

MELBOURNE CBD

RETAIL MARKET BRIEF AUGUST 2015

Key Facts

Clothing and food retailers account for the majority of occupied CBD Core retail shops with 57.6%

International tenants within the CBD have risen to 119 as at July 2015, up from 65 traders five years ago

Investment activity totalled \$66.9 million in the 12 months to July 2015

Prime CBD retail yields have firmed by 25 bps for freehold and 37.5 bps for strata shops over the past 12 months



MONICA MONDKAR
Research Analyst – Victoria

Follow at @KnightFrankAu

Whilst 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.

Retail Overview

As at May 2015, ABS data showed Victoria's retail turnover growth had eased slightly. Retail trade in Victoria rose by 5.0% year-on-year; down from the 5.7% growth recorded as at May 2014. Australian retail trade grew at a moderate rate of just 1.2% y-o-y as at May 2015, compared to 8.2% recorded 12 months ago, reflecting the impacts of the slowing resource states.

All retail trade sectors in Victoria posted positive year-on-year growth as at May 2015. Clothing & footwear retail sales grew by 4.3% up from 0.8% a year ago, while spending in department stores saw a turnaround in retail sales with 3.1% growth recorded, compared to -1.3%, a year ago. Whilst retail spending in cafes & restaurants grew by 4.4%, spending levels were lower than the 5.2% growth a year ago. Personal goods retailing also increased, growing by 5.1% driven by the pharmaceutical and cosmetics sub-sector.

According to NAB online retailing totalled

\$17.1 billion in the 12 months to May 2015 recording an annual growth of 9%. Online retail sales now represent 7% of the total retail spending in Australia, compared to its 6.6% share 12 months ago.

CBD-based employment and residential population growth continues to underpin demand for CBD retail space from both domestic and international retailers. Over the past five years white collar employment has grown by 17,460 workers in the CBD, while residential population has risen by 30,049 over the same period.

Prominent international retailers seeking prime CBD street frontage exposure include: Apple, J.Crew and Brooks Brothers (in some cases in addition to their existing presence within centres), while Cartier is also looking to relocate within the Paris End precinct of Collins Street.

Knight Frank Research has completed its 2015 Prime Melbourne CBD Retail Core survey which highlights vacancy and tenancy mix trends across the precinct.

MELBOURNE CBD RETAIL CORE SURVEY

Vacancy

As at July 2015, total vacancy in Melbourne CBD's retail Core precinct was 3.2% up slightly from 3.0% recorded 12 months ago and higher than the historical average, also 3.0%.

In the 12 months to July 2015, Arcades/Laneways vacancy recorded a fall from 2.9% to 1.8%, and remained below its historical average of 2.3%. Notably, 13 of the 17 Arcades/Laneways included in the Melbourne CBD's retail Core survey had no vacant shops available for lease. In fact, within the Arcades/Laneways there were just six shops available for lease.

Vacancy for retail shops offering Street Frontage increased from 3.8% to 4.1% in the past year, driven by availability of shops at secondary locations. However, availability of prime Street Frontage shops remained low with the vacancy in super prime precinct of Bourke Street Mall falling from 5.4% to 0%. The decline in vacancy in the super prime precinct was largely driven by fashion; as evidenced by Windsor Smith Shoes occupying a shop at 274 Bourke Street.

Elsewhere, Elizabeth Street saw its vacancy levels halve from 2.6% to 1.3%, largely driven by service-based retailers led by those in the hair & beauty sub-sector. Vacancy in Swanston Street also fell, declining from 4.1% to 3.4% as a result of a number of convenience stores expanding their footprint in the CBD along the street.

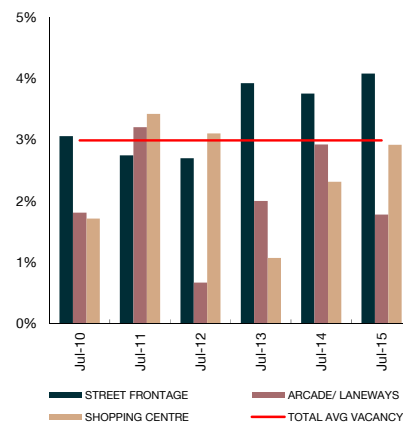
TABLE 1
Melbourne CBD Retail Core*
Vacancy by retail type (%)

	Jul-14	Jul-15
Arcades/ Laneways	2.9	1.8
Street Frontages	3.8	4.1
Shopping Centres	2.3	2.9
Total Retail Vacancy	3.0	3.2

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

Shopping Centres saw its vacancy rate rise from 2.3% to 2.9% over the past year. Vacancy levels within Shopping Centres rose largely as a result of outgoing clothing & footwear tenancies, but were also impacted by a number of tenants entering administration. Vacancy for Street Frontage retail and within Shopping Centres is above the long term averages for both retail types.

