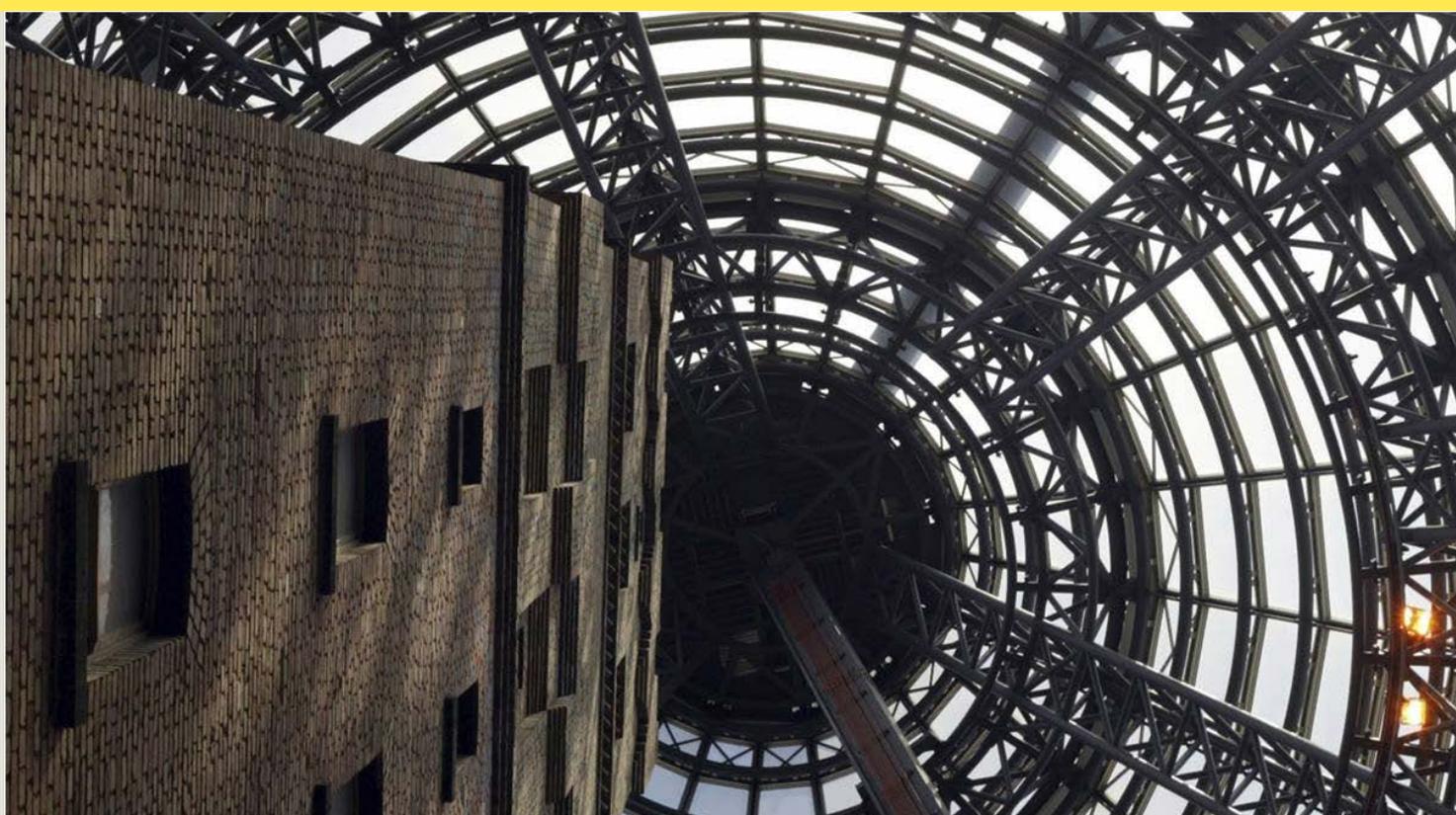


Briefing Melbourne CBD Retail

April 2016



Highlights

- In seasonally adjusted terms, Victorian Retail Trade figures reveal a 5.0 percent rise in the 12 months to January 2016 over the previous year
- Tenancy mix in the CBD is dominated by clothing and footwear retailers (41 percent), cafes, restaurants & takeaway food (25 percent) and services (12 percent)
- Savills recorded 29 vacancies within the CBD core and Swanston Walk from 1,132 shops surveyed, equating to a vacancy rate of 2.6 percent
- Melbourne CBD investment sales totalled \$497 million in the 12 months to March 2016, compared to \$389 million sold in the previous year
- CBD retail yields remain under pressure with rising investor appetite; rental growth seen only for prime retail locations

The CBD core
vacancy rate is
now 2.6 percent
Savills Research

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Introduction

The Australian Bureau of Statistics (ABS) reported seasonally adjusted Victorian retail trade growth of 5 percent in the 12 months to January 2016 above the national average of 4.3 percent. Although the retail turnover data shows positive growth in Victoria, its growth rate has eased, down from 5.8 percent recorded in the previous twelve months. This slowdown in the growth of Victorian retail trade aligns with the national results. Australian retail trade growth was down from 5.3 percent a year ago, impacted by the decelerating economy in resource states.

