Australia Retail - November 2024

MARKET IN MINUTES

Savills Research

Retail Investment

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Billions in the bag: Investors ride the upswing

Holding pattern on rates helping deal flow as capital moves on growth prospects

Turning point in deal flow
Australian retail investment volumes (for transactions valued over $10 million) reached approximately $2.2 billion in Q3, slightly below the $2.3 billion recorded in Q2. Despite subdued survey results and confidence indicators, as well as multiple delays in the timing of interest rate cuts, year-to-date investment volumes have shown resilience. From January to September 2024, investment volumes totalled $6.6 billion—over 80% higher than the same period in 2023 ($3.7 billion).

Inflation eased further in September, and the anticipated monetary policy easing next year is expected to bring pricing expectations closer together, supporting a more sustained rebound in activity in 2025. Additionally, the prospect of interest rate cuts in 2025—though now likely delayed, with financial markets and some economists now forecasting the first cut after the federal election—should strengthen economic data, boost investor confidence, and unlock further investment activity.

Institutional investment shifts
Current liquidity is driven mainly by select institutions, high-net-worth individuals and syndicators, particularly focused on expanding in Neighbourhood Centres and Sub-Regional/Regional assets.

Institutional capital led acquisitions in Q3, accounting for just over half of all transactions by value (50.7%), followed by private investors with a 34.3% share and syndicate groups at 9.7%.

Capital makes strategic moves on growth prospects
Capital recycling remains prominent as investors reweight portfolios, fund developments, or reduce debt, leveraging asset re-pricing and strategic acquisitions. Key players in Q3 included Vicinity Centres and HMC Capital.

Vicinity Centres divested several non-core malls to focus on premium assets, notably acquiring the remaining 49% stake in Sydney's Chatswood Chase earlier this year. More recently, they invested $420 million for a half stake in Lakeside Joondalup (Perth), securing management and development rights from Future Fund.

HMC Capital has been targeting traditional shopping centres for its Last Mile Retail Logistics Fund. Notable Q3 acquisitions include Market Central Lutwyche in Queensland for $118 million at a 6.81% equated yield and Brandon Park Shopping Centre in Victoria for $107.5 million (6.48% equated yield). The Queensland asset, sold by Abacus and ISPT, spans 2.15 hectares with redevelopment potential, while the Victorian site, sold by Newmark Capital, covers 5.81 hectares.

Big centre and grocery grabs help sustain the momentum
Other notable transactions in Q3 include Scentre Group's acquisition of a 50% share in Westfield West Lakes in South Australia for $174.75 million, on a yield of 7.0%. Scentre continues as co-owner and property manager, with Dexus exiting through a pre-emptive rights agreement.

In the Sub-Regional market, the most significant transaction was the Willows Shopping Centre in Queensland, which was sold to the syndicate group Fawkner Property for $212 million at a 7.0% yield (equated). Another significant sale was QIC's 50% share in Claremont Quarter, Western Australia, which Hawaiian Group acquired for $206.2 million (6.05% equated yield). Hawaiian exercised its pre-emptive rights to buy the remaining stake, consolidating ownership.

In Neighbourhood centres, the largest transaction was Dee Why Grand Shopping Centre on Sydney's Northern Beaches, sold to Wingdom Group for $60 million, reflecting a 7.3% yield. Additional sales include Warbu Bellmere Shopping Centre in Queensland, sold to Mailku Group for $37.75 million (5.52%), and Woolworths Craigieburn in Victoria, purchased by a private investor for $17 million (5.7%).

(#Yields are reported unless stated.)

Latest economic indicators

	Latest Date	Current	Trend
GDP*	Jun-24	1.00	▶
CPI*	Sep-24	2.80	▼
RBA Cash Rate Target	Nov-24	4.35	◀▶
Unemployment Rate	Sep-24	4.10	◀▶
Monthly Retail Trade	Sep-24	0.10	▲

Source Savills Research / ABS / RBA
*asterisk denotes annual rate, otherwise rate reflects monthly figure

$36.5bn
retail spend
Sep-24* (ABS)

+2.3%
Annual rise in retail trade spending compared to Sep-23* (ABS)

28,700
Retail job vacancies in Aug-24 (ABS)

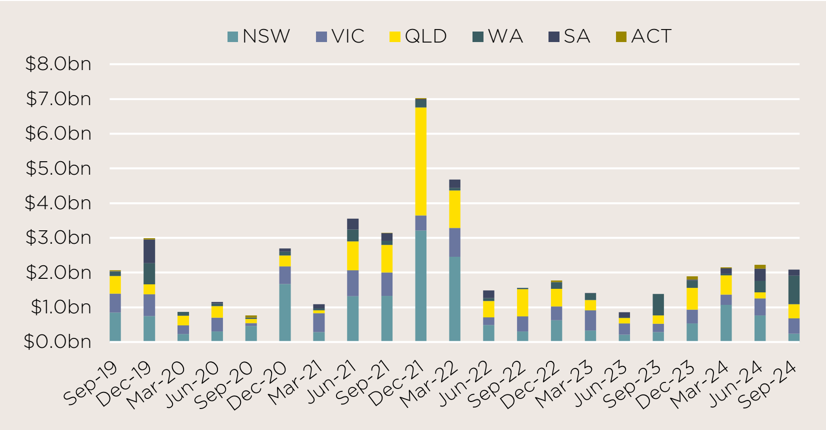
+4.5%
Annual rise in retail development approvals Sep-24* (ABS)

