



MELBOURNE

RETAIL SUBURBAN STRIPS JULY 2018

Key Facts

Since 2017 vacancy across Melbourne's prime retail strips **increased from 8.0% to 8.6%**, reaching its highest level since July 2007.

Bridge Road, Richmond recorded the highest vacancy rate, 20.5%, despite declining since last year.

Melbourne's prime retail strips are **dominated by food retailing**, accounting for 29.1% of the tenancy mix.

Retail suburban asset sales totalled \$77.4 million in the 12 months to July 2018, similar to the \$78 million recorded the previous year.



FINN TREMBATH
Associate Director

Vacancy across Melbourne's prime retail strips increased to its highest level since 2007 as a shift in buying habits sees food retailing take preference over clothing retailing.

Retail Overview

The vacancy rate across Melbourne's 11 prime retail strips has hit its highest level since Knight Frank first started the Retail Suburban Strips survey in 2007. Between 2007 to 2010 vacancy was fairly static, however it increased notably post 2012. This reflects subdued trading conditions brought on by a shrinking pool of prospective tenants, the rise of e-commerce, and reduced discretionary spending caused by mortgage stress and more recently slow wage growth.

The rise in vacancy since 2017 was largely driven by a rise in empty storefronts along Chapel Street. Bridge Road saw a decline in vacancy, however the number of empty stores here is still the highest of all 11 prime retail strips covered in the survey.

Along strips where vacancy has risen, some retailers seeking space are being presented with a wider array of options and as a result are able to negotiate better deals by way of

lower rents and more attractive incentives. In these cases, while rents have come back yields have remained unchanged as investors still view these areas as premium locations—an example is Chapel Street where yields have remained in the range of 4.5%-5.5% in the last year. Along prime strips with low vacancy there has been some yield compression associated with the promise of high tenant demand—an example is Church Street where yields have compressed from 4.0%-4.5% to 3.5%-4.0% in the last year.

The tenancy mix across Melbourne's prime retail strips continues to be dominated by food, personal and clothing/footwear/soft goods retailing. Delving deeper, Knight Frank research has identified a shift away from clothing retailing in favour of food retailing. This finding might signpost a change in consumer behaviour towards a more 'experience' driven lifestyle. Indeed ABS data reveals food retail turnover in Australia has increased at a higher rate than clothing related retail turnover, since 2013.

Population, employment & tourism growing

Population and employment growth in Melbourne, coupled with a burgeoning tourism industry provide a solid foundation for retail in Melbourne.

According to the Australian Bureau of Statistics (ABS), between June 2016-June 2017 the Greater Melbourne residential population increased by 2.7% to reach 4,850,740, while employment increased by 6.0% between December 2015-December 2017 to reach 2,342,305.

Furthermore, total inbound international tourism numbers for Victoria (Tourism Research Australia) increased by 16% to reach 2.9 million over the 12 months to December 2017, with Chinese tourists leading the influx.

In line with this, the ABS reports that retail trade in Victoria totalled \$6.7 billion for

TABLE 1
Retail Strips Vacancy
By street/strip as at Jul 18 (%)

Retail Strip	Jul-17	Jul-18
High St, Armadale	3.9%	4.7%
Church St, Brighton	0.6%	1.1%
Burke Rd, Camberwell	5.6%	6.0%
Glenferrie Rd, Hawthorn	6.7%	8.5%
Glenferrie Rd, Malvern	5.1%	5.4%
Puckle St, Moonee Ponds	8.1%	8.1%
Bridge Rd, Richmond	21.4%	20.5%
Clarendon St, South Melbourne	5.1%	4.0%
Chapel St, South Yarra	12.4%	16.7%
Toorak Rd, South Yarra	6.0%	5.2%
Acland St, St Kilda	11.2%	6.6%
Melbourne Total	8.0%	8.6%

Source: Knight Frank Research

April 2018, up from \$6.4 billion in the previous year.

Vacancy hits highest level since 2007

The vacancy rate across Melbourne's 11 prime retail strips has hit its highest level since Knight Frank first started the Retail Suburban Strips survey in 2007. Despite the odd fluctuation, vacancy has generally been on an upward curve since 2012, and now sits at 8.6% having risen from 8.0% last year. Vacancy is now well above the series average of 4.8%.

Chapel Street, South Yarra continues to experience high vacancy. One in every six retail outlets along Chapel Street are now vacant (16.7%). Increasing by 4.3% points since last year, Chapel Street again has the second highest level of vacancy of all Melbourne's prime retail strips. The rise in vacancy since last year can largely be explained by a number of clothing and footwear retailers vacating their premises—six in every ten (62%) vacancies in the last 12 months fell in one of these two categories. Upcoming major developments, such as the Capitol Grand and Aloft Hotel mixed-use residential/retail projects and the Jam Factory redevelopment should revitalise the area, however these projects won't be completed for another 2-3 years.

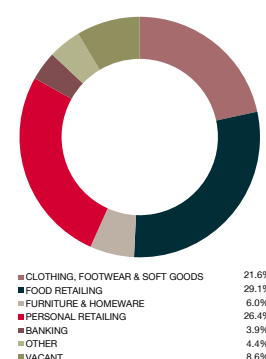
In contrast to nearby Chapel Street, vacancy along Toorak Road, South Yarra has trended down the last 3 years (2016-18 average 4.6% vs. 2013-15 average

9.4%). Combined, food and clothing retailers represent more than half of Toorak Road's new tenants since 2017.

Despite experiencing a decline since last year, vacancy along Bridge Road, Richmond is still the highest of all 11 prime streets covered in the survey. For the second year running, one in every five (20.5%) shop fronts on Bridge Road are vacant. While the decline in vacancy since last year can be attributed to a number of offices and food retailers leasing space, countering this were new vacancies, mostly made up of clothing retailers vacating their premises. Increases in rents, a lack of car parking spaces, and the lure of retail options in the CBD are felt to be driving the high vacancy levels along Bridge Road.