In seasonally adjusted terms, all retail sectors in Victoria posted positive growth over the past twelve months, led by the sub-sectors of household goods, pharmaceutical, cosmetics & other retailing, and department stores. Retail spending in the household goods category rose to 10.8 percent up from 7.1 percent recorded a year ago, whilst department stores witnessed a turnaround to 4.2 percent growth up from 0.9 percent recorded in the previous year. The sub-sectors of pharmaceutical, cosmetics & other retailing continued to rise strongly at 7.4 percent following a 7.6 percent rise a year ago. Whilst spending levels in food retailing increased by 2.6 percent, the results were lower than 5.9 percent growth recorded a year ago. The sub-sector of cafes and restaurants also rose by 3.8 percent; albeit at a lower growth rate compared to the 10 percent recorded in the previous year. Clearly, the discretionary spending sectors have been growing at a higher rate, as consumers look to spend beyond the non-discretionary sub-sector of food.

NAB reported a 10.6 percent growth year on year in Australia's online retail sales, outpacing the 4.3 percent growth in traditional bricks and mortar retail. Online retailing totalled \$19.2 billion in the 12 months to January 2016, now representing 6.6 percent of the total retail spending in Australia, compared to its 6.9 percent share 12 months ago. The rise in Australian bricks & mortar retailing was led by increases in household goods retailing (7.8 percent); pharmaceutical, cosmetics & other retailing (7.7 percent) followed by clothing & footwear (5.8 percent). Whilst, rise in online retail spending was driven by growth in food catering (42.3 percent), electronic games and toys (27.1 percent) and personal goods (9.5 percent).

The Reserve Bank of Australia has been holding official interest rates at 2 percent since February 2015, leading to an availability of low cost debt and favouring consumer spending. Evidently, retail sales data revealed an increase in the levels of consumer expenditure at both bricks & mortar retailing as well as in online sales. Australia's household savings ratio measured 7.6 percent in December 2015, its lowest level since September 2008 when it was recorded as 4.9 percent, indicating a shift from saving to spending amongst the population.

Included throughout the CBD are a number of enclosed centres and multi-level shopping malls which are outlined below.

Precincts	
CBD Core	The area bounded by Collins St, Elizabeth St, Swanston Walk and Latrobe St
Swanston Walk	Both sides of the street from Flinders St to Lonsdale St

Major Retail Centres

Centre	Address	Shops (No)	GLAR (sq m)
Australia on Collins*	206 Collins St	-	-
Centrepoint and Leviathan	Cnr Little Collins and Bourke Sts	22	9,920
Collins Two3Four	234 Collins St	15	2,870
Emporium	287 Lonsdale St	216	46,175
GPO Melbourne	350 Bourke St	6	4,457
Melbourne Central	211 Latrobe St	292	39,410
Midtown Plaza	246 Bourke St	11	4,555
Royal Arcade	335 Bourke St	34	1,449
The Block Arcade	282-284 Collins St	30	13,007
The Strand	Cnr Elizabeth St & Little Bourke St	18	9,498
The Walk Arcade	309-325 Bourke St	25	3,997
QV Melbourne	Cnr Lonsdale St & Swanston Walk	124	20,275

Source: PCA SCD 2015/Savills Research

*currently under redevelopment

Retail Development

New supply in the Melbourne CBD is limited to refurbished stock including the former Australia on Collins, which is scheduled to open as St. Collins Lane in May 2016. The shopping centre has reportedly undergone a \$30 million refurbishment to be transformed into a 9,000 square metre of luxury brand city centre. International retailers such as L'Agent, Kooples and Zadig & Voltaire will be opening up their first flagship Australian stores; while Sandro and Maje, Folli Follie and REISS, Coach, TAG Heuer and Furla have also signed up to trade at the refurbished city centre.

LaSalle Management's redevelopment of the St Collins Lane will be the first major retail refurbishment project in the CBD, subsequent to ISPT's redevelopment of Melbourne GPO and Vicinity Centres' Emporium. Collectively the two projects added over 50,000 square metres of luxury retail space to the Melbourne CBD over the course of 2014.

