Commercial

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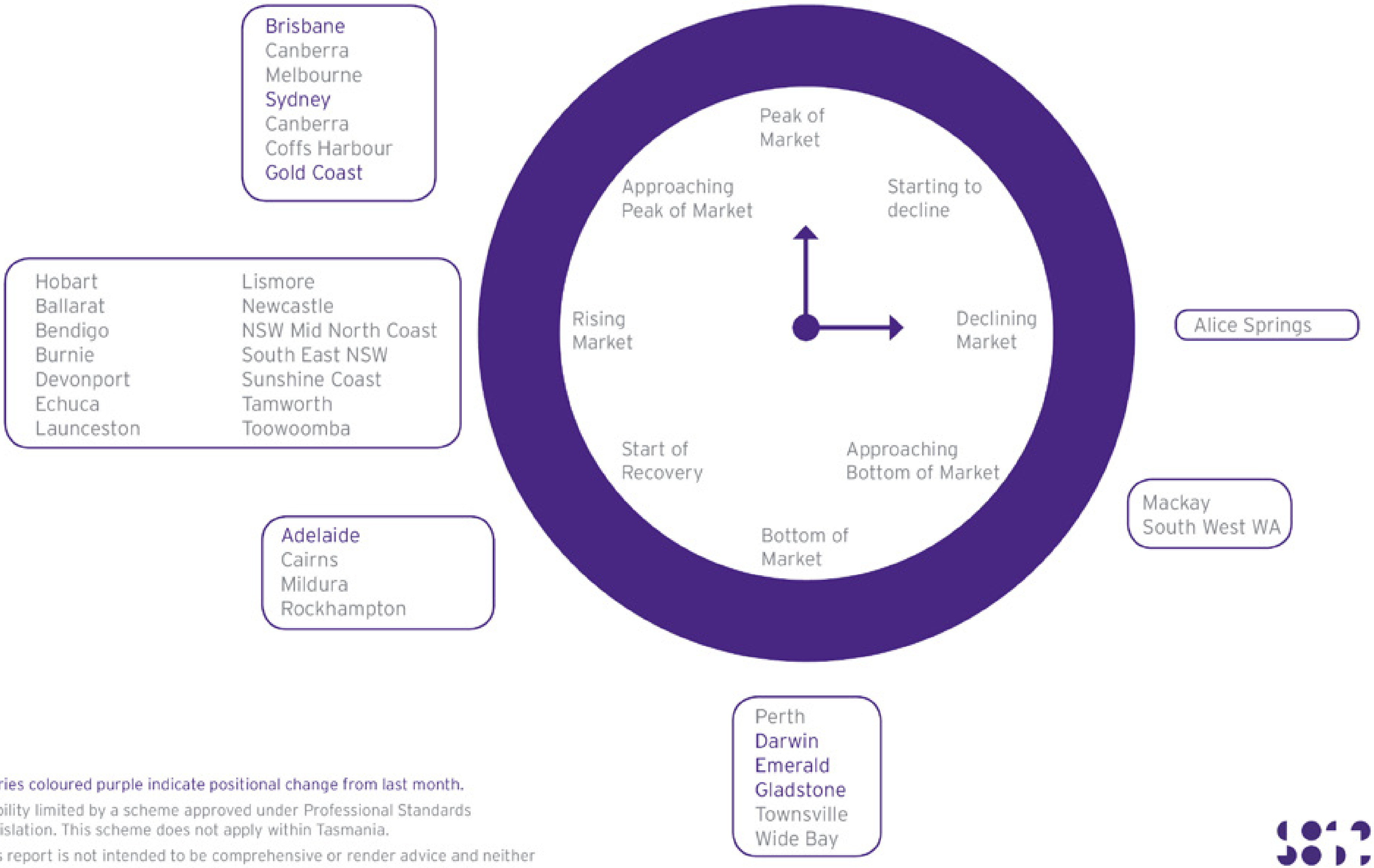
National Property Clock
September 2017
Retail



Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

Retail property markets seem to be influenced by a variety of factors from economy to technology. Of course, the performance of retail property investments can be distilled down to a very important measure – rents. Tenant success has a direct impact for landlords and wading through the nuances of retail rents can be a challenge.

This month, our commercial teams have provided details on how retail rents are tracking and what that means for property in the sector.

Sydney

Retail property in the Sydney metropolitan area has performed well over the preceding 24 months as a prolonged increase in the capital value of residential property enhances household wealth and in turn encourages discretionary spending which attracts patronage and investor confidence to the retail property market.

