Commercial

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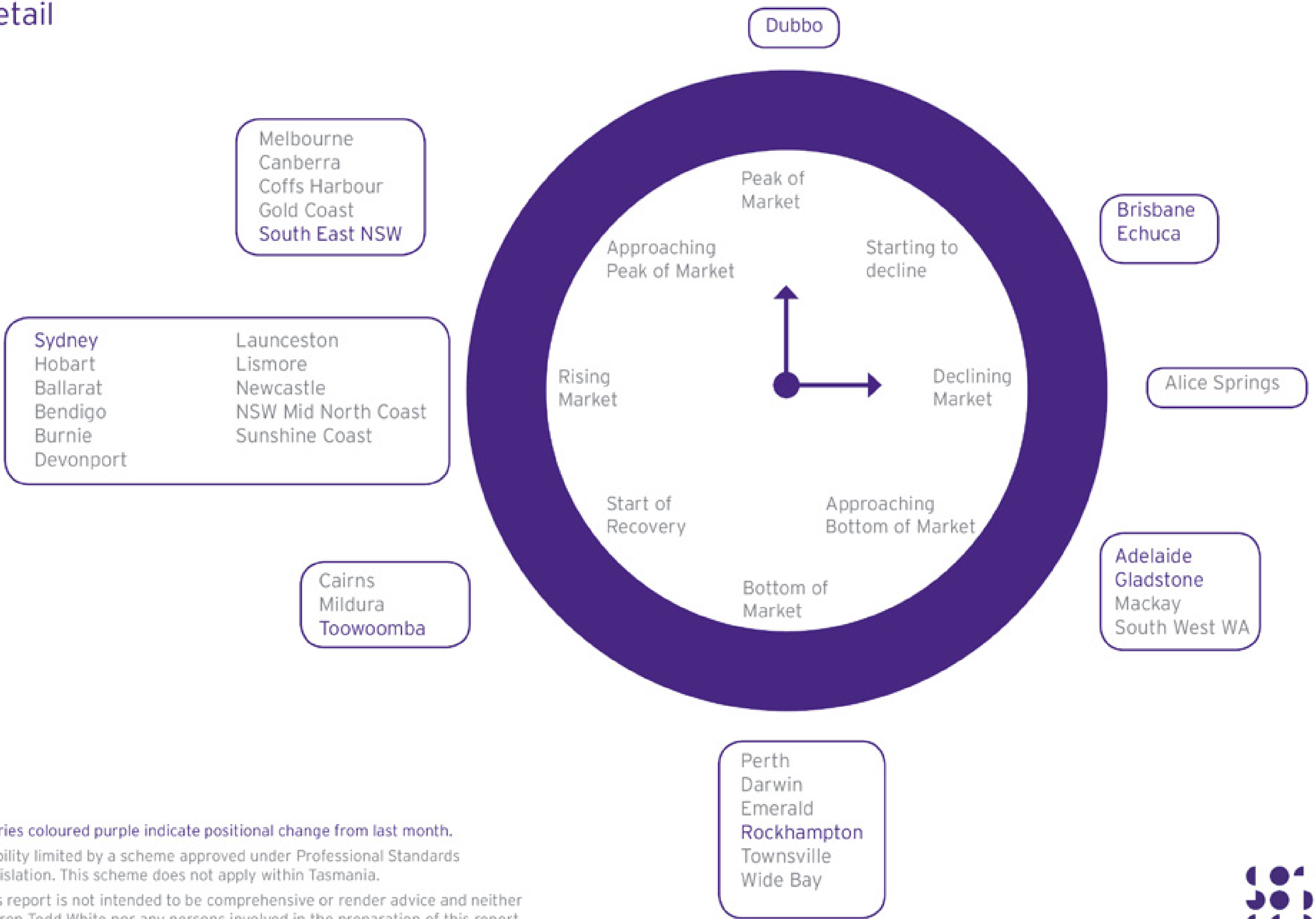
COMMERCIAL

National Property Clock
December 2017
Retail



Entries coloured purple indicate positional change from last month.

HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

A rush to yield helped drive prices up in many commercial markets, but of course this only served to tighten returns over the long term. Not every market was the same in 2017 of course – we're a diverse country with opportunities galore across our wide, brown land.

Our commercial team are set to give you a rundown of the year in retail property. It's a reflective moment to take stock and see how your investments may have performed.

Sydney

The direct retail property market in the Sydney metropolitan area has generally performed well throughout 2017 as continued growth in the capital value of residential property has increased the perception of household wealth and in turn encouraged discretionary spending. This attracts investor confidence to the retail property market.

From an investment perspective, retail assets remain an attractive proposition given a relatively healthy yield profile compared with other asset classes. Sydney's weighted average yield across all retail was approximately 5.3% and vacancy is currently at approximately 3.5% across Sydney CBD centres and strip retail.

The prevailing confidence in the sector should be weighed against potential headwinds such as the rise of e-commerce entities including Amazon, Kaufland and various on-line betting companies that do not require bricks and mortar street exposure. Signs of a slowing residential market, low wage growth, high levels of household debt, the ever increasing cost of running a household, higher cost of transport and potential for interest rate increases in 2018 are other factors that may affect confidence and the performance of the retail sector moving forward.

