



MELBOURNE

RETAIL SUBURBAN STRIPS JULY 2017

Key Facts

Vacancy across Melbourne's prime retail strips **decreased from 8.4% to 8.0%**, the lowest level since July 2015.

Bridge Road, Richmond recorded the highest vacancy rate, increasing to an all-time high of 21.4%.

Melbourne's prime retail strips are **dominated by food retailing**, accounting for 28.5% of the total tenancy mix.

Retail suburban asset sales totalled \$78 million in the 12 months to July 2017, up by 17.1% from the previous year.



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Vacancy across Melbourne's prime retail strips decreased for the first time in two years as the growing residential population continues to drive demand, particularly for food retailing.

Economic Overview

Victoria's economy continues to outperform the national average, with State Final Demand growing at a pace of 4.5% year-on-year to March 2017.

Retail turnover in Victoria in the 12 months to May 2017, as measured by the Australian Bureau of Statistics (ABS), increased by 5.1% compared with 4.2% in the preceding 12 months.

Despite showing signs of slowing nationally, retail trade in Victoria continues to outperform other states. Retail trade totalled \$6.4 billion in the 12 months to May 2017, up from \$6.1 billion in the preceding 12 months. Growth was supported by increases in pharmaceutical, cosmetic & toiletry goods (14.9%), footwear & other personal accessory retailing (14.3%) and furniture, floor coverings, houseware and textile goods retailing (11.4%).

Retail turnover and retail trade in Victoria continues to be underpinned by strong residential population growth. The latest ABS census results show that the Victorian residential population increased by 10.7% in the five years to June 2016 to reach 5.9 million. Victoria is currently the nation's fastest growing state, with an additional 2,000 residents entering the state per week.

In addition, Victoria continues to attract large tourism volumes, with total inbound tourism numbers increasing by 7.7% to reach 2.7 million over the 12 months to March 2017. Chinese tourists continue to lead the influx.

Nevertheless, recent increases in mortgage rates and electricity costs combined with high levels of household debt and limited wage growth remain a threat to the retail sector going forward. Westpac recorded a fall in the consumer confidence index in the 12 months to June 2017, down by 5.8% to 96.2.

Vacancy

The vacancy rate across Melbourne's 11 prime retail strips declined for the first time in two years, falling from 8.4% to 8.0% in the 12 months to July 2017. Vacancy levels decreased across eight out of the 11 prime retail strips compared with six in the preceding 12 months. Nevertheless, vacancy remains well above the series average of 4.6%.

Glenferrie Road, Hawthorn recorded the largest decrease in vacancy, falling from 10.7% to 6.7%. The growing secondary and tertiary student population continues to support the retail mix along Glenferrie Road, with food retailing (41.1%) accounting for the majority of shops along the retail strip. In the 12 months to July 2017, tenant commitments from food retailers included Guzman Y Gomez, Oporto and Lord of the Fries. Church Street, Brighton recorded the

lowest vacancy rate, sitting at 0.6% with just one shop available. This compares to a vacancy rate of 4.0% across seven available shops at the equivalent period in 2016. Church Street, Brighton saw tenant commitments from retailers such as Nike, Princess Highway and Wittner Shoes in the 12 months to July 2017.

The vacancy rate along Chapel Street, South Yarra fell for the first time since July 2010, down from 13.5% to 12.4% in the 12 months to July 2017. Nevertheless, vacancy levels remain above the long-term average of 8.6% and the second highest across all of Melbourne's prime retail strips. The fall in vacancy was a result of 39 shops being leased in the 12 months to July 2017, with take-up more prominent between Commercial Road/Malvern Road and Grosvenor Street. Of the 43 vacant shops, nine shops have recently received planning approval at 402-416 Chapel Street for a mixed-use development comprising of 40 or more apartments and 174 hotel rooms.

Vacancy along Bridge Road, Richmond increased for the second consecutive year, reaching 21.4%, the highest level since the series began in 2007. The increase was underpinned by seven discount clothing shops vacating their premises including R&B Outlet, Overseas Designer Warehouse and 10 Dollars which relocated to Chapel Street, South Yarra. The continual rise in vacancy over the past five years has been influenced by increasing rental levels as well as

competition from Direct Factory Outlets and shopping centres in the CBD attracting international retailers. Additionally, the introduction of tram super stops along the retail strip combined with changed parking regulations have reduced the number of parking spaces, limiting accessibility and pedestrian foot traffic.

Elsewhere, Toorak Road, South Yarra recorded an increase in vacancy, up from 2.6% to 6.0% in the 12 months to July 2017. The rise in vacancy was brought on by seven shops coming online, having recently completing construction as part of residential developments at 22-32 Toorak Road and 300 Toorak Road.

