



# MELBOURNE

## RETAIL SUBURBAN STRIPS SEPTEMBER 2015

### Key Facts

**Bridge Road, Richmond** saw the **largest fall** in vacancy across all strips; falling from **19.3% to 13.0%** over the year

The total churn factor measured **15.6%**, up from **12.6%** — its **highest level in five years**

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

**Retail sales** totalled **\$130.25 million** in the 12 months to August 2015, **up by 41%** on the previous year



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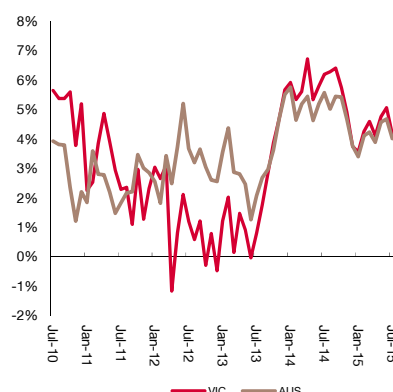
Melbourne's popular and iconic retail strips are in a recovery mode with a decrease in the number of available retail shops; the total vacancy rate fell from 7.7% to 7.2% over the past year.

### Retail Overview

Victorian retail trade rose by 4.4% year-on-year as at July 2015; down from the 6.6% growth recorded in the previous year. However, Victorian retail growth has been trending above the national average since beginning of the year. While all retail trade

sectors in Victoria posted a positive Y-o-Y growth, Clothing & Footwear retail sales grew by 5.4% up from -0.8%, a year ago. Whilst spending at Cafes & Restaurants grew by 2.6%, this growth was lower than the 13.8% rise achieved a year ago. Personal Goods retailing increased by 3.5% driven by the Pharmaceutical and Cosmetics sub-sectors.

FIGURE 1  
**Retail Trade**  
2010- 2015 (Year-on-Year change)



Source: Knight Frank Research

In the 12 months to July 2015, Australian retail trade totalled \$287.2 billion, up from \$274.4 billion spent in the previous year. Online sales now account for 6.1% of the total retail spending, up from 5.7% a year ago. National Australia Bank's latest Online Retail Sales Index reported a growth of 6.2% as at July 2015, whereas overall retailing grew by 4.2% year-on-year according to the Australian Bureau of Statistics. While Online retailing is dominated by Electronic Games & Media (33%), followed by Homewares and Appliances (12%), spending within 'bricks and mortar' is dominated by Food (41%) and Household goods (17%).

The business confidence index fell to +1 as at August 2015, its lowest level since mid-2013. Exacerbated by rising concerns over China's economic growth and plunging financial markets, business confidence levels fell from +4 a month ago.

Consumer confidence levels are also soft, with the index at 93.9 as at September 2015, impacted by the concerns clouding the domestic economy. However, consumer confidence levels are likely to get a boost in near term from recent change in the national leadership.

Household savings ratio was up to 8.8 at June 2015 from 8.3 at March 2015, reflecting cautious consumer spending. While the household savings ratio has lowered from the high levels of GFC (12.0 at December 2008), it still remains higher than the pre GFC levels (5.1 at

September 2008), and needs to ease further for continued retail resurgence.

Since its peak in March 2013, the AUD has depreciated by 32% to \$0.71 in September 2015, and is expected to fall further. This is likely to lift a number of trade sectors including domestic tourism which should boost retail trade.

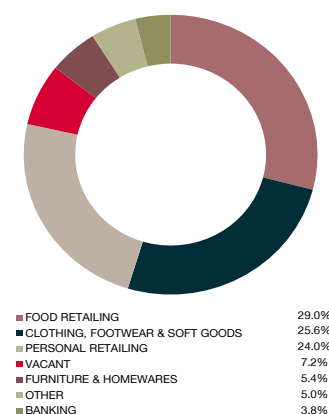
## Vacancy & Tenant Demand

Vacancy levels fell across six out of 11 prime retail strips included in the survey, resulting in a decrease in overall vacancy to 7.2% as at August 2015 from 7.7% recorded a year ago. Available space within the smaller strips remained relatively low. Church Street, Brighton remained the tightest retail strip with vacancy of 0.6%, and its vacancy trending lower than the average vacancy rate of prime strips over past 10 years. Prime retail strips of Toorak Road in South Yarra, Acland Street in St Kilda and Burke Road in Camberwell saw relatively stable vacancy rates at 7.6%, 2.7% and 9.5% respectively, largely driven by influx of cafes and restaurants.

