

MELBOURNE CBD

RETAIL MARKET BRIEF JUNE 2017

Key Facts

The vacancy rate in the Melbourne CBD retail Core **increased from 2.4% to 2.7%**, the first increase since June 2015.

International retailers within the Melbourne CBD retail Core grew to 137 as at June 2017, up from 65 five years ago.

Investment activity totalled \$274.8 million in the 12 months to June 2017.

Offshore investors accounted for 93% of total sales by value in the 12 months to June 2017.



JANE WONG
Research Analyst

Whilst the Melbourne CBD retail Core recorded an increase in vacancy over the past year, vacancy in CBD shopping centres reached a series low, falling to 1.0%.

Retail Overview

In the 12 months to May 2017, consumer sentiment decreased by 5.0%, largely driven by low wage growth, rising house prices and in response to the recent Australian Federal Budget announcement.

Retail turnover growth in Victoria slowed in the 12 months to April 2017, increasing by 3.3% compared to 6.3% in the preceding 12 months.

Retail trade in Victoria, measured by the Australian Bureau of Statistics (ABS), totalled \$6.3 billion for April 2017, up from \$6.1 billion in the previous year. Growth was supported by increases in liquor retailing (11.5%), recreational goods retailing (9.9%) and cafes, restaurants & catering services (7.3%).

The NAB Online Sales Index for Australia showed annual growth of 6.9% in the 12 months to April 2017, down from 12.4% in the preceding 12 months. Total online retail spending reached \$22.2 billion during this

period, accounting for 7.3% of total retail spending, according to NAB.

Internationally recognised as the world's most liveable city for the sixth consecutive year (EIU), the Melbourne CBD has maintained a good level of demand for retail space from both local and international retailers as the residential population continues to grow. According to the ABS, the CBD residential population increased by 14.8% to reach 35,447 over the three years to June 2016 while white collar employment in the CBD increased by 5.1% to reach 284,677 over the same period.

Total inbound tourism numbers for Victoria increased by 9.6% to reach 2.5 million over the 12 months to December 2016, with Chinese tourists leading the influx.

Knight Frank Research has completed its 2017 Prime Melbourne CBD Retail Core survey which highlights vacancy and tenancy mix trends across the precinct.

MELBOURNE CBD RETAIL CORE SURVEY

Vacancy

As at June 2017, the vacancy rate in the Melbourne CBD retail Core increased to 2.7%, up from 2.4% at the equivalent period in 2016. This was the first increase in vacancy in two years. Nevertheless, the vacancy rate remains below the historical average of 2.9%.

The largest increase in vacancy over the past 12 months was recorded in Arcades/Laneways, up from 0.7% to 4.9% and above the long-term average of 2.2%. There are 17 shops available for lease compared with three at the equivalent period in 2016. 13 of the 17 shops are located within prime Arcades/Laneways.

In contrast, Shopping Centres recorded the largest decrease in vacancy, falling from 2.2% to 1.0%, the lowest level in 10 years. This was driven by tenant commitments from numerous food retailers including Calia in Emporium, New York Slice and Roll'd in Melbourne Central, and Little Sichuan and Spudbar in QV.

Vacancy for retail shops offering Street Frontages increased from 3.3% to 3.5% over the past 12 months, brought on by an increase in vacancy levels on Lonsdale Street and Little Lonsdale Street. Collins Street saw vacancy levels

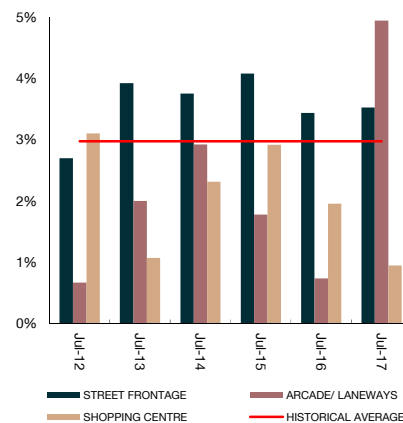
TABLE 1
Melbourne CBD Retail Core*
Vacancy by retail type (%)

	Jul-16	Jul-17
Arcades/ Laneways	0.7	4.9
Street Frontages	3.3	3.5
Shopping Centres	2.2	1.0
Total Retail Vacancy	2.4	2.7

Source: Knight Frank Research

*For definition of Retail Core see back page

FIGURE 1
Melbourne CBD Retail Core Vacancy
% of total number of shops



Source: Knight Frank Research

increase from 1.8% to 2.7%, underpinned by Marcs vacating its premises having gone into administration.

Swanston Street also saw vacancy levels increase from 1.4% to 1.9% as a number of clothing and food retailers vacated their premises including Foot Locker. In addition, eight retailers vacated their premises at City Square on Swanston Street as works have begun for the Melbourne Metro Tunnel. This included Starbucks Coffee which relocated to Melbourne Central and Brunetti's which will reopen at 250 Flinders Lane in August 2017.