On the supply side, we note that planning provisions set out by councils requiring ground level retail shops to be included in mixed use developments has and is triggering new retail supply to be added to the retail market, though primarily in secondary or non-traditional retail locations. In many cases, particularly in locations detached from main retail strips, the ground floor strata retail for new developments is slow to lease up, placing downward pressure on capital values for these assets compared to retail assets located in more established markets that benefit from a more stable and established consumer base. In terms of shopping habits, time will tell if the generally increased supply of locally situated boutique retail space will reverse the long term trend towards larger, destination style shopping centres.

Average Sydney CBD gross face rents have performed well in 2017, currently averaging in the region of $11,000 per square metre. When compared with Melbourne at around $7,500 per square metre and Brisbane at around $4,750 per square metre, this emphasises the additional cost of operating out of Sydney's CBD compared to alternative capital CBD markets. Secondary strip retail and neighbourhood markets have grown more steadily due to the aforementioned increase in supply placing pressure on market rents, capital growth and occupancy rates.

Canberra

2017 began with a number of sales sub $500,000 in local centres and this was followed by sales along Flemington Road, Gungahlin due to the development of the light rail project. The development approval for the construction of Gungahlin Town Centre Cinema, Hibberson Street, Gungahlin was also confirmed. The development will comprise a cinema (3,500 square metres), retail suites totalling 4,820 square metres and office space of 2,495 square metres. Construction of the mixed-use development is anticipated to commence in late 2017 and reach practical completion in early 2019.

In recent weeks Bunnings has agreed to occupy the former Master's store at Majura Park moving from an older premises at Fyshwick to a modern facility at the airport precinct. Cafes and restaurants remain the base support of retail space in the CBD and town centres with constant openings and closures and joint ventures between established traders. Kingston Foreshore has seen some occupants come and go. Braddon remains a strong location for small businesses. Woden town centre is still struggling to revitalise with some upgrades needed to existing buildings and mixed use development under construction.

Neighbourhood specialty shop rents are 0.3% higher year-on-year despite no significant change to market conditions during 2017.

Two sales of note were The Cinema Centre Building, 50 Bunda Street, City for $9.8 million and Green Square Centre, 62 Jardine Street, Kingston for $5.5 million.

The Canberra market remains stable with continued development in most sectors except office which is improving from previous years of oversupply.

Illawarra

The retail landscape in the Wollongong area continued to face headwinds throughout the year, 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 recently relocating and opening its food oriented department store within GPT's Wollongong Central.

Sales activity has increased and yields have declined over the past 12 months with investors chasing yield and owner-occupiers active in the sub $1 million range. Despite local agents reporting increased interest from retail tenants, rents have largely remained stagnant and incentives are common, generally ranging from 10% to 15%. Average letting up periods for standard sized shops are in the order of six months. The high number of residential unit developments recently completed and planned for construction should give retailers in the Wollongong CBD a boost as the population grows.

Newcastle

The talk of the town in the retail commercial world has been the net positive effects that the Newcastle Rejuvenation Project will bring to Newcastle. This is happening hand in hand with the large scale development known as East End by Sydney based developer Iris Capital making headway and taking advantage of the strong local market conditions. While Stage 1 of this master planned endeavour is now DA approved and 150 units are on the market, significant retail additions will not come until the later stages in the development. For now though, there is a short supply of tenanted retail stock listed on the market for sale and market values continue to show strong growth. The residential unit boom in and around the Newcastle CBD has brought in more occupants to the beachside inner suburbs and demand for retail space is increasing. We do note a number of retail spaces that have been listed on the leasing market for an extended period, indicating this market sector is still sensitive to locational factors such as exposure and proximity to complementary users.

Asking rents in the Hunter Street Mall are surging on the back of the anticipated East End development. We know café operators who are excited not only about the influx of occupants in the area, but in a more immediate sense with the increase of trades-people in the area working on this 500 unit staged development. To be honest, we're a little excited too. The changes to the Newcastle retail scene over the past two years have been fairly impressive. The rise of small bars throughout the city, the life flowing back to the Hunter Street Mall and the market transformations underway in Newcastle West and Wickham have been great to see and we keenly look forward to further growth in the local economy.

Dubbo

The Dubbo retail market has had mixed results with retail vacancies enduring extended lease up periods. This has resulted in distinct sale markets with properties subject to strong lease covenants enjoying strong investor demand, for example, sale of a national fast food outlet at 5.82%, while in the same vicinity, a near vacant property sold at 10% on an analysed yield. A large retail property (leased to Sportsmans Warehouse) sold recently at 7.4%, while over the road a small vacant retail property sold at 6.1% (analysed) to an owner-operator. Retail properties perceived to lack security of income are selling at a discount compared to leased properties of approximately 3%.4

Despite ongoing retail vacancies, the Dubbo CBD is enjoying a development boom with three major developments either approved or in the planning stage. At 216 Macquarie Street, a redevelopment of the former 5,000 square metre Rural Press site is planned for a major mixed development comprising retail and office space, 200 serviced apartments and 90 residential units in a staged development. Also in Macquarie Street, a 1,200 square metre retail development with approximately 20 residential units has been approved, while in nearby Church Street, another mixed development comprising ground floor retail, a four star hotel of 61 serviced apartments and 26 residential units is also in the planning stage. These are expected to revitalise the Dubbo CBD.

Orange
There remains good interest from investors in Orange however the market is approaching its peak.

