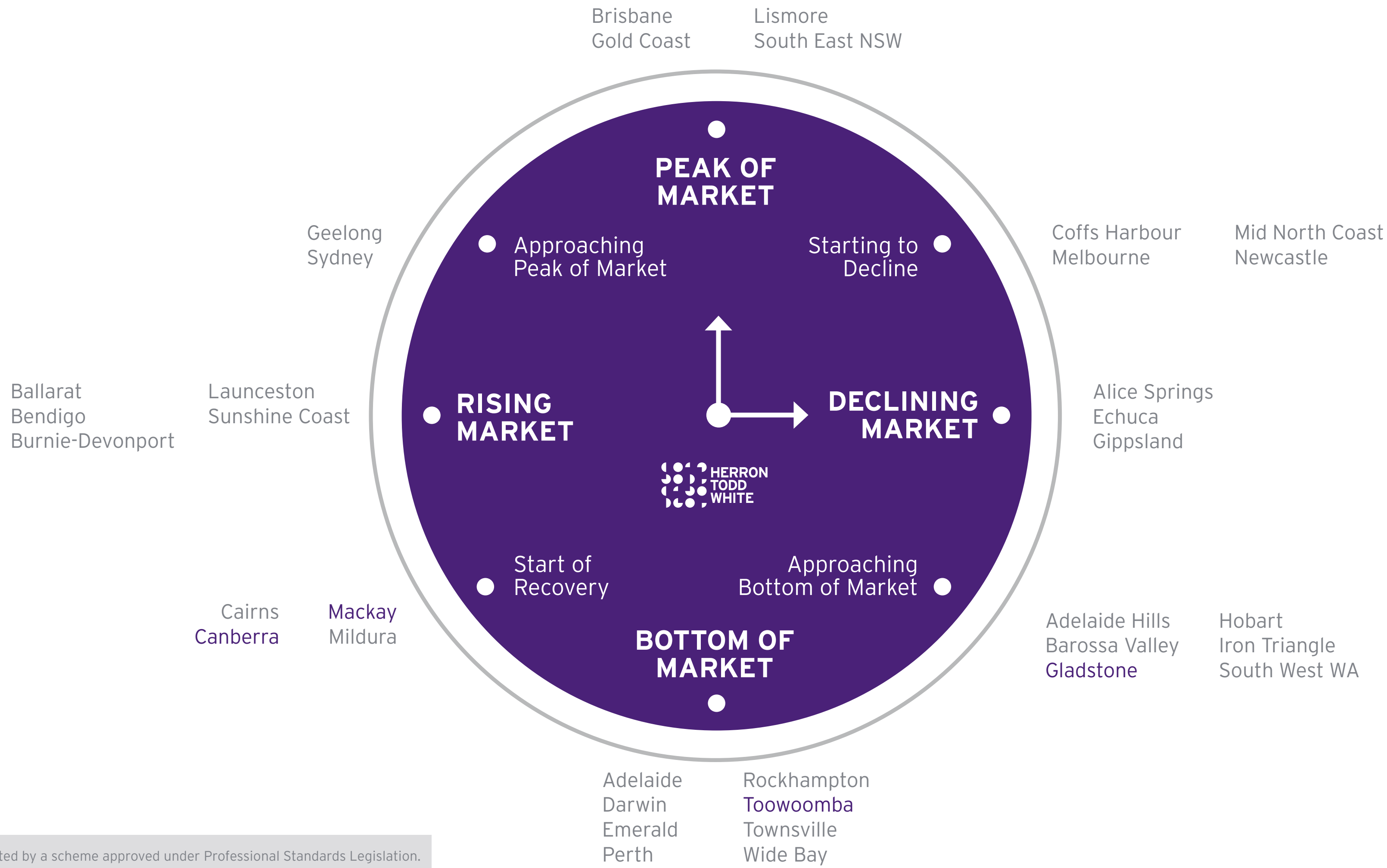
HERRON TODD WHITE COMMERCIAL

Retail

May 2019

National Property Clock: Retail

Entries coloured purple indicate positional change from last month.



HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

Retail has been one of the more challenging industries for smaller operators in recent years as competition from online and large organisations ramps up. This testing environment is most often exemplified in local strip retail property, however not all localities have been adversely affected.

This month, along with our usual roundup of the market, we've homed in on the nation's small strip retail investments and given our health check on the current, and future, performance of this particular sector.

Sydney

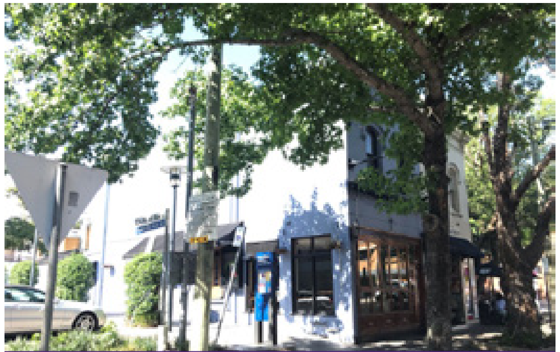
The retail market in Sydney has been through a period of growth over the past twelve months. Demand has been increasing as has rental income. Vacancy rates have been generally lower.