Over the past year, most of the top incoming tenants into the Melbourne CBD's retail Core comprised occupiers from food retailing, clothing and services sectors.

Tenancy Mix & New Supply

The tenancy mix in the Melbourne CBD retail Core continues to remain dominated by food and clothing retailing, collectively accounting for 57.6% of the total number of shops. The improving economy continues to provide an uplift to non-discretionary retail, which was also reflected in the CBD market.

The proportion of clothing shops rose to 30.1% up from 28.2% a year ago, making it the most dominant occupier type for the first time in two years. In contrast, the proportion of food-based retailers, the

most prevalent category in the previous year, remained stable at 27.3%.

Retail space within Shopping Centres continued to be led by clothing retailers which accounted for 41.7% of the total occupiers. Melbourne's popularity for its cafes and dining culture remains clear, with food-based tenants dominating occupancy in Arcades/Laneways (35.5%) and in Street Frontage shops (29.7%).

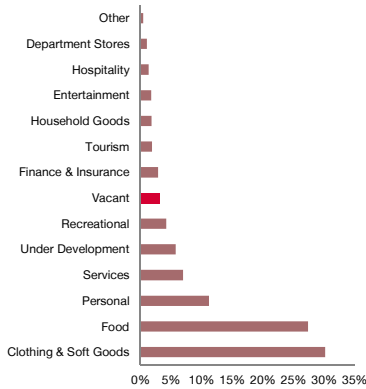
An influx of international retailers, either making their first entry or further expansion in Victoria, has increased the total number of international retailers in the Melbourne CBD retail Core to 119 up from 65 traders in July 2010. Presently, clothing & footwear retailers (63%) and personal goods (21%) are the most dominant occupiers amongst international operators.

Currently, there are 43 luxury fashion retailers within the CBD retail Core. Of these, 27 retailers have presence on Street Frontage, highlighting the luxury tenants' preference for established prime streets with high traffic. Notable luxury fashion recent entrants to the CBD prime streets include: Longchamp and Christian Louboutin, both having opened stores at the Paris End of Collins Street.

New retail supply within the CBD retail Core remains confined to the refurbishment of a number of existing

“Lured by Australia’s stable economy, international retailers have grown from 65 to 119 traders within the CBD Retail Core over the past five years.”

FIGURE 2
CBD Retail Core Tenancy Mix
 % of total number of shops



Source: Knight Frank Research

centres capitalising on the continued demand from international retailers. Centres being currently refurbished include: LaSalle Investment Management's 'St Collins Lane' (9,000m²) and 'Emirates House' (2,000m²) by the Hallmarc Group.

Tenant Demand & Rents

The growing residential population in Melbourne's CBD has encouraged supermarket chains and convenience stores to expand their exposure within the CBD market. Recently Woolworths opened a store at 160 Swanston Street while Ezy Mart has opened at 219 Elizabeth Street.

As demand for prime space offering street frontage within the CBD continues to intensify, accordingly, rental levels have remained supported in contrast to some other Melbourne retail markets. Rents within the Melbourne CBD retail Core have remained relatively steady over the past year. As at July 2015, retail gross rents along the 'super-prime' precinct of Bourke Street range between \$7,500/m² and \$10,000/m², while prime Street Frontage retail rents range between \$1,500/m² and \$5,000/m². Rents in Arcades presently average \$1,600/m² while Shopping Centres attract rental rates between \$800/m² and \$2,000/m².

Investment Activity

Appetite for retail investment remains strong, supported by the improving retail turnover. According to IPD Australia, Australian retail property posted a total return of 10.9% during the 12 months to March 2015. During this period, retail property in Victoria returned a higher total return of 11.3%, up from 9.0% a year ago. In addition, Victorian retail property returns are trending above the five-year average total returns of 9.9%.