Retail vacancy levels remain low within Summer Street and fringe CBD locations.

In January 2017, Myer vacated its space of in excess of 6,000 square metres (across two levels) which remains vacant. There is a planned redevelopment for the building.

A new Quest apartment building which includes ground floor retail has been approved in the CBD fringe. A new private hospital to include retail shops has also been approved.

The old hospital site (Dalton Street) has been demolished and is in the process of being removed, providing opportunity for future development including a potential mix of residential and retail.

New major listings include the Summer Centre which includes anchor tenants Dan Murphy's and IGA.

Lismore
2017 is a continuation of the trends which commenced in 2015 of limited supply increasing demand and downward pressure on yields (upward pressure on values).

The questions remain:

- Where is the top of the market?
- What is going to change the market?
- What is on the other side? and
- Are we looking at a soft fall or a major change?.

Where we have come from ultimately leads us to the risk that lies ahead. The most significant changes are along the coastal strip with the stand out performer being Byron Bay. The remaining coastal strip has also performed well with the following data for Mullumbimby typical of the more coastal localities.

Address	Sale Date	Analysed Market Yield (%)
Mullumbimby	24/04/2013	7.74
Mullumbimby	01/05/2015	7.37
Mullumbimby	01/05/2015	7.57
Mullumbimby	30/06/2015	7.42
Mullumbimby	01/05/2016	6.08
Mullumbimby	18/08/2016	6.65
Mullumbimby	01/05/2017	6.74

Broadly, Mullumbimby has seen a 1% to 1.5% decrease in yields from the above data however the nature of the last sale is likely a little deceiving as it would have come from a much higher yield point than the earlier sales. As such we would expect since 2015 that two point increase which reflects approximately a 25% increase.

What the above does not demonstrate is the additional increase and impact of rental growth. Rents along most of the coastal localities have shown strong increases and as such, growth in values has been much greater than the 25% indicated by yield alone.

Byron Bay yield decreases are in the order of 2% to 2.5%. The following is a summary of market results:

Address	Sale Date	Analysed Market Yield (%)
Byron Bay	27/11/2013	6.80
Byron Bay	25/09/2013	6.82
Byron Bay	10/10/2014	7.27
Byron Bay	14/03/2014	7.63
Byron Bay	01/02/2015	6.74
Byron Bay	12/02/2016	5.85
Byron Bay	10/02/2016	6.59
Byron Bay	18/02/2016	6.74
Byron Bay	26/10/2016	4.93
Byron Bay	17/07/2017	4.69
Byron Bay	03/05/2017	5.55
Byron Bay	01/05/2017	5.57

Address	Sale Date	Analysed Market Yield (%)
Byron Bay	14/03/2013	7.56
Byron Bay	31/07/2015	5.03
Byron Bay,	07/10/2015	6.33
Byron Bay	21/11/2016	5.21
Byron Bay	04/10/2016	4.89

While 2% may indicate growth in values in the order of 30%, there has been significant growth in rents over the past two to three years, in some localities as high as 30%, while more broadly growth has generally not been below 10%.

Inland retail areas have also seen growth albeit more modest. Further, rental growth has been very limited and as such overall growth has not been as pronounced as the coastal areas.

The regional centre of Lismore was also impacted by a major flood event in March which has significantly impacted the retail centre with increased vacancies reported, modest retail activity and very limited demand for retail space. Sales of retail properties have also been very limited, allowing a more precise assessment of market movement.

The following is a broad snapshot of sales:

Address	Sale Date	Analysed Market Yield (%)
Lismore	25/02/2014	9.92
Lismore	29/04/2015	8.20
Lismore	30/06/2015	10.67
Lismore	16/11/2015	9.96
Lismore	04/03/2016	6.44
Lismore	15/11/2016	7.13
Lismore	01/09/2017	8.57

A noticeable variation in the above evidence pertains to the strength of the tenant. National tenants with good lease covenants show yield rates well below locally leased properties. This can be in the order of 20%.

Broadly it would appear that yields since 2014/15 are likely to have firmed one to two points (depending on quality) from a much higher starting point than the coastal counterparts. Without rental growth, a more modest growth in values more in line with the yields is likely (10% to 20% overall). Where rentals have fallen we have seen value levels similar or weaker. This is epitomised by a more recent sale of a bank premises in Casino which saw a fall in rent, a stable yield and a subsequent fall in value.

Address	Sale Date	Sale Price	Land Area (m2)	Lettable Area (m2)	Passing Yield (%)	Analysed Market Yield (%)	$/m2 Lettable Area
Commonwealth Bank, 115 Barker Street, Casino	15/05/2015	$1,147,000	762	375	7.11	7.11	$3,059
Commonwealth Bank, 115 Barker Street, Casino	04/04/2017	$1,025,000	762	375	7.09	7.09	$2,733

So where to now?
The greatest risk appears to be where our greatest gains have come from, being the coastal strips with yields at record levels and rents pushing higher. Any significant change in the real estate market could result in falls in value as a result of yield, however if the broader economy was to falter, a weaker economy could drive rents down which will compound the reduction in values due to yield.

