Commercial

HERRON TODD WHITE COMMERCIAL

National Property Clock
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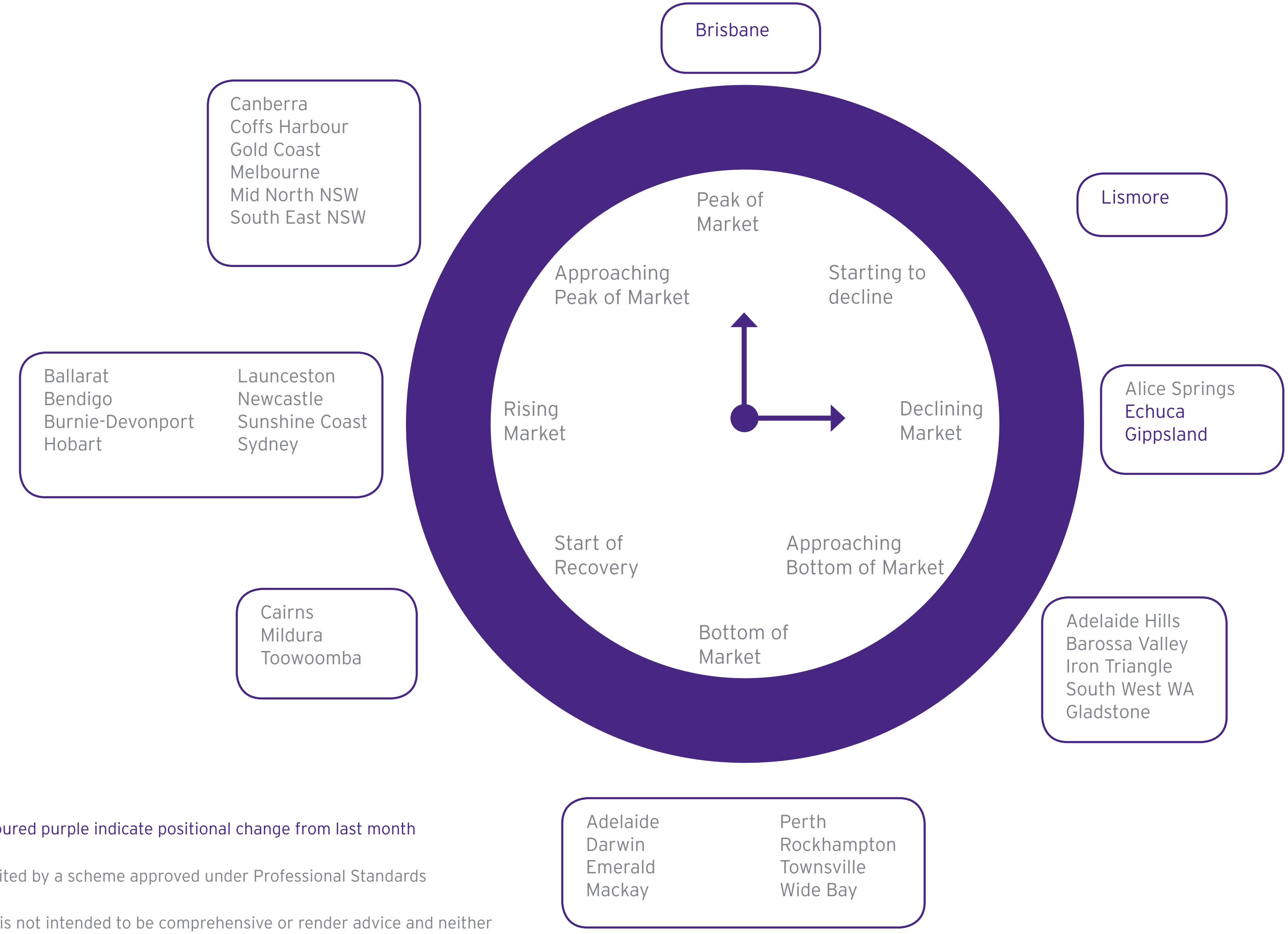
Retail



Entries coloured purple indicate positional change from last month

New South Wales

Overview

The evolution of property isn't restricted to housing, and as Australia's commercial sector continues to grow in appeal, so too will new development and innovation.

