

Vacancies rise in Melbourne's CBD retail as investment sales dive

- *International retailers have doubled since 2010 in line with soaring tourism and population growth*
- *Arcades popular as vacancies hit shopping centres*

4 July 2018, Melbourne – Melbourne's CBD retail core has recorded its second consecutive vacancy increase since 2017 rising from 2.7% to 3.1% over the year to June, 2018.

Knight Frank Associate Director of Research, **Finn Trembath** said, "The increase in vacancy was driven by shopping centres which grew from 1.0% to 1.7% though vacancy here is still below the long-term average."

"The rise in overall vacancy can also be attributed to vacancy levels increasing along Street Frontages, especially Elizabeth Street, Flinders Lane and Little Collins Street, while the amount of vacant shops in arcades dropped from 4.9% to 4.1%," **Mr Trembath** said.

Knight Frank Retail Leasing Director, **Gary Loo**, said, "The CBD's retail landscape is changing with international retail brands now more than double that recorded in 2010."

"The total number of unique international retail brands increased to 157, up from 137 in 2016-17 and now 2.4 times the 65 recorded in 2010."

"Recent leasing activity in the Melbourne CBD retail core was highlighted by luxury international retailers Versace, Fendi and Bottega Veneta leasing along the sought-after Collins Street. Other notable luxury brands, such as YSL and Hublot have been looking for space in the CBD's Paris-end, due to favourable conditions brought on by population and tourism growth," he said.

Mr Loo said, "Melbourne CBD's growing residential and daytime population has also resulted in numerous food retailers leasing space in the CBD, in particular Asian inspired eateries such as Mr Crackles, Nong Tang Noodle House, Pho 24, Nene Chicken, as well as Mc Donalds and well-known bubble tea and hotpot restaurant concepts.

"Melbourne's appetite for coffee is also driving leasing activity with Starbucks expanding its Melbourne footprint leasing 168 Exhibition Street, and Coffee and Jaffles opening at The Causeway," he said.

"On the other hand, traditional retail tenants within the clothing and footwear sector are deserting shopfronts in favour of shopping centres, where the tenancy mix is better controlled."

According to the latest Knight Frank Melbourne CBD Retail Market Brief, "The tenancy mix in the Melbourne CBD retail core remains dominated by clothing and food retailing, collectively accounting for 61.7% of the total number of shops.

"Despite a decline of 1.4% points compared to a year ago, food retailing is still the largest retail type at 31.4%. Clothing retailing - the second largest retail type at 30.3% - also saw a decrease of 3.2% points. Footwear retailers (Mountfords on Bourke Street and Joanne Mercer on Elizabeth Street) and Unisex clothing (Godwin Charli at Emporium and Ted Baker on Little Collins Street) were notable vacancies," the report found.

Mr Loo said that as at June 2018, gross rents in the Bourke Street Mall, where there are zero vacancies, range between \$8,000/sq m to \$10,000/sq m.

"Prime street frontage rents range between \$1,500/sq m and \$5,000/sq m while rents in arcades average \$1,600/sq m and shopping centres attract rental rates between \$800/sq m and \$2,000/sq m.

According to **Mr Trembath**, "Retail investment transactions fell by 63% over the year to June, 2018 with sales in excess of \$1M totalling \$100.6M from 19 properties which is down on the \$274.8M

recorded in the 12 months to June 2017. The volume was driven almost entirely by the St Collins Lane sale however, volumes were notably below the long-term average of \$177 million, and are back to levels last seen in 2012-13.

“These declines have been driven by a scarcity of investment opportunities presented to the market.”

Mr Trembath added, “Approaching half of all sales were by private investors, the largest of which was 220 Bourke Street for \$15.2M. Offered for sale for the first time in 80 years, the property is home to tenants including Cotton On.”

He added that prime yields for freehold street frontage retail assets range between 3.00% and 4.00% whilst prime yields for strata retail assets range between 3.50% and 4.50%.

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For further information, please contact:

Olwyn Conrau, Victorian Media Consultant
Olwyn.conrau@au.knightfrank.com +61 413 600 350

Finn Trembath, Associate Director Research, Victoria
Finn.Trembath@au.knightfrank.com

Gary Loo, Director Retail Leasing, Victoria
Gary.Loo@au.knightfrank.com

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