Should the residential market be adversely affected by a decline in residential property values, this would likely negatively impact the performance of the retail property market, rents and values.

A relatively high proportion of current activity in this market is driven by the historically low interest rates currently prevailing. Future increases in interest rates could impact the market by reducing buyer confidence and affordability which may have a negative effect on value levels and rents.

Demand for retail space within high pedestrian traffic areas and tourist destinations of the Sydney CBD have increased over the past 12 months. Rentals have continued to increase across both primary and secondary Sydney CBD retail space while incentives have continued to fall. Pitt Street Mall remains the primary location for retail space.

Construction associated with the Sydney Light Rail has seen demand for retail space along George Street initially waver, however with the impending pedestrianisation of the strip, retailers have begun to consider the potential of the location. The recent opening of The Grounds of The City within The Galeries with direct exposure to George Street is an example of a retailer positioning themselves in preparation for the future of George Street.

Capital values and rents have also performed well in prominent, tightly held neighbourhood retail centres with good exposure and access attributes, together with good public transport links.

Further, suburbs that have or are currently undergoing significant high density residential development with increasing local populations, generally located in and around good public rail links such as Strathfield, Summer Hill/Lewisham and Burwood in Sydney's inner-western suburbs region, have likewise performed well over the past 12 months with limited local vacancy and nominal, if any, incentives being offered.

In contrast to the above, traditional retail strips such as the Darling Street, Rozelle/Balmain retail strip and Norton/Marion Street, Leichhardt retail precinct have performed less well with increasing retail vacancy levels, limited or no rental growth over the past four to five years and conversion of prior retail uses to professional, medical and office uses.

The current activity in the retail market is driven by a combination of local businesses, overseas investors and the current low interest rates.

A factor to be considered looking forward is planning provisions set out by councils requiring ground level retail components to be included in developments that trigger new retail supply to the market which in turn places downward pressure on the existing capital values, rents and vacancy levels.

Canberra

Retail sales in the ACT have been scarce in recent times however the boutique shopping precinct of Manuka had a recent sale comprising two restaurants in August 2017. This was a tenanted investment and showed $360 per square metre per annum net. The new development in Greenway known as SQ1 also had two recent sales of ground floor retail shops. Two shops were also rented for around $400 per square metre gross being brand new modern premises of 127 square metres each.

Coincidentally a couple of small pharmacies have sold in the suburbs of Holder and Higgins in the past six months one being subject to a lease for $300 per square metre per annum gross and the other purchased by an owner occupier.

Rents in the inner south retail area of Manuka fell in the past 12 months due to the increased competition from the Kingston Foreshore space where rents had been tracking around $750 to $800 per square metre gross. Smaller suburban local centres are achieving rents of between $175 to $670 per square metre gross depending on location, unit size and the strength of the neighbourhood centre.

Incentives vary according to location and the quality of the premises. Some landlords are contributing to a partial fit out and others are offering incentives of 15% or four to six weeks rent free during the initial establishment period.

Demand is primarily from local cafe or restaurant tenants or destination type businesses for local centres. Boutique locations such as the Kingston Foreshore have attracted some national tenants being a prime location with a range of restaurant occupants. Rents would appear to be stable in most areas. Greenway has been quiet in the past twelve months with older stock still available in the $300 to $350 per square metre gross range.

Gungahlin Town Centre is achieving rents of around $600 to $650 per square metre gross for ground floor retail space. The location is able to maintain slightly higher rents ranging from $600 to $900 per square metre gross depending on location, exposure and size of the premises.

Rents appear to be stable at present, however an increase in interest rates could impact disposable incomes, reducing the demand for goods and retail spending.

South East NSW

The retail landscape in Wollongong is still facing headwinds, a trend experienced for some time across most locations not just in Wollongong but nationwide. The Wollongong CBD has seen a significant growth in food and beverage tenancies such as cafes, restaurants and small bars and this trend is continuing with David Jones set to open a food market in its revamped department store in GPT's Wollongong Central.

Despite local agents reporting increased interest from retail tenants, rents have largely remained stagnant and incentives are common, generally ranging from 10% to 15%. Prime rents at the upper end of Crown Street Mall surrounding Wollongong Central tend to range from $800 to $1,000 per square metres gross with second tier rents in the $400 to $600 per square metre gross range. Fringe retail locations will have rents in the $200 to $400 per square metre range. Average letting up periods for standard sized shops are in the order of six months.

