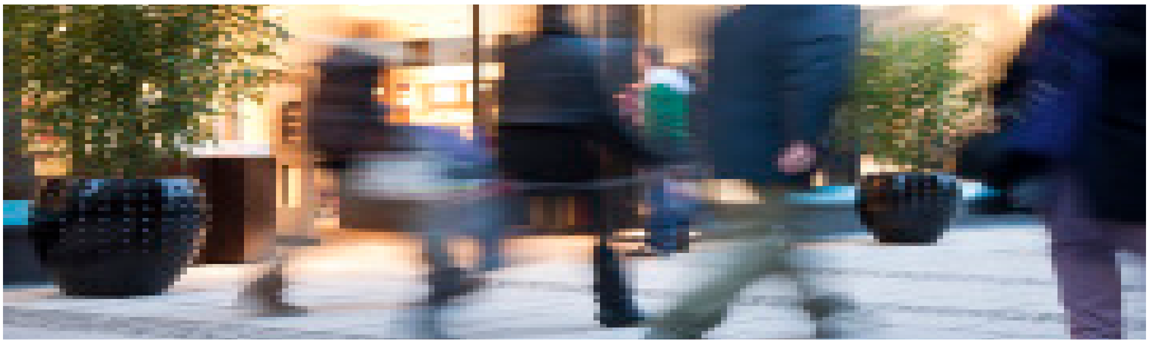
MARKET IN MINUTES

Savills Research

Retail Investment



Signs of recovery as rate cuts come into view

Tide is turning

2024 shows early signs of recovery as financial markets start to price in interest rate cuts this year and investor sentiment shifts. Australian retail investment volumes (+$10M) began to lift in the second half of 2023, finishing with c.$2.6 billion in transactions in Q4, up 86% on Q3 and more than double the volume transacted in Q2. In annual terms, c.$6.25 billion was recorded in 2023, down 37% in 2022. This is similar to the global theme due to the broader difficulties related to the economic and interest rate environment.

Several institutional investors, including Lendlease, Charter Hall, Dexus, and Abacus, looked to recycle capital into other opportunities. While transactions remained limited, this included the disposal of select secondary grade retail assets.

Large mall sales have moderated but capital active

Regional and sub-regional centres accounted for over half of retail investment volume in 2023, well above the historical average share of 40%. Notable transactions in Q4 include Fawkner Property and PAG, acquiring Cairns Central and Settlement City, and Haben's purchase of the remaining half stake in Stockland Townsville to take full ownership. ISPT also sold Eastgate Bondi Junction on reported 6.10% initial yield to Charter Hall's wholesale vehicle, Retail Partnership (RP6), which is owned 80% by Mercer Super and 20% by CQR.

Boutique fund managers and syndicators dominated the regional centres that sold in 2023. The buyer profile was mixed across sub-regionals, with institutional capital, syndicators, and privates being the most active.

Grocery demand resilience

Neighbourhood centres remain a focal point for investors, accounting for around 22% of total investment volumes by value (+$10M), which is unchanged from its historical average, despite economic uncertainty delaying some investment decision making across other asset classes.

Queensland emerged as a significant market, accounting for 26% of the national neighbourhood centre volumes, including the Robina Central (Gold Coast) sale for $34 million (5.00%) and Flagstone Village for $26.44 million (6.00%).

Region Group also contracted to sell three of their centres, including two in Queensland, Mount Warren ($18M, 5.75% implied cap rate) and Collingwood Park ($15.3M, 5.25%), along with Drouin Central in Victoria ($20.3M, 5.3%). Other sales include the retail portion of Dickson Village (ACT) for $83.7 million (5.3%) and Torquay Village (VIC) for $50 million, on a reported 5.50% initial yield.#

LFR yields robust

In 2023, transaction volumes (+$10M)for large format retail (LFR) fell 84% compared to 2022. The trend indicates that this subsector remains tightly held despite ongoing investor demand.

Even with challenging macro-economic conditions, yields have displayed resilience compared to the other retail subsectors, showing less softening over 2023. In Q4-23, HomeCo Box Hill (VIC) sold off-market on an initial yield of 5.5% to a private investor, reportedly in line with its book value. However, in a more recent example, Robina Supa Centre sold for $53 million on a yield of 7.0%.

#(Yields are reported unless stated.)

