Australia Retail - May 2024

MARKET IN MINUTES

Savills Research

Retail Investment

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Retail sector showing signs of recovery

Strategic investor acquisitions underscore activity in Q1

Retail most active sector in quiet Q1

Amid a subdued start to the year for transaction volumes, the retail sector shines as a bright spot.

Australian retail investment volumes (+$10m) reached c.$2.2 billion in Q1, marking a 13% increase compared to Q4 2023. This figure also represents a 54% rise compared to Q1 2023.

While a recent reversal in cash rate expectations is still delaying the return of some institutional investors to the market, the response from privates and syndicator groups on the buy side reflects a strong conviction for retail, particularly for value-add and opportunistic opportunities.

Growing investor confidence

The retail sector has undergone a correction that pre-dates the pandemic, with asset repricing and a shift in buyer profile over the past five years. The pick up in investment activity in Q1 underscores the growing confidence among select investors. Current liquidity stems from privates and syndicators, particularly those looking to expand their foothold. Acquisition activity from institutional investors has declined to about half its historical average.

Notable transactions in Q1 include Fawkner Property acquiring Cairns settlement of Central Shopping Centre for ($390M, 6.92% equated yield), Revelop acquiring Stockland Balgowlah ($155M, 5.75%) and JY Group's purchase of Roxburgh Village in Victoria ($123M, 7.25%).

Select insto's still active

There are encouraging signs that some institutional investors are returning to the market, with several notable deals finalising in Q1. Noteworthy is Vicinity Group's acquisition of the remaining 49% interest in Chatswood Chase from GIC for $307 million, which settled in Q1. ISPT also sold Eastgate Bondi Junction for $125 million (6.2%) to Charter Hall's wholesale vehicle, Retail Partnership (RP6), which is owned 80% by Mercer Super and 20% by CQR.

State highlights: NSW & Qld standout

NSW emerged as the most active market in Q1, bolstered by the settlement of Chatswood Chase. In addition to Stockland Balgowlah and Eastgate Bondi Junction, other notable deals included Stockland Nowra ($103.33M, 6.25%) and Leppington Village ($74.7M, 5.4%).

Queensland was the second most dominant due to the settlement of Cairns Central and Robina Super Centre ($53M, 6.54%).

Victoria was the third most active in Q1. Including Vicinity's sale of Roxburgh Village to JY Group, other notable deals included Williams Landing Shopping Centre ($60M, 6.80%) and Pakington Strand Shopping Centre in Geelong West ($31.8M, 5.5%).

SA closely followed Victoria in fourth position, with standout sub-regional acquisitions, including the sale of Kurralta Central by Vicinity Centres to Coles Group ($74.3M, 4.4%). A private investor also acquired Southgate Square in SA from Charter Hall Retail REIT ($91M, 5.75%) along with Rosebud Plaza in Victoria ($134.5M, 6.0%).

Underscoring the ongoing strategic movements in the sector, it has been reported that Scentre Group, backed by Barrenjoey, will launch an unlisted trust to acquire a 50% stake in Tea Tree Plaza Mall in SA to take full control, reflecting a 14% discount to the last 2023 valuation. The stake was previously believed to have been contracted to IP Generation for proposed price of $308 million.

(#Yields are reported unless stated.)

Latest economic indicators

	Latest Date	Current	Trend
GDP*	Dec-23	1.50%	▲
Monthly CPI Indicator*	Mar-24	3.50%	▲
RBA Cash Rate Target	May-24	4.35%	◀▶
Unemployment Rate	Mar-24	3.90%	◀▶
Retail Trade*	Mar-24	-0.4%	▼

Source Savills Research / ABS / RBA

*asterisk denotes annual rate, otherwise rate reflects monthly figure

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

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

$2.2 billion
transaction volumes by value ($10M+) in Q1-2024 (Savills)

3.5%
Monthly CPI indicator
(12mo to Mar-24)
(ABS)