The neighbourhood retail strip market has seen somewhat of a comeback. In recent years, some areas of Sydney have been prone to high vacancies and lower demand driven by reduced trade. More recently however we are seeing a revival in some areas. This has been mostly driven by a resurgence in wine bars, cafes and restaurants, all vying for a good spot with a local trade base. As a result, rents have increased and investors have been drawn back to these areas by assets with good rental returns, mixed use tenancies and future development prospects.

A good example of increasing rental rates is Concord where we note a recent leasing transaction achieved over $650 per square metre gross. By way of a contrast, a similar size shop on Crown Street, Surry Hills (a typical, popular strip retail area that has traditionally had low vacancy) leased for just under $700 per square metre gross.

The neighbourhood retail strip market has seen somewhat of a comeback.

Notable sales include a vacant retail property on Queen Street, Woollahra. The property sold at the end of 2018 for over $20,000 per square metre and reflected an analysed yield of under four per cent. The property was well located with scope to make improvements.



Queen Street, Woollahra — Source: HTW Sydney

We expect this trend to continue this year, albeit at a slightly subdued rate. The local retail strips that seem to be popular due to their ability to provide a destination style experience include: Oxford Street Paddington; King Street, Newtown; Crown Street, Surry Hills; Burwood Road, Burwood; and Glebe Point Road, Glebe. These local strips have adapted to the changing retail climate and seem to be flourishing. They are all located in inner city areas which seem to attract both local trade and trade from other parts of Sydney.

That said, properties that lack exposure, have difficulties in maintaining a good tenant or are in areas of oversupply of retail have not seen the same resurgence or increase in value. In particular, strong housing demand has increased new medium to high density housing development in Sydney's inner-west suburbs and planning provisions set by Councils requiring ground level retail components to be included in these developments are triggering new retail supply to be more regularly added to the market. In some cases, the ground floor retail components for new developments are slow to lease up given their typical secondary nature and the rate at which they are being added to the market, placing downward pressure on rental values for these assets and premises.

Overall, well located, well exposed, accessible strips that provide parking and a diverse mix of business and food establishments will continue to do well as long as they meet the changing demands of the strip retail market.

Newcastle

The Light Rail on Hunter Street is up and running, the bulk of the road works around strip retail areas along Hunter Street has now finished

Travelling by car and on foot between Hunter Street and Honeysuckle is literally easier than it's ever been.

and we can see a light at the end of the tunnel. Travelling by car or on foot between Hunter Street and Honeysuckle is literally easier than it's ever been. We're expecting this easier carriageway to eventually see somewhat of a flattening out of the rental differential for retail property between Honeysuckle and strip retail along the eastern end of Darby Street for example. There has been some more activity in this little patch of ex-office property near the corner of Darby and Hunter Streets of late. This locality is now home to a large sports bar and internal fitout is in place for a bigger, better Meet restaurant, a family favourite currently located in Honeysuckle. With the new infrastructure in place we'll see more of these previously neglected pockets being reimagined as the pedestrian and vehicular exposure aspects of the city change with new routes available and new places of work popping up.

Sales activity in the retail sector slowed significantly over the past six to twelve months though. This is a factor primarily of the greater macro-economic environment – let's not get into the banking commission again!

Of the sales we have seen, selling periods have increased and yields have now begun to soften for assets of a multi-tenanted nature or those that might indicate a higher than average cash flow risk. A recent sale of note is the ex-KFC and now multi tenanted retail and office property at 227 Hunter Street, Newcastle. A high exposure location, literally within footsteps of a light rail stop, sold in February for $3.95 million, reflecting a yield of 7.12 per cent based on the advertised passing rental. Initial asking prices for this property were circa six per cent to 6.25 per cent. This property was initially passed in at auction and sold a few months subsequent to the auction campaign.

Suburban strip retail is expected to remain in a lack lustre market state for the remainder of 2019 – but keep an eye out for new pockets of retail given the new infrastructure happening around the city.

Lismore

There has been a lot of pressure put on neighbourhood strip shops given the proliferation of larger supermarkets and national chains which are open for extended hours. This pressure is more evident in established localities where population growth is less significant; in stronger growth areas there is likely to be demand for strip shops, although likely to be limited in the number and types of tenancies. The most successful ones require a good mix with a semi major or anchor tenant which may be a smaller supermarket or chemist and possibly a takeaway, small bakery or small business.

The Far North Coast has a significant number of neighbourhood shopping complexes and strip developments which are generally of an older style and service local residential communities. These are often tailored to suit the locality. Tenants tend to be smaller local businesses which don't fit within the CBD location or aren't of a significant size or type of business to afford the significantly higher occupancy costs of the CBD and shopping centres.

Vacancy rates can be quite mixed depending on the strength of the local community and immediate nearby competition and ultimately, having an appropriate tenancy mix. Some centres have transitioned to a higher office component which may include medical or allied health clinics.