Elsewhere, London Stores (circa 2,000 square metres) at 341-357 Bourke Street and Emirates House (2,000 square metres) at 257 Collins Street are currently being redeveloped as landlords compete to attract blue-chip retail tenants to their city centres. London Stores will be anchored by Cotton On mega store (1,000 square metres).

Current Melbourne CBD Retail Development Activity

Property	Precinct	Type	New	Extension	Refurb	Completion
St Collins Lane	CBD	City Centre			9,000	2016
London Stores	CBD	Shops			c.2,000	2016
Emirates House	CBD	City Centre			2,000	2017

Source: Cordell Connect/ Savills Research

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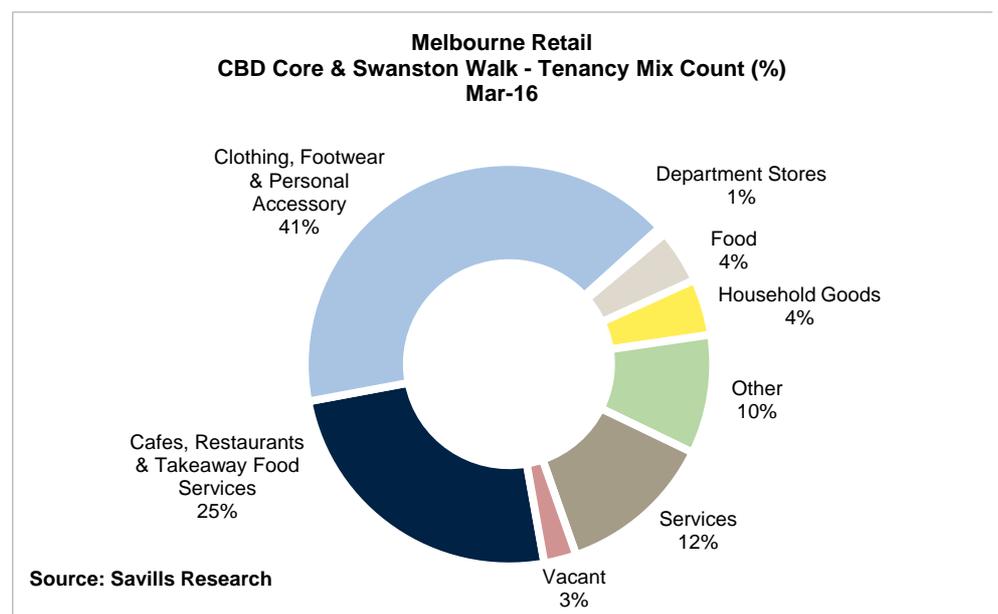
CBD Tenancy Mix

The Melbourne CBD is the largest shopping precinct in Victoria and remains a favourite of global retailers to launch their flagship stores in Australia. The tightly held retail precinct saw international cosmetics retailer Sephora, South African retailer Mr Price and the swimwear brand Billabong open flagship stores in the Melbourne CBD over the past year. Lower vacancy rates have stalled many international retailers' plans to launch or expand into the CBD retail market. Global fashion retailers such as Marks & Spencer and Debenhams remain interested in seeking flagship store sites within the retail precinct.

The busy CBD streets are interlaced with laneways containing many unique retail offerings. The laneway culture, first pioneered 120 years ago and still thriving amongst strong competition from main street frontages, department stores and shopping centres. Historic buildings, street art, boutique shops and al fresco eateries all side-by-side in the CBD' laneways and arcades remain popular amongst tourists as well as locals. This has translated into considerably lower vacancy rates for laneways and arcades (1.6 percent) than for street front shops (3.0 percent) and shops within shopping centres (2.2 percent).

The dominant retail categories across the CBD Core and Swanston Walk comprised clothing, footwear and personal accessory retailers (41 percent); cafe, restaurant & takeaway food services (25 percent) and services (12 percent).

Clothing & footwear retailers dominate shopping centres by accounting for 46 percent of the total occupiers, while arcades/laneways house 40 percent and street front shops accommodate 36 percent of clothing & footwear traders.