Coffs Harbour

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

There remains a high vacancy factor within the main strip retail centre for specialty retail shops within Coffs Harbour. There are currently nine shops available for lease within the prime CBD strip centre. This represents a vacancy rate of approximately 15%, due to a combination of a soft local retail market and low discretionary spending, the unwillingness of local property owners to meet the market and incentives being offered by shopping centres Park Beach Plaza and Coffs Central 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. The redevelopment of a dormant site to the eastern end of the CBD for a commercial hotel, offices and retail shops by Gowings should assist to increase foot traffic and provide some economic stimulus to retail shops nearby. The most interesting recent retail sale occurred in Gerrard Drive in May 2017 for $11.75 million, being three nationally tenanted retail outlets within a large bulky goods centre. The sale showed 7.4% market yield or $1,796 per square metre of building area for a 6,544 square metre building on a 16,960 square metre site.

1-3 Spring Street, South Grafton attracted sound market interest selling for $10.9 million at an analysed market yield of 7.21% or $4,147 square metre of building improvements. The property is a retail service centre featuring two national and one local tenant in a food and service station complex.

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, and their popular restaurant, café and entertainment establishments which are well supported by locals and tourists. Rents in these locations are generally $300 to $400 per square metre. A recent sale in First Avenue, Sawtell for $839,000 for two old shops attracted a yield of 5.12%.

Victoria

Melbourne

Melbourne's retail property market has continued to perform strongly during 2017. Investment yields have remained low and we have seen yield compression across many of the retail sub markets over the past 12 months. Supply of quality retail stock has generally been limited. Purchaser demand for retail investment property, in particular for well located properties with secure long term leases, good lease covenants or with future development potential, is very strong at present. The steady low interest rate environment, low Australian dollar (compared to the US dollar) and the ongoing perception of being a safe haven have all combined to drive strong interest from domestic and overseas retail property buyers.

In recent years the Melbourne CBD retail environment has experienced growth driven by a substantial increase in the resident population due to a boom in high rise apartment developments, higher rates of office occupancy, increasing tourist numbers and growth in student numbers at city-based educational institutions.

In the retail space, major international retailers continue to demonstrate confidence in the Melbourne market with the opening of new stores. During the year, British retailer Debenhams opened its flagship store at St Collins Lane in its first foray into the Australian market.

The year also saw the collapse of a number of retailers including Pumpkin Patch, Herringbone, Rhodes & Beckett, Marcs, David Lawrence, Payless Shoes and Howards Storage World. Many commentators are forecasting more retail brands, particularly clothing retailers or fast fashion competitors, to fold in the face of increased competition from overseas retailers such as Uniglo, H&M, Zara and the forthcoming arrival of giants Amazon and Alibaba as well as a gradual yet inexorable move to online retailing.

Inner suburban regions that have demonstrated strong results for freehold retail properties on sites which provide medium to longer term potential for mixed use development over the past 12 months include Richmond, Collingwood, Fitzroy and South Yarra.

Notable recent sales in the inner suburban market include an older style, two level retail building situated on a corner site of approximately 478 square metres on Bridge Road, Richmond. The property sold for $5.1 million in August 2017 reflecting an analysed yield of 3.77% and a capital value of $10,669 per square metre of improved site area. The property was vacant and is considered to be suitable for investment or development of a multi-level mixed use complex (STCA).

An older style, two level mixed use retail and commercial property on a site of approximately 1,000 square metres in a prime part of the popular Bay Street retail strip sold in Port Melbourne in May 2017. The sale price of $14.5 million reflected an analysed yield of 3.92% and a capital value of $14,216 per square metre of improved site area. The property has a short WALE and is considered to provide good potential for a multi-level mixed use development (STCA).

There has been an increase in development activity and a surge of modern mixed use complexes, particularly within a ten kilometre radius of Melbourne's CBD and within other major retail and commercial hubs such as Hawthorn, Box Hill and Springvale. Investor interest in strata-titled retail properties subject to long term leases and with good lease covenants is particularly strong in the current environment also given these investments are often at a more affordable price point of less than $1 million in comparison to freehold 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 low in comparison. The retail rental market has experienced some downward pressure during the year, particularly in suburban retail strips. In the past 12 months, traditionally strong retail areas such as Chapel Street, South Yarra and Burke Road, Camberwell have seen an increase in vacancies, a decline in rents and an increase in incentive levels. Food based retailers continue to be the main occupants taking up these tenancies within various retail strips.

Ballarat

2017 has been a relatively steady year for commercial property throughout the Ballarat region. There has been increased demand for Burgess Rawson auctions for well leased properties with national tenants and probably fewer retail/commercial transactions than past years overall. Properties offered for sale with vacant possession have had generally longer selling periods, while industrial vacant land demand remains weak. The development of the Delacombe town centre in the south-western growth corridor has been successful with good demand from national tenants, including a second cinema and reports of a second Bunnings store.

2017 has also seen a number of child care centres developed across Ballarat, with over ten constructed or permitted within the past two to three years. Further major construction within central Ballarat is due to commence with the redevelopment of the Civic Hall site and railway precinct.

Echuca

The market has been really interesting with two notable investment sales to national tenants of Beaurepaires and the other of Reece Plumbing, both of which were considered to be at secondary locations but sold very strongly at auction to provide passing yields below 5% (Beaurepaires) and just above 5% in the case of Reece. Since that time there have been no similar type assets offered to market and notably the Cheap As Chips building in the heart of Echuca failed to sell. Centrelink Echuca has just hit the market and it will be very interesting to see how it performs in the investor market. Smaller buildings appear to be struggling with demand hampered by the larger scale retailers and it will be interesting to see how small to medium sized properties fare in the coming 12 months.

