

Retail Investment



Bottoms up, or are we window shopping?

Investor appetite improves for retail assets as pricing crystallises

Bid-to-ask spread converges

Australian retail investment turnover (for transactions value over \$10 million) rose to \$2.3 billion in Q2, up from c.\$2.1 billion in Q1. Despite interest rate volatility potentially slowing the overall economic recovery, Q2 investment turnover is 167% higher than the lowest quarter in 2023.

After a 12-month period of muted activity relative to the highs of 2021 to 2022, the increase in deal flows this quarter indicates that the gap between buyer and seller expectations is narrowing. This also suggests that this protracted period of price discovery may be nearing its peak. Although the volatility in the interest rate outlook may temporarily increase the hesitancy among some investors in the short term, ongoing deal activity suggests that we may be closer to the cyclical bottom than previously thought.

Capital recycling of assets remains a key theme, either to reweight, to fund large development commitments or in some cases pay down debt. Current liquidity stems from privates and syndicators, particularly those looking to expand their foothold in Neighbourhood Centres and Sub-Regional / Regional assets. While there has been limited

institutional acquisition competition, select groups were still active during the quarter, including Vicinity Centres, Centuria, Scentre Group, HomeCo and Region Group.

LFR activity lifts

There was a noticeable increase in Large Format Retail volumes (\$10m+) during the quarter, c.\$557.2 million, up from c.\$96.5 million in Q1. Volumes received a boost after BWP Trust acquired the Newmark Property portfolio, which included c.\$331 million of Large Format assets. HomeCo has divested several assets as part of its capital recycling program to help fund the acquisition of Neighbourhood Centres. The most recent divestments include the Parafield Retail Complex (SA), which was sold to Accord Property Group for \$28.5 million, while private investors picked up HomeCo Lismore (NSW) for \$15 million and Highlands Homemaker Centre (NSW) for \$46.5 million (5.81% equated).

Syndicates make a comeback

There were two Regional Centre transactions that closed in Q2. IP Generation acquired a 100% stake in Stockland Glendale (NSW) from Stockland for \$315 million, its largest single acquisition to date, achieving a yield in the mid-7% range.

Additionally, a half-stake in Tea Tree Plaza (SA) was sold for \$308 million to Scentre Group and Barrenjoey Capital under a pre-emptive agreement, at a 12% discount to its December book value and a cap rate of approximately 7.3%. The cap rate is about 105 basis points softer than the 6.25% cap rate reported on Scentre Group's other half stake in December 2023. The half stake was divested by Dexus, after taking it over from AMP Capital.

REITs make strategic moves

Vicinity Centres divested three Sub-Regional assets in WA during Q2, marking the only transactions in this category for the quarter. These sales included Maddington Central, sold to Realside Property for \$107 million on a 7.9% yield, Halls Head Central Mall, co-owned with ISPT, sold to Centuria Capital Group for \$70 million at a 7.75% yield, and Karratha City Shopping Centre, co-owned with Challenger, sold to a local syndicate for \$95.9 million with a 7.5% yield. The results were mixed: Maddington and Karratha sold below recent book values, while Halls Head sold broadly in line with its book value.



\$36.2bn
retail spend
Jun-24* (ABS)
(+2.9% Y/Y)



11.7%
Online % share of
total retail (ABS)



32,100
Retail job
vacancies in Feb
2024
(ABS)



-3.3%
Retail
development
approvals
May-24
(ABS)

(*Yields are reported unless stated.)