Neighbourhood strip complexes tend to be well held with long term owners. Yields and value levels are strongly influenced by the strength of the tenants and lease terms. We would expect yields for superior complexes to be in the vicinity of seven per cent, while more secondary locations with poorer tenancy mixes would be up to nine per cent yield.

Coffs Harbour

The market for retail strip commercial centres is varied and is principally determined by location, design and tenant mix.

Small centres in secondary locations with limited access are difficult to market either for lease or sale.

The retail sector is relatively weak in its capacity to meet rentals based on a competitive market sector which is influenced by online retailing and major national retailers opening competitive lines into previously specialised retail areas. The most buoyant sector of the retail market is the food industry with consumer trends towards cafes, coffee shops and eating out. Whilst expanding the competitive nature of the food market, seasonal trade fluctuations and a management sensitive industry mean profit margins are fine and capacity to meet rentals can be limited and at times under pressure.

Many retailers are finding the demands of owner managers of larger shopping centres increasingly difficult to meet. Whilst tenants prefer to be within the larger centres due to high volume pedestrian traffic, the strong demands on rental levels and trade terms have led to some tenants exiting larger centres in favour of well exposed street front positions.

The market trend should see a continuation of tough retail conditions for tenants in secondary locations.

Beachside commercial strip centre locations should continue to expand with price-sensitive rental levels and investors prepared to take comparatively low yields while the current record-breaking low interest rate climate prevails.

Wollongong

Strip retail precincts in suburban locations throughout the region have generally remained stagnant for an extended period of time with yields declining due primarily to the low cost of borrowing, not because of strong fundamentals.

Transactions are generally limited, however properties at a low price point (less than $2 million) and subject to a strong tenancy profile are attracting healthy buyer interest.

The village locations of Thirroul, Balgownie, Gwynneville and Shellharbour remain popular for purchasers, The recent sale of 368-370 Lawrence Hargrave Drive, Thirroul for $1.7 million reflected an analysed market yield of 4.67 per cent and a rate of $11,333 per square metre of lettable area.

Rents in suburban locations broadly range from $300 to $700 per square metre per annum gross with the higher rates generally achieved by smaller shops of 50 square metres and less. Tenants in this market tend to assess rental affordability on a weekly basis.

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Victoria

Melbourne

During the first quarter of 2019, the Melbourne retail investment market experienced varied results across different market segments. Yields continue to remain stable for retail properties within strong retail locations such as the major strips in the Melbourne CBD, retail assets such as supermarkets which have long term leases to major national retailers and properties which have longer term potential for redevelopment. Some sales evidence indicates a softening in yields for retail properties within secondary locations, particularly within areas with low tenant demand and high vacancy rates.

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. Our research indicates that financial institutions are placing an increasing 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 slow down in the constant price rises seen over the past five-year period.

Research indicates that retail spending growth throughout Victoria remains subdued which is placing increasing pressure on retailers' occupancy costs. If this trend continues, retail tenants may find it more difficult to sustain current rental levels which may ultimately result in declining retail rents, increased vacancy levels and downward pressure on capital values.

A good level of investor demand continues in strong inner suburban strips such as Brunswick Street, Fitzroy and Smith Street, Collingwood.

Retail strips vary substantially throughout the Melbourne suburban region. Strips that are well located within areas with a large resident population and serviced by public transport (trams and trains) and with a high proportion of convenience, service and food based tenants are considered to perform the strongest. A good level of investor demand continues in strong inner suburban strips such as Brunswick Street, Fitzroy and Smith Street, Collingwood.

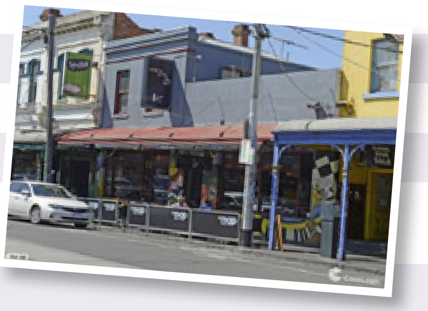
There continues to be some suburban retail rental markets which are heavily impacted by changes in consumer behaviour and varied consumer confidence. Some areas, such as Chapel Street, South Yarra and Bridge Road, Richmond continue to experience high levels of vacancy as a result of the ongoing shift away from traditional retailing towards service and food based uses. The retail rental market in these strips has experienced significant downward pressure in recent years with high vacancy levels and letting up periods of up to twelve months or longer in some instances.

In these two precincts, there is now an increasing shift in demand away from fashion and footwear retailers to food and service based tenants as has been seen in other inner suburban precincts. With the ongoing increase in population due to numerous apartment projects being constructed in the area, it is considered that there will continue to be demand for retail space within this precinct for many different types of uses on a longer term basis.

Although rental levels in some inner suburban retail precincts have declined substantially within the past five years (approximately 30 to 50 per cent in some cases), the value of many older style retail properties is underpinned by the strength of the underlying land, particularly given the inner-city location, surrounding infrastructure and amenity and the potential provided for refurbishment or longer-term redevelopment (subject to Council approval).

Middle and outer suburban retail strips have experienced a varied level of performance during the past six to twelve months. Local retail strips with good access and that are located adjacent to train stations, with tenants generally focusing on convenience, fresh food and take away food, generally continue to demonstrate good results.

