with a number of national failed retail businesses during 2019 and significant turnover of local tenants. These factors along with continued reduction in retail spend and further inroads by the online market make it difficult to pin where the retail market will end up.

Toowoomba

Retail leasing in Toowoomba has been relatively subdued in 2019 with vacancy rates within the CBD increasing. This is likely due to the completion of the QIC Grand Central Shopping Centre redevelopment in 2018. The centre doubled in size to approximately 90,000 square metres, introducing new discount department stores, supermarket and approximately 160 speciality stores, with the latter considered to have drawn businesses from the CBD. Rentals appear to have been relatively static, although some lease incentives are available for long term commitments.

The historically low interest rates have resulted in a strong demand for retail properties by investors, however the lack of supply of quality, fully leased properties has limited the number of investment sales and has resulted in a firming of net yields over the past two years.

Despite strong investor demand there have been no major retail sales in Toowoomba in 2019. This is due to a lack of supply with most property owners electing to hold on to assets with good lease covenants and secure cash flow. The most recent retail investment sales of note in Toowoomba include:

- **Bunnings** – 239 Ruthven Street, Toowoomba City - A modern Bunnings Warehouse located to the northern fringe of Toowoomba's CBD. Sale price of circa $41 million with a reported net yield of 5.35%.
- **Godfreys** - 223 James Street, Toowoomba City – Semi-modern retail building of 580 square metres leased to Godfreys. Unexpired lease term of 2.77 years. Sale reflected a passing net yield of 7.83%. Sale price of $1.9 million.

We note that a marketing campaign has commenced to sell Clifford Gardens Shopping Centre, a sub-regional shopping centre located in the suburb of Newtown. The centre is anchored by Coles, Woolworths and Big W, with two mini-majors, 80 specialities and seven kiosks. The centre has a total GLAR of 27,437 square metres with a reported income of circa $13 million. The centre is being sold via an expressions of interest campaign.

Cairns

The Cairns retail property market passed through the bottom of the cycle during the course of 2014, but the limited recovery thus far means that the retail property market remains relatively flat. It must be also said that retail property sales in Cairns are extremely sporadic, with most sales involving retail property of mixed use retail and office buildings or tenant buyouts of single premises.

The level of general commercial property sales in Cairns, inclusive of retail and commercial office premises, highlights that activity in the Cairns commercial market

RENT

RENT RANGES:

Prime Cairns CBD
$600 to $800 per square metre per annum

Cairns Esplanade/ tourist precincts
$1,000 to $1,750 per square metre per annum

remains well below the levels achieved in the 2003 to 2007 period. Sales volumes have been gradually rebuilding over the past nine years, but are still only averaging around 90 to 100 sales per annum. Median prices paid specifically for strata titled premises have increased mildly over the past seven years, but our general impression is that prices per square metre of floor area are mostly stable within the $2,500 to $4,500 range for strata units.

High exposure CBD retail space remains reasonably well occupied, but vacancies are more noticeable in the lesser exposure locations and on the CBD fringe. Rents have remained generally stable, showing ranges of $600 to $800 per square metre per annum for prime CBD space and $1,000 to $1,750 per square metre per annum in key tourist precincts such as the Cairns Esplanade.

Blue chip retail located within the main Esplanade tourist strip as well as the central business district show reasonably low vacancies, though there is also limited demand from new businesses. There remains good investor demand for well leased properties which rarely come onto the market.

The Cairns retail property market overall has experienced little change thus far during 2019 and is expected to see little change for the remainder of the year.

Townsville

Activity within the retail sector during 2019 has remained steady with activity for modern suburban convenience and community centres seeing a follow-on of interest from 2018.

The biggest transaction to date has been the sale of a neighbourhood shopping centre in Currajong anchored by Otto's Fresh Food Market for a reported $7 million. There has been a bit of motion around the fresh food market sector with Otto's this year also opening a second fresh food market within the Precinct convenience centre at Idalia.

Fairfield Central shopping centre has recently completed its stage-three expansion with the opening of a new Coles supermarket along with a fresh food market and deli, Liquorland and other specialty stores.

Within the CBD we have seen the recent commencement of Flinders Lane, a retail development providing a pedestrian link between the recently completed CBD bus hub and the city centre. This laneway will provide retail and café opportunities along with connectivity to the North Queensland Stadium walkway and waterfront promenade.

