

Favourable leasing market conditions have seen vacancy rates along Melbourne's emerging retail strips fall below prime retail strips. This has been driven by strong population growth, a rise in the number of businesses and a buoyant apartment market. Knight Frank Research examines Melbourne's next destination retail strips.

Highlights

The **average vacancy rate along Melbourne's four emerging retail strips was 4.3%**, compared with 8.0% along Melbourne's 11 prime retail strips.

Melbourne's emerging retail strips are **dominated by food retailing, accounting for 45.5%** of the total tenancy mix, compared with 28.6% along Melbourne's prime retail strips.

Melbourne's emerging retail strips have **rental rates ranging from \$400/m² to \$1,000/m²**, compared with \$570/m² to \$1,100/m² along Melbourne's prime retail strips.

Retail turnover growth in Victoria is forecast to increase at an average of 3.2% per annum between 2017 and 2021.

In the 12 months to June 2017, **10,700 new jobs were created in the retail trade sector** in Victoria.



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Over the last five years, Melbourne's prime retail strips have recorded a continual rise in vacancy levels. This has been influenced by increasing rental costs combined with competition from online shopping, factory outlets and shopping centres in the CBD attracting international retailers. Nevertheless, with Melbourne's population rapidly growing together with an increase in apartment dwellings and businesses, Knight Frank Research shows Melbourne's emerging retail strips (Smith Street, Collingwood; Brunswick Street, Fitzroy; High Street, Northcote; and Swan Street, Richmond) have outperformed prime retail strips. Recognised for their unique food retailing, vintage and boutique clothing shops as well as alternative feel, these emerging retail strips have gained popularity over the recent years.

Market Drivers

According to the Australian Bureau of Statistics, in the 12 months to December 2016, Greater Melbourne's population grew by approximately 107,800 people to reach 4.64 million in the 12 months to June 2016. Victoria continues to be Australia's fastest growing state with an additional 2,000 residents entering the state per week.

Supported by strong population growth, the number of apartment dwellings in Victoria have increased by 66,679 since 2012, 6.2% of which are located in Collingwood, Fitzroy, Northcote and Richmond. An additional 3,600 apartment dwellings in these four suburbs are expected to complete construction by December 2020.

Off the back of strong population growth and an increase in apartment dwellings, the number of businesses in Collingwood, Fitzroy, Northcote and Richmond increased by 5.5% between 2014 and 2016 to reach 13,014. Growth was driven by the professional services (22.0%), finance (16.2%) and construction (15.1%) sectors.

Vacancy

As at August 2017, Melbourne's emerging retail strips recorded an average vacancy rate of 4.3%, compared with 8.0% along Melbourne's prime retail strips.

Smith Street, Collingwood had the lowest vacancy, measuring 1.5% with only four shops available. On the other hand, Brunswick Street, Fitzroy had the highest vacancy, measuring 6.3% with 16 shops available. Nevertheless, vacancy along Brunswick Street, Fitzroy is still lower than five of Melbourne's prime retail strips where vacancy levels ranged from 6.7% to 21.4%.

Vacancy along High Street, Northcote measured 4.1% with 10 shops available. Divided into two sections, the upper end of the retail strip between Northcote Town Hall and Separation Street had eight vacant shops while the lower end of the retail strip between Westgarth Street and Union Street had two vacant shops.

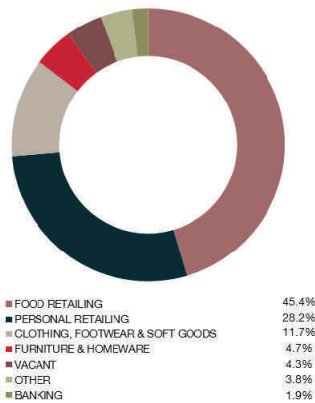
Vacancy along Swan Street, Richmond measured 5.7% with 11 shops available, compared with 21.4% along nearby prime retail strip Bridge Road, Richmond. The main difference between the two retail strips lies in the tenancy mix, where food retailing accounts for nearly 50% along Swan Street, Richmond but only 14.3% along Bridge Road, Richmond. In the last 12 months, Benny Burger, Korean restaurant Mrs. Kim's Grill and poké bowl restaurant Mahalo Poké leased space along Swan Street, Richmond.

