RESEARCH

DECEMBER 2012

SYDNEY CBD RETAIL

Market Brief – Prime Survey

Knight Frank

HIGHLIGHTS

- Despite retail trade levels trending down across the state, the local Sydney CBD retail market has been performing strongly keeping vacancy levels to a low of 2.9% as at November 2012.
- The retail mix has shown a difference in trade by location and by centres. Strip retailing has a high concentration on Other Retailing (Personal) which includes jewellery and the Finance and Insurance sub sector. Clothing and Soft Goods is the predominant sub class across the total CBD despite the drop in discretionary spending. The largest change in the CBD has been the emergence of concept stores and international retailer's requirement for flagship locations which has grown the store footprint from the traditional CBD retailers.
- There have been limited investment choices in the CBD, with strata retail property transactions down 20.6% (to date) compared to the same period last year, and those transacting are ranging in yields from sub 3.5% to 8.0% depending on profile of location.

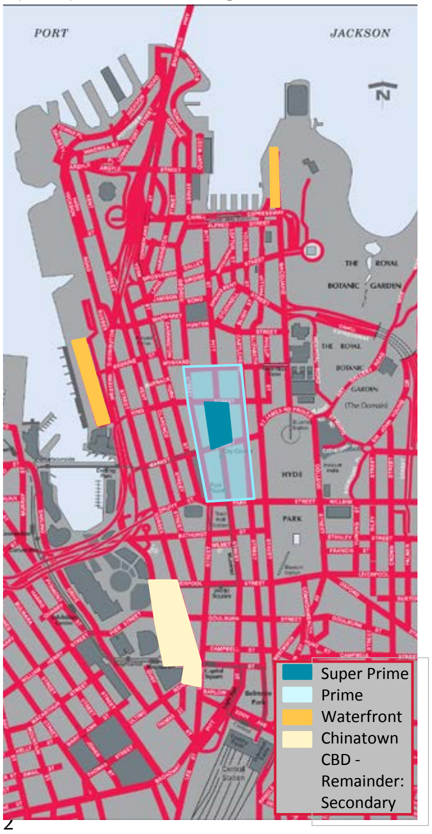
CBD RETAIL SURVEY

The Sydney CBD market has gone through major changes over the past three years. The epicentre of the retail CBD (Pitt Street Mall) has gone through extensive refurbishment. During the revitalisation of the mall (Super Prime), retail began to flourish in other previously more secondary locations. George Street opened up as a new hub for retail and demand has continued from luxury tenants on Castlereagh Street. Pitt Street Mall's facelift is now complete and there has been a shuffle of tenancies across the Prime Core of the CBD.

Knight Frank has completed a Prime Retail Core survey (as shaded blue below), resulting in a tight vacancy and change in retail mix across the region.

The map below identifies the Prime Core for CBD retail (Super Prime and Prime only). The Pitt Street Mall location shows the Super Prime retail area which is now devoted mostly to centres with only a handful of standalone shops. The Prime catchment extends to George Street which in more recent times has grown in popularity with major tenants such as Apple, Louis Vuitton, Burberry and Samsung now calling this location home. Extending south to Park Street and up to Castlereagh Street, this location has gone through some revitalisation with the growing occupancy at The Galeries, refurbished food courts and improvement of a once very secondary southern end of Pitt Street with the development of the 54,450m² office building at 161 Castlereagh Street.

Figure 1
Sydney CBD Retail Regions



Vacancy

Over 1,000 tenancies have been surveyed across both Strip (shop front) shops and tenancies within City Centres. For this analysis the Myer and David Jones department stores and Woolworths supermarket have been omitted from this survey. Based on area, these would nearly double our Prime catchment area. Also an additional 7.5 stores have been removed from the analysis as this account for tenancies being fitted out, which will be occupied upon completion.

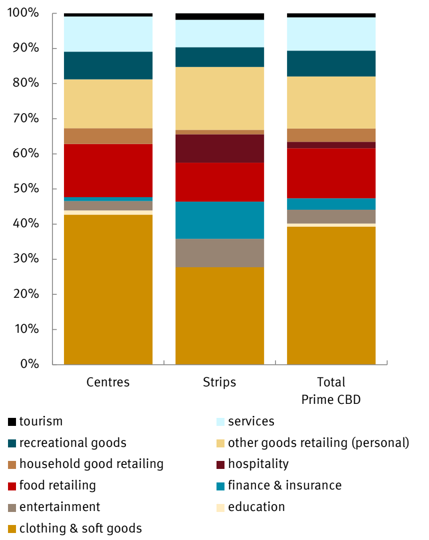
Despite a reduction in retail spending growth across New South Wales, this has not dampened demand for space by retailers. Total vacancy recorded at a low 2.9% as at November, below the long term average of 4.5%. This tight vacancy environment has been witnessed both in the City Centres of 2.7% and the Strip of 3.6%. Occupancy has been strong across all centres. Some centres which historically had some difficulties, particularly in upper level tenancies, are now showing close to full occupation. In between tenancies, there has been an influx of "pop-up stores" which require minimal fit out and keep occupancy levels inflated.

The surprising result of this vacancy survey is the concentration of vacant space in the North and East of the Prime precinct. Tenancies at the Eastern end of Martin Place and along Castlereagh Street have historically housed more affluent brands, in most cases these have relocated to Westfield Sydney. Despite these vacancies there is still high demand for this location by these types of tenants with existing tenants Chanel and Cartier choosing to refurbish and remain in the high profile strip.