This month, our commercial teams are giving a location-by-location overview of where new retail development and major refurbishment is underway. We also pick up a few tasty tidbits on how modern design is helping project appeal to progressive tenants.

Sydney

The retail market in Sydney has seen steady growth over the past 12 months as a result of increased demand for good investment assets, growth in rental income and generally lower vacancy rates.

The next twelve months is anticipated to follow a similar trend, but possibly at a slightly slower rate. Demand from investors will continue to drive the market. Properties with well-established retail tenants will continue to be popular this year, although the continued threat of online shopping has potentially taken the edge off the market in this sector.

CBD assets remain strong as infrastructure improvements progress and speculation about their impact continues to drive areas of the market. Rental growth is certainly evident in this market as tenants try to secure their position within the CBD.

Generally rents have remained stable this year although an increase in prime locations was evident in 2017 and now as we continue into 2018. Restaurants and bars are a popular and sought after tenancy, with demand for these types of retail properties likely to be maintained in the short to medium term. Neighbourhood shopping strips particularly have seen a shift towards other retail uses such as restaurants. A notable example is the Paddington retail strip.

Within the inner city, new development of mixed use sites has seen an increase in supply of retail space. Most new development, particularly along arterial roads, requires a component of ground floor retail under planning requirements. As a result, these areas have seen an increase in ground floor retail shops. In some areas this model has proven to be successful, however in some we have noted longer vacancy periods. Generally these retail spaces rely on local residents for trade which reduces demand.

In terms of supply, there is some activity however it is generally within the outer suburban areas where there are new residential land subdivisions. Most new subdivision areas have included a local neighbourhood shopping centre which services the local population.

An example of this is the North Kellyville shopping centre (North Kellyville Square) which is now operational. This newly completed centre includes a Woolworths and speciality shops.

Due for completion in 2019 (Stage 1), Eastern Creek Quarter is a proposed retail centre of approximately 50,000 square metres within the Western Sydney Parklands.

The first stage is said to include a neighbourhood centre with a supermarket and specialty stores. Future stages are said to include large format retail and bulky goods. The site is well positioned near major infrastructure and motorways but is anticipated to service the local residential population.

Looking to the future for retail, the need for local convenience centres is likely to continue as is the demand from luxury brands looking to showcase their goods, however innovation is needed to ensure that local retail strips and centres remain relevant. That said, the market has performed well over the past 12 months indicating that there is still good demand.

Newcastle

The most substantial mix-use development is that of the East End development, where works have begun on Stage 1 and Stage 2 plans which have been released. According to "The Urban Developer", and with regard to the retail portion of the development, Director of retail strategy consultant Bonnefin Property, Angela Bonnefin, indicates their retail strategy is to target Newcastle's best independent retailers, giving them prime retail space on the High Street and within the laneways.

"There will be something for everyone at East End from fashion, food, bars and casual dining. Newcastle has such a unique feel, such a relaxed vibe – so our retail strategy is very much about capturing that special essence that is Newcastle," Bonnefin said.

"We'll be building on what's already there and re-purposing the beautiful heritage buildings while creating vibrant new retail spaces for the community to take advantage of. All retailers will be located on ground level to allow easy and convenient access for locals throughout beautiful laneways filled will a great mixture of fashion, cafes and wine bars, everyday needs like flowers, a place to get a blow-dry, an art gallery to visit or the best single origin coffee – all the things you find in any great urban city around the world."

The development is planning to link into the eastern end of the light rail. There is a rail stop proposed at Market Street, which is adjacent to the East End Development and will be a handy stop for retail customers and office workers within the new commercial precinct. The Hunter Street Mall is in dire need of an uplift and this development, once completed, is expected to provide this market impetuous. The actual tenancy mix is yet to be unknown, however, it is understood that this will not be a shopping centre to rival Charlestown Square or Westfield. Rather, a more boutique, restaurant, café and specialty retail offering in the heart of the city.