South Australia

Adelaide

Retail trade growth of 2.8% for the third quarter of 2017 remains below the national average of 3.1% and below its ten year average of 3.1%. In continuation of the recent trend, the major growth sector was cafés at 11.2% with household goods the closest other sector at 5.6%. Clothing was the worst performer at 1.1%. This shows the impact of online trading on clothing and department stores, the lack of economic confidence in discretionary spending and South Australians' love of cafés.

The results confirm what is being seen anecdotally within the CBD and strip shops where many ground floor retail stores are being converted for use as cafés.

Agents Savills reports notable retail asset sales over $5 million as follows:

Address	Sale Date	Sale Price	GLA	Reported Market Yield (%)	Reported GLA Area
Woolworths Gawler (Neighbourhood)	June 2017	$32.05 million	10,920	6.81	$2,935
Pirie Plaza (Sub Regional)	Sep 2017	$32.05 million	11,029	7.53	$2,906
Kilburn South (Large Format Retail)	Sep 2017	$22.35 million	7,404	7.21	$3,019
Wharflands Shopping Centre (Neighbourhood)	Sep 2017	$21 million	10,215	8.89	$2,056
12-18 David Witton Dr, Noarlunga Centre (Large Format Retail)	Feb 2017	$17.5 million	7,454	8.16	$2,348

In terms of supply, the following additions and new centres are either under construction or proposed. This is considered a thin level of additions to the market, but not surprising given the poor confidence levels and general economic concerns.

Address	Proposed Completion	Additional m2
Foodland Supermarket and Shopping Mall	2017	1,100
Eyre Village	2018	2,600
District Outlet Centre Parafield	2018	40,000
Westfield Marion	2021	11,000

Significantly, the Parafield District Outlet Centre has recently announced a delay in opening due to poor economic conditions in Adelaide. The $50 million brand outlet centre is a replication of a similar centre, Harbor Town, in the western suburbs. It was reported by The Advertiser on 13 November 2017 that the developers (Devwet Group) had previously anticipated opening in time for Christmas this year but the "subdued" Adelaide retail leasing climate has made securing tenants difficult, but noted that the recent securing of two anchor tenants has given moment to the project. The anchor tenants have not been confirmed.

The difficulty in obtaining tenants for such a centre is further evidence of the lack of general demand over-arching weak confidence in the retail climate in South Australia.

Queensland

Brisbane

Overall Brisbane retail rents have remained stable and firm yields are continuing to be achieved, with sustained demand from investors for quality retail assets and even secondary assets achieving a premium.

There have been some noteworthy transactions over the course of 2017, including the sale of Wondall Road Village in Manly for $16 million at a yield of 6.08%. This sale created a new Queensland record for an IGA anchored centre and demonstrated the strength of the investment market for quality retail properties in metropolitan Brisbane. Further proof of this was reflected in the sale of the Urban Village Convenience Centre in Cannon Hill for $9.125 million at a yield of 5.74% and a significantly high rate of lettable area of $9,790 per square metre.

The impact of online shopping and in particular the incursion of Amazon continues to be a concern for the sector. This will ensure that retail businesses will be cautious going forward and rents will remain flat. Amazon's expansion in Australia will also accelerate growth in the online retail market which will result in reduced growth in turnover of some retailers. Additionally, similar to when a large number of international retailers entered the market, there will be a need for retailers and owners to adapt and innovate to remain successful.

Toowoomba

The two major retail developments in Toowoomba in 2017 included the redevelopment of the QIC owned Grand Central Shopping Centre and the construction of a new Bunnings. The $500 million plus redevelopment of Grand Central has predominantly been completed. The redevelopment has seen the centre double in size to approximately 90,000 square metres introducing new discount department stores, supermarkets and approximately 160 speciality stores. The construction of a new Bunnings on the former Toowoomba Foundry site has also recently been completed. This is the second Bunnings in Toowoomba and should have a positive impact on the northern CBD precinct.

The redevelopment of the Shell/Coles Express in Kearneys Spring has now been completed with two additional tenancies including a café with a drive through facility. Construction of a food based retail centre known as The Intersection was also recently completed. Tenants in the centre will include Subway, Café 63, Burger Urge, Baskin-Robbins and Oporto.

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. Most of these operators are new to Toowoomba, resulting in a significant increase in new options for local diners.

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

Recent retail investment sales in Toowoomba include:

Wyalla Plaza, Taylor Street, Newtown - Semi-modern convenience shopping centre and service station with a lettable area of 3,997 square metres. Tenants include Friendly Grocer, Brumbys, Dominos, Malouf Pharmacy, a mix of convenience retailers, Puma Service Station and a large medical centre. Reported passing net yield of circa 7%. Sale price of $14.45 million.

283 Ruthven Street, Harlaxton - Semi-modern retail centre that was leased to Red Rooster and a Foodworks supermarket. WALE of 1.48 years. Sale reflected a net yield of 6.99%. Sale price of $1.8 million.

251 James Street, Toowoomba City - Modern mixed use building with a ground floor retail showroom tenancy of 567 square metres with first floor office tenancy of 541 square metres and basement car park for 41 vehicles. Leased to The Open Range and Neil's Parts. WALE of 2.84 years. Sale reflected a passing net yield of 7.9% and an analysed net yield of 8.86%. Sale price of $3.1 million.