There has not been a high volume of sales transactions during the first quarter of 2019. Some examples of suburban strip retail sales in 2019 include:



Address	364-366 Brunswick Street, Fitzroy	82-94 Railway Avenue, Ringwood East
Sale Date	January 2019.	March 2019.
Sale Price	$3,550,000.	$7,430,000.
Purchaser	Private investor.	Private investor.
Yield	3.62%.	5.29%.
Rate per square metre of lettable area	$12,909.	$4,112.
Land	263 square metres.	Corner site of 2,135 square metres, frontages to Railway Avenue and Wenwood Street, rear access.
Zoning	Commercial 1 Zone (C1Z), affected by a Heritage Overlay (HO311) and Environmental Audit Overlay (EAO).	Commercial 1 Zone (C1Z), affected by a Significant Landscape Overlay - Schedule 4 (SLO4).
Building	GLAR: 275 square metres, 2 levels, originally constructed circa 1920s, fair condition.	GLAR: 1,807 square metres, single level small format supermarket.
Tenant	Fully leased, single tenant, utilised as a restaurant and bar.	Sold subject to a leaseback agreement to a single tenant, trading as Paul's Supa IGA'.
Lease term	5.5 years commencing September 2018, three further options of 5 years each.	10 years commencing from settlement, 4 further options of 5 years each.
Total net income	$128,435 per annum.	$398,985 per annum.
WALE	4.96 years.	10.0 years.
Comments	Sold following a private sales campaign conducted by Burgess Rawson. The selling agent advised that there was a good level of interest in the property with approximately 30 enquiries received.	The property was sold at an off-site auction following a sales campaign conducted by CBRE. The property was attractive to investors given the long term lease, established supermarket operator and a large land holding on a corner site with longer term development potential (STCA).

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Purchaser interest for retail properties has been relatively high over the past twelve months, however we are of the view that this is led by an optimistic buyer perception of the market direction and may not ultimately reflect what is actually happening in relation to tenant demand, affordability and achievable long term investment returns on property. There appears to be a discrepancy between capital values and rental income growth as capital values within popular precincts appear to be experiencing strong growth while rental income growth appears to be moderate, and in some cases declining, in comparison. As such, the market within these precincts tends to be influenced to a large extent by economic volatility.

Queensland

Brisbane

On the whole, the Brisbane retail market remained stable in 2018 and we expect this to continue in 2019. Transactional levels have been low due to a shortage of quality stock on the market. Yields and capital values are currently neutral overall.

In regard to the convenience centre market and similarly for strip retail properties, yields have flattened out and are generally sitting in the 6.5 to 7.5 per cent range. Properties in secondary locations with a poor WALE or vacancies have attracted softer yields.

In our opinion, properties in strong locations and with good WALEs and high quality lease covenants will continue to be in high demand from investors given the income security offered. A sale to mention is a 407 square metre retail property at 988 Waterworks Road, The Gap. This property sold for $2.84 million and was fully leased to three tenants with a WALE (by income) of four years. The sale reflected a passing yield of 6.37 per cent and a rate per square metre of lettable area of $6,978.

More recently in November 2018, there was a sale of a convenience retail centre at 111-121 Grand Plaza Drive, Browns Plains for $5.378 million. The sale price reflected an analysed yield of 8.61 per cent and a rate per square metre of lettable area of $5,161. This sale is an example of softer yields being achieved for properties in secondary locations with substantial vacancies and exemplifies that these factors are in firm focus with investors.

Generally, the rental environment overall for retail properties is flat across the board, however some convenience and neighbourhood centres have shown some indication of modest rental growth in strong population growth locations.

Gold Coast

The strip retail market on the Gold Coast has always been a good barometer of how the local commercial property market is travelling overall, although there are so many facets to this asset class that one has to be careful not to cast a single net over the whole market.

Traditionally when people think of the Gold Coast retail market, they think of precincts such as Surfers Paradise and Broadbeach. These two areas, together with Main Beach, are actually some of the toughest precincts for retailers to succeed, primarily due to an ever increasing number of operators competing for the tourist dollar. Some operators have raised the bar in recent years with cutting edge fit outs which has given them a competitive edge; those who failed to do so have already died on the vine.

From an investment perspective, these beachside precincts are tightly held and quality investment propositions are seldom presented to the market. Freehold assets are few and far between and more often than not will have long term redevelopment prospects and a high underlying land value

Trees Rd Tallebudgera Source: realcommercial.com

underpinning a low initial yield. Strata title or volumetric assets are more common and rely on a strong tenant profile or long WALE to whet the appetite of investors.

The southern beachside markets of Burleigh Heads through to Coolangatta have had a resurgence in popularity in recent years, however similar to their northern counterparts, a growing amount of competition is leaving some retailers struggling. Investors on the other hand are still eager to get their hands on whatever they can at the southern end.

