

MELBOURNE

RETAIL SUBURBAN STRIPS SEPTEMBER 2014

Key Facts

Top incoming tenants across the strips were led by **clothing** retailers followed by **cafes & restaurants**

Total churn factor measured **12.6%**, up from 7.2% from last year and is at its highest level in almost **five years**.

Investment Activity within the strips totalled **\$92.61** million in the 12 months to August 2014, **up by 106%** on the previous year's levels.



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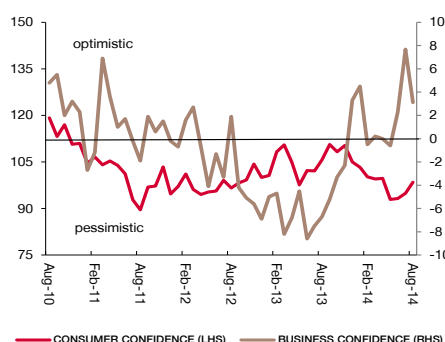
Melbourne's once popular and iconic retail strips have recorded an increase in the number of available retail shops; vacancy rates are up from 6.9% to 7.7%, over the past year - their highest levels in seven years

Economy

Despite a resilient Australian economy, historically low interest rates and a relatively stable political environment, business confidence remains subdued at 3.1 points in August 2014.

FIGURE 1

Consumer and Business Confidence Four years to August 2014



Source: Knight Frank

Signs of an improvement in the domestic economy remain largely limited to the construction sector which has benefitted from the low interest rates and a surge in apartment development. The Australian dollar has depreciated since its peak in March 2013, falling by 16% to reach \$0.88 in September 2014, and is expected to fall further, boosting other sectors of domestic economy.

Consumer confidence levels remain in pessimistic territory, impacted by the federal budget in May 2014. Confidence in the labour market remains weak despite an improvement in year to date jobs' growth. Employment grew by 1.0% in the first eight months of 2014 compared to 1.2% achieved during the same period last year.

In the 12 months to July 2014, retail trade in Australia totalled \$274.4 billion of which \$15.6 billion was spent online. National Australia Bank's (NAB) latest Online Retail Sales Index reported sales growth of

8.6% in online sales in July 2014, whereas overall retailing grew by 5.9% year-on-year according to the Australian Bureau of Statistics. However, within Victoria retail sales increased by 6.5% YoY, outperforming the national average.

Online sales now account for 6.6% of total retail spending, up from 6.3% as at July 2013 and are dominated by Department Stores (34%), followed by Homewares and Appliances (16%) and Groceries and Liquor (15%). In contrast, spending within 'bricks and mortar' is dominated by Food retailing (41%) and Household goods retailing (16%).

TABLE 1
Retail Strips Vacancy

By street/strip as at August 14 (%)

Strip	Aug-13	Aug-14
High St, Armadale	6.4%	8.3%
Church St, Brighton	1.1%	1.1%
Burke Rd, Camberwell	6.0%	9.5%
Glenferrie Rd, Hawthorn	5.3%	6.7%
Glenferrie Rd, Malvern	6.2%	5.0%
Puckle St, Moonee Ponds	2.7%	5.9%
Bridge Rd, Richmond	16.5%	19.3%
Clarendon St, South Melbourne	4.1%	4.1%
Chapel St, South Yarra	6.1%	8.4%
Toorak Rd, South Yarra	12.8%	7.6%
Acland St, St Kilda	2.7%	2.6%
Melbourne Total	6.9%	7.7%

Source: Knight Frank

Vacancy & Tenant Demand

Vacancy in Melbourne's prime retail strips is up from 6.9% as at August 2013 to 7.7% as at August 2014. Bridge Road, Richmond recorded the highest vacancy of 19.3% with 46 vacant shops compared to 16.5% a year ago. Once a tightly held strip for discount clothing outlets, Bridge Road has been impacted by soft retail conditions and by the emergence of outlet centres. The world renowned Chapel Street, South Yarra saw its vacancy increase from 6.1% to 8.4% with fashion brands such as Oroton, Wayne Cooper and Christopher Chronis vacating the strip. Burke Road, Camberwell saw its vacancy levels rise from 6.0% to 9.5% and High Street, Armadale from 6.4% to 8.3%, both reaching their highest vacancy levels in 5 years.