Gold Coast

2017 has been another very active year for the commercial property market on the Gold Coast, particularly for bigger ticket items in both the office and retail sectors. In particular, supermarket anchored shopping centres have had investors clamouring, resulting in some big dollar transactions at very firm yields for this market.

The continuation of the prevailing low interest rate environment has again been the main catalyst fuelling this activity, although this has been a common factor across many property markets across the nation in 2017.

Outlined below are a number of the stand out retail sales, ordered according to sale date starting with the most recent:

- Pacific Pines Coles, Pacific Pines – sold in July 2017 for $30.025 million reflecting an analysed yield of 4.63%. A brand new, freestanding, state of the art, full-line Coles Supermarket and Liquorland store, completed in November 2016. WALE 15 years.
- Pinnacle Pines Shopping Centre, Pacific Pines – sold in July 2017 for $19.7 million reflecting an analysed yield of 5.35%. Neighbourhood shopping centre anchored by a freestanding McDonald's Restaurant and a 7-Eleven service station and convenience store supported by nine specialty stores.
- Mermaid Plaza, Mermaid Beach – sold in June 2017 for $8.27 million reflecting an analysed yield of 7.24%. Mixed use, part two level beachside strip complex with shops, medical component and office suites. Purchased by a developer with a view to future redevelopment.
- Beaudesert Central Shopping Centre, Beaudesert – sold June 2017 for $16.85 million reflecting an analysed yield of 6.46%. Rural town locality. Neighbourhood shopping centre anchored by a Woolworths supermarket plus 12 specialty tenants.
- Mudgeeraba Markets and Franklin Square, Mudgeeraba – sold June 2017 for $38.8 million reflecting an analysed yield of 5.75%. Two adjoining properties, Mudgeeraba Markets being a neighbourhood shopping centre anchored by a Woolworths supermarket plus 26 specialty tenants and four ATMs, and Franklin Square a two level strip retail and commercial premises featuring 11 ground and five first floor tenancies.
- Piazza on The Boulevard, Surfers Paradise – sold May 2017 for $22 million. A volumetric land title with a five level, semi-modern arcade style retail complex including basement and upper level car parking. Total net lettable area of 9,061 square metres, although highly vacant. Purchaser looking to reinvigorate facility to draw back both tenants and shoppers.
- The Markets Yarrabilba, Yarrabilba – sold in March 2017 for $8.9 million reflecting an analysed yield of 6.2%. A brand new convenience retail shopping complex anchored by an IGA supermarket plus several specialty shops.
- Worongary Town Centre, Mudgeeraba – sold in March 2017 for $46.3 million reflecting an analysed yield of 6%. An open neighbourhood shopping complex encompassing six buildings anchored by a Coles supermarket plus a freestanding Caltex service station, 41 retail, medical and office specialty tenancies and two ATMs.
- Ashmore City Shopping Centre, Ashmore – sold November 2016 for $35 million reflecting an analysed yield of 7.5%. A neighbourhood shopping centre encompassing three adjacent freestanding buildings, anchored by a Drake's IGA Supermarket and Liquorland and supported by 49 specialty stores including food service, national banks, medical tenancies and an ATM.
- 174 Pascoe Road, Ormeau – sold in October 2016 for $9.6 million reflecting an analysed yield of 6.92%. A semi-modern, colonial style, single level neighbourhood convenience shopping centre partitioned to provide 16 tenancies.

Based on the above example sales, it would be fair to say that during 2017 the spread in analysed yields consolidated, with the dominant range 5.5% to 6.5%, being a 100 BPS reduction on our suggested 2016 dominant range of 6.5% to 7.5%.

Over the latter part of 2017 market conditions have indicated signs of coming off, not necessarily in value levels and reflected yields, but more so in investor participation and interest and general market place fervour. Notwithstanding this observation, we do not anticipate any substantial variation in market conditions moving into 2018.

As we suggested this time last year however, we do feel it appropriate to highlight the increasing risk to purchasers and financiers of a market correction should interest rates begin to rise again in the coming years or if international or interstate purchasers curtail their activities. As Bob Dylan says, the times they are a-changin', but it's just a bit difficult to predict when a significant turn might occur.

Sunshine Coast

The retail market on the Sunshine Coast has seen a range of sales and results achieved during 2017. We have seen improvement across the market in traditional retail strips, smaller townships and also in the main tourist retail precincts.

Some headline sales during 2017 include the $17.3 million sale of a Woolworths anchored shopping centre complex in Tewantin indicating a yield of 5.76% and the $21 million sale of a strata titled complex at the corner of Hastings Street and Noosa Drive, which indicated a yield of 5.9%.

There have also been a range of smaller investment sales, typically in the sub $3 million range, that have indicated yields ranging from circa 6% to circa 8% across the Sunshine Coast.

The rental markets have generally been strong in this time. The Hastings Street market has noted a general firming of rentals with limited vacancy and the Coolum Beach retail area has also improved with limited vacancy over the second half of 2017. The Mooloolaba precinct has seen some increased levels of vacancy, even within the Esplanade fronting tenancies. Some of this is due to the improved retailing around Ocean Street in Maroochydore which has become the premier entertainment area of the Sunshine Coast.