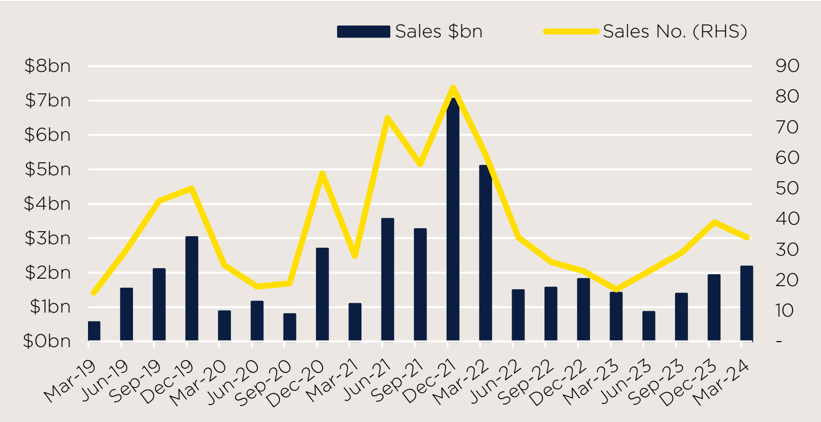
Source Savills Research / ABS

*Seasonally adjusted terms

Quarter highlights

Investment volumes pick up

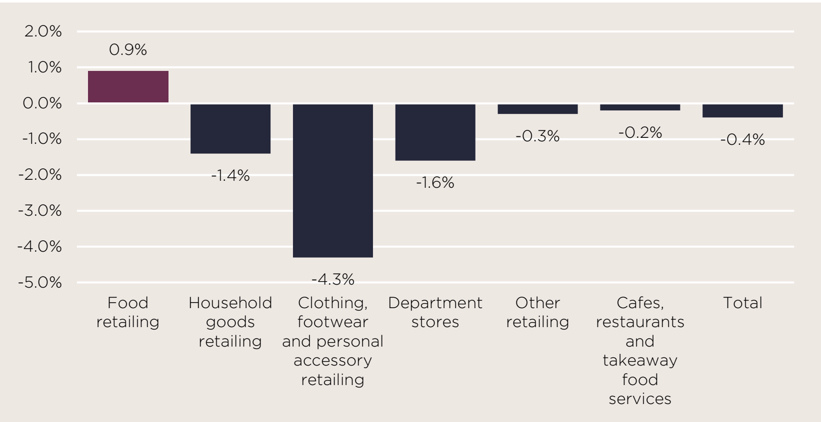
Transaction volumes ($10M+) vs number of sales, quarterly to March 2024



Source Savills Research

All retail industries recorded a fall in spending, except food

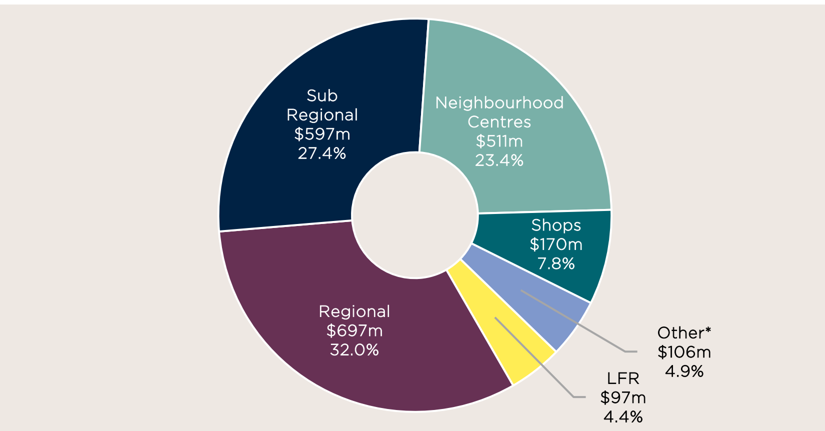
Retail trade monthly turnover by industry % change from previous month



Source Savills Research using ABS (current prices in seasonally adjusted terms)

Share of investment volumes by centre type

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



Source Savills Research

Buyer and seller expectations converging

The MSCI Price Expectations Gap serves as an insightful metric for predicting shifts in deal activity, measuring how much prices would (theoretically) need to decline to bring potential buyers off the sidelines and return liquidity to normal levels. The gap between buyer and seller expectations appears to be converging. Notably, the gap for Sydney retail has shown improvement, narrowing from -9.9% to -4.3%, suggesting closer alignment on pricing expectations, which, according to MSCI, could serve as a catalyst for increased deal activity.

Inflection point for total returns?

The pace of decline in total returns continued to moderate in Q1, suggesting a potential turnaround in asset performance. According to the MSCI/Mercer Australia Core Wholesale Property Fund Index, total returns (income and capital growth) for retail specialist funds were broadly flat in Q1 (an improvement from -1.1% in Q4 2023) to be -3.1% lower over the year.

Retail trade slows

After two solid months of retail spending, partly buoyed by the Taylor Swift concerts in Sydney and Melbourne and changes in seasonal spending habits, retail sales have fallen to a 10-month low, declining by 0.4% m/m in March 2024 to be 0.8% higher over the year. The decline was primarily a result of a decrease in clothing, footwear and personal accessory retailing (-4.3%) and department stores (-1.6%), while other discretionary spending categories also fell 0.3%. Food retailing was the only positive segment recording a 0.9% increase in turnover in the month, though this could have been helped by a rise in prices.