South East NSW

The retail sector has remained relatively static throughout the region over the last five years with Wollongong Central and Stockland Shellharbour providing the bulk of the change in the market over this time. Construction of a new town centre at the waterfront of Shell Cove's marina precinct is ahead of schedule, and when complete in 2019, will see the addition of a new Woolworths supermarket and associated specialty shops with a total retail area of 4,450 square metres. Over the coming years, LendLease is expected to move forward with development of its village centre and in the longer term, its town centre precinct to support a rising population base.

Rents have remained stagnant, while in general incentives and tenant turnover are relatively high. Investors are still active and yields are low for assets with sound leases in place, although sales activity is at a low level with limited stock available. Retail yields are also being influenced by rising land values as developers seek land banking opportunities from retail sites that are underutilised. As such, yields can range from 4% to 6% for such sites, while sitting in the 7% to 8% range for conventional investment assets underpinned by good leases.

Lismore

Lismore is a main regional centre in its area with a good population base and an overall economy that is performing well. It has traditionally been a very resilient market. Lismore is in a state of flux with the main CBD transitioning into a service and food destination rather than the traditional retail precinct, which is being fulfilled by Lismore Square. The CBD provides a more affordable retail option in relation to rent, with the food outlets and services industry providing the main source of potential retail clients.

Lismore City Council's recently released prospectus identifies a very broad range of projects including Lismore Regional Parkland, a $15 million project over two stages that will assist in the link between the CBD and Lismore Square. There is a variety of other projects including upgrade of sporting facilities, bike trails and encouraging festival and event use. The upgrading of Oaks Oval and the opening of the Regional Gallery and Quad are a taste of these projects.

Ballina is developing similar projects, looking to better utilise the foreshore, upgrade the marina and increase the focus on the river and its link to the CBD.

Byron Bay remains a very vibrant retail centre predominantly driven by tourist numbers, providing a very broad range of business types from food, retail and tourist service industries. The transition of the industrial area as a mixed retail, industrial and creative arts use has assisted in providing Byron an eclectic mix to meet the needs of the tourist industry. The Byron Bay Railroad Company train runs a return shuttle service between the industrial area and the CBD which will assist in linking the two localities and create a larger retail footprint. The Habitat development is likely to capitalise on this service as the development comprises retail, residential and industrial components.

Coffs Harbour

Retail development in Coffs Harbour is occurring within the Jetty precinct, Sawtell's main street and within the eastern end of Harbour Drive City Centre.

Development is proceeding in areas of perceived strength with pre-leasing commitment occurring in most projects. The recent sale of Jetty Village Shopping Centre will see medium term redevelopment to incorporate a superior retail centre to service the developing medium density residential precinct and the foreshore, marina and harbour.

Development plans for the Jetty Harbourside precinct are being formulated following community consultation.

Yields and retail rental rates vary considerably throughout the commercial retail sector. There has been some relocation by tenants to lower cost premises and there remains oversupply of premises within the Harbour Drive main street. This vacancy is mainly associated with a small number of non-negotiable owners unwilling to meet current market demands.

The South Grafton prime retail precinct has grown considerably over the past three years. The Clarence River crossing under construction will improve access and exposure and should further stimulate this precinct.

Woolgoolga commercial precinct is considered constrained by zoning but continues to expand with infill development predominantly to mixed use commercial and residential low rise.

Victoria

Melbourne

Melbourne's retail property market has continued to demonstrate strong results over the last 12 months with yields remaining firm, as a reflection of limited quality stock available and strong purchaser demand.

The current low interest rate environment, the depreciating Australian dollar and the perception of Australia as a safe haven with stable government and transparent markets, continues to lead to increased demand from both domestic and foreign purchasers.

Once again, we highlight that one of the major factors underpinning the current strength of the retail investment market is the prevailing low interest rate environment. We caution that any uplift in interest rates is likely to reduce buyer demand (and potentially debt serviceability), which has historically corresponded to a reduction in value levels.

Within the Melbourne metropolitan region there are multiple new developments occurring which incorporate retail uses. There continues to be strong levels of mixed use development occurring in inner suburban areas such as Richmond, Brunswick, Collingwood, Fitzroy and South Yarra, with complexes consisting of ground level retail and upper level residences.