Latest economic indicators

	Latest Date	Current	Trend
GDP*	Mar-24	1.70%	▲
Monthly CPI Indicator	Jun-24	3.80%	▲
RBA Cash Rate Target	Jun-24	4.35%	◀▶
Unemployment Rate	Jul-24	4.20%	▲
Monthly Retail Trade	Jun-24	0.5%	▲

Source Savills Research / ABS / RBA

*asterisk denotes annual rate, otherwise rate reflects monthly figure

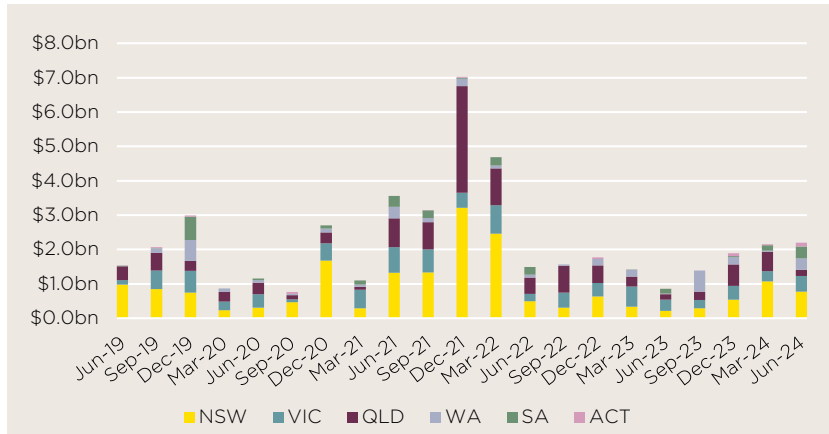
Source Savills Research / ABS

*Seasonally adjusted terms

Quarter highlights

Early signs of recovery in investment activity

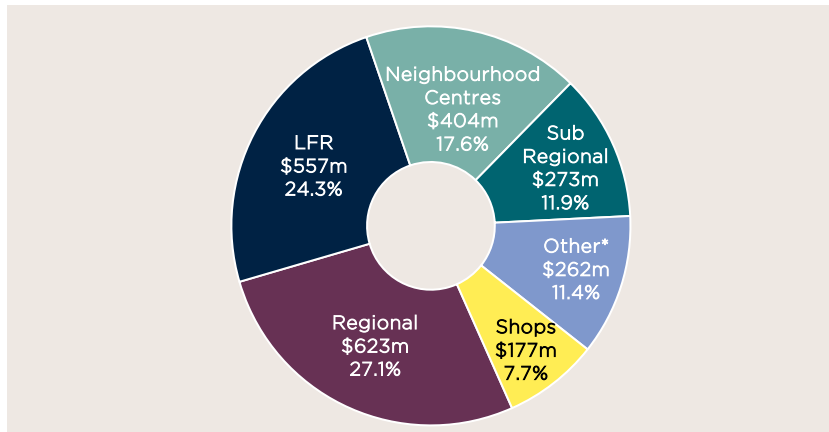
Transaction volumes (\$10M+) by state, quarterly to Jun-24



Source Savills Research

Share of investment volumes by centre type

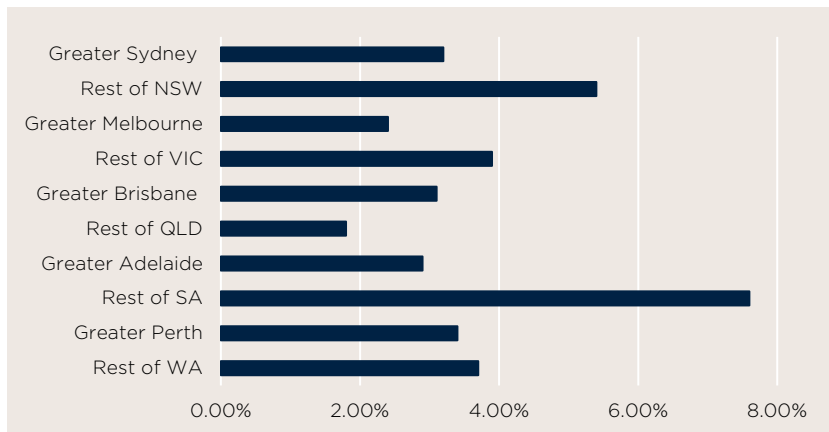
% share of investment volumes by value (\$10M+) and centre type, 3-months to Jun-24



Source Savills Research

Non-metro outperforms metro areas

Annual Change in Gross Regional Product (GRP), 2022/23 FY



Source NIEIR, State of the Regions 2024
GRP is equivalent to gross domestic product (GDP), but for a smaller area.