The northern growth corridor is exploding with new retail centres, especially around the suburbs of Coomera and Pimpama. Being one of the most rapidly growing districts in Australia, there is a certain attraction for retailers and investors to

There are so many facets to this asset class that one has to be careful not to cast a single net over the whole market.

become a part of the action. Retail investments in this region are typified by near new centres with strong lease profiles and excellent depreciation benefits. Needless to say, they are well received when presented to the market and are attracting some of the lowest yields in the market at present.

The suburban belt makes up the balance of the strip retail market, or most of it anyway. These areas can include both the highs and the lows of the retail market. Older suburban strips of shops can sometimes struggle to find the right mix of tenants and often experience sub-optimum occupancy, however when market conditions are right, most past sins can be forgiven (or maybe just forgotten). A recent example to demonstrate the strength of this market, despite a softening residential market, is the Man on a Bike shopping centre at Trees Road, Tallebudgera. This suburban convenience centre last transacted in 2014 for $3.9 million and was recently resold to an interstate investor for $5 million.

So, in a nutshell, what is the strip retail market telling us? The number of transactions is down, causes by a few factors including limited stock available for sale, difficulties in obtaining finance and investors becoming more discerning in their investment decisions. That being said, limited stock is in fact keeping the supply/demand metric in balance which at this point is allowing value levels to hum along at a steady pace. So overall, I guess it's fair to say that things are still alright here on the Gold Coast.

Toowoomba

Traditional convenience centre tenants such as newsagents, butchers, fruit and veg and bakeries are becoming somewhat redundant with full line supermarkets competing directly with these retailers. This has reduced the underlying strength of many convenience and neighbourhood centres which have traditionally been considered the blue-chip retail investments in Toowoomba.

Most proposed/new retail development in Toowoomba suburbs have abandoned the traditional convenience retailers and are focusing on take-away food outlets and restaurants.

This has resulted in a change in tenant mix for some retail centres.

Most proposed or new retail developments in Toowoomba suburbs have abandoned the traditional convenience retailers and are focusing on take-away food outlets and restaurants. The new centres often contain an outdoor dining component and most have a café tenancy featuring a drive through coffee facility.

Many larger neighbourhood shopping centres are finding it harder to maintain a good tenant mix with the demand for specialty tenancies reduced. These centres often turn to medical or paramedical uses to fill tenancies that have historically been occupied by traditional convenience retailers.

The Wilsonton Shopping Centre (a Woolworths and Coles anchored centre) which was sold to Consolidated Properties and CVS Lane Capital Partners in mid-2018 is currently undergoing major refurbishment works and a leasing campaign to refresh the tenant mix. The rejuvenation includes the construction of a large outdoor dining area to the northern side of the main building which will also act as a pedestrian walkway to the detached tenancies positioned to the rear of the centre.

Townsville

The current market in Townsville for strip shops and neighbourhood outlets appears to be ticking along in the sub-$5 million price bracket.

The most attractive strip shop locations are along Charters Towers Road and in particular Ross River Road towards the central demographic area around Stockland Shopping Centre. These major arterial roads provide high exposure with properties typically being mixed use. Depending on scale and quality of the property, they range in value from sub $1 million upwards. Yields are typically in the 8.5 to 9.5 per cent range with buyer profile including owner-occupier in the lower end market up to trust and investor groups in the higher order properties.

Neighbourhood outlets have seen a number of transactions over the past few years ranging from the sub-$1 million mark up to around $5 million. Properties in the sub-$1 million to $2 million bracket are generally purchased by conversion buyers, who occupy part of the property, particularly for medical use purposes, and lease the balance. Larger scale better quality neighbourhood outlets are generally in the $3 million to $5 million price range. These centres are typically purchased by investor and trust groups with yields analysing in the eight to 9.5 per cent range.

Sunshine Coast

The retail market on the Sunshine Coast has continued to trade at a steady rate throughout the first months of 2019. The major news was in March, when the extension to Sunshine Plaza was completed with 107,000 square metres of retail space added, which included David Jones and Big W as major tenants. A range of other retailers

Overall, retail strips have generally traded at a steady level with few sales noted since the start of 2019.

have joined the Sunshine Coast for the first time including H&M, Wheel and Barrow, Sephora and Ralph Lauren. A further food offering is being developed along Cornmeal Creek, though this is still taking shape.

Overall, retail strips have generally traded at a steady level with few sales noted since the start of 2019.

One sale of significance was in Sunshine Beach Road at Noosa Heads. The Oasis Centre sold after public auction for $6.8 million. The sale was of a multi tenanted one and part-two level retail strip centre with around 50 metres of road frontage. The sale represented circa $8,700 per square metre of NLA and circa 5.2 per cent yield.

All streetscape upgrades were completed along Bulcock Street in Caloundra by the Sunshine Coast Council in early 2019. As a result, we have seen owners begin to upgrade shop fronts, which has seen some movement of tenants. This is likely to continue during 2019 with some stability likely towards the end of the year. Even though we have seen this volatility, this is still a tightly held precinct.

Other strips such as Mooloolaba Esplanade and Hastings Street had strong tourist seasons, though there are a number of lease renewals due over the next 12 months which may see some tenant changes.

