

HIGHLIGHTS

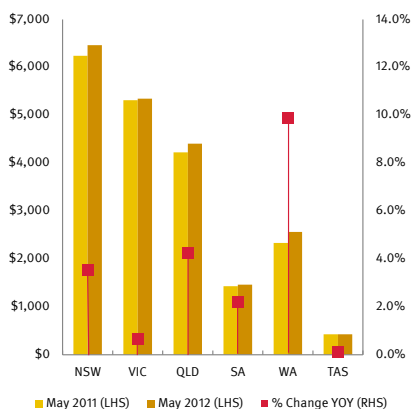
- In line with a modest increase in Victorian retail turnover for the year to May 2012, the vacancy rate over the six months to June 2012 increased slightly. Within the Knight Frank survey of 1,604 shops within the CBD Core, 39 were recorded as vacant resulting in a vacancy rate of 2.4%, up from 2.1% recorded in December 2011.
- Clothing & soft goods retailers and food retailers remain prevalent within the Melbourne CBD. Marcs, GAP, Paul Smith, Nike, Converse, Cacao Green, Swarovski, and Pie Face are among some of the tenants that have entered into or expanded within the Melbourne CBD retail market over the past 12 months.
- CBD retail sales, greater than \$2 million in the 12 months to July 2012 totalled \$52.29 million across 12 properties. The sales achieved yields ranging from 4.0% - 6.0%, with a median of 4.9%. Supported by the low levels of transactional activity, yields are expected to remain flat over the next year.

Economic Snapshot

The Australian economy is likely to remain encumbered by the economic climate, and dependent on the resolution of various global issues, including the European sovereign debt issues and whether China's slowing growth has finally plateaued. The flow on effects of economic reform is likely to have an impact on the Australian economy's growth prospects. Ultimately Australia's growth prospects are reliant on business confidence which is currently subdued.

In May 2012, the ABS recorded 0.7% (year on year) growth in Victorian retail turnover, one of the more subdued results amongst the states. Over the same period, New South Wales retail trade grew by 3.6%, Queensland increased by 4.2% and Western Australia soared by 9.9%.

Figure 1
Retail Turnover by State, May 2012
Year on Year, Seasonally Adjusted (\$ million)



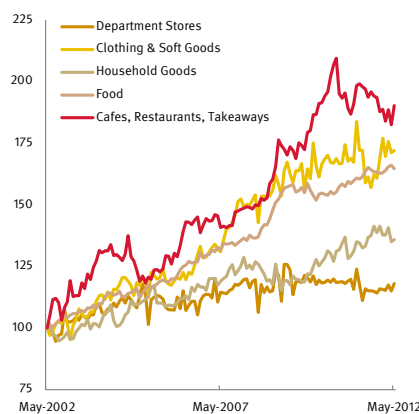
Source: ABS

Analysis of retail turnover by industry to May 2012 shows that in Victoria, the largest fall in turnover was recorded in the "café, restaurant & takeaway food" category with a 4.4% (year on year) decrease in spending. In contrast "food" (supermarket, grocery, and liquor) recorded a 2.6% (year on year) increase in turnover, whilst household goods trade grew by 1.0%. Current retail trade data demonstrates the changing in household spending habits as consumers become reluctant to spend on discretionary goods

given the consumer sentiment deriving from the uncertain economic climate.

Total retail trade in Victoria increased slightly during the 12 months to May 2012, to total \$64.02 billion. Despite this increase, over the next six months retail trade will remain patchy as retailers continue to be impacted by the continued strength of the \$AUD and subdued business and consumer sentiment heading into the second half of 2012.

Figure 2
Retail Trade - Victoria
Index: May 2002 = 100



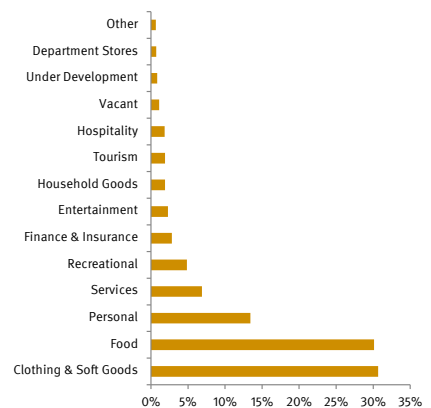
Source: ABS

The café & restaurants, clothing and food sectors have been the strongest over the past 10 years. More recently as a result of the uncertain economy, consumers are allocating less money towards discretionary items.

Tenancy Mix

The retail tenancy mix in Melbourne's CBD Core is dominated by clothing and food retailers, accounting for 60.8% of total occupants. Based on the number of shops, the next most prevalent categories are personal (i.e. pharmaceutical, cosmetic & toiletry) followed by services (i.e. keycutting & shoe repairs, optometrists, hairdressing & beauty) and recreation. One recent trend has seen clothing and fashion retailers being replaced with casual food concepts (such as cafés) with the likes of Ikey Dessert Café replacing Shibuya Fashion at 231 Elizabeth Street and Petaling Street restaurant replacing Jay Jays at 162 Swanston Street.

Figure 3
CBD Core Tenancy Mix
% of total number of shops



Source: Knight Frank

Vacancy and Tenant Demand

Melbourne's CBD retail Core vacancy rate increased over the six months to June 2012, easing up to 2.4% from 2.1% in December 2011. The CBD Retail market appears to be reasonably healthy despite the global economic outlook which has impacted on consumer confidence and spending levels. This subdued consumer environment is expected to continue over the remainder of the year with improving conditions dependent on the resolution of Europe's economic climate, and whether China's growth holds up.