Newcastle

The retail rental market hasn't seen great levels of volatility in a number of years. There are some specific areas around Newcastle where rents remain strong for retail and restaurant uses. The Boardwalk in the Honeysuckle precinct remains the highest rental earner with effectively zero retail vacancy for many years. This burgeoning retail locality is growing and so is the demand for retail space. On the fringes of the Honeysuckle area outside of the core Boardwalk area, while there are still plenty of vacancies, these tenancies are filling up and the right businesses are doing well. As the balance of the HDC development land is sold off and constructed upon, particularly along the Harbour frontage, so too will the retail catchment grow providing further stimulus to rental growth.

Key retail areas around the new university campus on Hunter Street are suddenly seeing upward pressure on rents. The mid and western areas of Hunter Street have long been in a market slumber - the market sleeps no more! With an influx of hungry students around Hunter Street and the addition of the new Law Courts, we have seen unprecedented activity in the area. So far retailers in the area have been somewhat slow to adapt to the new customer base. We envisage this area, which is dominated by users including wedding attire outfitters and real estate offices to be replaced in the coming years by more small bars and cheap food options. These more intensive retail uses and the heightened pedestrian traffic is sure to lift rental return in this interesting pocket of the Newcastle retail market.

Lismore

North Coast Inland CBD

There is a significant level of uncertainty surrounding the Lismore retail market post the April flood caused by Cyclone Debbie. There has been a significant increase in vacancies with some business not reopening after the flood. Lismore already had a number of vacancies pre flood and this has amplified the issue. A retail premises in the main retail precinct has seen a 10% reduction in rent since the previous lease in 2013 in a previously steady market.

There are a significant number of older established owners within Lismore CBD who tend to be unwilling to reduce rents despite long term vacancies.

North Coast Coastal

Ballina prime retail has shown good increases in line with CPI, while secondary locations have shown slightly stronger growth as a result of affordability and supply. This is followed on from a much weaker market that coincided with the closure of the River Street Woolworths. With its reopening, the rents at the eastern end of the CBD have strengthened.

Agents continue to report limited supply, good enquiry and upward pressure on rents in Byron Bay.

Coffs Harbour

The retail rental market remains soft particularly in fringe or secondary locations. Vacancy factors are high and lease up incentives of between one and three months are common.

There remains a high vacancy factor within the main strip retail centre for specialty retail shops within Coffs Harbour. There are currently ten shops available for lease within the prime CBD strip centre. This represents an approximately 15% vacancy rate. The vacancy rates are due to a combination of a soft local retail market due to low discretionary spending, the unwillingness of local property owners to meet the market and incentives being offered by shopping centres The Plaza and Coffs Central which are attracting local retailers. Rental rates within the prime strip centre depend on size and exact location but average space can be in the $550 to $700 per square metre range.

Retail precincts at the Jetty, Sawtell and Woolgoolga appear to be faring much better, with lower vacancy and increased appeal based on a lower rent structure. The popular restaurants, café and entertainment establishments in these precincts are well supported by locals and tourists. Rents in these locations are generally $300 to $400 per square metre.

Victoria

Melbourne

As can be seen from the table, Melbourne rents vary from location to location.

Rental Rates	Low ($/m²)	High ($/m²)
Chapel Street, South Yarra	$800	$1,200
Burke Road, Camberwell	$600	$950
Bridge Road, Richmond	$350	$600
Glenferrie Road, Hawthorn	$700	$1,000
Toorak Road, South Yarra	$450	$750
Church Street, Brighton	$900	$1,250
Bay Street, Brighton	$300	$500
Main Street, Box Hill	$800	$1,100

Many factors determine retail rental levels and each strip appears to operate in cycles. For example, after the downturn of the seconds clothing market in Bridge Road Richmond and the emergence of larger direct factory outlets (DFOs) rents have fallen dramatically in this location and food orientated stores have slowly started moving in to this strip, reducing vacancy levels but at lower rental rates.

Traditionally strong retail areas such as Chapel Street, South Yarra and Burke Road, Camberwell have seen vacancies increase, rents fall and incentive levels increase in the past twelve months. Incentive levels to entice retailers to these locations were at minimal levels for years. Now, two or three month rent free periods are being offered to entice tenants into say three or four year leases or simply offering lower rentals is required to fill this space now. Areas such as Chapel Street and Burke Road were perhaps reaching unsustainable levels and rentals were due for a correction.