Source Savills Research / ABS (*Seasonally adjusted)

Quarter highlights

Investment activity

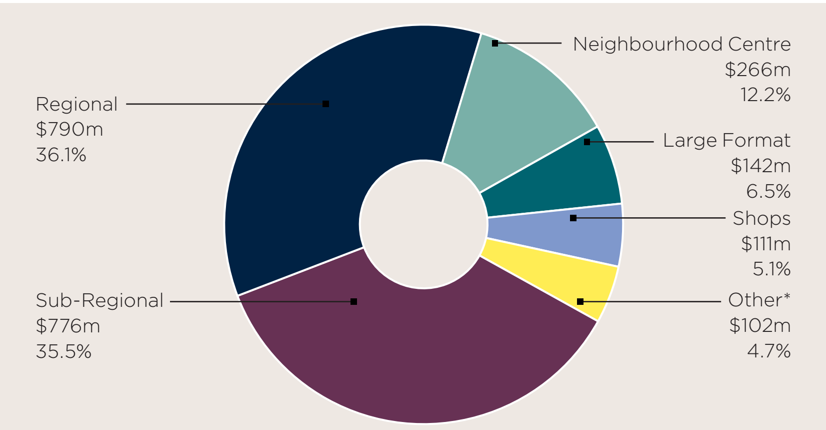
Transaction volumes ($10M+) by state, quarterly to Sept-24



Source Savills Research

Share of investment volumes by centre type

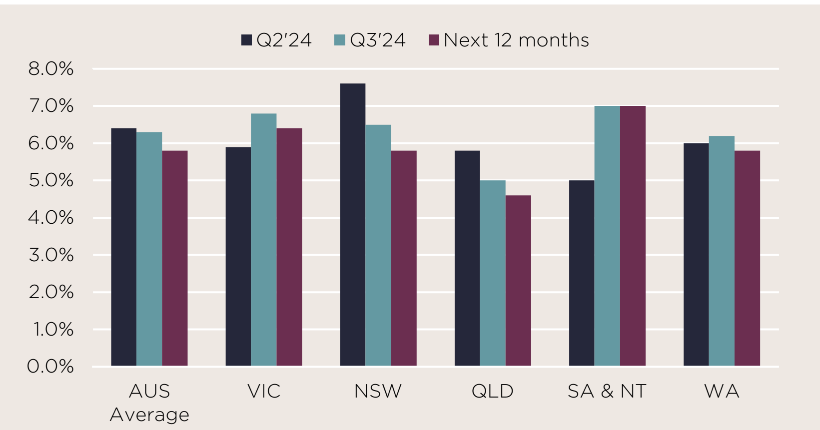
% share of investment volumes by value ($10m+) and centre type, 3-months to Sept-24



Source Savills Research
*Other includes freestanding, city centre and other

Survey outlook on retail vacancy suggests it will fall in 2025

Retail vacancy survey expectations, %, by state, Q2'24 vs Q3'24 vs next 12 months



Source Savills Research using NAB Commercial Property Survey Q3 2024, released 1 Nov 2024

Shopping centres lead investment momentum

Regional centres made up 36.1% of retail investment volumes by value (transactions greater than $10 million), with Sub-Regional assets accounting for 35.5% of deal volumes. Neighbourhood shopping centres accounted for 12.2% of investment volumes, with large format retail centres comprising 6.5%.

Pending deal activity points to ongoing improvement in deal flow

Significant deal volumes are expected in Q4, highlighted by the $880 million sale of Westpoint Shopping Centre in Blacktown, NSW. This sale, announced in October 2024, is set to be the largest standalone retail asset sale on record. Local property syndicator Haben and US-based investment manager Hines each acquired a 50% stake, with a reported capitalisation rate of approximately 6.125% (6.27% initial yield). QIC had previously been in talks to sell the centre, and Haben undertook capital raising to support the acquisition.

Additionally, in November it was reported that the Dexus managed fund will have to sell its 50% stake in Sydney's Macquarie Centre for $830m to UniSuper and Cbus Property (held in the AMP Capital Retail Trust managed by GPT), after they successfully argued in court that they held a right to acquire the full ownership of the shopping mall. GPT is expected to assume investment management of the incremental 50% stake and property management for the asset post completion. Dexus acquired the asset from AMP, but the two superannuation funds claimed the Dexus acquisition on the AMP platform triggered a pre-emptive right for them to purchase the remaining stake of Macquarie Centre as the transfer breached contractual rules.