Little big deals

The rebound in transactional volumes in Neighbourhood Centres since the end of 2023 has now brought FY24 annual volumes (sales over \$10m in value) in line with its pre-COVID five-year average of \$1.75 billion. Institutional investors and private entities, attracted to non-discretionary retail segments, remain the primary buyers. Noteworthy transactions include the sale of Cooleman Court (ACT), which features Woolworths and Aldi, to Region Group for \$74 million at a yield of 6.73%. This marks Region Group's first purchase since launching a capital recycling program that divested six properties last year, signalling renewed confidence in market pricing. Additionally, Centuria sold West Ryde Marketplace to HomeCo Daily Needs REIT for \$60 million, and also sold Pemulwuy Marketplace in West Sydney to Revelop for \$40 million, both anchored by Woolworths. The Soda Factory in South Brisbane, anchored by Coles, was sold to a private investor for \$41.8 million (6.00% passing yield).

Regional and neighbourhood centres lead the pack

Regional centres made up 27% of retail investment volumes, with Sub-Regional assets accounting for 11.9% of deal volumes. Neighbourhood malls accounted for 17.6% of investment volumes, with big box large format retail comprising 24.3%.

Dwindling supply pipeline

Development supply is constrained, fostering positive future opportunity for retail developers. Over the quarter Revelop, purchased a site in Plumpton, NSW in an off-market deal worth \$20 million, with plans to develop a >\$200m Sub Regional asset.

Revelop reported that underlying demand for retail floorspace and strong population growth will drive MAT productivity and income growth.

WA shines bright

In more recent news, Future Fund is also understood to have sold its half stake in Lakeside Joondalup (WA) to Vicinity Centres. The sale price is expected to be announced at below its previous book value, with further details to come through in Q3. The deal follows Vicinity's acquisition of the remaining interest in Chatswood Chase in Q1 to take full ownership, and potentially signals a structural change of upweighting portfolios to higher quality retail.

Inflection point for returns?

The MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index for the period ending July 2024 highlights a challenging environment for core property funds, with the weighted average net total return at -10.4%. However, the retail sector emerges as a notable exception. In the index, Retail Specialist funds showed relative resilience, outperforming the average with a net total return of -2.5% per annum, the best performance among the core funds included.

Non-metro outperforms

Non-metropolitan areas are showing stronger economic growth than metropolitan areas. While this occurred during the pandemic, there continues to be positive flow-on effects, with ABS data showing the population in regional areas nationally grew by 1.4% last year.

This looks to be benefiting consumer spending in the regions with income returns in country/ non-metro retail centres outperforming metropolitan retail centres, at 6.3% per annum, compared to 5.9% for metro centres in the Property Council of Australia/ MSCI Australia Annual Property Index in June 2024.

RECENT KEY TRANSACTIONS

Sales (\$10m+)

Property	Centre Type	Price (\$m) Date GLA	Yield (%) Type \$/sqm
Stockland Glendale, NSW	Regional	315.0 Apr-24 52,420	6.80 e 5,926
Tea Tree Plaza, SA (50%)	Sub-Regional	308.0* Apr-24 101,584	6.94 e 6,064
Maddington Central, WA	Sub-Regional	107.0 Apr-24 27,661	7.12 e 3,868
Karratha City Shopping Centre, WA	Sub-Regional	95.90 Jun-24 22,985	7.59 e 4,133
Cooleman Court, ACT	Neighbourhood	74.0 May-24 10,469	6.51 e 7,069
West Ryde Marketplace, NSW	Neighbourhood	60.2 Apr-24 6,384	5.75 e 9,430
The Bayview Centre, NSW	Large Format	57.0 Jun-24 10,729	5.60 e 5,313
Rutherford Mall, NSW	Neighbourhood	49.75 Apr-24 6,868	5.94 e 7,244
Highlands Homemaker Centre, NSW	Large Format	46.25 Jun-24 11,482	5.81 e 4,028
Soda Factory, QLD	Neighbourhood	41.8 Jun-24 5,203	6.00 r 8,072