Household spending eases

The slowing in consumer spending is reflected in household consumption, which showed that growth in household spending has slowed since the beginning of the year. Households continued to face cost-of-living pressures and have focused on non-discretionary spending (transport services and food) over discretionary spending.

Online spending also shifts

Total online sales declined 0.9% in seasonally adjusted terms in March 2024, following a 1.0% rise in February. On a year-over-year basis, online sales are up 4.0%, while the proportion of online sales to total sales (unadjusted) remained relatively stable at 10.5%, down from 10.7% in the previous month but unchanged compared to the same time last year.

Amid weak consumer spending, increased migration and tourism provide some upside

Despite the robust labour market, consumption growth is expected to slow due to tighter household finances. Strong population growth and the ongoing recovery in tourism will partially offset this and help boost the retail sector in an otherwise tough environment.

Greenfield residential developments could help drive retail demand

New residential communities through the built-to-rent and built-to-sell residential developments are also expected to help demand for retail across infill areas, providing opportunities for retail investors.

Retail development is not keeping pace with the rapid population growth, leading to stronger performance for existing retail centres. The development pipeline has significantly slowed down, indicating that established retail properties may see improved performance, with competition from new developments and increasing consumer demand driven by population growth. This may also mean higher occupancy rates and rental yields for existing retail spaces as retailers and investors seek to capitalise on the limited availability of new retail properties.

RECENT KEY TRANSACTIONS

Sales ($10m+)

Property	Centre Type	Price ($m) | Date | GLA	Yield (%) | Type | $/sqm
Maddington Central, WA	Sub-Regional	107.0 | Apr-24 | 29,755	7.90 | r | 3,596
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	6.25 | e | 6,282
Eastgate Bondi Junction, NSW	Sub-Regional	125.0 | Jan-24 | 15,000	6.20 | e | 8,333
Williams Landing Shopping Centre, VIC	Neighbourhood	60.0 | Mar-24 | 10,925	6.80 | r | 5,492
Southgate Square Central, SA	Sub-Regional	91.0 | Feb-24 | 15,935	5.80 | e | 5,711
Leppington Village, NSW	Neighbourhood	74.7 | Feb-24 | 7,962	5.40 | r | 9,382
Kurralta Central, SA	Neighbourhood	74.3 | Feb-24 | 10,695	4.40 | r | 6,947
Cairns Central Shopping Centre, QLD	Regional	390.0 | Jan-24 | 51,632	6.92 | e | 4,275
Robina Super Centre, QLD	Large Format	53.0 | Jan-24 | 12,754	6.54 | e | 4,156

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

OUTLOOK

Cost of living pressures and higher for longer interest rates are weighing on private sector demand, particularly consumer spending. The stage 3 tax cuts from July and the recently announced energy rebates in the Federal 2024 Budget will provide some relief to households in the second half of the year. However, recent consumer survey data indicate that households intend to save rather than spend most of the increase in disposable income amid persistent inflationary pressures, so a pickup in consumer spending may not occur until later in the year.

While economic growth is expected to continue to slow in the first half of this year, strong population growth is supporting economic activity. Labour market conditions are expected to ease further but remain relatively tight with only a modest increase in the unemployment rate over the course of 2024 and 2025. Inflation pressures are expected to continue to moderate, but recent CPI data releases point to some stickiness in services price growth.

Major economy government bond yields rose over April, with financial markets pushing out the timing of central bank policy easing in Australia and the US. Market pricing suggests the RBA will hold the cash rate until well into 2025.

The key to unlocking investment activity is the market's adjustment to higher interest rates, which is expected to narrow the bid-ask spread and spur recovery in activity. Early indications suggest that this adjustment is gaining momentum in Australia, albeit after a significant delay compared to other major advanced economies. However, there still remains a comparatively low level of transactions to benchmark from. The recovery is anticipated to be gradual, with subdued activity expected in the first half of the year, before gaining traction as we move into the second half of 2024 and into 2025.

Looking ahead, while institutions may begin cautiously testing the waters in the second half of the year, opportunistic privates and syndicators are likely to continue dominating acquisition activity in the near term, particularly for sub-regional assets. Neighbourhood centres and large format retail will continue to stand out as resilient assets, with buy-side activity dominated by private investors.

The prospect of interest rates staying higher for longer will keep pressure on consumer spending in the short-term. More positively, inflation pressures are expected to continue to moderate while wage growth is forecast to outstrip growth in inflation over the next couple of years. Sustained positive real wage growth will gradually ease cost of living pressures for households and help to drive a recovery in discretionary consumer spending, with potentially significant benefits to the retail sector.

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