NAB survey suggests vacancy will tighten in 2025

NAB's Q3 Commercial Property Survey reports that overall retail vacancy has stabilised at 6.3%, slightly down from 6.4% in Q2. Vacancy rates are anticipated to tighten further over the next 12 months, averaging 5.8% overall, with projected declines in Victoria (6.4%), Queensland (4.6%), New South Wales (5.8%), and Western Australia (5.8%). The quarterly survey assesses market conditions in the commercial property sector, drawing on insights from approximately 300 professionals, including real estate agents, property managers, developers, asset and fund managers, and investors.

Retail trade update

In September 2024, Australian retail turnover experienced a slight increase of 0.1% (seasonally adjusted), following a 0.7% rise in August and a flat result in July. In annual terms, retail trade has increased 2.3% compared to September 2023.

Turnover results varied across sectors, with household goods retailing leading growth at 0.5%, spurred by an increase in hardware and gardening sales in Western Australia, which saw unseasonal rainfall in August.

Cafes, restaurants, and takeaway food services were the only other sector to rise, up by 0.4%. Conversely, department stores (-0.5%), clothing and footwear (-0.1%), and food retailing (-0.1%) saw modest declines. A sharp reversal in liquor sales contributed to the dip in food spending.

RECENT KEY TRANSACTIONS

Sales ($10m+)

Property	Centre Type	Price ($m) | Date | GLA	Yield (%) | Type | $/sqm
Dee Why Grand Shopping Centre (NSW)	Neighbourhood	60.0 | Aug-24 | 9,976	7.30 | r | 6,014
Lakeside Joondalup (WA) - 50% stake	Regional	420.0 | Aug-24 | 99,826	6.28 | e | 8,415
Willows Shopping Centre (QLD)	Sub Regional	212.0 | Aug-24 | 44,507	7.00 | e | 4,640
Claremont Quarter (WA) - 50% stake	Sub Regional	206.2 | Aug-24 | 29,801	6.05 | e | 13,630
Westfield Whitford City (WA) - 50% stake	Regional	195.0 | Sept-24 | 85,117	7.24 | e | 4,582
Westfield Westlakes (SA) - 50% stake	Regional	174.8 | Aug-24 | 70,798	8.00 | r | 4,937
Market Central Lutwyche (QLD)	Sub Regional	118.0 | Sept-24 | 22,064	6.81 | e | 5,348
Brandon Park Shopping Centre (Vic)	Sub Regional	107.5 | Sept-24 | 22,789	6.48 | e | 4,717

Source Savills Research / MSCI Real Capital Analytics; Key Transactions include reported deals that may not have settled
i = Initial, e = Equated, r = Reported

OUTLOOK

Despite ongoing retail trade weakness during the last 12-months, positive signals are emerging. Retail turnover is expected to strengthen, with Deloitte projecting retail growth to rise from -0.3% in 2024 to 1.5% in 2025 and 2026. Cost of living relief, including energy bill subsidies and tax cuts, has boosted disposable income, aiding medium-term retail recovery. Positive real wage growth, with inflation moderating and wage growth sustaining momentum, is set to provide a crucial boost to consumer spending recovery over the medium term. As inflation pressures ease, the steady rise in wages means households should experience increased purchasing power. This gradual uplift in real incomes could help revive consumer confidence and encourage spending on both essentials and discretionary items.

A number of A-REITs continue to report positive leasing spreads and occupancy growth, driven by stabilising capitalisation rates and inflation-linked rental increases. Mixed-use developments are also gaining traction, with ongoing acquisitions of value-add strategies in last mile and urban centres expected to continue into 2025. CBDs are seeing a revival with increased visitor numbers, which is also contributing to strong underlying fundamentals, particularly given retail sales have remained steady, even if at lower levels.

There is expected to be some consumer constraint during Q4, with a number of surveys suggesting consumers are looking to spend the same or less this holiday period than they did last year. However, the Australian Retailers Association is more optimistic, forecasting a $69.7 million increase in sales during the six weeks leading up to Christmas, a 2.7% rise year-on-year. Notably, NSW is expected to lead with a +3.4% increase, followed by VIC at +2.3%, highlighting regional variances in consumer confidence. Despite some consumers tightening their belts, the holiday season still offers solid opportunities for growth, particularly if economic conditions shift favourably.

Looking ahead, Q4 2024 is expected to see further leasing and sales activity, supported by solid fundamentals in key retail and convenience sectors. Institutional investors are re-entering the retail market, attracted by stabilised cap rates and income growth. As retailers grapple with store availability shortages and rising occupancy costs, opportunities for value-add investments and redevelopment projects are expected to grow, further solidifying the outlook for the retail sector.

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

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