

PARRAMATTA CBD RETAIL MARKET BRIEF JULY 2017

KEY FINDINGS

The retail vacancy rate in the Parramatta CBD retail Core measured 2.8% as at July 2017.

Western Sydney's population is expected to increase to three million people over the next 20 years, averaging 2.5% pa.

Food retailing was the most dominant retail category in Parramatta, accounting for 27% of the total tenancy mix.

Average shopfront retail net rents in Parramatta currently range between \$700-\$1,200/m² pa, with the top locations pushing above \$1,300/m² pa.

The average Strata retail yields in Parramatta are between 4.0% and 6.0% as at July 2017.



ALEX PHAM
Senior Research Manager

“The defensive nature of the Parramatta retail market will be a major attraction for both local and international property investors.”

Strong population and employment growth coupled with a significant pipeline of new prime retail supply is creating favourable retail conditions in Parramatta.

The Parramatta CBD is transforming into a major retail destination of Sydney, supported by strong population and employment growth combined with significant levels of urban gentrification and infrastructure investment. According to the City of Parramatta Council, Western Sydney's population is expected to expand by 50% to three million residents over the next 20 years. The city's economy currently generates \$23.8 billion per year and is forecast to expand by 4.6% pa through to 2021. Additionally, a total \$10 billion will be invested in infrastructure projects across Western Sydney over the next five years. These factors will create conducive conditions for the Parramatta retail market.

Vacancy

The retail vacancy rate in the Parramatta CBD retail Core measured 2.8% as at July 2017, marginally higher than that in the Sydney CBD at 2.6%. Arcades and laneway shops registered the highest percentage of vacancy at 6.3%, while the lowest vacancy rate was recorded for the Shopping centre category (Westfield) at 1.4%. As at July 2017, 4.4% of street-front shops were available for lease.

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

| | Jul-17 (%) |
|-----------------------------|------------|
| Street Frontages | 4.4 |
| Arcades/Laneways | 6.3 |
| Shopping Centres | 1.4 |
| Total Retail Vacancy | 2.8 |

Source: Knight Frank Research
*See back page for area definition

Tenancy Mix & New Supply

Food retailing was the most dominant retail category in Parramatta as at July 2017, accounting for 27% of the total tenancy mix (Figure 1). The majority of food retailers were street-front takeaway shops, restaurants and cafés, which accounted for 82% of the total number of food retailers in Parramatta. This is

credited to the establishment of the vibrant 'Eat Street' precinct along Church Street. Clothing and footwear retailers had the second largest presence in the city, representing 19% of the total retail units. This is in contrast to the Sydney CBD's retail tenancy mix, which has clothing and footwear as the most dominant retail category (39%), followed by food retailing (18%).

New supply of retail space in Parramatta has been largely constrained over the past decade since the redevelopment of Westfield in 2006. However, looking forward, the city is expected to generate significant retail space over the next ten years from the developments at Parramatta Square (c3,000m²), Civic Link, Riverbank Precinct, City River Foreshore and Westfield's expansion.

Demand & Rents

Food and beverage offerings are driving tenant demand in Parramatta with recent openings including Burger Project, Shokudo Ramen & Sake Bar at 45 Macquarie Street, plus Mikazuki Japanese Restaurant and Chambers Coffee at 169 Macquarie Street. Rockpool has also precommitted to the new development at 8 Phillip Street. Average shop-front retail net rents in Parramatta currently range between \$700-1,200/m² pa, with top rents pushing above \$1,300/m² pa.

FIGURE 1
Parramatta CBD Core Tenancy Mix
% of number of shops by type



Source: Knight Frank Research



Investment Activity

Positive leasing fundamentals, low vacancy, a favourable interest rate environment and the quest for defensive assets are driving positive investor demand for retail properties in Parramatta. Nevertheless, investment activity was most active for strata retail suites due to the lack of institutional grade assets.

Recent retail transactions include the sale of Strata units 5 and 6 at the V by Crown development at 140 Marsden Street (45 Macquarie Street) for a total consideration of \$7.2 million. The sale reflects a combined initial yield of circa 6.0% and a sale rate of \$23,377/m². Another significant deal last year was 292-298 Church Street (Sicilian Restaurant), which sold for \$9.5 million at an initial yield of 4.1% and a rate per m² of \$5,417.

Outlook

The Parramatta CBD is experiencing a massive development boom, with over 21 DA endorsed mixed-use developments in the pipeline. These projects could yield nearly 9,200 additional dwellings and about 170,000m² additional commercial floor space, according to the City of Parramatta. While the specific figure is not available, we estimate about 5-10% of the additional commercial floor space will be for retail use.

The strong population growth, both of local residents and office workers, will be a major driver of retail spending in Parramatta. While non-discretionary retailers will continue to dominate the tenancy mix, the supply of new prime retail floor space will allow discretionary retailers to see stronger growth.

TABLE 2

Recent Sales Activity Parramatta CBD Retail

| Address | Price (\$m) | Initial Yield (%) | GLAR (m ²) | \$/m ² GLAR | Sale Date |
|------------------------|-------------|-------------------|------------------------|------------------------|-----------|
| 5&6/140 Marsden Street | 7.20 | 6.0 | 308 | 23,377 | Apr-17 |
| 260 Church Street | 2.90 | 4.8 | 180 | 16,111 | Dec-16 |
| 14/103 George Street | 0.56 | U/D | 104 | 5,380 | Nov-16 |
| 15/103 George Street | 0.48 | U/D | 89 | 5,380 | Nov-16 |
| 16/103 George Street | 0.48 | U/D | 89 | 5,380 | Nov-16 |
| 17/103 George Street | 0.46 | U/D | 86 | 5,380 | Nov-16 |
| 85 George Street | 1.80 | U/D | 368 | 4,891 | Nov-16 |
| 292-298 Church Street | 9.75 | 4.1 | 1,800 | 5,417 | Oct-16 |

Source: Knight Frank Research

Parramatta Retail Core Definitions:

Knight Frank's survey covers the key CBD retail precinct as defined as the Core. The Parramatta CBD retail Core includes all retail premises within the broad boundaries of the Parramatta River to the North, Campbell Street to the South, Marsden and O'Connell Street to the East and Smith Street to the West.

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