As at July, the consumer confidence index increased by 3.7% over the month to 99.1, still in pessimistic territory despite the recent interest rate cuts; with consumers focusing their efforts on savings, and cutting back on discretionary spending.

Table 1
Melbourne CBD Retail Core*
Vacancy by Retail type

	Dec-11 (%)	Jun-12 (%)
Arcades	1.06	0.71
Street Frontages	2.35	2.71
Shopping Centres	2.39	2.94
Total Retail	2.13	2.43

Source: Knight Frank

* For definition of Retail Core see back page.



A theme that is becoming increasingly more commonplace is tenants seeking rental abatements. Incentive requests are expected to rise over the next six months, and leasing up periods are now lengthening.

With the continued strength of the \$AUD, online retailing has become more prevalent in the market. Retailers are seeking an online version to complement their store front presence, adapting to the evolving consumers. The variety of products that can be purchased online is immense with consumer online demand strongest for electrical goods, published media (such as books and music) and jewellery. The NAB Online Retail Sales Index (May 2012) reported a growth rate of 14% (year on year) for online retail sales. However, since the second half of 2011 online sales growth has started to slow (May 2011 annual growth was 41%). However growth within online retailing is still significantly higher than the traditional bricks and mortar retail, which grew by only 1.6% to April 2012.

The CBD super prime retail area of Bourke Street Mall and the immediate surrounding areas of Bourke Street, Swanston Street and Elizabeth Street continue to perform well and remain highly sought after by prospective tenants.

Leasing Activity and Rental Levels

Melbourne CBD retail rents have remained stable over the past six months. Traditionally the highest rents are achieved within the 'super-prime' retail along the Bourke Street Mall where the rents range between \$7,500/m² - \$10,000/m². Prime retail properties average rents range between \$2,500/m² - \$5,000/m², while secondary retail properties achieve rents that range between \$1,000/m² - \$4,000/m². Over the past six months, Tom Gunn has reportedly agreed to pay circa \$4,300/m² for a 22m² store at Howey Place. Meanwhile, Australasian retailer Marcs has opened a 430m² store on a 10- year lease at 256 Collins Street paying approximately \$3,500/m².

TYPO, a stationery store owned by Cotton On, has leased a 130m² shop on Elizabeth Street for seven years paying around \$3,000/m².

Investment Activity

Despite the clouded consumer and business sentiment descending from the sovereign debt crisis in Europe and the looming implications of carbon tax for retailers and consumers alike, demand for Melbourne CBD retail investments remains strong.

According to IPD's investment property index, for the 12 months to March 2012, Victorian retail property posted a total return of 10.2% with capital growth of 3.0%. Victorian retail returns now appear to be returning back to their long term averages, well above the average 6.9% annual total return recorded over the past five years. In comparison to other retail states, Victorian retail property returns are second only to Western Australian assets which posted total returns of 10.8% over the past 12 months.

CBD retail sales, greater than \$2 million, in the 12 months to July 2012 totalled \$52.29 million across 12 properties. Local and off-shore private investors continued to have a dominant presence, accounting for 76.9% and 23.1% of total sales respectively. The largest was Charter Hall's sale of a 65m² retail property within the Manchester Unity building situated at 220 Collins Street for \$9.25 million to a local private investor. The sale equated to a core market yield of 5.61%. The sales transacted over the past 12 months have achieved yields ranging from 4.0% - 6.0%, with a median of 4.96%. Supported by the low levels of activity, Knight Frank expects

yields to remain relatively flat over the next 12 months.

Outlook

With the Melbourne City Council's campaign to promote the Melbourne CBD through the use of its attractions such as the laneways, CBD strips, arcades and shopping centres, the Melbourne CBD remains a prime shopping destination for consumers and retailers alike.

In terms of future supply, the Myer Emporium development by Colonial First State and GIC is scheduled for completion in late 2013. With 240 tenancies taking up 46,000m² of retail floor space this development is likely to have a positive impact on the Melbourne CBD retail market as it may attract new international retailers and possibly tenants outside of the CBD looking for an opportunity to enter. Likewise, it will revive retail activity on Lonsdale Street, in the areas between Queen Street and Russell Street.

The dense CBD population and vast labour force that commute to the CBD each day, helps differentiate the CBD retail market from the suburban retail market. In addition the significant volume of the inner city population are students who attend the various education facilities within Melbourne's CBD such as RMIT, Melbourne University and Monash University amongst others, further providing a customer base that contributes the substantial levels of foot traffic. With consumer sentiment currently subdued, the implementation of the carbon tax may see consumer spending levels remaining soft in 2012/13.

Table 2
Recent Sales Activity Melbourne CBD Retail Market

Address	Price (\$ mil)	Core Market Yield (%)	NLA	\$/m ² NLA	Sale Date
1/77 Swanston Street	4.60	VP	53	87,619	Jun-12
235-237 Elizabeth Street	8.40	5.07	660	12,727	May-12
217 Elizabeth Street	5.63	3.98	312	18,045	Apr-12
585 La Trobe Street	1.06	5.88	186	5,699	Mar-12
2/220 Collins Street	9.25	5.61	65	142,308	Mar-12
456-458 La Trobe Street	2.02	4.91	274	7,327	Mar-12

Source: Knight Frank

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Definition: Knight Frank's survey covers the key CBD retail precinct as defined as the Core. The CBD retail Core includes all retail premises within the broad boundaries of La Trobe Street to the North, Flinders Street to the South, Spring Street to the East and Elizabeth Street to the West.

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