Source Savills Research / MSCI Real Capital Analytics; Key Transactions include reported deals that may not have settled
i = Initial, e = Equated, r = Reported
*astericks denotes gross sale price, \$298 million net purchase price

RETAIL TRADE UPDATE

Retail turnover saw increases across most industries in June 2024, according to ABS, driven by spending in non-food-related sectors. Household goods retailing led the rise with a 1.1% increase, followed by department stores and other retailing, both up 1.0%, and clothing, footwear, and personal accessory retailing up 0.7%. However, turnover in cafes, restaurants, and takeaway food services remained flat.

While most states and territories experienced a rise in turnover, Tasmania was the exception, with little change. Despite the growth in turnover, retail sales volumes fell 0.3% in the June quarter, marking the sixth decline in the past seven quarters, as consumers continue to hold back on spending amidst rising prices.

The Westpac Card Tracker Index held steady at 134.8 in the last two weeks of July 2024, slightly above the year's average of 134. While there has been a modest boost in consumer activity following the implementation of the 'Stage 3' tax cuts on July 1, the increase has been relatively small and somewhat uncertain due to weekly volatility and end-of-financial-year sales.

Monthly growth has returned to positive territory, now at +0.5%, with a notable lift in discretionary goods spending, particularly in Western Australia and Queensland. However, the full impact of the tax cuts is still emerging, and the coming weeks will provide a clearer picture of their effect on consumer expenditure.

OUTLOOK

The near-term outlook for consumer spending remains difficult, reflecting slowing economic growth, a softening labour market, and ongoing cost-of-living pressures.

However, households are beginning to get some relief in the form of the Stage 3 tax cuts. Stronger economic growth next year will help boost consumer spending. Indeed, real retail turnover is projected to rise from 0.0% in 2024 to 2.3% in 2025, according to Deloitte.

The Fair Work Commission's decision in June 2024 to increase minimum and award wages by 3.75% has mixed implications. While it could modestly boost consumer spending capacity, the higher-than-expected increase may financially strain businesses, exacerbating the existing rise in retail and hospitality insolvencies.

Despite the current challenging environment, conditions for consumers and the retail sector are set to turn more positive as we move into 2025.

The recent uptick in deal flows over the June quarter suggests that the disparity in expectations between buyers and sellers is diminishing. The sustained level of deal activity implies that we may be nearer to the cyclical bottom than previously anticipated. Capital recycling of assets remains a key theme, either to reweight, to fund large development commitments or in some cases pay down debt.

Emerging market liquidity is expected to continue particularly from privates and syndicators, looking to expand their foothold in Neighbourhood Centres and Sub-Regional / Regional assets.

With investors focusing on cash flow certainty and capital expenditure due to balance sheet constraints, momentum in retail property transactions is expected to increase, signalling a positive investment trajectory for the upcoming quarter, with a particular focus on grocery anchored retail, within dominant catchments across major capital cities.

Savills Research team

Please contact
us for further
information

Katy Dean

Head of Research
+61 435 964 886
kadean@savills.com.au

Chris Naughtin

National Director
+61 425 719 877
chris.naughtin@savills.com.au

Barbara Cocca

Research Analyst
+61 458 644 129
barbara.cocca@savills.com.au

Cristina Siracusa

Research Analyst
+61 423 334 360
cristina.siracusa@savills.com.au

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