Latest economic indicators

	Latest Date	Current	Trend
GDP*	Dec-23	1.50%	▲
Monthly CPI Indicator*	Jan-24	3.40%	▼
RBA Cash Rate Target	Feb-24	4.35%	◀▶
Unemployment Rate	Jan-24	4.10%	▲
Retail Trade*	Jan-24	1.10%	▲

Source Savills Research / ABS / RBA

*asterick denotes annual rate, otherwise rate reflects monthly figure

$35.7bn
retail spend
Jan-24* (ABS)

1.33m
persons employed in retail trade Nov-23
(Jobs & Skills Australia)

$2.6 billion
transaction volumes by value ($10M+) in Q4-2023 (Savills)

3.4%
Monthly CPI indicator
(12mo to Jan-24)
(ABS)

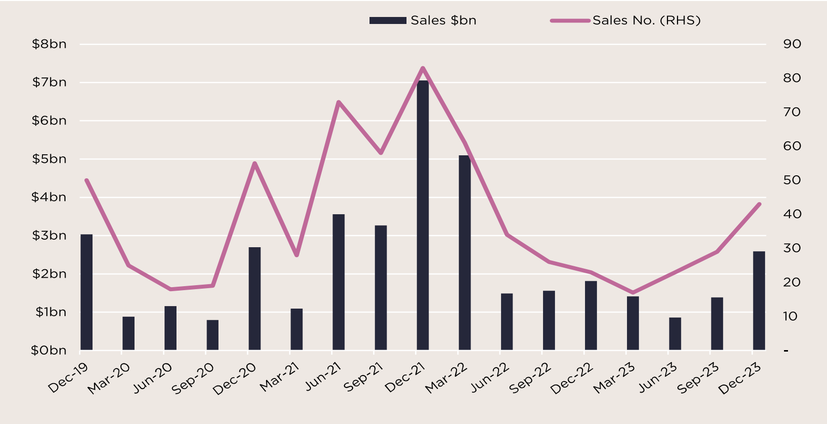
Source Savills Research / ABS

*Seasonally adjusted terms

Quarter highlights

Investment volumes subdued

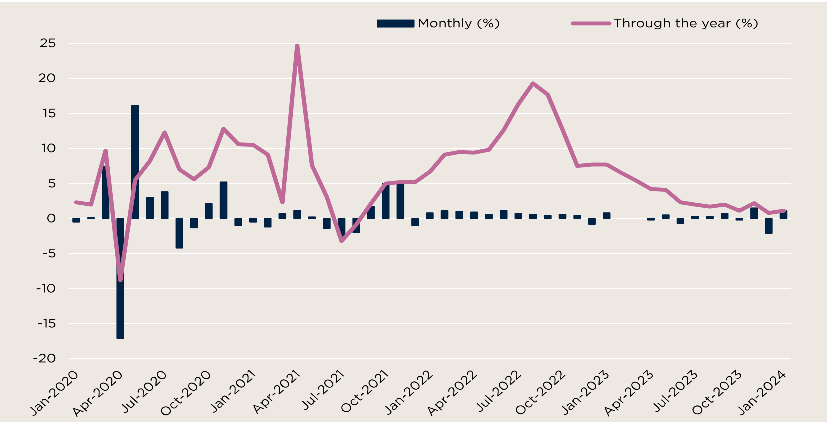
Transaction volumes ($10M+) vs number of sales, quarterly to December 2023



Source Savills Research

Retail sales fall 2.7% in December, but rise 1.1% in January

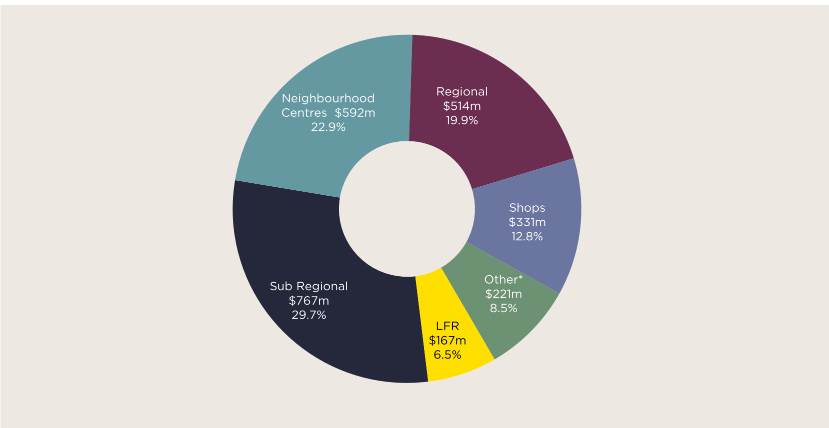
Retail trade, monthly turnover v through the year, seasonally adjusted (%)



Source Savills Research / ABS

Share of investment volumes by centre type

% share of investment volumes by value ($10m+) and centre type, 3-months to Dec-23



*other includes freestanding, mixed use and city centres
Source Savills Research

Retail spending rebounds but underlying growth slowing
Consumers look to have increased spending in November, taking advantage of Black Friday / Cyber Monday sales events to spend less in December. In month-on-month terms, retail spending fell 2.7% (seasonally adjusted), more than the 1.7% pencilled in by the market consensus. This was the largest monthly decline since August 2020. However, there has been a slight rebound in January 2024, with retail sales up 1.1% (although less than the 1.5% consensus expectation). The annual growth rate in retail sales to January is up +1.1%. In 2023, January spending was stronger than December trade but was relatively flat in February and March, so a similar pattern could emerge in 2024.