In contrast, Toorak Road in South Yarra recorded a fall in vacancy from 12.8% to 7.6% driven by an influx of cafes and restaurants. Available space within the smaller strips remained relatively tight; vacancy rates remained stable at 4.1% at Clarendon Street, South Melbourne whilst vacancy fell from 2.7% to 2.6% at Acland Street, St Kilda. Church Street, Brighton was the best performing strip again with a steady vacancy rate of 1.1%, and remains below its five year average of 2.4%. Glenferrie Road, Malvern saw its

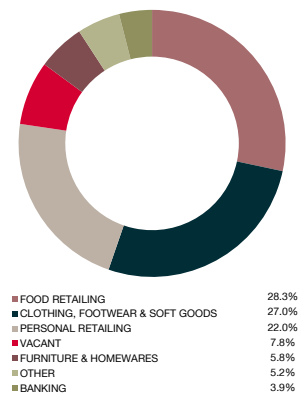
vacancy rate also fall from 6.2% to 5.0%, while Glenferrie Road, Hawthorn saw its vacancy rise, up from 5.3% to 6.7%.

The total churn factor measured 12.6%, up from 7.2% from last year and is at its highest level in almost five years.

Tenancy Mix

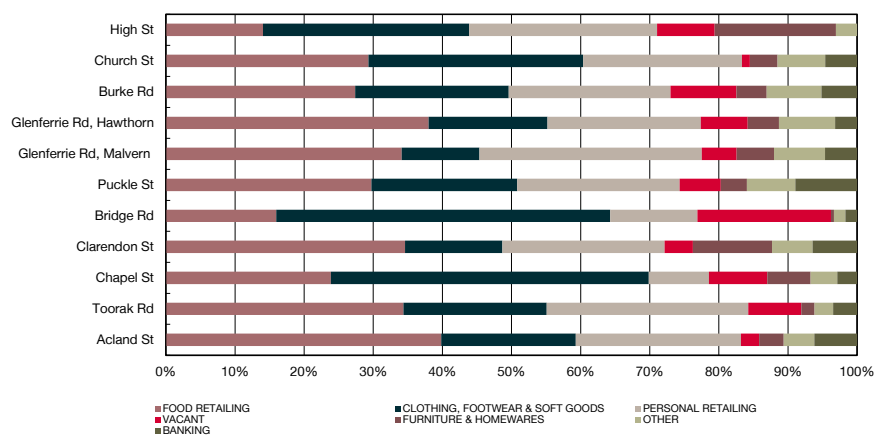
The tenancy mix in Melbourne's suburban strips is dominated by clothing, food and personal retailing collectively accounting for 77.3% of all shops.

FIGURE 2
Retail Strips Tenancy Mix
% of number of shops by street



Source: Knight Frank

FIGURE 2
Retail Strips Tenancy Mix
% of number of shops by street



Source: Knight Frank

Occupancy along Bridge Road and Chapel Street is dominated by clothing and footwear retailers at 48.3% and 46.0% respectively of all tenants. Elsewhere, food retailers were the top occupants in Toorak Road (34.3%), Acland Street (39.8%), Clarendon Street (34.6%) and Glenferrie Road, Hawthorn (38.0%). In the 12 months to August 2014, incoming tenants into the prime strips were led by clothing, followed by cafes & restaurants and hair & beauty salons.