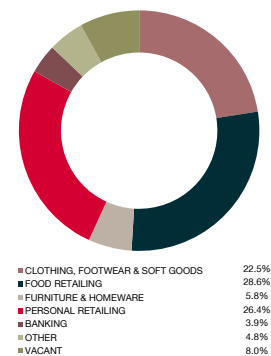
Vacancy along Acland Street, St Kilda also increased, up from 7.5% to 11.2%, underpinned by food retailers, including

TABLE 1
Retail Strips Vacancy
By street/strip as at Jul 17 (%)

Retail Strip	Jul-16	Jul-17
High St, Armadale	6.4%	3.9%
Church St, Brighton	4.0%	0.6%
Burke Rd, Camberwell	6.7%	5.6%
Glenferrie Rd, Hawthorn	10.7%	6.7%
Glenferrie Rd, Malvern	3.9%	5.1%
Puckle St, Moonee Ponds	10.8%	8.1%
Bridge Rd, Richmond	16.7%	21.4%
Clarendon St, South Melbourne	6.3%	5.1%
Chapel St, South Yarra	13.5%	12.4%
Toorak Rd, South Yarra	2.6%	6.0%
Acland St, St Kilda	7.5%	11.2%
Melbourne Total	8.4%	8.0%

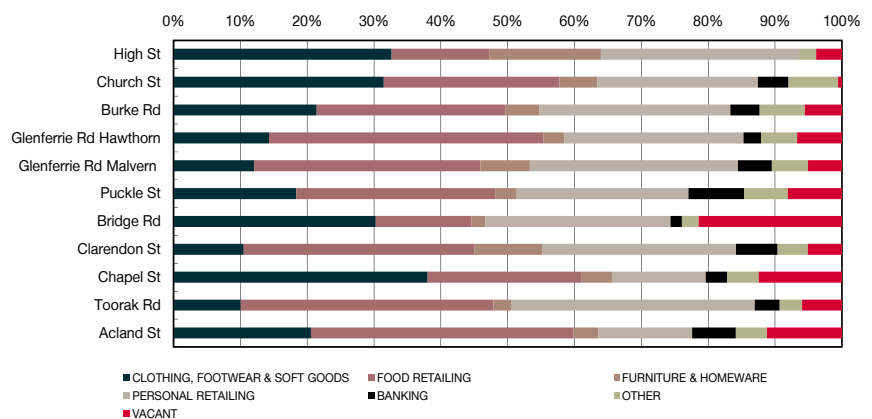
Source: Knight Frank Research

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



Source: Knight Frank Research

FIGURE 1
July 2017 Retail Strips Tenancy Mix
% of number of shops by street



Source: Knight Frank Research

Nando's, Schnitz and Gami Chicken & Beer, vacating their premises. Tenant commitments over the past 12 months along Acland Street, St Kilda were largely from personal retailing, namely hair and beauty salons, and clothing retailing, two of which were pop-up shops.

Vacancy along High Street, Armadale decreased for the third consecutive year, falling from 6.4% to 3.9%. In the 12 months to July 2017, 15 clothing retailers committed to retail space along the strip including luxury brands Zimmermann and Bianca Spencer, and fitness wear brands Pilot Athletic and Jaggad.

Puckle Street, Moonee Ponds saw vacancy fall to 8.1% as at July 2017. The fall in vacancy was underpinned by tenant commitments from a variety of retailers including Discount Variety Store (discount variety shop), The Little Big Company (party supplies shop) and Interflora (florist). The bulk of tenant commitments, however, were from food retailing and personal retailing.

The total tenant churn across Melbourne's prime retail strips in the 12 months to July 2017 was 6.9%, down from 13.0%. Burke Road, Camberwell and High Street, Armadale recorded the highest churn mostly due to tenants repositioning along the retail strip, seeking competitive rents and better locations. Within the past year, Ziera and Laurent Patisserie relocated along Burke Road while Viktoria & Woods and Toni & Guy relocated along High Street.

Tenancy Mix

The tenancy mix across Melbourne's prime retail strips remains dominated by food retailing, accounting for 28.6% of the total number of shops. This was followed by personal retailing at 26.3% and clothing, footwear & soft goods retailing at 22.5%.

The retail strips with the highest proportion of food retailers included High Street, Armadale; Church Street, Brighton; Bridge Road, Richmond; and Chapel Street, South Yarra. Clothing, footwear & soft goods retailers was the most prominent along Glenferrie Road, Hawthorn; Glenferrie Road, Malvern;

Puckle Street, Moonee Ponds; Clarendon Street, South Melbourne; Toorak Road, South Yarra; and Acland Street, St Kilda.