Except for food retailing, which declined 0.1%, all retail categories saw an increase in retail trade spend in January. The largest increases were recorded for clothing, footwear and personal accessories (+2.4%) and household goods (+2.3%). This followed strong declines in December of 5.4% and 8.2%, respectively. Department stores and 'other retailing' saw increases of 1.7% in January, with the latter recording the largest annual gain of 2.8%.

The slowing in consumer spending is reflected in household consumption, which showed that through-the-year growth in household spending eased across eight of the nine spending categories in December as households continued to face cost-of-living pressures. The report also found that discretionary spending was 0.6% lower than the same time last year, with less spending on goods for recreation and culture, furnishings and household equipment.

Property fund returns fall; specialities shine
The total returns (rolling annual) for all funds covered by the MSCI Mercer Australia Core Wholesale Monthly Property Fund Index fell to -7.1% in January 2024, compared to total return in retail for the year at -2.6%. Retail specialist funds total returns emerged as the second best performing, following Industrial. The MSCI index monitors 15 funds, including office, retail, industrial and diversified funds, managed by GPT, Charter Hall, ISPT, Mirvac, QIC, Dexus, AMP Capital, Lendlease and Investa.

Positive income growth
Several retail centre landlords reported positive income growth and re-leasing spreads, which has helped to support valuations and partially offset cap rate movements. For example, Scentre Group reported that speciality rent escalations increased by 7.5% in 2023 and new lease spreads improved to +3.1%. This is not dissimilar to Vicinity Centres, which reported a +3.3% leasing spread in 1h FY24, up from 0.3% in 2023 and Stockland (+3.5%). GPT reported +5.3% across renewals and new leases, while Charter Hall reported +1.2% speciality leasing spreads.

RECENT KEY TRANSACTIONS

Sales ($10m+)

Property	Centre Type	Price ($m) | Date | GLA	Yield (%) | Type | $/sqm
Stockland Balgowlah, NSW	Sub-Regional	155.0 | Mar-24 | 12,802	5.74 | e | 12,107
Stockland Nowra, NSW	Sub-Regional	103.0 | Mar-24 | 15,759	7.76 | r | 6,282
Eastgate Bondi Junction, NSW	Sub-Regional	125.0 | Jan-24 | 15,000	5.78 | e | 8,333
Dianella Plaza, WA	Sub-Regional	76.3 | Jan-24 | 17,138	6.65 | r | 4,449
Cairns Central Shopping Centre, QLD	Regional	390.0 | Dec-23 | 51,632	6.92 | e | 4,275
Ashfield Mall, NSW	Sub-Regional	171.0 | Dec-23 | 25,169	5.84 | r | 6,794
Smithfield Shopping Centre, QLD	Sub-Regional	138.0 | Dec-23 | 34,793	7.22 | e | 3,966
Rosebud Plaza, VIC#	Sub-Regional	134.5 | Dec-23 | 23,300	6.00 | r | 5,764
Stockland Townsville, QLD (50%)^	Regional	123.5 | Dec-23 | 44,908	7.55 | e | 5,322
Southgate Square, SA#	Sub-Regional	91.0 | Dec-23 | 15,935.5	5.80 | e | 5,711
HomeCo Box Hill, VIC	Large Format	67.5 | Nov-23 | 13,893	5.50 | r | 4,711

Source Savills Research / MSCI Real Capital Analytics; Key Transactions include reported deals that may not have settled
i = Initial, e = Equated, r = Reported
#Contracted to sell in December with settlement dates in 2024
^ Haben acquired the remaining half stake

OUTLOOK

Easing inflation pressures have seen major economy government bond yields decline in recent months from the highs reached late last year as financial markets price in more interest cuts this year. Lower bond yields reflect increasing confidence that central banks will begin to ease monetary policy. In Australia, the RBA is expected to deliver at least one rate cut in 2024, with one 25-basis point move now fully priced in by October.

A pivot to rate cuts during 2024 should encourage many buyers to return to the market. However, a key to unlocking investment activity is the market adjusting more fully to higher interest rates. This will help reduce the bid ask spread and drive the recovery. There are early indications that this adjustment is gathering momentum in Australia after a significant lag compared to major advanced economies, although there still remains a low level of transactions to benchmark from. It is expected this recovery will be gradual, with ongoing subdued activity in the first half of the year before gaining more traction later in the year and into 2025.

Looking ahead, there are a number of off-market sub-regional transactions pending which will contribute to deal volumes through the first half of the year. Institutions may begin cautiously testing the market in the second half of the year, with opportunistic privates and syndicators still expected to dominate acquisition activity in the near-term, especially sub-regional opportunities. Neighbourhood centres and large format retail will continue to stand out as resilient assets.

The interest rate environment is stabilising, providing more clarity on the cost of debt, and this will aid decision making, particularly for those investors with capital waiting on the sidelines. There is certainly more optimism that the gap between buyer and seller expectations will improve, driving a gradual uptick in major investment activity.

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