Rockhampton

Market conditions in the retail sector have remained relatively flat throughout 2019, however there have been some developments showing positive signs and some market confidence. These include the recent opening of an Aldi in Rockhampton, which appears to have been well received by locals in its first weeks of trading. Still to open this year is a Carl's Jr and also a new cafe Coco Brew in William Street.

We have seen a slow re-establishment of a small retail precinct at Diggora Terrace on William Street. This is likely due to the increased foot traffic generated since the opening of Dingles Cafe as well as the availability of street parking in the immediate area. Indicators of a continued flat market have been seen though, with many retail buildings sitting vacant for extended periods.

There are various locations across Rockhampton experiencing these vacancies, which is due to a number of factors and is not solely a reflection of current market conditions. These can be factors such as poor car parking, high asking rentals, sizing of the tenancies and poor exposure.

Investors remained active throughout the year, however are sensitive to the strength of the tenant and the length of time remaining on the lease term.

Gladstone

The retail sector in Gladstone has seen a relatively flat 2019 as a result of generally weak local economic conditions. Some confidence has been slowly returning to the market as we have seen some new local retailers opening their doors, however at the same time others continue to close theirs.

In order to perform well and maintain occupancy, tenancies with the best chance are those that provide affordable and realistic asking rentals and have convenient parking with moderate foot traffic. For neighbourhood shopping centres, a strong anchor tenant and affordable rentals are key to maintaining occupancy.

There has been very limited sales activity for the year.

Most notable retail sales are the Gladstone Central Shopping Centre (also known as the

Autobarn Source: realcommercial.com.au

Select commercial precincts in Hervey Bay and Bundaberg have experienced improved market conditions in terms of land sales and construction.

Nightowl centre and the Spotlight Centre) and the Autobarn. The Gladstone Central Shopping Centre transacted for circa $20 million and was sold by CBRE. The centre is occupied by multiple national retail operators including Spotlight, Coffee Club, Subway, Cheesecake Shop, Dominos, Gloria Jeans and Repco. It is also anchored by the Gladstone Cinemas. The property had a reported WALE of about three years in December 2018. The sale price reflects a reported passing yield of 11.75 per cent and a reported analysed yield fully leased of 14.8 per cent. There are substantial vacancies within the centre which has been reflected in the sale yields.

At a much lower price point is the recent sale of the Autobarn tenanted property along Dawson Road. The property transacted for $1.475 million in May this year. The sale analyses to a yield of about eight per cent. The property previously sold in June 2015 for $1.705 million and the rental was subsequently renegotiated at a lower level, reflecting the tough economic conditions in the retail sector.

Wide Bay

The calendar year 2019 has been steady for the retail property markets in the Wide Bay. The market trends of a stagnant CBD retail property market and slowly improving retail development in modern areas has continued and the shopping centres in Hervey Bay and Bundaberg still have a strong presence in the retail market.

Select commercial precincts in Hervey Bay and Bundaberg have experienced improved market conditions in terms of land sales and construction and there has been a noticeable improvement in areas such as Kensington in Bundaberg with increased development from a range of retail and medical uses that have improved the profile to a broad range of buyers. Other than the investment sales with blue chip tenants and strong lease covenants, retail investment property sales have been few and far between, albeit with low stock on the market.

Mackay

Although there has been a steady recovery in the Mackay regional economy since the mining downturn, the retail property sector has remained relatively slow with limited sales and rents recorded in 2019.

We are aware of a retail property in Sydney Street which is currently under contract of sale at a price of $650,000 excluding GST (reflecting $1,380 per square metre of lettable area) being purchased by the sitting tenant.

There are still a number of retail vacancies within the city heart. Of the few retail leases struck in this area, most annual gross rents have been at less than $30,000.

There has been a flurry of construction within the Northern Beaches suburb of Rural View with a BP service station, fast food outlet and car wash facility being constructed at 41 - 43 Arana Drive along with another fuel station and two fast food outlets being constructed at 10 Eimeo Road.

South Australia

Adelaide

Once again, we begin a Month in Review discussing the recent reduction in interest rates. With the cash rate now hovering at just 0.75 per cent, the RBA noted that the outlook for the global economy remains "reasonable" yet flagged the uncertainty between the US and China and low levels of inflation. Throughout the retail property sector, not much has changed. Spending remains constant for the food and household goods sector while clothing stores and department centres are still struggling.