Investment Activity

Despite the increasing vacancy rates, investment appetite remains solid assisted by improving retail trade data. According to IPD Australia, Victorian retail property posted a total return of 9.6% during the 12 months to June 2014. In comparison, total returns across Australian retail property returned 10.1% on investment. Victorian retail is trending slightly above its five-year average total returns of 9.1%

Retail sales (>\$1million) across Melbourne's prime suburban strips during the 12 months to August 2014 totalled \$92.61 million across 19 properties, increasing by 106% from \$44.90 million transacted in the preceding 12 months.

While institutional investors remain focussed on shopping centres and offshore buyers focussed on Regional Centres and CBD retail assets, local

private investors continued to acquire the majority of retail properties within Melbourne's suburban strips. In the 12 months to August 2014, private investors accounted for 78.7% of retail strip transactions with acquisitions totalling \$72.89 million

Chapel Street in South Yarra accounted for the majority of shops being transacted during the 12 months to August 2014. However, the largest sale was recorded in late 2013, through the Adler Family's divestment of their prime asset, 'Chocolate Box Centre' at 761-767 Burke Rd, Camberwell for a value of \$12 million.

Outlook

Dun & Bradstreet's profit expectations index revealed that of all retailers, 40% are expecting higher profits in the final quarter of 2014, compared to the same period a year ago. A rise in consumer spending is expected to come from anticipated growing confidence levels coupled with improved labour conditions.

Impacted by the increase in vacancies, their highest levels in seven years, and subdued retail trade conditions, rents are likely to remain under pressure. Looking ahead, given the high levels of residential development surrounding many of the prime retail suburban strips, local population levels will rise.

The influx of new residents should result in increased levels of foot traffic boosting local retail trade.

“Clothing, food and personal retailing are demand drivers for suburban retail space, collectively accounting for 77% of the tenants across the strips ”

Churn rates within the strips are likely to remain elevated as tenants (often already existing on the strip) capitalise on the competitive leasing conditions and relocate to better quality positions within their strip.

Despite the clouded consumer and business confidence, demand for solid investments within prime locations remains competitive as a result of the improvement in overall retail spending. Total retail spending has increased by 12.8 billion in the 12 months to July 2014 when compared to the same period in 2013.

TABLE 2

Recent Sales Activity Melbourne Retail Suburban Strips

Address	Price (\$ m)	Core Market Yield	NLA (m ²)	\$/m ² NLA	Sale Date
507 Chapel St, South Yarra	6.35	5.00	595	10,672	Aug-14
122-124 Glenferrie Rd, Malvern	4.65	4.00	408 ⁺	11,397	Jul-14
218-228 Toorak Rd, South Yarra	10.00	6.10 [*]	1,300 ⁺⁺	7,692	Jul-14
318-326 Chapel St, South Yarra	10.80	4.44 [*]	1,871 [#]	5,775	Jul-14
242 Bridge Rd, Richmond	3.82	u/d	540	7,083	Jul-14
90 Church St, Brighton	2.83	3.20 [*]	152	18,618	May-14
143 Acland St, St Kilda	3.60	3.43	186	19,355	Mar-14
761-767 Burke Rd, Camberwell	12.00	u/d	1,457	8,236	Nov-13

u/d undisclosed

*Initial yield

⁺Two adjacent shops

⁺⁺three level retail building

[#]three level retail building comprising seven shops

Source: Knight Frank

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Methodology:

This analysis collects and tabulates data detailing vacancies within retail properties having street frontage across prime precincts of Melbourne's suburban retail strips: Burke Road in Camberwell, Bridge Road in Richmond, Puckle Street in Moonee Ponds, Chapel Street in South Yarra, Glenferrie Road in Hawthorn & Glenferrie Road in Malvern, High Street in Armadale, Toorak Road in South Yarra, Acland Street in St. Kilda, Clarendon Street in South Melbourne and Church Street in Brighton.

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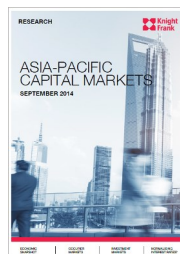
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