Incoming tenants across Melbourne's prime retail strips were led by personal retailing and furniture & homeware retailing, increasing by 1.3% and 0.2% respectively in the 12 months to July 2017. The increase in demand for furniture and homeware goods stems from the rise in residential development. Recently, Sheridan opened a store across two levels at 781-783 Burke Road, Camberwell as part of a new concept of engaging with customers via in-store design consultants and large discussion areas. In the past, incoming tenants were led by clothing retailing followed by furniture & homeware retailing.

Investment Activity

Retail sales in excess of \$1 million across Melbourne's prime retail strips, in the 12 months to July 2017, totalled \$78 million across 17 properties. This was up from \$66.6 million across 19 properties in

“Vacancy along Bridge Road, Richmond increased for the second consecutive year, reaching 21.4%, an all-time high.”

the previous year. Local private investors were the most active buyers, with sales totalling \$49.1 million, accounting for 63% of all sales by value.

By retail strip, Church Street, Brighton accounted for the bulk of sales with \$40.4 million transacted, accounting for 52% of total sales volumes. Transaction volumes were supported by the sale of 104 Church Street, Brighton, which was acquired by a local private investor for \$32 million, reflecting a core market yield of 3.77%.

TABLE 2

Recent Sales Activity Melbourne Retail Suburban Strips

Address	Price (\$ m)	Core Market Yield (%)	GLAR (m ²)	\$/m ² of GLAR	Date
684 Burke Rd, Camberwell	2.40	3.90*	191	12,565	Jun-17
479 Chapel St, South Yarra	2.72	U/D	104	26,150	Jun-17
108 Glenferrie Rd, Malvern	3.31	3.50*	239	13,849	Apr-17
29 Toorak Rd, South Yarra	2.56	3.50*	230	11,304	Dec-16
730 Glenferrie Rd, Hawthorn	3.21	2.70	211	15,213	Aug-16
104 Church St, Brighton [^]	32.08	3.77	3,307	9,701	Jul-16

*initial yield [^]Woolworths U/D undisclosed

TABLE 3

Recent Leasing Activity Melbourne Retail Suburban Strips

Address	Tenant	Net Rent \$/m ²	GLAR (m ²)	Term (yr)	Date
555A Chapel St, South Yarra	Mister Zimi	1,198	121	4	May-17
18 Church St, Brighton	Wittner Shoes	809	127	6	Mar-17
1005 High St, Armadale	Duzen	650	100	U/D	Mar-17
638 Burke Rd, Camberwell	Paper Republic	828	145	3	Nov-16
383 Chapel St, South Yarra	Abacus	833	326	U/D	Feb-17
36 Toorak Rd, South Yarra	Mono Lab	700	150	3	Aug-16

U/D undisclosed

Source: Knight Frank Research



Outlook

The Victorian economy is forecast to continue to strengthen over the medium term, with State Final Demand growing at an average pace of 2.9% between 2017 and 2021. Retail turnover growth is forecast to increase at an average of 3.2% during the same period as a result of above average population growth. Nevertheless, despite the official cash rate remaining unchanged at 1.5% since August 2016, high levels of household debt combined with limited wage growth have the potential to negatively impact the retail sector going forward.

The growing residential population will continue to boost retail trade, particularly food retailing, with a number of residential and mixed-use developments earmarked along Melbourne's prime retail strips. Bridge Road, Richmond will see the completion of Claudia Apartments at 123-125 Bridge Road and Dux Richmond Hill at 153-177 Bridge Road, providing approximately 195 apartments by 2018. At 17-23 Puckle Street & 6-14 Young Street, Moonee Ponds, a mixed-use development

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 & 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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incorporating 151 apartments and 1,624m² of retail space across eight tenancies within two multi-level buildings has received planning approval. Construction is anticipated to commence in the second half of 2017, with expected completion in 2019.

Numerous retailers along Melbourne's prime retail strips have gone into administration over the past 12 months, including Topshop, Marcs and Pressed Juices, highlighting the increasingly competitive Australian retail market. In addition, the upcoming arrival of Amazon will further add competition.

Melbourne's prime retail strips will continue to face competition from emerging retail locations, such as Brunswick Street, Fitzroy; Smith Street, Collingwood; and High Street, Northcote, which currently have vacancy rates averaging at 4.0%. These emerging retail locations with lower rental costs are recognised for their unique food retailing, vintage and boutique clothing shops as well as alternative feel compared with Melbourne's prime retail strips.

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