Although Bridge Road, Richmond saw its vacancy levels fall to 13.0% from 19.3% a year ago, its vacancy still remains highest amongst the retail strips surveyed. Soft retail conditions coupled with the emergence of outlet centres have seen vacancy levels increase on the formerly renowned discount clothing strip

since 2008. While the fall in its vacancy level over the past year is more reflective of retail space withdrawals for residential conversion, the presence of the Epworth Hospital provides an opportunity for the health sector to grow along the strip. Elsewhere, the vacancy rate along Chapel Street, South Yarra rose from 8.4% to 10.9% with renowned retailers such as Guess, Body Shop and Sussan vacating the strip. Offsetting some of the departures, the iconic retail strip saw notable fashion retail entrants such as Diesel, MJ Bale and Paul Smith. Of the 38 vacant units on Chapel Street, some are likely to undergo potential residential redevelopments similar to Bridge Road. Interestingly, a number of former tenants along Chapel Street have relocated into

FIGURE 3  
Retail Strips Tenancy Mix  
% of number of shops by street



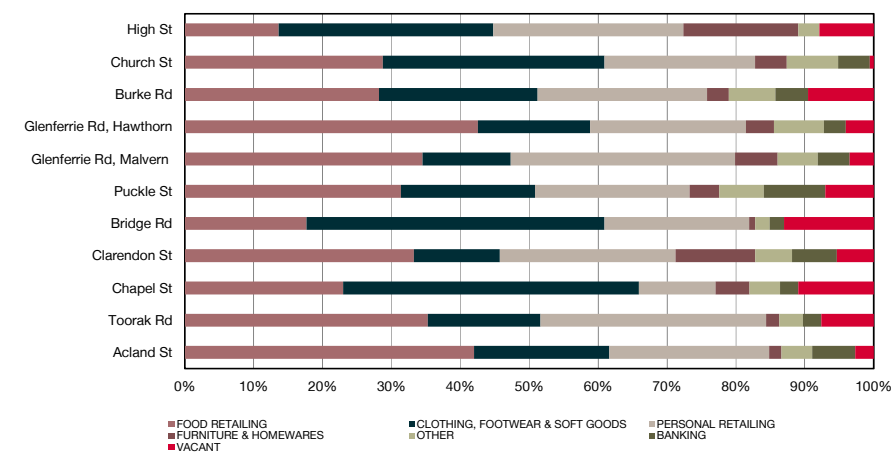
Source: Knight Frank Research

TABLE 1  
Retail Strips Vacancy  
By street/strip as at August 15 (%)

| Retail Strip                  | Aug-14      | Aug-15      |
|-------------------------------|-------------|-------------|
| High St, Armadale             | 8.3%        | 7.9%        |
| Church St, Brighton           | 1.1%        | 0.6%        |
| Burke Rd, Camberwell          | 9.5%        | 9.5%        |
| Glenferrie Rd, Hawthorn       | 6.7%        | 4.1%        |
| Glenferrie Rd, Malvern        | 5.0%        | 3.5%        |
| Puckle St, Moonee Ponds       | 5.9%        | 7.0%        |
| Bridge Rd, Richmond           | 19.3%       | 13.0%       |
| Clarendon St, South Melbourne | 4.1%        | 5.3%        |
| Chapel St, South Yarra        | 8.4%        | 10.9%       |
| Toorak Rd, South Yarra        | 7.7%        | 7.6%        |
| Acland St, St Kilda           | 2.7%        | 2.7%        |
| <b>Melbourne Total</b>        | <b>7.7%</b> | <b>7.2%</b> |

Source: Knight Frank Research

FIGURE 4  
Retail Strips Tenancy Mix  
% of number of shops by street



Source: Knight Frank Research

tenancies in side streets off Chapel Street offering lower rents.

The total churn factor measured 15.6%, up from 12.6% from last year and is at its highest level in the past five years. Bridge Road (23.4%) and Chapel Street (24.5%) both recorded the highest churn levels mostly due to tenant repositioning on the same strip seeking competitive rents and better location. Westpac, Kookai and Soho workshop relocated on Chapel Street, while Commonwealth Bank and Bendon repositioned on Bridge Road.

## Tenancy Mix

Melbourne's suburban strips have a clear dominance of food retailing at 29.0%, followed by clothing & footwear (25.6%) and personal retailing (24.0%).

Occupancy along Bridge Road, Chapel Street, High Street and Church Street is dominated by clothing & footwear retailers at 43.3%, 44.0%, 31.1% and 32.1% respectively. Toorak Road (35.2%), Acland Street (41.9%), Clarendon Street (33.2%) and Glenferrie Road, Hawthorn (42.5%) had food retailers as the top occupants. In the past year, incoming tenants into the prime strips were led by clothing followed by cafes & restaurants.