This trend of medium density mixed use development on sites within traditional retail strips is extending to middle suburbs, which are generally within areas with good access to public transport, such as the northern suburbs of Thornbury and Preston, and bayside suburbs of Cheltenham and Mentone.

As established super-regional shopping centres expand, as is the case with the recent Chadstone and Fountain Gate expansion projects, and attract broader tenancy profiles, there continues to be downward pressure on traditional retail strips. Shoppers are presented with a more convenient 'one-stop' destination with independent brands now tenanting these centres. The impact of these redevelopment projects has been demonstrated within the Ringwood retail precinct, which has seen retailers vacate the Maroondah Highway strip in favour of Eastland Shopping Centre.

Growth areas surrounding Melbourne are currently experiencing substantial population increases as broad acre residential developments are completed. As these new suburbs emerge, so does the need for local retailing facilities and amenities. Suburbs in Melbourne's northern growth corridor, such as Craigieburn and Mernda, have constructed as part of master planned communities expansive retail hubs to service the local area.

As a demonstration of their ability to adapt, some tenants and landlords are establishing retail premises in spaces previously thought surplus or unsuitable for retail. There is a current trend, especially within Melbourne's Central Business District, for retailers such as cafes and take-away food operators, to take up premises within very small areas, previously not considered to be useable retail space or surplus storage area. Some of these new cafes are less than 20 square metres, offer no seating facilities, are located in laneways and incorporate serveries or counter facilities; 'a hole in a wall'. Whilst these are not considered 'new' premises they do demonstrate the markets ability to adapt to demand for small and flexible operators from 'quirky' locations.

The wider retail rental market throughout many suburban precincts has experienced downward pressure in recent years and is likely to continue to do so during 2018. As demonstrated in Bridge Road, Richmond, Chapel Street, South Yarra and some other suburban retail precincts, there is an increasing shift away from fashion and footwear retailers towards food and service based tenants. With the increase in local population due to numerous apartment projects being constructed near these inner suburban retail strips, it is considered that tenant demand will exist for retail space, which meets the changing needs of local consumers, particularly from food based operators.

Echuca

Most notable in the landscape is the development of the homemaker centre adjacent to Bunnings which is currently under construction and likely to feature a couple of anchor tenants after a relatively long period of dormancy. Further development is underway at High Street where a former car yard is rumoured to be under development into a gin distillery while additional clearing has been undertaken adjacent to Beechworth Bakery with the final occupant as yet unknown. Unfortunately the Port of Echuca area remains a source of dismay for many with the former Oscar W's site still vacant.

South Australia

Adelaide

The first half of 2018 has seen a major shift in the retail environment. For the first time in 16 years South Australia has a Liberal Government, who have long advocated for extended trading hours. Currently, shops in the Adelaide CBD or tourist precinct are allowed to trade during public holidays. This may assist retail to compete with the online space.

Infrastructure spending has also continued in South Australia after the change of Government. The Torrens to Torrens, Darlington Upgrade and Northern Connector, all form part of the government's North South Corridor and have a combined spend of $2.3 billion, split between state and federal funding. The Marshall government has undertaken to have the remaining sections of the North South Corridor costed and a schedule for the completion of the project in place by the end of 2018.

According to the Marshall government, the former Labour government had not completed planning the project, which may have given rise to the approval of the current construction of a new Bunnings Warehouse on South Road in Edwardstown, creating a 17,008 square metre super store. This is in a location that will likely be affected by the proposed North South Connector (let's hope they know something we don't). In any case, the $45 million Bunnings outlet will be completed early next year and will comprise an entirely first floor warehouse with car parking under.

Also as part of the infrastructure spending taking place is a planned $174 million upgrade of the Oaklands Crossing (rail/road grade separation), which surrounds the Westfield Marion Shopping Centre.