Conversely, areas such as Glenferrie Road, Hawthorn and Church Street, Brighton remain very strong strips with minimal vacancies and rental levels that are more readily sustained.

Box Hill, a growing Asian based location with many high rise residential towers currently under construction, has seen increased rental rates for its limited retail strip offering. Rents have kicked to above $1,000 per square metre net in some instances and there are few if any vacancies. These rental levels are likely to be under further growth pressures as there are some seven sites in this locality containing permits for in excess of 20 levels of construction. It remains to be seen how many of these projects are built.

Across the board and due to increased on line sales, traditional bricks and mortar retail outlets for retailers such as fashion and clothing shops or retailers offering discretionary income orientated products are being vacated and replaced by food and hospitality orientated premises. These food and hospitality orientated retailers are needed due to the increasing number of people moving into the growing high density residential unit developments occurring within the 15 kilometre ring of the CBD.

So back to those lane ways! While not generally being as large as 100 square metres, in fact usually being between say 20 and 40 square metres, these spaces continue to remain popular within the CBD. Rents appear to have held up well due to the growing CBD population and visitors to Melbourne seem keen to shop and eat in these lane ways or even to take just a guided tour to see them!

Bendigo

There has been a limited amount of movement in the Bendigo retail lease front recently. However the Bendigo retail investment market is showing increasingly sharper yields for leased investment grade retail space in the CBD. Recently a single storey retail building in Mitchell Street sold at auction for $985,000 at a 5.58% yield. The building contained two strong tenancies with good leases. The auction had strong attendance with local and non-local buyers present and competitive bidding displayed throughout the auction. Another auction was held shortly after of a smaller retail holding located in Hargeaves Street which also had strong attendance and competitive bidding. The property sold for $380,000 at a 5.66% yield.

Echuca

Rents have been an interesting scenario at a local level on the back of challenging conditions confronting smaller retailers and the expansion of some of the chain retailers in recent years. Secondary locations seem to find it very difficult to attract retailers and are often utilised interchangeably with bulky goods or office type uses, The main business precinct continues to be in relatively good demand notwithstanding a couple of vacancies at the time of writing on Hare Street. Several major retailers are pushing harder for rent free periods or reduced rentals according to some enquiries received by this office.

South Australia

Adelaide

The South Australian economy has faced a protracted period of poor performance illustrated by General Motors car manufacturer shutting its doors in October 2017 ending 60 years of construction in Australia. The decision by General Motors and the Federal Government's policy shift in supporting the industry exemplifies the problems facing almost all forms of general manufacturing in South Australia which is having flow on effects across the entire economy. The South Australian unemployment rate remains the highest in the country at 6.9%.

A positive has been the securing of Defence construction contracts. After the completion of the Air Warfare Destroyer (AWD) the Future Frigates programme will commence in 2020 with an estimated spend of circa $35 billion. Following this in 2022 is the Future Submarine project, comprising 12 submarines at an estimated spend of circa $50 billion. The projects are expected to provide over 2,000 jobs.

Additionally the recent announcement of Arrium Steel being sold to London based operator Liberty House with all 5,500 jobs to be kept is welcome news and ends 18 months of uncertainty.

Also the Labour Government's $550 million power plan announcement includes the construction of a $360 million gas-fired power station and the world's largest battery at a cost of $150 million and should create certainty within the energy sector and additional jobs to the economy.

The positive economic developments may have gone some way to improving sentiment

Retail throughout metropolitan Adelaide has not shown any significant growth in several years. Retail trade figures published by the Australian Bureau of Statistics (ABS) show the seasonally adjusted retail turnover growth for South Australia was at 1.7% for the June quarter which is its highest level since 2.4% in December 2014 and 2.3% in September 2008 prior to that.

More specifically the only retail use that is being reported at levels above its ten year average for retail spending growth is cafés and house hold goods.

Whilst there are some positive signs, the modest retail performance is not expected to change in the short term with the low interest rate environment and rising house prices being offset by weak wage growth and continued softening in the labour market.

Whilst this is having differing impacts depending on the property class and location, the general market conditions are not conducive to strong retail rental growth.

Possibly one of the most significant shifts in the past few years has been the entry of Aldi. This has shifted retail precincts and how consumers interact with them and seen improvements in the potential use of space surrounding the Aldi buildings. This has been particularly relevant for shopping centres which have seen Aldi as a way of incorporating a new mini major and adding space or rejuvenating lesser used portions of a centre.