The vacancy rate in the super prime precinct of Bourke Street Mall remained at 0.0% for the second consecutive year. Key tenant commitments included Cotton On and Sunglass Hut opening flagship stores, and Foot Locker moving from its previous Swanston Street location.

Vacancy levels in Elizabeth Street decreased from 1.9% to 1.7% following tenant commitments from Westpac Bank, Woolworths Metro and various food retailers including Starbucks Coffee and Hungry Jacks.

“Shopping Centres recorded the largest decrease in vacancy, falling from 2.2% to 1.0%, the lowest level in 10 years.”

Tenancy Mix & New Supply

The tenancy mix in the Melbourne CBD retail Core remains dominated by clothing and food retailing, collectively accounting for 66.4% of the total number of shops. Clothing retailing is the largest retail type at 33.5%. Womens clothing retailing is the largest sub-category within clothing retailing at 9.6%, although it is unisex clothing that saw the largest increase with the addition and expansion of various unisex brands including Nique, Ascolour and MUJI.

Shopping Centres continue to carry the bulk of clothing, footwear & soft goods retailers at 61.5%. The dominance is less pronounced in Arcades/Laneways and Street Frontages but it is these two retail formats that account for the majority of food retailers at 21.7% and 42.9% respectively.

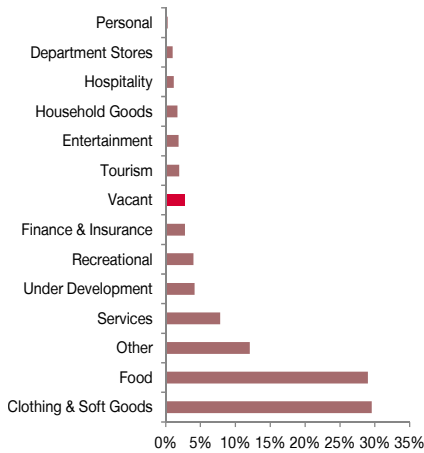
Food retailing, the second largest retail type at 32.8%, reported an increase of 1.3% from the previous year. This was largely driven by new specialised food retailers occupying multiple premises within the Melbourne CBD retail Core including Hokkaido Baked Cheese Tart and Milkcow.

New retail supply comprises Hallmarc Group's Emirates House, stretching between Collins Street and Flinders Lane, which will complete in September 2017.

FIGURE 2

CBD Retail Core Tenancy Mix

% of total number of shops



Source: Knight Frank Research

The refurbished arcade has 1,995m² of retail space across two levels and three shops. Luxury retailers Burberry (980m²) and The Hour Glass (165m²), and upmarket café Brunetti's (850m²) are to set up stores within the building.

The Melbourne CBD retail Core continues to receive an influx of international retailers, with the total number increasing to 137, up from 65 retailers in July 2010. Clothing & footwear retailers (55.9%) and personal goods retailers (23.4%) are the most dominant operators amongst international retailers. The past 12 months have seen the addition of UK sports fashion retailer JD Sports (540m²) to Melbourne Central and French luxury jeweller Cartier (400m²) to 90 Collins Street.

Tenant Demand & Rents

Leasing activity in the Melbourne CBD retail Core remains underpinned by international retailers seeking prime space offering street frontage within the CBD. While demand is high, there is a lack of suitable leasing options to match their requirements with many retailers committing to space within shopping centres with the likes of JD Sport and New Balance recently opening their flagship stores within Melbourne Central.

The growing residential and daytime population continues to encourage supermarket chains and convenience stores to expand their exposure within the Melbourne CBD. Recently, Woolworths opened a Metro store at 60 Elizabeth Street, bringing the total number of Metro stores within the Melbourne CBD retail Core to three since June 2015.

Rental rates across the Melbourne CBD retail Core have remained stable over the past 12 months with, however, moderate rental growth has occurred in the super prime retail Core. As at June 2017, gross rents in the Bourke Street Mall range between \$8,000/m² to \$10,000/m².

Prime Street Frontage rents range between \$1,500/m² and \$5,000/m². Rents in Arcades currently average \$1,600/m² while Shopping Centres attract rental rates between \$800/m² and \$2,000/m².

Investment Activity

Although investor appetite remains strong for CBD assets, retail investment sales volumes at June 2017 fell by 23% from the preceding 12 months, impacted by a scarcity of investment opportunities.

Sales in excess of \$1 million totalled \$274.8 million from seven properties in the 12 months to June 2017, down from the \$357.1 million in the 12 months to June 2016. Nevertheless, volumes were above the long-term average of \$173 million per annum.