True to form, the bulk of the retail development is occurring in the Adelaide CBD, which has seen a sharp increase in the amount of residential accommodation under construction. In January, it was announced that the $40 million redevelopment of Rundle Mall Plaza will house the new tenant, H&M, across four storeys. Rundle Plaza was constructed in the 1960's for David Jones and the redevelopment will reportedly include the removal of much of the second level to create a high clearance void over the entrance and a double-height dining area. H&M is a Swedish fashion brand and will reportedly occupy four floors of new development, which is a good sign for a much maligned retail market.

Also in the CBD is a new Romeo's Foodland going into the currently closed Citi Centre. The food court within the Citi Centre was closed after the property sold to a private investor. Kate Gray of Colliers has reported that the Supermarket is planned to have a focus on Gourmet takeaway food.

In respect to Retail growth, the story over the last few years has been heavily weighted toward supermarkets. Aldi have opened 23 stores since entering the market in 2015. The 23rd was a centre at 209 Port Road, Aldinga, anchored by Aldi which was completed in January 2018. There are more on the way with Aldi recently securing another site in Adelaide's South East suburb of Blackwood, with the purchase of the Blackwood Village Shopping Centre for $5.5 million.

The Westfield Tea Tree Plaza Shopping Centre is also being extended and there are upgrades planned for Westfield Marion, which will take place in 2019.

There has been media reports surrounding the delayed commencement of the District Outlet centre in Parafield Gardens, which was originally due to be completed by now. The delay is reportedly due to difficulty in securing lease pre-commitments.

Despite this, research undertaken by numerous outlets is positive and the retail trading environment seems to be improving in South Australia with retail spending being the second highest in the country in February 2018, reaching 3.7% compared to the national average of 2.7%.

Queensland

Brisbane

Yields and Rents

On the investment front, the overall outlook for the Brisbane retail investment market is strong but stable. There is sustained investment demand across all retail sectors, however after a period of compression, it has become evident that yields have stabilised, particularly for secondary assets. In saying this, demand is outweighing supply and there is a lack of stock available, particularly in prime locations. Accordingly, yields may undergo some further tightening for perceived premium quality stock.

For high quality neighbourhood centres, we note that yields are sitting in the range of 5.5% to 6.5% and are sitting between 6% and 7% for convenience centres. Yields below 5.5% would be achieved for super prime locations or for sites with future redevelopment or value add potential.

Brisbane retail rents have remained flat in most locations for some time, with the exception of fast food and drive-through properties. Rental growth in the CBD has previously been driven by the emergence of a number of international retailers and limited supply but has flattened in recent times. The market is also likely to become more challenging with a dilution of the retail offer due to the development of Queens Wharf, 300 George Street and the Howard Smith Wharves. The Queens Wharf development in particular will add more stock to the market and create increased competition for the established high end luxury retail tenancies in Edward Street and the lower end of the Queen Street Mall.

For sub-regional shopping centres, the continuous growth of online retailing and changing consumer patterns are having a significant impact, with evidence of stagnating or falling rents and increasing vacancy levels. Major regional centres are performing acceptably, however still face significant challenges in accommodating changing retail expenditure patterns.

Overall, we consider that the growth of online retailing will see a continuing impact on the turnover of some retailers, albeit that strong retailers will adapt and survive.

Retail Developments

New retail development across Brisbane is patchy. There is ongoing development of new neighbourhood shopping centres in the outer growth areas and some refurbishment and expansion of existing middle ring centres, however very little new activity in the sub-regional sector.

In the CBD, 300 George Street, Queens Wharf, the Howard Smith Wharves and the recently announced redevelopment of the Eagle Street Pier will dramatically reshape the landscape over the next five years.

There are two new Woolworths-anchored developments now proposed for the West End which will service a rapidly increasing population base in this area. These developments will incorporate a strong food, café and service offering and are expected to trade strongly when completed. We consider that such opportunities will continue to be sought in near city precincts as the ongoing development of new high density projects increases the trade base. We also consider that the development of the Cross River Rail may increase demand around such locations as Woolloongabba and Bowen Hills. This however will be some five years away.

The majority of mixed use high rise developments quite often include ground floor retail, particularly in city fringe locations. A significant number of these ground floor retail shops are often strata titled and in the sub $1 million market and once leased, are popular amongst private investors.