The conditions mean that incentives are increasing. Whilst the nature of the incentives is specific to the property and the parties, a typical rent free period is one month for each year of the first term, however some agents are reporting that incentives have now reached a level where the market is starting to simply negotiate lower face rents.

On the following page is evidence of such a deal on a main arterial road in Adelaide's west. The deal indicates no disclosed incentive but the rent agreed is not showing significant growth over similar deals struck just under 12 months ago.

No	Address	Commence Date	Term (Years)	Options (Years)	Area (m²)	Gross Rental P.A.	Rate ($/m²)
1.	Richmond – Bulky Goods Retailer	03/2017	10		1,443	$340,831	$236

Comments: The site is contained within a Commercial zoning. The property has a road frontage to South Road and access is from both directions along South Road.

The property is a 2000s built, concrete tilt-slab and metal deck constructed 1,443 square metre bulky goods showroom. The tenancy is within Belltower Homemaker Centre, other tenants include; Life Tiles, Totally Workwear, Shoeshed, Euro Fireplaces, Clipsal, BCF and Uzit Kitchens. There are approximately 100 open on-site car parks shared amongst tenants.

Leased on a 10+5+5 years lease with a commencing rental of $315,040 net per annum. 3% fixed increases and market review at renewal. No incentives. Recoverable outgoings have been estimated at $25,791 per annum ($18/m²). This analyses to a gross rental $340,831 per annum, or $236/m².

Queensland

Brisbane

As outlined in the table below, retail rents have remained flat across all categories in recent times for the most part, with the exception of fast food drive through properties. Drive through fast food restaurants have seen significant expansion over the past two to three years with the number of tenants and food offerings growing exponentially competing with the bigger players (McDonalds, Hungry Jacks, KFC and Red Rooster).

Additionally, CBD retail properties, particularly in Queen Street Mall, are continuing to demonstrate a strong and continuing growth in rents, with international tenants driving activity. Queen Street Mall is tightly held with limited supply and rents have been able to remain high with growth for this reason.

Current incentives being offered for retail properties are generally in the form of a rental abatement, rent free period or up front incentive (such as a contribution to fit out) which typically reflect between 5% and 15% of the first term's gross face rent.

The table beside shows a typical range over a number of different retail properties.

Retail Category		Low Rent Range (/m² pa gross)	High Rent Range (/m² pa gross)	Incentives	Direction
Large Format Retail		$200	$400	5% to 15%	→
Fast Food Drive-Through		$600	$1,000	5% to 15%	↑
Anchored Supermarket Centres	Supermarket	$200	$350	5% to 15%	→
	Specialities	$600	$1,200		
Convenience Centres		$450	$900	5% to 15%	→

Looking forward we are expecting rents to remain stable with little real growth. The impact of internet shopping and in particular Amazon will ensure the demand for bricks and mortar will continue to be flat in most categories. Having said this, there are always exceptions with prime locations continuing to do well.

Toowoomba

The $500 million plus redevelopment of the QIC owned Grand Central Shopping Centre has predominantly been completed. The redevelopment has seen the centre double in size to approximately 90,000 square metres and introduce new discount department stores, supermarkets and approximately 160 speciality stores. The anchor tenants of the extension include Woolworths, K-Mart, Big W and Best & Less. Centre management has been aggressive in leasing the new specialty shops, concentrating mostly on national quality retailers. The specialty rentals achieved in the centre are at the upper end of the Toowoomba market, with lease incentives reportedly available for quality tenants willing to commit long term.

Over the past 12 months there has been an increase in leasing activity within other areas of the Toowoomba CBD. The majority of activity has been to cafés, bars and restaurants. The majority of these operators are new to Toowoomba and this has resulted in a strong influx of new options for local diners. This demand has seen CBD rentals remain relatively static, despite the potential competition for tenants from the Grand Central redevelopment.

Leasing demand for shops in smaller convenience retail centres has declined which has resulted in a slight increase in vacancies. To date face rentals have been static but lease incentives are often required to secure new tenants.

There are a couple of new food based retail centres currently being developed in suburban Toowoomba. Market leading rentals have been achieved for these new developments with fit-out contributions commonly provided by developers as lease incentives. These market leading rentals are often required to make new developments financially feasible but have not yet been proven to be sustainable.

Gold Coast

As discussed in previous issues of our Month in Review, the retail investment market has been one of the strongest performing market segments within the Gold Coast's commercial property sector. But despite the strength of the investment market, the rental market is far more inconsistent and very location-specific.

