News Release

International retailers boost Sydney and Melbourne markets

Prime core CBD retail vacancies trend down in Sydney, with international brands driving existing retailers to secondary locations; while in Melbourne record population continues to attract tenants to the CBD.

12 August 2015, Australia – International retailers are boosting Sydney and Melbourne's core CBD retail markets. According to Knight Frank's latest research, vacancies have trended down in the **Sydney CBD retail core** over the past 18 months, declining to 3.3 per cent in July 2015 from 4.1 per cent in January 2014.

In Melbourne, vacancies have trended slightly up over the past 12 months, with total Melbourne CBD retail core vacancy at 3.2 per cent in July 2015 in comparison with 3.0 per cent in July 2014 – with prime and secondary vacancy rates diverging.

In Sydney, international retailers continue to have a major bearing on the Sydney CBD retail market, with a clear preference for super prime space – forcing other local retailers to look further afield in secondary locations for suitable options.

Retail activity in both Sydney and Melbourne is being driven primarily by international clothing brands. In addition, the growing number of CBD-based workers and residential population is driving retail demand in both cities.

Sydney

Knight Frank's Senior Director of Retail Leasing for Sydney, Alex Alamsyah, said the large, super prime CBD location preferences of international retailers is providing a significant boost to Sydney's retail market.

"International retailers taking up prime retail space in Sydney has been the main catalyst for the down-trending of vacancies within the CBD retail core, and it has forced some existing retailers to look beyond the super prime retail core. This displacement has meant that some previous vacancies in secondary locations have now also been absorbed.

"Examples include UNIQLO's occupancy of all but a café on Level 1 at the MidCity Centre in Pitt Street Mall, which prompted 18 retailers to look for alternative premises, while the opening of Forever 21, also at Pitt Street Mall, meant that three major retailers went elsewhere for new premises," said Mr Alamsyah.

"International retailers want the most absolute prime locations in Sydney CBD, and are taking up large quantities of space. Sydney's prime CBD retail core precinct remains dominated by clothing, footwear and soft goods retailers, including international brands such as UNIQLO, Zara, Forever 21, H&M, Topshop and Topman, taking up 36.9 per cent of Sydney CBD core retail space."

According to Mr Alamsyah, international retailers are likely to continue to have a major bearing on the Sydney CBD retail market for the foreseeable future.

“With domestic expansion prospects in Europe and North America becoming increasingly limited, the overall attractiveness of the Australian retail market is favourable for international retailers. Australia is supported by a resilient local economy and high discretionary spending.

“Looking ahead, the continued rollout of apparel and footwear retailers is expected to persist, following in the footsteps of H&M and Zara who continue to increase their presence across the country.

“However, for the Sydney CBD, the next two to three years is likely to be characterised by the influx of luxury retailers, driven by the low Australian dollar and increase in Asian tourism,” said Mr Alamsyah.

According to Mr Alamsyah, house prices also continue to have a major bearing on the NSW retail market, as a rise in household wealth has supported sustained, high levels of retail sales growth. As a result, investment remains strong in the Sydney retail market.

“Significant capital remains in the Sydney CBD retail market, with first-half 2015 retail strata sales totalling $66.1 million. This is in comparison with $30.9 million during the first half of 2014.”

This year’s figure was boosted by the $26.2 million sale of the 100 square metre Telstra shop at 396 George Street.

Melbourne

According to Knight Frank’s Director of Retail Leasing for Melbourne, Gary Loo, while the CBD retail core recorded a rise in vacancy over the past year, the growing residential population and number of CBD-based workers continues to drive demand.

“Clothing and food retailers account for the majority – 57 per cent – of occupied CBD core retail shops in Melbourne. An influx of international retailers, and lured by Australia’s stable economy, has increased the total number of international retailers in the Melbourne CBD retail core to 119 up from 65 traders five years ago.

“The proportion of clothing shops rose to 30.1 per cent, up from 28.2 per cent a year ago – making it the most dominant occupier type for the first time in two years.”

Fashion levels in the CBD have been boosted by the competition of The Emporium and Melbourne Central shopping centres, with many tenants attracted by the significant leasing incentives on offer for incoming tenants.

According to Mr Loo, the slight increase in retail vacancies over the past year has been driven by some tenants choosing to relocate to the inner suburbs, seeking larger premises with a lower rent.

“However, availability of prime street-front shops remains low, with vacancy in the super prime precinct of Bourke Street Mall falling from 5.4 per cent to 0.

“Luxury retailers such as Longchamp and Christian Louboutin have both opened stores at the Paris End of Collins Street – two notable additions to Melbourne’s prime core CBD retail market this year.”

According to Mr Loo, “Prominent international retailers seeking prime CBD Melbourne street front exposure include Apple, J.Crew and Brooks Brothers.”

Mr Loo said the proportion of food-based retailers, the most prevalent category in the previous year, remained stable at 27.3 per cent from July 2014 to July 2015.

According to Australian Bureau of Statistics (ABS) data, all retail trade sectors in Victoria posted positive year-on-year growth as at May 2015. Clothing and footwear retail sales grew by 4.3 per cent, up from 0.8 per cent a year ago, while spending in department stores saw a turnaround in retail sales, with 3.1 per cent growth recorded, compared with -1.3 per cent a year ago.

Investment activity in Melbourne's CBD retail core precinct totalled $66.9 million in the 12 months to July 2015 from the sale of 15 properties, in comparison with $105.2 million from 20 properties in the previous year.

"The decline in sales volumes however more reflects the relatively limited prime assets offered for sale, rather than diminishing demand from investors," said Mr Loo.

The growing residential population in Melbourne, and resulting increase in office workers, will continue to drive retail demand, according to Mr Loo. "The residential population for the City of Melbourne is forecast to grow by 14 per cent over the next five years. In addition, white collar employment in the CBD is forecast to increase by 31,735 workers.

"This rise in the day-time population is likely to further increase foot traffic, boosting retail trade within the CBD retail market."

Mr Loo said the trend of incoming international retailers seeking to increase their exposure within the Melbourne CBD is forecast to continue – where they can get available stock.

"International cosmetics retailer Sephora has recently committed to 550 square metres in Melbourne Central, which is expected to open its flagship store by Christmas," concluded Mr Loo.

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