Tenancy Mix

The tenancy mix along Melbourne's emerging retail strips is dominated by food retailing, accounting for 45.4% of the total number of shops, as shown in Figure 1. This was followed by personal retailing at 28.2% and clothing, footwear & soft goods retailing at 11.7%. The same three sectors are less prevalent along Melbourne's prime retail strips at 28.6%, 26.3% and 22.5% respectively.

FIGURE 1

Emerging Retail Strips Tenancy Mix
% of number of shops by street as at Sep 2017



Source: Knight Frank Research

The high proportion of food retailing along Melbourne’s emerging retail strips is largely supported by the growing residential population. With the gentrification of inner city suburbs, these emerging retail strips have seen a rise in residential and mixed-use developments in the last two years. New developments include 132-172 Smith Street, Collingwood, comprising 242 apartments across eight levels, and 140-160 Swan Street, Richmond, comprising 242 apartments across 10 levels.

The high proportion of food retailing supports a diverse food culture that Melbourne’s emerging retail strips offer. Authentic North and South American, European and African restaurants alongside healthy vegetarian/vegan cafés and bars make up a large quantity of the food retailers along these retail strips.

Clothing, footwear and soft goods retailing is less prevalent along Melbourne’s emerging retail strips. While Melbourne’s prime retail strips generally carry national clothing chain brands such as Sportsgirl, Cue, Decjuba and Wittner

Methodology:

This analysis collects and tabulates data detailing vacancies within retail properties having street frontage across precincts of Melbourne’s suburban retail strips.

Emerging retail strips comprise of Brunswick Street in Fitzroy, High Street in Northcote, Smith Street in Collingwood and Swan Street in Richmond.

Prime retail strips comprise of 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.

Shoes, Melbourne’s emerging retail strips carry vintage clothing shops, such as Yesteryears and Vintage Sole, and boutique shops.

Rental Rates

As at September 2017, rental levels along Melbourne’s emerging retail strips ranged from \$400/m² to \$1,000/m². This compared with Melbourne’s prime retail strips where rental levels ranged from \$570/m² to \$1,100/m².

Rents ranged from \$400/m² to \$500/m² along Smith Street, Collingwood, \$400/m² to \$600/m² along High Street, Northcote, \$550/m² to \$700/m² along Brunswick Street, Fitzroy and \$700/m² to \$1,000/m² along Swan Street, Richmond.

Outlook

The Victorian economy is forecast to continue to strengthen over the medium term, with State Final Demand growing at an average of 2.9% per annum between 2017 and 2021. Retail turnover growth is forecast to increase at an average of 3.2% per annum during the same period as a result of above average population growth. Between 2017 and 2021, Greater Melbourne’s population is forecast to grow at an average pace of 2.1% per annum to reach 5.13 million by 2021. Nevertheless, despite the official cash rate remaining unchanged at 1.50% since August 2016, high levels of household debt combined with limited wage growth have the potential to negatively impact the retail trade sector going forward.

As Melbourne’s emerging retail strips typically offer lower rental levels, they will remain a favourable option for tenants. However, with rental levels are forecast to increase, tenants looking to renew their lease may face a cost premium and be required to consider alternative locations.

The forecast completion of several apartment developments in Melbourne’s

inner suburbs combined with strong population growth will ensure Melbourne’s emerging retail strips will continue to perform going forward. Notable developments under construction include Eastbourne, 300 Albert Street, East Melbourne (approximately 250 apartments) and Coppins Corner at The Malt District, 2 Gough Street, Cremorne (215 apartments), both with expected completions by 2020.



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