Master planned communities such as North Lakes and Springfield have also created significant retail opportunities, providing residents with access to an array of retail services due to their design of incorporating a mix of residential, commercial, retail, health, education and community facilities.

Gold Coast

Although not abundantly obvious at first thought, there has been a massive amount of investment in retail development and refurbishment across the Gold Coast over the past few years spanning from Casuarina to Coomera and beyond.

Development activity has been across all sectors of the retail market, so let's start with the big hitters.

Pacific Fair and Robina Town Centre are the two largest shopping centres on the Gold Coast and have collectively spent almost $800 million dollars in refurbishment works over the past five years. Class leading design and unparalleled tenancy mixes will cement these centres as the Gold Coast's premier shopping destinations for years to come, with their biggest competition or threat realistically being each other (and online shopping of course).

In response to these redevelopments, other major centres such as The Strand and Tweed City on the southern Gold Coast and Tweed Coast, together with Oasis and Australia Fair in the central Gold Coast have undertaken major extension or renovation works in an attempt to maintain local patronage. In order to achieve this, owners have been forced to undertake full scale renovations to totally change the face of these centres rather than just adding a lick of paint and re-tiling the common areas as was the case in the preceding fifteen year period.

The real growth however has been in the neighbourhood centre category, in particular within the growth corridor north of Helensvale and south of Beenleigh. In a classic case of chicken before the egg, Coles and Woolworths have been aggressively securing sites within the region to ensure they can capture a piece of the market share over the coming decades as population growth booms in the region.

Particular mention is made of Coles Pacific Pines which was developed as a standalone supermarket (no speciality stores) and was presented to the market for sale with a brand new 15 year triple net lease in place. The property achieved one of the lowest initial yields seen on the Gold Coast for an asset of this size at 4.63%.

(Source: couriermail.com.au)

A mention must also go out to Westfield, who after decades of planning hurdles have finally commenced work on their highly anticipated Coomera Town Centre. The $470 million centre is slated to open late 2018 with 140 new stores, including Coles, Woolworths, Kmart, Target and Event Cinemas. It will be a game changer for the northern Gold Coast.

(Source: goldcoastbulletin.com.au)

But it hasn't just been the big boys adding to the growth in the retail space.

There is still a large sector of the market that will avoid major shopping centres, particularly when it comes to food and dining options and many investors who own standalone retail buildings have been capitalising on this in recent years. Of particular note is Palm Beach which has witnessed a massive boom in the number of restaurants, cafes and bars over the past few years - in 2018 alone, there have been 12 new town planning applications for cafes within the suburb. Numerous venues in Burleigh Heads (Justin Lane), Nobby's Beach (Hellenika), Broadbeach (The Oasis), Surfers Paradise (The Island) and Southport (Mr P.P.'s Deli) have been re-inventing themselves, extending floor areas and adding value to their respective properties in response to growth in the retail sector.

From a valuation perspective the biggest risk we foresee moving forward is rent sustainability. With such an influx of retail accommodation across the Gold Coast and only so many consumer dollars on offer, there will unfortunately be some retailers that will not see it through. The supply and demand metric at any given time will ultimately dictate the strength or otherwise of the retail leasing market, however our projection is that rental growth in most areas will be stagnant at best.

Toowoomba

Leasing activity in Toowoomba was subdued in early 2018 following a high level of activity in 2017 which included new leases in the recently expanded Grand Central Shopping Centre, a new development known as The Intersection and a number of new cafés, bars and restaurants within the CBD. Rentals have been relatively static in 2018 with some lease incentives available for long term commitments.

The low interest rates have resulted in strong demand for retail properties by investors. However, the lack of supply of quality, fully leased properties has limited the number of investment sales.

Retail development in Toowoomba was quiet in early 2018 but increased activity is expected later this year with a new Aldi to be constructed in Highfields and a new 7 Eleven service station and convenience store constructed in Westbrook. Other potential developments include the multi-storey, mixed use project in South Toowoomba known as South Central and refurbishment and extension of Bridge Street Plaza in Torrington.