Anybody who is familiar with the Gold Coast would know that it's home to a lot of retail development for a city with a population of only 560,000 people (approximately). With two super-regional centres, three regional centres, three sub-regional centres, one outlet centre and in excess of 30 neighbourhood centres; (all of this on top of sizable retail pockets at Main Beach, Surfers Paradise, Broadbeach, Nobbys Beach, Burleigh Heads, Palm Beach and Coolangatta), it's easy to see why rental rates can be highly volatile depending on the supply and demand metrics in any particular area at any given point in time.

Two interesting points of comparison are Main Beach and Palm Beach, whose rental market performance has been just as opposite as their demographic profile.

Traditionally, the Main Beach retail precinct was home to numerous fashion boutiques, fine dining restaurants, cafes and bars in the early 2000s; every shop in the area was full and rental rates were at a premium. The onset of the GFC saw a paradigm shift in the market dynamics at Tedder Avenue, which resulted in an influx of vacancies. Some of the strong long term operators have continued to thrive, but before too long property owners were forced to accept a correction in market rental rates which have now appeared to find equilibrium of some 30% below peak levels.

Palm Beach on the other hand has witnessed the inverse, particularly over the past five years.

Traditionally, the Palm Beach commercial precinct was seen as a hodge-podge of retail and commercial development primarily servicing a fairly localised catchment. Fast forward to 2017, and what started as a few trendy breakfast spots is now a thriving concentration of boutique bars, restaurants and coffee shops. This gentrification of the area has resulted in a critical mass of complementary uses and good trading conditions for retailers, albeit in a fairly competitive landscape. The improved business confidence has led to a surge in leasing demand and we are now seeing rental rates commonly exceeding $600 per square metre, as opposed to average rates of around $400 per square metre as little as five years ago.

The most consistent performer in the rental market has been supermarket anchored neighbourhood shopping centres, with most speciality tenants being quite consistent over the past five years in the $600 to $800 per square metre value band.

Broadbeach has also been a fairly strong performer with rental rates slowly on the mend after a steep market correction that occurred around 2012. Upgrades to Surf Parade and the Oasis shopping centre are expected to be a catalyst for continued growth in this precinct going forward.

Surfers Paradise witnessed a mass exodus of tenants during the light rail construction works which coincided with a glut of retail development released to the market such as the Hilton and the Mark retail arcades. Occupancy rates in prime positions such as Cavill Mall did not falter, and those in Surfers Paradise Boulevard have enjoyed much better occupancy in recent years and a stabilisation of rental rates. Secondary positions however, are still reflecting reasonably high vacancy rates which places continued pressure on rental growth throughout the precinct. The strength of the tourism market will be the ultimate determining factor in the performance of this area.

Sunshine Coast

The retail market on the Sunshine Coast has seen strong trading conditions over the past three years. This has primarily been on the back of improved tourist numbers in that time, which has improved the tourist retail strips in areas such as Noosa Heads, Maroochydore, Mooloolaba, Coolum Beach and Caloundra.

Council has also had a role to play in this improvement with street scaping being undertaken in some areas to improve pedestrian flow and the general feel of retail precincts in that time. We note that the Bulcock Street area in Caloundra has had significant works undertaken with the western end completed and the eastern end to commence shortly. Over $10 million is reported to have been spent in this area. While local businesses are being impacted during construction, the effect on completion is an improved overall level of visibility for properties and better pedestrian flow.

The Hastings Street precinct had similar works undertaken approximately four years ago, which did impact on trade and increased vacancies during construction and after. Over the past two years however, there has been very little vacancy noted with retailers reporting that the street scape has improved pedestrian access.

An area under pressure currently is the Mooloolaba Esplanade precinct. We have noted an increase in overall vacancy rates for rear or arcade style tenancies and also for esplanade fronting tenancies. While we have not seen any real decrease in effective rental rates which are still from $1,000 to $2,200 per square metre depending on location and size, we have seen an increase in tenant failure and turnover in the past two years. This area may need further enhancements to continue to be a prime retail precinct with the gentrification that has been undertaken in the Ocean Street precinct in Maroochydore and the development being undertaken in Sun Central at Maroochydore.