Retailing precincts within hinterland townships have generally improved with limited vacancy in these areas and local investors generally driving value growth.

On the development front, we have seen the commencement of the Sunshine Plaza redevelopment, which is adding a further 34,000 square metres of space. A number of smaller retail developments have also been completed across the region including the commencement of the second retail development in the Sippy Downs town centre, Sippy Downs Central, adjoining the stand alone Coles supermarket.

Overall, the retail market has performed well during 2017 and with continued strong tourist conditions and population growth, this is likely to continue during 2018. In the medium term, retailing conditions are difficult to judge given the changing macro environment and the disruption likely to be caused by on line retailers.

Wide Bay

The Wide Bay retail market remained soft throughout 2017 with a low volume of sales occurring in the region. During the year Stockland opened its Stockland Kensington neighbourhood centre which was converted from the former Bunnings site opposite the Stockland Bundaberg shopping centre. Stockland also commenced construction on an expansion of the Stockland Bundaberg centre which will include an outdoor dining precinct and detached drive through restaurant.

At the top end of town, significant transactions include the Eli Waters Shopping Centre for a reported $33.2 million and the Maryborough Woolworths Shopping Centre for a reported $13 million.

At the lower end of the scale, a notable transaction is 15 Electra Street, Bundaberg Central which sold for $660,000 at an analysed market yield of 8.12%.

Gladstone

The standout sale for Gladstone's retail market in 2017 was the Woolworths anchored Gladstone Square, which transacted at $31.5 million in June at a reported 7.25% yield. In comparison to other centres in Gladstone, Gladstone Square has maintained relatively good occupancies in recent years while others have experienced increasing vacancies as a result of the tough economic conditions in Gladstone. There has been very limited sales activity across most sectors, with very few known retail sales. Owners are aware of the current market conditions and are hesitant to sell unless necessary. As a result, there are few available quality retail investment properties for sale. We note that the Avion Centre in New Auckland has recently been listed for sale via an expressions of interest campaign. We understand that the property is being sold under mortgagee in possession, with offers closing mid to late November. The property is anchored by a SPAR supermarket and previously accommodated a medical clinic, however for the main part now has significant vacancies. Also of note is the opening of the first ALDI in Gladstone earlier in the year which has been well received by locals.

Rockhampton

The retail market in Rockhampton in 2017 has continued much in line with 2016, with relatively slow movement. Rentals have remained relatively stable throughout the year, however incentives are becoming quite significant in some instances in order to secure tenants, with some known incentives of up to six months rent free. There are still high vacancies in some newly developed retail centres, likely due to a variety of factors, however rental affordability is a key driver in the current market.

Both local and non local investors have been active for retail properties, however are very sensitive to tenant strength and WALE (weighted average lease expiry). Of mention are two sales during the year (one of which is under contract) of multi tenanted older style properties with good exposure and location, that have sold at yields between about 9.5% and 10%. The stand out sale for the year for retail would be the Office Works building at $6.05 million which reflected an analysed market yield of about 6.5%. We expect that modern properties with quality tenants and good unexpired lease terms are likely to attract investors in the 8% to 9% yield bracket. We note however that historically, few properties have traded at a sub 7% yield. The Office Works sale is somewhat market leading for Rockhampton.

There has been some continued development in 2017 and some development looming on the horizon. In recent months, we have seen the development of an IGA in Park Avenue (comprising an IGA, child care centre and four specialty shops), and development of a combined gym and retail centre on the fringe of the CBD. Development in the pipeline includes: construction of an ALDI at its recently acquired south-side location next to Fantastic Furniture; a shopping centre, service station and food and drink outlet at the corner of Nagle Drive and Norman Road (subject to council approval); and a $45 million dollar expansion of the Stockland Shopping Centre (also subject to council approval). Also of note is the relocation of Bunnings from its existing site to the former Master's building. It is reported that Bunnings expects to be trading from the new location in mid 2018.

Mackay

The most outstanding transaction in Mackay for 2017 occurred in May. This was the sale of Bunnings South Mackay at $28.5 million with a reported net income of $1,697,440 per annum and an unexpired lease term of nine years to show a net yield of 5.94%. The property was purchased by a listed property trust.

The marketing of this property occurred shortly after the closure of the local Masters store. This is further evidence of the strong national demand for quality lease covenants to secure national tenants.

Despite the downturn in the local economy in recent years, neighbourhood shopping centres have performed quite well throughout 2017 with market rentals easing by only around 5% for speciality shop tenancies.

Leasing demand for large bulky goods retail space remains weak. The former Bunnings building and Sam's Warehouse tenancy in the Greenfield precinct of Mount Pleasant have now been vacant for years and the former Masters building on the Mackay – Bucasia Road at Richmond now sits empty.

Demand for shops in the Mackay CBD remains fairly weak and vacancies are high.

ABS information for the Mackay, Isaac and Whitsunday Local Authority Areas shows that there were 471 retail businesses in June 2014 and 421 in June 2016, a decline of 10.6%. Similarly retail staff numbers have fallen by 496 to 446 over the same period to also show a decline of 10%. These statistics are consistent with our observations of the retail property market in this region over the same period.

Townsville

Throughout 2017 the retail market remained patchy and positioned at the bottom of the market cycle.