A trend worth noting is the redevelopment of retail and commercial properties in Toowoomba's inner CBD. This includes the proposed refurbishment and extension of the Long's Building in Margaret Street and follows other recent projects such as the Walton Stores and Reject Shop redevelopments in Ruthven Street. These projects have included general refurbishment of older buildings and have added value by creating attractive tenancies to the rear and upper levels of the buildings.

Cairns

The Cairns retail market passed through the bottom of the cycle back in 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.

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, although there is also limited demand from new businesses. There remains good investor demand for well leased properties which rarely come onto the market.

In terms of new developments, new Woolworths-anchored shopping centres are in the planning phase for Gordonvale and Trinity Beach, but development otherwise remains quiet.

Little change in retail market conditions is expected to occur during 2018.

Townsville

Retail business in Townsville continues to do it tough however despite this we are continuing to see new development and expansion activity underway.

Over the past ten years, we have seen huge retail expansion in the northern corridor of Townsville, with retail development now expanding in the southern corridor. Within the suburb of Idalia, Fairfield Shopping Centre is undergoing its Stage 3 expansion at a reported cost of $32 million. This will increase its reported GFA from 15,000 square metres to an approximate 22,200 square metres. This new expansion will be anchored by a Coles supermarket which will accompany the existing Woolworths supermarket and Kmart and is expected to be completed by 2019. Also within this suburb we are seeing Stage 2 of the Fairfield Homemakers Centre currently under construction.

With residential development in the southern corridor of Townsville set to increase with the release of the new residential estate Elliott Springs, we are likely to continue to see retail expansion in this corridor. Elliott Springs is a multi billion dollar master planned estate that upon completion will be home to some 26,000 people. The development is earmarked to include retail, education and light industry uses, with commercial lots currently available for potential service station and convenience centre developments.

The first half of 2018 has seen a few retail sales occur including a mix of fast food outlets, bulky goods retail and a neighbourhood shopping centre. The sale of a retail complex comprising three strata titled fast food shops sold for $2.9 million, reflecting a yield of around 7.3%.

Rockhampton

Retail development has continued at a relatively steady pace in recent years in Rockhampton, with additions including the new Parkhurst Town Centre, IGA Park Avenue and expansion of the Stockland Shopping Centre dining precinct (The Terrace). Currently, construction is underway on the southside Aldi store. An additional Aldi store on the north side is closer to getting out of the ground with Stockland recently withdrawing its appeal against the construction of the store opposite its north Rockhampton shopping centre. Despite tough local economic conditions, the larger national players continue to seek out good opportunities. As rental levels and affordability become a critical factor for local retailers, we have seen a shift in the profile of the tenant that retail centres appear to be trying to attract. In the larger centres, we have seen a slow shift from traditional retail outlets to medical and health focused tenants who typically can afford the higher rentals that these centres demand. The health and wellness trend is also driving new development in Rockhampton, with a new centre recently being constructed on the corner of Archer and Kent Streets which is fully occupied by a mixture of fitness, health and well-being focused retail tenants. With regard to rental levels, we have seen a softening of rentals in recent years and an increase in incentives required. We consider that these have now stabilised to a new norm, however for tenancies in secondary locations or with poor presentation, leasing is difficult and extended periods of vacancy are being seen.

Gladstone

Given market conditions and the current supply of retail stock, there is limited activity on the development front. Whilst Stockland has recently announced a $10 million upgrade to its major shopping centre in Gladstone (which includes an extension to Kmart and the addition of some new retailers), there is still no start date for the major $150 million redevelopment of the centre that was announced during superior market conditions. The last major retail construction was the Aldi on Boles Street, which opened in March last year. Local retailers continue to endure tough local economic conditions and rental affordability is key to the continued operation of these traders. Rental vacancies continue to increase in some retail centres, with vacancies now occurring in the Gladstone Valley shopping centre, which for the main part of previous years had maintained relatively good levels of occupancy. As leases that were established during superior market conditions come to an end, it is now no longer affordable to continue at the same rental levels for many local businesses. This being said, the emergence of some new local retail businesses shows some levels of renewed confidence in Gladstone.