Generally, we have seen effective rents in prime retail strips as follows:

- Hastings Street, Noosa Heads from $1,500 to $3,500 per square metre gross per annum
- The Esplanade, Mooloolaba from $1,000 to $2,200 per square metre gross per annum
- Coolum Beach from $800 to $1,200 per square metre gross per annum
- Bulcock Street, Caloundra from $200 to $450 per square metre gross per annum
- Ocean Street and Duporth Avenue, Maroochydore from $500 to $800 per square metre gross per annum.

Wide Bay

Retail leasing for large format retail premises in Bundaberg has been somewhat active with some large format leasing between $150 and $180 per square metre. This rental activity has been predominantly along Johanna Boulevard to national retailers with a targeted growth strategy into regional markets. The rest of the retail leasing market has been slow and tough retailing conditions have been reported. In Hervey Bay the impact the Stockland Shopping Centre extension had on the local retail property market is starting to reduce for secondary stock. Rent incentives are commonplace and if a landlord is needing to fill a vacancy quickly, heavy incentives are likely to be required to rental and fit out contributions. Retail market rental growth prospects are low in the Wide Bay.

Gladstone

In line with most sectors of the property market in Gladstone, the retail market has experienced a significant softening in recent years. The increasing vacancies over this time has had downward pressure on rentals. We consider that whilst there has been a significant increase in vacancies in recent years, some well anchored, modern retail centres appear to be maintaining good occupancies. While it cannot be argued that supply currently outweighs demand, some current retail vacancies are the result of the landlord's unwillingness to meet the market and instead continuing to chase rental rates closer to those achieved during peak market conditions.

There is limited recent rental evidence, however we anticipate that retail tenancies within well anchored, modern centres with good occupancies are likely to attract rental rates in the $350 to $450 per square metre gross range. Rentals for retail tenancies in secondary locations with generally inferior exposure, condition and access are anticipated to achieve rental rates in the $200 to $300 per square metre gross range.

Anecdotal evidence indicates that tough business conditions remain for local retailers. Due to the current market conditions, it is unlikely that there will be any provision for significant (if any) rental growth in leases in the short term.

Rockhampton

The retail market has continued at a steady pace during 2017, with a general softening of rental rates since peak market conditions in secondary locations. When looking at the varying rental ranges, there is a relatively broad range from about $250 to $600 per square metre gross, depending on a variety of factors including location, exposure, access and tenancy quality; for shopping centres, the strength of the anchor tenant can significantly impact achievable rental.

As mentioned, we are aware of some tenancies located in prime positions that are attracting rentals in excess of $500 per square metre gross. Generally though, well located tenancies with good exposure, good access and good on site parking typically attract a rental rate in the range of $400 to $500 per square metre gross. These centres are traditionally local neighbourhood shopping centres anchored by a leading supermarket chain.

Retail tenancies in secondary locations and in shopping centres without a major anchor tenant are typically achieving rents in the range of $250 to $350 per square metre gross depending on their size, exposure attributes and the quality of the tenancy. Affordability is a key issue for many local, independent tenants who are very sensitive to any rental increases. The increasing vacancy rate over recent years has resulted in some downward pressure on rents. In some instances lessors have decided to freeze annual rental increases to retain the tenant.

Demand for retail space continues to remain relatively flat in Rockhampton which is evidenced by the level of vacancies. Incentives remain common in new retail lease negotiations. Typically these are rent free periods of one to three months and / or contribution to fitout costs.

Rentals for bulky goods tenancies have stabilised across the Rockhampton market with most new rentals being negotiated at between $200 and $250 per square metre gross.

While there has been a softening in rentals, this has not dampened confidence for some, with some retail development on the horizon. An IGA on Main Street in Park Avenue is currently under construction – the reported $7 million development will include a child care centre, IGA supermarket and four retail specialty stores. The centre is reported to be aiming for completion in November. Additionally, we are aware of a development application currently with the council for a shopping centre, service station and food and drink outlet at the corner of Nagle Drive and Norman Road.

Mackay

The retail rental market in Mackay has experienced a significant downward correction in rental levels as a result of the coal mining downturn. There are limited new reported retail leases with the market experiencing high levels of vacancy and weak levels of demand.

The majority of recent retail leases are for properties less than 200 square metres in the Mackay CBD and are usually negotiated on a gross basis. In 2017 incentives or lower rent for the first lease year have remained commonplace in the current market with the most recent incentives ranging from two weeks to three months.

A recent rent for a retail property on Gregory Street, Mackay with a lettable area of 165 square metres shows a rate of $173 per annum per square metre of lettable area gross which is considered reflective of the market.