The Wharf at Mooloolaba is nearing its finalisation as a mainly entertainment style precinct. This area has seen a number of established restaurant operators from the region opening new offerings, which has proven very popular with the tourist trade and also with locals. This precinct has been revitalised by a local owner and the emphasis on bringing good local operators together in the one area has proven very successful.

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 also be 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 remains well below the levels achieved in the 2003 to 2007 period, though sales volumes have been gradually rebuilding.

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.

There remains good investor demand for well leased properties with supply quite tightly held.

Strip retail outlets are popular with investors if fully leased and with a reasonable WALE. Rentals for smaller tenancies of around 100 square meters are in the range of $300 to $400 per square metre per annum gross with yields around the 7.5 per cent range, depending on quality, location and tenant profile.

$600-$800
rent per square metre per annum for prime CBD space

The Cairns retail property market overall has experienced little change thus far during 2019 and is expected to see little change in the short term.

Rockhampton

Traditionally, East Street (in Rockhampton's CBD) has been the main retail precinct in Rockhampton. Whilst retailers still occupy areas within East Street, the changing demands of retailers and shoppers, the lack of parking, supply and general retail economic conditions has resulted in ongoing vacancies within this precinct.

Over the years there has been a shift from this traditional retail precinct to other neighbourhood retail centres and the Stockland regional shopping centre. The changing way of how people shop and emergence of the larger players into the local markets has resulted in a shift towards the larger neighbourhood shopping centres, which are generally anchored by an IGA, Coles or Woolworths supermarket.

The success of neighbourhood shopping centres has more recently been dependent on the presence of a substantial anchor tenants (ie Woolworths, Coles or IGA) and the affordability of the asking rental, however other retail centres without a notable anchor tenant can survive, but

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the asking rentals must be substantially lower and reflective of the reduced foot traffic.

Rental affordability continues to be key for retail tenants and centres that demand unaffordable rentals are consequently experiencing high vacancies. For prime and well anchored centres, we consider that market rentals generally fall within the range of $400 to $550 per square metre gross at present. Rentals for secondary retail centres are generally within a range of $250 to $350 per square metre gross. These rates can generally vary substantially depending on the size of the tenancy and other attributes such as exposure, car parking and the age of the improvements.

Rental levels and affordability have become a critical factor for local retailers and combined with a shift from smaller convenience grocers to 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 more medical and health focused tenants, who typically can afford the higher rentals that these centres demand.

Retail centres have been thinly traded in recent years, however the more recent notable sales include:

- **305 Richardson Road**, sold in March 2018 for $3.5 million. This centre is a semi-modern centre anchored by a Foodworks, with a handful of specialty tenants including a bakery, bottle shop, butcher and a news agency. The Weighted Unexpired Lease Term was about 2.71 years by income and the sale reflected an analysed market yield of about nine per cent.
- **Cedar Park Shopping Centre** (Swordfish Avenue, Tarranganba) sold in February 2018 for $7.5 million. This centre is a semi-modern centre anchored by a SPAR supermarket and also has a strong presence of medical tenants (including a medical centre and a pharmacy amongst others). There are 14 tenancies in total in the current configuration. The Weighted Unexpired Lease term was about 3.11 years and the sale analysed to a yield of about 8.25 per cent.

Cedar Park Shopping Centre Source: realcommercial.com

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Gladstone

Similar to other regional towns, the emergence of neighbourhood shopping centres and the changing demands of retailers and shoppers has seen a shift away from the traditional strip retail shopping.

In Gladstone, this was more traditionally focused along Goondoon Street. There are various retail precincts around Gladstone, both in the form of strip retail and neighbourhood shopping centres. Whilst the traditional Goondoon Street precinct is still home to local retailers, there appears to be greater demand and preference for more modern, well anchored centres. It will not be news to most that the retail sector in Gladstone has seen some tough years as a result of the local economic downturn and market conditions. Secondary retail centres and older strip retail precincts have suffered with increasing and ongoing vacancies and substantial downward pressure on rental rates. More modern, well anchored centres appear to be maintaining a greater standard of occupancy, however even these centres have been victim to the falling market conditions in recent years, with some centres seeing an increase in vacancies.

Centres that appear to be maintaining better occupancy are generally anchored by a national supermarket (ie Woolworths, Coles) and are located in an area with good exposure and good on site car parking.

Rental affordability continues to be key for retail tenants and centres that demand unaffordable rentals are consequently experiencing high vacancies.

While the market is considered to be remaining volatile, there have been new retailers opening shops in various areas, indicating a stabilisation of local conditions and the return of some confidence to the market.

While this month's theme is focused on the smaller centres, it is worth mentioning the recent sale of the Gladstone Central Shopping Centre (also known as the Nightowl Centre and the Spotlight Centre), which has transacted for circa $20.2 million. 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 has 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 was reflected in the sale yields.

Mackay

Neighbourhood shopping centres in Mackay have proved to be excellent investments through the recent economic downturn because rents have only eased slightly in comparison to the office and industrial sectors and vacancies have remained quite low. The only problem is that there are very few within the local asset class to satisfy demand from high wealth individuals and investment syndicates.