It has not been an ideal time to sell and as such there have been very few transactions of retail properties to establish indicative yields. From sales that have occurred as well as our understanding of the market participants, we anticipate that investors are generally demanding yields at and in excess of 10% due to the associated market risks at present.

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

Mackay
The bulky goods retail sector in Mackay has seen changes in recent times with the former Bunnings and Masters properties being redeveloped into retail tenancies.

The former Bunnings building in Greenfields has been reconfigured to provide a large 4,000 square metre tenancy leased to Super Amart who has vacated their former tenancy on the corner of Highway Plaza and the Bruce Highway at Mount Pleasant, World Gym and a third tenant reported to be a café.

The former Masters building at Beaconsfield is currently being transformed into a homemaker centre with reported tenants being Spotlight (currently located in the Greenfields Estate in Mount Pleasant), Anaconda, Fantastic Furniture and Nick Scali.

There have been limited recent transactions of retail properties within the Mackay region, although a notable sale for the region is the Andergrove Woolworths Complex which sold in October 2017 reportedly to a private investor for $18.75 million, reflecting a very tight yield of 5.88%. The Centre Point complex in Victoria Street is reportedly under contract although the contract price has not been disclosed.

There has been a significant correction in the rental market over recent years with rents having now settled at a new lower level. There are still a number of vacant tenancies within the Mackay CBD which are yet to be absorbed into the market, although agents are reporting increasing number of enquires, offers and interest.

Northern Territory

Darwin

The demographic centre of the greater Darwin area continues to shift to the south-east and we are now seeing the provision of services such as retail to these population areas. The highest profile of these are the Gateway Centre at Palmerston and Coolalinga Village in the Darwin rural area. Each of these developments can be described as sub-regional centres with large scale supermarkets, variety stores and specialties a feature of these projects. Apart from these, we are also seeing Berrimah, midway between Palmerston and Darwin, emerging as a bulky goods type retail precinct, with the new A-Mart development on the highway taking shape.

All this activity has left the CBD, located on a peninsula in the west, in an unenviable situation for retail. The Northern Territory Government has addressed this with initiatives such as the Laneway Series providing entertainment to entice shoppers into the CBD. The tourist dollar also helps keep CBD retail afloat with cruise ships providing crucial support in the quieter wet season months. Generally weak economic conditions exacerbate the difficulties for CBD traders. Many local shoppers choose to spend their money in centres such as Casuarina, Gateway and Coolalinga.

This leaves relatively little opportunity in Darwin for purely retail property, especially in the lower price brackets. Prices have remained flat over the past two years consistent with general property markets in the current economic climate, however pockets of retail type space continue to perform well given these conditions. Berrimah Business Park has seen a good takeup over the past few years and much of the preferred highway frontage has been developed, with future stages still available.

Western Australia

Perth

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

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

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

On-line retail spending continues to grow and place pressure on discretionary retailers, whilst food and beverage (often franchised) operators continue to thrive.

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

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

There has been a limited volume of shopping centre sales in Perth during the last 12 months, however, this is considered to be a function of low stock as opposed to a lack of demand. A recently constructed free-standing Coles Supermarket with First Choice liquor outlet and TAB located in Parkwood WA made headlines when sold for $31.95 million in December 2017. The premises were sold subject to a 15 year lease to Coles with four further 10 year options, at a yield of 5.30%.

The large format retail sector has also experienced challenging market conditions over the last 12 months and can be linked to the weakening of the residential property market and broader economic conditions in WA.

However, the sector has recently seen an increase in demand from non-traditional, large format retail tenants which, as a result, have expanded the pool of potential lessees. New tenants that have emerged include pet stores, child care operators and gymnasiums.

Analysis of the limited volume of transactions suggests yields between 5% and 6.5% are being achieved for securely leased (anchored by an ASX-listed tenant) retail assets (that is, shopping centres) with large format retail often commanding higher returns.

Making waves in the retail sector has been the expansion of major regional and regional shopping centres in WA following the removal of the 'cap' on maximum retail floor space and the State Government's push to create 'activity centres'.

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

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