The market has been most active at total annual rental ranges of $10,000 to $45,000 per annum gross. The highest recent rental was struck at approximately $219,000 per annum gross in November 2016. At the peak of the market, total annual rents far large premises exceeded this level. The market is approaching its cyclical trough.

Townsville

The retail market remains at the bottom of the market cycle and although we have been expecting the commercial sector to start to move in line with a pick-up in business confidence, we are yet to see it budge from the bottom of the market cycle.

Stage 2 of the Willows Shopping Centre's $70 million expansion has recently reached completion and features Harris Scarfe, Cotton On Mega and additional retailers. City Point, a $10 million retail/ mixed use development is currently well underway within the CBD.

Current demand for retail rental in the Townsville market is generally flat with an excess supply available relative to the current demand. Rental rates appear to be steady with facility managers opting to keep rents stable and introduce higher incentives such as rent free periods and fit-out contributions to attract tenants.

Cairns

The Cairns retail 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 / 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/or 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 $1,500 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.

Although business conditions in Cairns continue to slowly improve, little change is expected in retail market conditions during the remainder of 2017.

Northern Territory

Darwin

Rental rates for retail space across Greater Darwin have reached an interesting crossroads. We appear to be entering a period of population decline just when the supply of retail space is increasing.

This is more evident in Palmerston, the satellite city of Darwin which was established in 1982. There has been solid population growth in the East Palmerston suburbs of Rosebery, Bellamack, Johnson and Zuccoli over the past five years, however provision of services to these suburbs was slow to follow with residents having to go up top to the Palmerston CBD for even basic necessities.

Over the past 12 months, new neighbourhood retail centres have been developed at Bakewell, Rosebery, Bellamack and Zuccoli to provide these services, however the proliferation of new centres coupled with population decline is leading to a reduction of trade and consequently, questions over the sustainability of rents in these new centres. The situation is not alleviated by the recent opening of Coolalinga Village and the imminent completion of Gateway Palmerston, two regional style retail centres which will also compete in this area. We have already seen the closure of the Rosebery IGA.

Although these factors all point to downward pressure on rents, the reductions to date have not been as severe as in other market segments. However, unless general economic prospects improve, this continuing supply/demand imbalance will place tenants under pressure, causing rent reductions.

Western Australia

Perth

Weakness in discretionary spending habits of consumers continues and looks set to stay in place throughout 2018. Retail owners remain under pressure to maintain occupancy in their assets, with evidence of increasing incentives in this market. Vacancy rates increased throughout the past year across the board however remain lowest in the prime retail hubs of the Hay and Murray Street Mall locations, followed then by regional shopping centres. There is however an increasing trend towards tenants on short term leases, holding over and pop-up style shops.

At the lower end of the retail spectrum, retailers along strip shopping locations are doing it the hardest with many smaller, non-branded retailers feeling the pinch of the tightening in discretionary spending. Many of these smaller retailers are giving the game away and it is evident that landlords have to rebase their rental expectations. Franchise style food operations (think of the myriad of themed Asian style/Mexican/juice/coffee operations) are concentrating their expansion in the state to shopping centre locations as a priority and towards prime strip shop dining and entertainment locations such as Oxford Street, Leederville; Beaufort Street, Mount Lawley; South Terrace, Fremantle; and Rokeby/Hay Streets, Subiaco.

Recently rising neighbourhood centre space combined with subdued demand has caused rental rates to deteriorate. In neighbourhood shopping centres, rents declined by approximately 10% during 2017 to average around $600 per square metre. The downward trend is expected to continue into 2018.

Retail as an asset class remains on the radar for many investors as it provides a relatively secure cash flow and/or upgradable investment option. This has resulted in investors accepting lower internal rates of returns which is flowing into tighter yields for quality assets. We have noted a marked increase in the number of eastern states based private investors willing to accept far lower yields for assets than local investors are prepared to accept. At the entry level, we have noticed that strata or stand-alone lower end value retail units are being acquired by the sitting tenant in a majority of reported sales.

The focus of the WA Government needs to be on continued investment in infrastructure which will support the shift from Perth being a mining headquarters to it becoming a bona-fide tourist destination. With that investment from government will come private development opportunities in the form of hotels and tourism based centres which will in turn drive the demand for world class retail opportunities, which will be the impetus to trigger retail expansion. We are seeing this with the redevelopment at Scarborough Beach, further redevelopment in the Joondalup Town Centre, The Stadium development at Burswood and in the future, Elizabeth Quay in the Perth CBD.