Retail Mix

There is a separation between the retail mix across City Centres and Strips. While major tenants in Prime Strips are Clothing and Soft Goods of 26.7%, other uses such as Other Goods Retailing (Personal) which includes jewellery accounts for a high rate 17.3%. There is also a greater concentration of Finance and Insurance, which account for greater space occupied by banks or insurance providers on a street front compared to smaller kiosk type accommodation within centres. Hospitality and Entertainment is another type which features strongly in the Strips due to the number of hotel properties in the Southern end of the precinct.

Figure 2
Prime Retail Mix
Sydney CBD



Source: Knight Frank Research

City Centres have a larger dependency on Clothing and Soft Goods with this accounting for 41.6% of all space. Ladies clothing accounts for the greatest proportion of this at 38.7% followed by Unisex retailing, with large stores such as Zara and Esprit as examples, this representing 23.7%. Menswear resulting in just 15.1% followed by Footwear of 12.5%, with the remainder Fabric and Other retailing such as bags etc. Services are also having a greater emphasis in Centres, particularly with Hairdressing and Beauty retailers which represent 41.5% of the Services sector (9.8%). Household Goods retailing is largely restricted to City Centres, representing 4.4% and usually occupy large tenancies in the upper levels.

Across the total Prime Core, Other Retail Goods (Personal) retailing account for 13.5%. The major contributor being Watch & Jewellery retailing at 62.6%, the space devoted to Mobile Phone retailing has reduced with the size and number of shops compressing, now reduced to 13.2% of this category or just 1.8% of the total surveyed area. The reduction has stemmed from a larger reliance on concept stores such as Apple and Samsung and a fall in number of smaller operators. This trend is likely to continue particularly with the new supply projects at 383 George Street and 333 George Street which will likely provide concept store sized tenancies in this newly sought after George Street location.

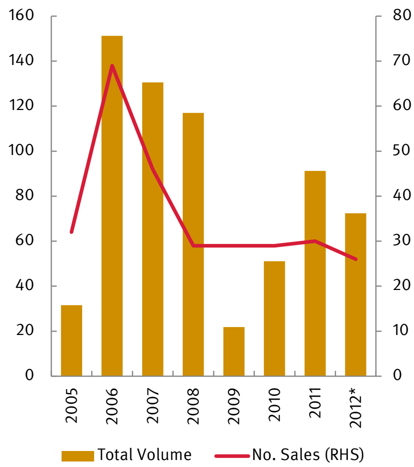
SALES & LEASING ACTIVITY

Sales Activity

There has been a pick-up in investment activity during the second half of 2012. Despite this, volumes (to date) for CBD retail (strata) sales have fallen from $91.22 million during the same period in 2011 to $72.39 million in 2012. The reduced turnover has not been due to a limited demand, more so a lack of available stock. Demand is being driven by favourable yields; post GFC we saw a large reduction in sales activity which saw investment yields jumping up from the low sub 5% rates of 2007/2008. Couple this with the clear intentions of retailers to still occupy space, keeping vacancies low has seen a return of CBD retail as a favoured investment class for Private Investors in the sub $15 million category.

Across the CBD there is a large disparity in values depending on street frontage, pedestrian activity and accessibility, size and CBD location. The Chinatown precinct is an example of an emergence of higher value assets due to extended trading capabilities and high occupancy. An example of this is a recent sale at 389-391 Sussex Street; the property includes ground floor retail with small commercial space above, sold for $12.15 million. This asset was hotly contested by Private Investors looking for this sought after Chinatown location, ultimately selling on an initial yield of 3.59%.

Figure 3
Sydney CBD Retail Strata Sales
$ millions and number



* year to November
Source: Knight Frank Research

Table 1
Recent Sydney CBD Retail Transactions

Address	Region	Price ($ m)	Reported Yield (%)	Area (m²)	Purchaser	Date
Citisite House, Lot 2 & 3, 155 Castlereagh Street	Prime	$1.25	7.00%	67	Private Investor	Oct-12
389-391 Sussex Street	Chinatown	$12.15	3.59%	738	Private Investor	Aug-12
Lots 2 & 4, 300 George Street	Secondary	$3.61	6.91%	116	Private Investor	May-12
Opera Quays, Lot 9 & 19, 1a Macquarie Street	Waterfront	$12.15	7.61%	694	Private Investor	Apr-12

Source: Knight Frank Research

In the Prime Core of the CBD, Lots 2 & 3 of Citisite House at 155 Castlereagh Street sold prior to auction at a yield of approximately 7.00%.

Leasing Activity

Given the low vacancy environment across the Prime CBD, activity has been solid. There has been continued strong interest by international brands such as H&M, Uniglo and River Island looking to follow in the footsteps of Top Shop and Zara etc. Emerging trends also include greater speciality food and take away food retailing including frozen yoghurt chains such as Moochi, “bubble tea” brands like Chatime as well as macaroon retailer Laduree Paris opening in Westfield Sydney last month.

Average CBD rental rates however have been at a stagnant position for the last four years, after consistent robust growth levels prior to GFC. Current average Prime CBD rates average $3,050/m² however offers a wide variance depending on size and location, ranging between $1,500/m² and $7,000/m² and up to $10,000/m² on Pitt Street mall.

Looking ahead, despite the tight Prime Core vacancy and demand by large space users, average rents for Prime street front/strip property will remain steady with some small increases possible. While arcade, upper levels and more secondary locations are likely to see rents remain under pressure. Retail assets will continue to be highly sought after by Private Investors particularly in the lower sub $5 million price range which provides a competitive yield.

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