Reflecting on the Adelaide retail market of 2019, sales activity has been rather subdued. 2018 saw a total of $8.25 billion in retail assets change hands, while over the first half of 2019 only $1.68 billion of retail assets have been exchanged. These lower sales volumes reflect the change in investor sentiment as investors are looking towards the higher yielding industrial market as various retail sectors come under pressure.

At the top end of town, shops in Rundle Mall and Rundle Street reached the high price points; 41 Rundle Mall was sold for $6.4 million and 270-274 Rundle Street changed hands for $4.55 million. The lower price points were seen in Mount Barker where a small retail shop transacted for $280,000 and two shops on Grange Road in Allenby Gardens sold for $320,000.

Retail main streets are continuing to struggle given the significant investment that has gone into developing and refurbishing shopping centres over recent years. Some of the premier retail strips in Adelaide are beginning to feel the pinch of the relatively flat retail sector. Vacancies have risen on The Parade at Norwood, with lessees unable to meet the high rental levels that owners are demanding. Slightly skewing the vacancy figures on the Parade however are the vacant tenancies that make up the ground floor of the new Bath Hotel and Nuova apartments. Rundle Street and Jetty Road have also seen vacancies rise, while O'Connell Street has seen a decrease in vacant shops from this time last year. The imminent council decision on the re-development of the old Le Cornu site at 88 O'Connell Street has spiked the interest of investors. The proposed mixed-use development has been touted to include a number of apartments, bringing more people, activity and spending to O'Connell Street.

Retail tenancies for lease on the ground floor of the Nuova Apartments, Norwood. Source: Realcommercial

The leasing front has also been rather quiet. As flagged in our last retail update, Sephora secured the lease at 90 Rundle Mall and opened its doors just weeks ago after months of preparation and refurbishment of the old Just Jeans site. With vacancies rising on main streets, tenants may start looking to occupy shops within larger shopping centres that have attractive anchor tenants.

TOTAL value of retail asset transactions

$8.25 billion
2018

$1.68 billion
2019 (first half)

The development of retail property has been scarce throughout the state, with limited major retail developments taking place in South Australia. The majority of upcoming development is centred on shopping centres, while we are seeing more and more of the small retail shops undergo refurbishments and conversion to cafes and restaurants. Eastern suburb centre Burnside Village has proposed an addition of 11,000 square metres, with completion expected in 2021, adding to the array of retail outlets at the complex. Westfield Marion has also proposed an 11,000 square metre addition which is expected to be completed in 2023.

Looking at the current vacancy rates as well as the low sales volumes, it's clear that investors are steering clear of retail property. The RBA will continue to adjust interest rates and various fiscal policies in order to stimulate the economy, but until spending picks back up, the retail market will remain relatively flat.

Western Australia

Perth

The 2019 calendar year was a mixed bag for the retail property sector in Western Australia.

Out in the 'burbs, institutional owners of major regional and regional shopping centres pushed ahead with expansions following the removal of the cap on maximum retail floor space and the state government's push to create suburban activity centres. These expansion projects are focusing on delivering a better retail experience for shoppers.

Making headlines in the Perth CBD was the relocation of Louis Vuitton, Tiffany & Co and Kailis Jewellers from King Street to the revamped Wentworth Building of Charter Hall's Raine Square development. The move by some of the most renowned brands away from King Street possibly signals the emergence of a new high end retail precinct for Perth.

It is also worth noting the success associated with the opening of the DFO within the Perth Airport grounds in October 2018 which to date has been very popular with consumers largely due to the discount spending offered by retailers. The first Costco outlet in Western Australia is currently under construction on an adjoining site at Perth Airport and is due to open in early 2020. A second Costco outlet servicing the southern corridor of the Perth metropolitan area in Casuarina, approximately 31 kilometres south of the Perth CBD, has also been mooted.

However the award for best performing retail asset has to go to investment grade retail property or more specifically, neighbourhood shopping centres. This asset was the darling of investors as evidenced by a wave of transactions hotly contested by local, interstate and overseas buyers. Critically however is the anchor tenant, with a divergence in yields evident between prime (Coles, Woolworths) assets and those with secondary calibre tenants.

Generally speaking however the retail property market in Perth continued to face difficult conditions. Consumer spending has been restrained due to perceived increases in the cost of living, high household debt and slow wage growth.