## Investment Activity

According to IPD Australia, Victorian retail property posted a total return of 10.5% during the 12 months to June 2015, at levels similar to the prior year. However, Victorian retail property returns are trending above the five-year average total returns (9.7%).

Retail sales (\$1million+) from Melbourne's prime suburban strips during the 12 months to August 2015 totalled \$130.25 million across 26 properties, up from \$92.61 million across 19 properties in the previous year. Falling vacancy rates coupled with historically lower interest rates have maintained the investor appetite for investments within the prime retail strips.

Local private investors continued to acquire the majority of retail properties within Melbourne's prime suburban retail strips with sales totalling over \$74.5 million over the past year. The largest purchases made by private investors included a portfolio sale of 328-362 Clarendon Street, South Melbourne for a value of \$27.5 million. In another notable sale, a private investor purchased a shop currently leased to the ANZ Bank at 75-83 Puckle Street, Moonee Ponds for \$7.45 million. In addition to the private investors, developer 'Little Projects' purchased a number of adjoining retail shops at 153-177 Bridge Road, Richmond for approximately \$20 million. The site has a proposal to build high-rise apartments over ground floor retail.

## Outlook

Dun & Bradstreet's profit expectations index revealed that of all retailers, 60.2% are expecting retail sales to increase in the fourth quarter of 2015, compared to 40% of traders who anticipated a lift in retail trade 12 months ago.

Historically low interest rates coupled with the depreciating Australian dollar are favouring a positive outlook for consumer spending. The retail sector should be further supported by improving

"Bridge Road, Richmond saw the largest fall in vacancy across all strips; falling from 19.3% to 13.0% over the year"

employment levels in Victoria. Victorian unemployment rate fell to 6.1% in August 2015 from 6.9% a year ago, contrary to the rising national average. However, political stability will be imperative to lift business and consumer confidence to more optimistic levels.

Population growth in inner Melbourne has been rapid in recent years, especially within the local government areas surrounding the prime strips which have a collective projected growth rate of 2% between 2011 to 2016, above the Metropolitan Melbourne's growth rate of 1.6%. Rising population is expected to boost retail trade and lower vacancy rates in the medium term. Looking ahead, rents are expected to stabilise over the medium term with lower vacancy and landlords gradually adapting to achievable rents.

The churn factor is likely to remain high as existing tenants will reposition themselves within the prime strip, seeking better location or competitive rents.

TABLE 2

### Recent Sales Activity Melbourne Retail Suburban Strips

| Address  | Price (\$ m) | Initial Yield (%) | NLA (m <sup>2</sup> ) | \$/m <sup>2</sup> NLA | Sale Date |
|--|--------------|-------------------|-----------------------|-----------------------|-----------|
| 2/25 Bridge Rd, Richmond                           | 0.62         | -                 | 105                   | 5,905                 | Jul-15    |
| 744 Burke Rd, Camberwell                           | 1.40         | 3.80              | 120                   | 11,666                | Jun-15    |
| 203 Glenferrie Rd, Malvern <sup>++</sup>           | 2.46         | 3.95              | 220                   | 11,182                | Jun-15    |
| 328-362 Clarendon St, South Melbourne <sup>^</sup> | 27.50        | 4.17              | 2,520                 | 10,913                | Apr-15    |
| 505 Chapel St, South Yarra                         | 3.10         | 4.52              | 116                   | 26,724                | Feb-15    |
| 75-83 Puckle St, Moonee Ponds                      | 7.45         | 5.77              | 690                   | 10,807                | Jan-15    |
| 862 Glenferrie Rd, Hawthorn                        | 2.06         | 5.50              | 221                   | 9,321                 | Jan-15    |
| 135 Toorak Rd, South Yarra <sup>+</sup>            | 1.82         | 3.90              | 240                   | 7,604                 | Dec-14    |
| 1209-1201 High St, Armadale                        | 2.40         | 3.64              | 240                   | 10,000                | Oct-14    |

<sup>^</sup>Portfolio of adjoining properties with 15 retail shops, 2 offices & 10 residential units at the rear-side

<sup>++</sup>two level retail

<sup>+</sup>Gr floor retail & office at upper level

Source: Knight Frank Research



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## Methodology:

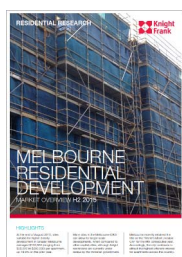
This analysis collects and tabulates data detailing vacancies within retail properties having street frontage across prime precincts of Melbourne's suburban retail strips: Burke Road in Camberwell, Bridge Road in Richmond, Puckle Street in Moonee Ponds, Chapel Street in South Yarra, Glenferrie Road in Hawthorn & 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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