We have seen continued expansion of the retail landscape including the completion of the Willows regional shopping centre's $70 million expansion and the $10 million City Point redevelopment currently underway in the city centre. Development applications have also reportedly been lodged for expansions to the Fairfield Central neighbourhood shopping centre and the Castletown Shoppingworld regional centre.

Retail sales during 2017 have included a mix of product and yield spread with good demand from southern investors who are active given the attractive yield profile in regional areas relative to their home locations. Two key sales that demonstrate this demand include The Precinct, a modern suburban fast food and convenience centre in Idalia which sold for $22 million. This property comprises 32 specialty tenancies over four buildings and reflected a WALE of 3.12 years and a yield of 8.23%. The Woolcock Street Supa Store sold for $16 million and comprises a large format big box retail building with four national tenants. This property had a WALE of 3.6 years and analysed to a yield of 7.2%.

Overall the retail market has continued to tick along with investor sales increasingly focusing on properties with strong lease covenants, tenant profiles and lease periods with a widening differential between properties exhibiting these positive factors and those that do not.

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

In other words, there was little to no change in local retail market conditions during 2017.

Northern Territory

Darwin

Since 1974, the Casuarina precinct in Darwin's northern suburbs has dominated the Darwin retail scene, providing a retail destination with air-conditioned mall, free undercover parking and a well-controlled tenancy mix, expertly managed by GPT.

However, 2017 was a watershed year for Darwin retail with not one but two regional style retail developments commencing trading.

First off the blocks was Coolalinga Central, servicing the Darwin rural area which has a catchment of 25,000 and growing, especially since some East Palmerston suburbs find it easy to access as well. Coolalinga has been a major service centre area for the Darwin rural area for a long period, especially on the south-western side of the highway including Woolworths and specialty stores. However, over the past four years there has been significant retail development on the north-eastern side of the highway including bulky goods retail, service station and the ubiquitous McDonalds. This culminated this year with the opening of the main air-conditioned mall, anchored by Coles and Kmart.

Hot on its heels was Stage 1 of Gateway, on the northern fringe of the Palmerston CBD. This is a larger development with Stage 1 including Woolworths, Big W and cinema complex with six screens. Stage 2 includes the entertainment precinct and is scheduled to open in 2018. Gateway will provide stiff competition for retail in the Palmerston CBD.

The two new centres underscore, that future population growth in Darwin will be focused along the Stuart Highway and south-east corridor. The construction of the new hospital at Palmerston and the announcement of a new police station in Palmerston will provide enhanced services to this growth area.

In this respect, Casuarina (and indeed Royal Darwin Hospital) is disadvantaged by being placed firmly in Darwin's northern suburbs, well removed from these population growth areas. Nevertheless, Casuarina is expected to retain patronage from residents in the CBD/inner suburbs as well as the northern suburbs and has recently been upgraded as an entertainment destination by development of The Quarter.

The increased options spell good news for tenants, especially quality national tenants who are the beneficiaries of strong competition amongst these centres, as well as existing retail centres, to attract or retain them.

Reinvigoration of Darwin CBD may also improve its attractiveness for retail, as well as workers and residents. The NT Government has budgeted $100 million to rejuvenate the CBD. Works recently announced are a new 450 bay underground carpark at parliament House, which will replace the existing open carpark at the Supreme Court, enabling this area to be converted to green open space. This is part of an overall plan for heat mitigation in the CBD which will also involve green shade structures over part of Cavenagh Street. General retail in Darwin is quite moribund and it is hoped that these developments will improve the CBD's appeal as a retail destination.

Western Australia

Perth

Continued weakness in discretionary spending habits of consumers continued throughout 2017 and looks set to stay in place through to at least the middle of 2018. Retail turnover growth in 2017 was only 0.4%. Subdued wages and employment growth and the softening housing market have all contributed to the slowdown in retail turnover growth in WA.

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. Given the significant potential supply pipeline, competition in the leasing market is expected to increase as owners seek to secure new international retailers within developments.

Two retail construction projects reached completion in 2017, adding 32,750 square metres of retail floor space. The largest completion was ISPT's new Lakelands Shopping Centre (21,170 square metres). Also completed over the June quarter was the 11,575 square metre extension to Charter Hall's Secret Harbour Square. Supply additions over the past 12 months totalled 84,700 square metres. There is currently 136,700 square metres under construction at 11 locations. The new 10,900 square metre Butler Central neighbourhood centre began construction in the second quarter of 2017.

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 and 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.

In the second quarter of 2017, there were four retail transactions greater than $5 million in the Western Australian market, totalling $55.6 million and all in the bulky goods category. The largest transaction was the sale of 5 Clayton Street, a bulky goods centre in Midland, for $30.8 million. Over the past 12 months, transaction volumes reached approximately $460 million including CBD, neighbourhood and bulky goods centres. There were no regional or sub-regional centre transactions in the past 12 months.

Retail as an asset class remains on the radar for many investors as it provides a relatively secure cash flow and upgradeable investment options. This has resulted in investors accepting lower internal rates of return which is flowing into tighter yields for quality assets. We have noted a marked increase in eastern states based private investors who are 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 Western Australian government needs to be on continued investment in infrastructure which will support the shift from Perth being a mining HQ to it becoming a bona-fide tourist destination. That investment from government will spark private development opportunities in the form of hotels and tourism based centres which will in turn drive demand for world class retail opportunities, providing 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.