Melbourne CBD Retail sales in excess of \$1 million totalled \$66.9 million from 15 properties over the 12 months to July 2015 compared to \$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.

Sustained demand compared to relatively limited investment opportunities in the prime CBD market, has resulted in a firming of CBD retail yields over the past year.

Prime yields for freehold retail (excluding shopping centres and arcades) compressed by 25 basis points to now range between 3.50% and 4.50%, whilst strata retail assets recorded a firming of prime yields by 37.5 basis points to now range between 4.25% and 5.50%.

TABLE 2
Recent Sales Activity Melbourne CBD Retail

Address	Price (\$ m)	Core Market Yield (%)	GLAR (m ²)	Rate of GLAR (\$/m ²)	Date
319-325 Swanston St [#]	26.00	3.70	800	32,500	Jul-15
166 Russell St	5.01	3.80	295	16,983	Mar-15
1/188-194 Lt Collins St	2.20	4.47	37	59,450	Oct-14
2/188-194 Lt Collins St	2.48	3.93	34	72,941	Oct-14
2/250 Flinders St	3.50	4.20	38	92,105	Sep-14
1/250 Flinders St	2.33	4.71	38	61,316	Aug-14
105 Lt Bourke St	3.48	3.56	213	16,338	Aug-14
384 Elizabeth St	7.66	1.61*	870	8,810	Jul-14

[#]two level building with seven shops at street level *initial yield

TABLE 3
Recent Leasing Activity Melbourne CBD Retail

Address	Tenant	Gross Rent (\$/m ²)	GLAR (m ²)	Term (yr)	Date
a/219 Elizabeth St	EzyMart	3,630	50	10	May-15
234 Collins St	Braun Buffel	4,855	103	5	May-15
179 Bourke St	City Convenience	3,867	93	7	May-15
250 Flinders St	Travel Money	4,500	38	7	Feb-15
360 Bourke St	Lincraft ⁺	U/D	786 [#]	10	Feb-15
274 Bourke St	Windsor Smith Shoes	9,000	70	U/D	Dec-14
88 Collins St	Christian Louboutin	3,429	70	5	Dec-14
233 Collins St	OPSM	4,400	100	7	Nov-14
150 Swanston St	UGG Boots	2,895	76	3	Sep-14
214 Swanston St	Frontier Health	3,429	70	3	Sep-14
123 Swanston St	Downtown Revolution	3,300	110	10	Aug-14

U/D undisclosed ⁺sub lease [#]basement shop, includes 80m² of ground floor retail

Source: Knight Frank Research



Outlook

As the economy continues to recover, the household savings ratio has started to decline from its high (post GFC) levels. Household savings ratio at 8.3 in March 2015, is at its lowest since September 2008, and is expected to ease further which should lead to increased retail trade levels.

Residential population for the City of Melbourne is forecast to grow by 14% 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.

Improving economic conditions and rising population collectively are expected to boost discretionary retail spending levels further, especially for retailing in fashion, hair and beauty categories.

The trend of incoming international retailers seeking to increase their exposure within the Melbourne CBD is forecast to continue with international cosmetics retailer Sephora recently committing to 550m² in Melbourne Central, which is expected to open its Flagship store by Christmas.

As a result of continued investor interest for CBD retail assets, prime retail 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.

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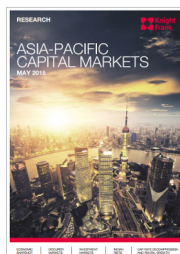
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Melbourne Residential Market Update July 2015



Australian Retail Investment Overview February 2015



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RESEARCH

Monica Mondkar

Analyst, Victoria
+61 3 9604 4608
Monica.Mondkar@au.knightfrank.com

Richard Jenkins

Director – VIC Research
+61 3 9604 4713
Richard.Jenkins@au.knightfrank.com

Matt Whitby

Group Director
Head of Research & Consulting
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

VICTORIA

James Templeton

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

RETAIL LEASING

Gary Loo

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

CAPITAL MARKETS

Paul Henley

Head of Commercial Sales
+61 3 9604 4760
Paul.Henley@au.knightfrank.com

Danny Clark

Associate Director, Commercial Sales
+61 3 9604 4638
Danny.Clark@au.knightfrank.com

Ken Smirk

Director, Commercial Sales
+61 3 8545 8622
Ken.Smirk@au.knightfrank.com

VALUATIONS

Joe Perillo

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



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