The hospitality sector in particular has been through a difficult time recently with a number of high profile venues closing including Ku De Ta, Chophouse, The Trustee, Beaufort Street Merchant and Greenhouse. These venues represent but a sample of those that have closed during the year.

In spite of the weak trading conditions at present, a number of new venues have opened across the Perth metropolitan area, including several that have opened in older style commercial or industrial buildings that have been re-purposed for hospitality uses. Typically these properties are being leased on an as is, bare shell basis with substantial fit-outs being undertaken either in part or fully by the tenants.

Generic suburban (strip style) retail premises continue to experience a prolonged downward trend with tenants often struggling to meet rental payments. Online retail spending continues to grow rapidly and apply further pressure on the viability of bricks and mortar retail but especially on discretionary retailers operating from suburban strip outlets.

Proactive landlords have provided some rental relief to retail tenants, particularly in high street locations where rentals are coming off a particularly high base having been set in far more buoyant conditions. The trade off to such rental abatements or reductions is the requirement for the tenant to exercise any existing options or extend the current lease term in order to provide the landlord (and typically their financier) comfort around security of tenure through the current tough retail environment.

The move by some of the most renowned brands away from King Street possibly signals the emergence of a new high end retail precinct for Perth.

Our team has noted that tenants who would traditionally require large floor plates (such as furniture outlets) have begun to significantly reduce their space requirements when re-locating.

Looking ahead, Herron Todd White sees the existing malaise in retail property market conditions continuing in at least the short term. Opportunity does however exist for investors with an increased

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

risk appetite seeking counter-cyclical acquisitions of less sought after assets in the market place at yield premiums or secondary assets with good prospects for re-positioning through capital expenditure so as to take advantage of the next up-swing.

Northern Territory

Darwin

A 2018 study by Herron Todd White (commissioned by the Property Council of Australia) found that there was about 220,000 square metres of general retail space in the greater Darwin area. This figure includes properties varying from neighbourhood style centres of two to three shops through to regional retail centres such as Casuarina Square (individual corner shop type tenancies have been excluded).

Of this 220,000 square metres, about 68,000 square metres (or 30 per cent) has come on line in the past two to three years, principally in the Bakewell Shopping Centre (8,000 square metres), Coolalinga Central (20,000 square metres) and Gateway Palmerston (40,000 square metres).

Unfortunately, this large increase in supply has come on line at a time when Darwin's population is experiencing a significant decline, with the weaker economy seeing many Darwinites heading interstate in search of work.

What we have seen has been a drift of businesses to these newer centres, attracted by strong tenant incentives and a desire to follow the ant trail of shoppers. As a result of this displacement, vacancies have sprung up, particularly in Darwin CBD and Palmerston CBD. It is difficult to see trading conditions improving in these locations until the population begins to increase.

Coolalinga Central is being advertised for sale with negotiations around $90 million. This would represent a yield in the order of 7.75 per cent which would seem attractive to many prospective investors who are used to seeing similar assets in other capital cities at yields of less than half this level.

It is expected that there will be limited rental and capital growth opportunities in Darwin retail centres, especially secondary centres without a major anchor, for the next three to five years.

Unfortunately, this large increase in supply has come on line at a time when Darwin's population is experiencing a significant decline.

Australian Capital Territory

Canberra

The Canberra retail market has continued to display stable sales and leasing activity throughout 2019 with early indications of market strengthening taking place, underpinned by the recent interest rate reduction by the Reserve Bank, low unemployment, vacancy levels below the ten year average and continued population growth. Furthermore, retail sale statistics issued in August by the ABS indicated a growth rate of 1.9 per cent (above the national average) in seasonally adjusted terms for the nation's capital.

It should be noted that while many aspects of the retail market appear positive, a continued divergence between new and old offerings has led to an increased disparity in both demand and rental results. Non-centrally located and dated stock, often in older local shopping precincts, has seen a spike in vacancies and a softening of rental expectations.

Increases to municipal and council rates continue to be a major concern in the Canberra property sector with these increases often outweighing CPI rental increases. The market has responded, with local agents indicating that more net leases and increases to recoverable outgoings are being negotiated.

The outlook for the Canberra retail market is for slow to medium take-up levels to continue over the next 12 months, with a need for incentives to continue.

The outlook for the Canberra retail market is for slow to medium take-up levels to continue over the next 12 months, with a need for incentives to continue.