Offshore investors were the most active buyers, with sales totalling \$256 million, accounting for 93% of all sales by value. Volumes were supported by JP Morgan Asset Management's acquisition of St Collins Lane for \$247.0 million, the largest CBD retail Core transaction in 10 years.

Prime yields for freehold retail assets (excluding shopping centres and arcades) range between 3.50% and 4.00% whilst prime yields for strata retail assets range between 4.00% and 5.00%.

TABLE 2

Recent Sales Activity Melbourne CBD Retail

Address	Price (\$ m)	Core Market Yield (%)	GLAR (m ²)	\$/m ² of GLAR	Date
377-379 Little Bourke St	5.81	3.65	663	8,763	May-17
23-29 Bourke St	8.07	3.67	468	17,244	May-17
518 Little Bourke St [^]	4.70	5.00	334	14,126	Nov-16
St Collins Lane	247.00	5.00	9,379	26,335	Aug-16
516 Little Bourke St [^]	1.40	4.68	62	23,693	May-16
1/15 Collins St	3.30	4.75	79	42,025	May-16
Myer Centre (30% share)	151.30	4.62*	39,923	11,369	May-16

*initial yield ^ground floor

TABLE 3

Recent Leasing Activity Melbourne CBD Retail

Address	Tenant	Gross Rent \$/m ²	GLAR (m ²)	Term (yr)	Date
143 Collins St	Gucci	4,285	500	U/D	Apr-17
250 Elizabeth St	Rag & Bone	U/D	130	U/D	Feb-17
327 Bourke St	Foot Locker	4,880	600	10	Nov-16
303 Collins St	Westpac Bank	2,900	410	5	Nov-16
257 Collins St	Burberry	U/D	1,000	10	Jul-16

U/D undisclosed

Source: Knight Frank Research



Outlook

The Victorian economy is forecast to continue to strengthen over the medium term. Retail turnover growth is forecast to increase at an average of 3.0% between 2017-2020 supported by above average population growth during this period.

The forecast completion of several high-rise apartment developments in the Melbourne CBD projections, combined with strong population growth of 5.6% per annum over the next five years, will continue to support demand from retailers looking to expand their footprint into the precinct.

The trend of international retailers is projected to continue with the addition and expansion of global brands within the Melbourne CBD retail Core. UK department store Debenhams has committed to 4,000m² of flagship space in St Collins Lane, scheduled to open in September 2017.

Numerous retailers going into administration over the past 12 months including Marcs, David Lawrence, Herringbone, Rhodes & Beckett and Topshop highlight the increasingly competitive Australian retail market. The upcoming arrival of Amazon into the Australian retail market will further add to the competition.

Construction of the Melbourne Metro Tunnel at both City Square on Swanston Street and the corner La Trobe Street and Swanston Street commenced in March 2017. While this will result in some short-term impact on foot traffic and retail trade, the delivery of this infrastructure project will have a positive impact on retail trade in the Melbourne CBD. The project is anticipated to be completed by 2022.

As a result of continued investor interest for Melbourne CBD retail assets, prime yields are expected to remain at current levels despite the constrained outlook for rents in the short term.

Retail Core Definition:

Knight Frank's survey covers the key CBD retail precinct 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.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

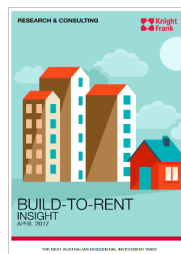
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



St Kilda & Southbank Office Market Brief
April 2017



Melbourne Coworking Culture
February 2017



Build-To-Rent Insight
April 2017



The Wealth Report
2017

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2017 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

RESEARCH

Jane Wong

Research Analyst, Victoria
+61 3 9604 4650
Jane.wong@au.knightfrank.com

Kimberley Paterson

Associate Director, Victoria
+61 3 9604 4608
Kimberley.paterson@au.knightfrank.com

RETAIL LEASING

Gary Loo

Director, Leasing Retail
+61 3 9604 4743
Gary.loo@au.knightfrank.com

CAPITAL MARKETS

Danny Clark

Head of Commercial Sales—Victoria
+61 3 9604 4638
Danny.clark@au.knightfrank.com

Tim Grant

Director in Charge
Eastern Office, Capital Markets
+61 3 8545 8611
Tim.grant@au.knightfrank.com

VALUATIONS

Michael Schuh

Joint Managing Director—Victoria
+61 3 9604 4617
Mschuh@vic.knightfrankval.com.au

Aaron Kelly

Associate Director
+61 3 8548 6899
Akelly@vic.knightfrankval.com.au

VICTORIA

James Templeton

Managing Director, Victoria
+61 3 9604 4724
James.templeton@au.knightfrank.com



Newmark
Knight Frank
Global