Tenancy Mix by Number – Mar 2016

Category	CBD Core	Swanston Walk	Total
Cafes, Restaurants & Takeaway	164	117	281
Clothing	409	57	466
Department Stores	5	2	7
Food	29	20	49
Household Goods	32	19	51
Other	73	35	108
Services	87	54	141
Vacant	23	6	29
Vacancy Factor (%)	2.8	1.9	2.6

Source: Savills Research

Retail Vacancy

Vacancy in the CBD Core and Swanston Walk retail precinct was 2.6 percent in March 2016, lower than 3.8 percent recorded a year ago. Vacant space is tight in the Arcades and Laneways with only three of the 181 shops currently available for lease. Street Front shops had the highest vacancy rate with seven of the 247 shops vacant, followed by Shopping Centres with 19 of the 704 shops available for lease. Vacancy in the Street Front and Shopping Centres was largely driven by shops in secondary locations. Prime retail locations are taken-up as soon as they become available. For example, Sketchers will be launching their flagship store at 106 Elizabeth Street, a backfill space vacated by Cotton On.

Melbourne CBD Retail Vacancy – March 2016

Precinct	Shops (No)	Vacancy (No)	Vacancy (%)
Arcades and Laneways	181	3	1.6
Street Front	247	7	2.8
Shopping Centres	704	19	2.7

Source: Savills Research

Key Market Indicators – March 2016

	Bourke St Mall		Other CBD		Shopping Strip	
	Low	High	Low	High	Low	High
Net Rental (\$/sq m)	9,000	11,000	1,000	4,000	400	1,400
Yield - Market (%)	3.50	5.50	3.50	6.50	3.50	6.50
Outgoings Operating (\$/sq m)	80	150	80	130	30	50
Outgoings - Statutory (\$/sq m)	130	150	80	100	40	40
Outgoings - Total (\$/sq m)	210	300	140	230	70	90
Capital Values (\$/sq m)	na	na	6,500	14,000	2,600	4,900

Source: Savills Research

Note: Shop sizes average 100 sq m

Outlook

According to IPD, Victorian retail property returned a steady total return of 11.5 percent, similar levels from a year ago. However, Victorian retail property returns are trending above the five-year average total returns of 10.5 percent. CBD retail property remains attractive to buyers not only in larger format shopping centres and arcades but also as individual stores. During the 12 months to March 2016, Melbourne's reported CBD retail property sales totalled \$497 million, up from \$389 million sold in the previous year. Most notable sales from the past year included Mid City Arcade for \$57 million; 206 Bourke St (formerly Village Centre) for \$116.3 million and the recent sale of 1-5 Queen Street (Fletcher Jones) for \$18 million. The amount of capital chasing retail investment coupled with limited properties offered for sale has contributed to lower yields and higher returns in recent years. This scenario is likely to continue with investors continuing their chase for quality assets, placing further downward pressure on yields over the remainder of the year.

The resident population in the CBD is expected to grow by 14 per cent by 2020, increasing its attractiveness to retailers with rise in footfalls. Moreover, new supply to the CBD remains limited to the refurbishment opportunities, adding just over 13,000 square metres of retail space over the next 18 months. Limited supply coupled with rising population is likely to see international and domestic retailers both compete for prime retail space. As a result, Savills Research expects Melbourne's CBD retail vacancy rate to remain tight over the medium term with rents likely to improve, particularly for prime retail.

The Reserve Bank of Australia has been holding historically low official interest rates at 2 percent since February 2015 and is forecast to continue this trend over the near term. Savills Research believe consumers will continue to benefit from the low cost of debt, low unemployment and low oil prices, augmenting their purchasing power which, in turn, can boost retail sales.

Employment is transitioning from the sectors of mining and manufacturing to construction, logistics & transport, services and retail trade. National unemployment levels have fallen to 5.8 percent in February 2016 from 6.3 percent a year ago. With the economy continuing its recovery, historically low interest rates and improving employment outlook, the household savings ratio can be expected to ease further, assisting higher retail turnover.

Consumer confidence levels have remained pessimistic (below 100 points) for eight of the twelve months in the past year, largely impacted by the political uncertainty clouding Australian political leadership. Confidence levels have also been negatively affected by the unemployment levels, performance of global financial markets and a slowdown in the Chinese economy over the past year.

While online retailing is on the rise, its growth rate has slowed to single digits compared to the double digit increases in the past. This trend may continue, parallel to the growth in traditional retail, as Australian consumers continue to show a preference for shopping at bricks & mortar stores.

The Australian dollar has fallen for the majority of the past five years and is currently trading marginally lower (down 3 percent) on the level in March 2015. A decline in the exchange rate is likely to increase international visitors and may attract offshore investments in the retail sector. A positive outlook for macro-economic indicators such as a rise in the CBD population, increased tourism, declining unemployment, an easing of household savings rates and the low cost of debt are all supporting consumer spending, especially on non-discretionary retail. This can be expected to continue in the medium term.

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