We are aware of a reported sale of the Hibiscus Shopping Centre at the Mackay Northern Beaches suburb of Bucasia at $6.5 million which is anchored by Cornetts IGA and also includes a small service station. The unexpired lease term of anchor tenants is a key investment criteria which can contribute to lower yields in comparison to other asset classes. In our view, neighbourhood shopping centres rank alongside lessors' interests in motels and blue chip industrial assets as the leading property investment in Mackay.

On a different note, we could not let another edition of the Month in Review go by without commenting on the much-improved performance of real estate agent rent rolls which has been caused by lower residential vacancies and increasing weekly rental rates. Mackay agents who took advantage of the weaker market conditions between 2014 and 2016 to acquire smaller rent rolls to add to their existing property management businesses should now be reaping the rewards of income growth. Consequently, there have been no recent local rent roll sales and there are none on the market to our knowledge. The questions are, how much more growth does the local rental market have and when will be the next ideal time to sell a rent roll in Mackay?

The only problem is that there are very few within the local asset class to satisfy demand from high wealth individuals and investment syndicates.

South Australia

Adelaide

Overall economic indicators for South Australia have remained optimistic throughout the first quarter of 2019, with GDP continuing to grow by 2.6 per cent for 2018, as well as the South Australian population growing by 0.8 per cent. Furthermore, the unemployment rate continues to decrease, with the ABS reporting a current 5.8 per cent unemployment rate as at March this year. While the overall economic outlook is positive, the retail property market remained stagnant throughout the first quarter of 2019.

Retail trade growth for South Australia was recorded at one per cent in January 2019, well below the ten-year South Australian average as market sentiment for the national and South Australian property markets continues to fall. It's not all doom and gloom for the retail sector however, as cafes continue to report strong retail trade, recording a five per cent increase to January 2019. Furthermore, food and household goods also continue to make sales and attract spending, recording 2.5 and 2.6 per cent growth respectively. Department stores and clothing outlets experienced the largest declines in retail activity, as more retailing takes place online, especially amongst the millennial generation and young adults.

Amidst the slowing retail trade growth and declining markets of clothing and department stores, the retail property market itself has remained steady. The retail areas performing well are the areas adopting the concept of placemaking. Streets such as The Parade at Norwood and Jetty Road at Glenelg continue to benefit from the positive impacts of placemaking, as these areas promote activities such as art and food festivals and hone in on community involvement.

In order for smaller strip retail shops and areas to compete with the ever-increasing online market, retailers must offer something that the online equivalent cannot - a sense of place and a unique customer experience that engages the consumer rather than just providing them with goods.

Recent sales on these retail strips such as 4-6 Jetty Road in July 2018 and shops 9 and 11 at 47 The Parade Norwood presented investors with opportunities to acquire smaller strip retail shops on popular local streets. Sales in these retail streets are scarce and always garner a large amount of interest, with many buyers pushing the price up and therefore the yield down. Jetty Road sold at a yield of 4.78 per cent, while shop 9 at 47 The Parade sold for $570,000 and shop 11 sold for $600,000.

In one of Adelaide's premier suburbs in North Adelaide, 74-74A Melbourne Street recently sold for $1.1 million, reflecting an initial yield of 5.13 per cent.

The most recent sale in Rundle Mall occurred in January 2018, where 109 Rundle Mall, currently leased by clothing store Connor, was sold for $9.17 million, reflecting a yield of 5.84 per cent.

9/47 The Parade , Norwood   Source: domain.com.au

As yields for retail spaces in South Australia hover around six per cent average across the state, these figures reflect the current testing times for retail property markets, with shops in these premier locations recording yields between 4.75 and six per cent.

Retail developments have been scarce throughout the state, with limited major retail developments taking place. 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. Finally, the vacant site at 88 O'Connell Street (old Le Cornu site) is now at a stage where the Adelaide Council has selected a short list of developers from

Overall economic indicators for South Australia have remained optimistic throughout the first quarter of 2019.

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the expressions of interest stage to present their ideas for the site. The Adelaide Council has already touted that the development will be a mixed-use site, with retailers expected to be fighting for stores at the sought-after location.

The impending federal election leaves investors, owner-occupiers and retail tenants in a state of limbo as we wait to see whether the government changes from Liberal to Labor and what the impact may be of any policy changes that follow. Retailers may be torn as both governments are promising tax cuts to low and middle income earners, with the Coalition also announcing a tax cut for those in the higher tax brackets. Perhaps the biggest factor for retailers is the proposed reintroduction of penalty rates that a Labor government will bring, putting more pressure on labour costs which, for retail shop owners, may offset the increased spending that the proposed tax breaks would encourage.

Western Australia

Perth

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

Looking at suburban (strip style) retail premises in particular, rental rates have experienced a prolonged downward trend with incentives in the form of net rent free periods or fit-out contributions prevalent.

Our team continues to field enquiries from tenants struggling to meet rental payments due to lease agreements negotiated in more buoyant times and restrained consumer spending.

Landlords are being faced with the option of re-negotiating lease terms to maintain occupancy or alternatively, risking extended periods of vacancy. There has been a discernible rise in the instances of pop-up stores to fill vacant tenancies rather than landlords being left with empty shops.

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

These conditions are more prevalent in secondary suburban strip locations although prime CBD mall and traditional high street destinations (Oxford Street, Leederville; Beaufort Street, Mount Lawley; and Bay View Terrace, Claremont) are experiencing a similar situation (albeit to a lesser degree) with vacancies often appearing.

Our team continues to field enquiries from tenants struggling to meet rental payments due to lease agreements negotiated in more buoyant times and restrained consumer spending.

Online retail spending continues to grow rapidly and apply further pressure on the Perth retail market but especially on discretionary retailers operating from suburban strip outlets.

Despite the level of tenancy risk, land holdings in high street shopping and dining destinations remain keenly sought after. This is a function of the scarcity of sites offered to the market in these locations and the high underlying land value. Yields for similar properties below 5.5 per cent are not uncommon.

For example, a strip style retail development located at 403-407 Albany Highway, Victoria Park transacted in August 2018 for $2.6 million. The property, consisting of a 1,353 square metre site with dated improvements (662 square metres) was fully occupied at the date of sale by four local tenants at passing net rents of $170 to $253 per square metre per annum. The site is zoned District Centre and located in an established local retail hub that has grown in popularity in recent years. Our analysis of the sale discloses an analysed market yield of 5.26 per cent.

However, such assets which do not possess key investment criteria are less sought after and often transact at a much higher yield reflecting the greater tenancy risk or secondary location.

Looking ahead, Herron Todd White sees the existing malaise in suburban retail property market conditions continuing in at least the short term as rental values come under increased pressure and vacancy levels and tenant delinquency remain prevalent.

Opportunity does however exist for those investors with an increased 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.

Moreover neighbourhood strip shop developments constructed during the 1960s and 1970s are likely to represent redevelopment propositions in the not too distant future, tying in with the state government's push for greater population density in identified suburban activity centres.

Northern Territory

Darwin

Changes in trends in retail behaviour over the years have seen demand for different forms of retail real estate ebb and flow.

A strong trend in Darwin and elsewhere in Australia through the 1970s and 1980s was to have a dedicated neighbourhood shopping precinct in each new suburb catering for the day to day needs of residents. This is readily seen in most of Darwin's northern suburbs which each have their own dedicated precinct.

Residents have increasingly turned away from these centres and made nearly all of their retail purchases at destination type regional centres, most notably Casuarina in Darwin's northern suburbs. Consequently, rental demand in the older smaller neighbourhood centres has weakened considerably and many have a high level of vacancy.

The exception is centres which can position themselves as boutique type centres providing a unique service. Probably the best example of this in Darwin is the Parap shopping centre which is large enough to provide a range of services and is a vibrant retail centre. Rents in this area can still exceed $400 per square metre per annum although even this precinct is struggling in Darwin's current economic climate. A good test of the market will be the rental demand for the Country Classics tenancy, a long-term business which has recently vacated its premises at Parap.

Retail in the CBD continues to struggle. Newer centres in Palmerston suburbs such as Zuccoli and Rosebery have been holding their own because they generally have a slightly larger population catchment to draw from. Nevertheless, competition from larger centres at Gateway and Coolalinga continue to put a cap on any significant retail growth and therefore rental growth in these centres.

The exception is centres which can position themselves as boutique type centres providing a unique service.

Australian Capital Territory

Canberra

The Canberra retail market, not unlike retail markets across the country, has experienced challenging trading conditions over recent years. There has, however, been some substantial improvement of late.

Retail sale statistics issued in February by the ABS indicated a growth rate of 1.7 per cent above the national average in seasonally adjusted terms for the nation's capital. This indicates a stable trend for retailers underpinned by strengthening local unemployment figures, ongoing population growth and an increase in consumer confidence.

Against this backdrop of retail activity is the geography of Canberra's commercial property.

Retail areas in the ACT are structured to reflect the principles of a hierarchical system of centres, which comprises: The City Centre (also known as Canberra City or Civic); Town Centres (Woden, Belconnen, Tuggeranong and Gungahlin); Group Centres (Calwell, Charnwood, Chisholm, Conder, Curtin, Dickson, Erindale, Hawker, Jamison, Kaleen, Kambah, Kingston, Kippax, Manuka, Mawson, Wanniassa and Weston); and Local Centres. Consequently, the ACT is well catered for the provision of goods and services.

Although the ACT's population continues to increase, now surpassing 420,000, supply levels of retail premises remain relatively high while demand has been generally soft, especially for smaller, often older, local shopping centres. These outlets have struggled with declining patronage given the attraction of Group Centres and the Town Centres which provide competition via large supermarkets with a greater range of products. This lack of demand for non-central, ageing stock, especially those in smaller local shopping centres, will likely see a spike in vacancy throughout 2019.

420,000

ACT's population continues to increase

Rents vary depending on the location, size and strength of the centre, plus the use and attributes of the premises. Typically, smaller suburban centres are achieving rentals of sub-$500 per square metre with centrally located modern offerings renting for between $650 and $750 per square metre.

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.

There has, however, been some substantial improvement of late.