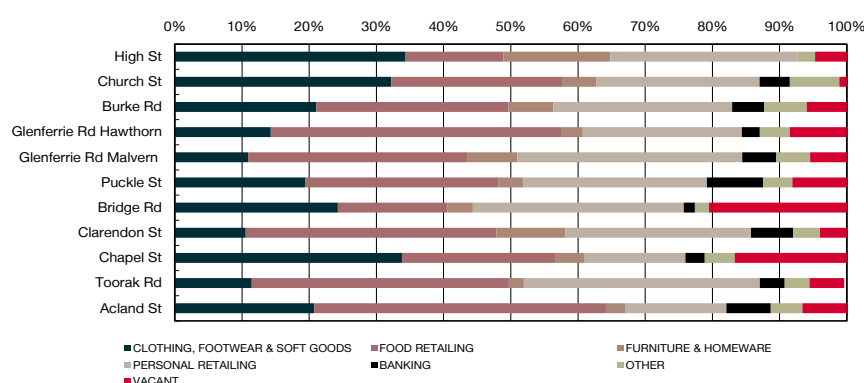
Vacancy on Puckle Street, Moonee

FIGURE 2
Retail Strips Tenancy Mix
% of number of shops by suburban strip



Source: Knight Frank Research

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



Source: Knight Frank Research

Ponds is unchanged, sitting at 8.1% for the second year running. While vacancy in 2017 and 2018 has sat below the high of 10.8% recorded in 2016, a longer term lens reveals that vacancy has been on an upward curve since 2013. New vacancies were underpinned by several food retailers closing their doors (Puckle Street Bakery, Pho Phung Hung, and Phung Woong). The bulk of new tenant commitments were from food, fabric/soft goods, clothing hairdressing/beauty related retailing.

While down on what was recorded last year, vacancy along Acland Street, St Kilda has also trended upwards in recent years (up 3.9% points since 2015). Anecdotal feedback from local retailers suggests the recent conversion of the south end of Acland Street into an open-air pedestrian mall with a tram super-stop has had an adverse affect on street car parking and in turn local foot traffic.

Clothing makes way for food

The tenancy mix across Melbourne's prime retail strips remains dominated by food retailing, accounting for 29.1% of the total number of shops. This was followed by personal retailing at 26.4% and clothing, footwear & soft goods retailing at 21.6%.

Knight Frank Research reveals a recent shift away from clothing retailing in favour of food retailing. Food retail as a proportion of the tenancy mix has increased over the last 3 years (27.8% in 2016 up to 29.1% in 2018). In contrast, as a proportion of the tenancy mix clothing has been in consistent decline for the last 4 years (25.6% in 2015 down to 21.6% in 2018).

These findings might signpost a change in consumer behavior, whereby consumers are increasingly seeking 'experiences'. Corroborating this, ABS data shows food retail turnover in Australia has increased at a higher rate than clothing related retail turnover, since 2013.

Yields stable on Chapel St

Along strips where vacancy has risen, some retailers seeking space are being

presented with a wider array of options and as a result are able to negotiate better deals by way of lower rents and more attractive incentives. In these cases, while rents have come back yields have remained unchanged as investors still view these areas as premium locations—an example is Chapel Street where yields have remained in the range of 4.5%-5.5% in the last year. Along prime strips with low vacancy there has been some yield compression associated with the promise of high tenant demand—an example is Church Street where yields have compressed from 4.0%-4.5% to 3.5%-4.0% in the last year.

As at June 2018, gross rents along prime retail strips range between \$400/sq m (Pucklet Street, Moonee Ponds) to \$800/sq m (Glenferrie Road, Hawthorn).

Investment activity stable

Retail sales in excess of \$1 million across Melbourne's prime retail strips, in the 12 months to July 2018, totalled \$77.4 million across 15 properties. Sales

“Vacancy along Chapel Street, South Yarra has reached an all-time high of 16.7%, having quadrupled in the last six years.”

volume was very similar to the \$78.0 million recorded across 17 properties in the previous year. Unlisted Funds/Syndicates and Developers were the most active buyers, with sales totalling \$47.2M, accounting for 61% of all sales by value.

By retail strip, High Street, Armadale accounted for the bulk of sales with \$27.8M transacted, accounting for 35.9% of total sales volumes. Transaction volumes were supported by the sale of 1167-1193 High Street, Armadale, which was acquired by a local developer for \$25M.

TABLE 2

Recent Sales Activity Melbourne Retail Suburban Strips

Address	Price (\$ m)	Core Market Yield (%)	GLAR (m ²)	\$/m ² of GLAR	Date
224 Glenferrie Rd, Malvern	3.55	3.40*	123	28,862	Mar-18
2/50 Church St, Brighton	1.95	3.82	60	32,500	Nov-17
596 Burke Rd, Camberwell	6.01	U/D	275	21,847	Nov-17
49 Puckle St, Moonee Ponds	6.10	3.55	550	11,091	Sep-17
7/672 Glenferrie Rd, Hawthorn	1.90	4.77	80	23,750	Aug-17
4/10 Church St, Brighton	2.26	4.17	122	18,525	Jul-17

*Initial Yield, U/D undisclosed

TABLE 3

Recent Leasing Activity Melbourne Retail Suburban Strips

Address	Tenant	Net	GLA	Ter	Date
670 Burke Rd, Camberwell	EyeQ	977	87	7	Mar-18
1133 High St, Armadale	Masters Persian Carpets	402	112	3	Jan-18
63 Puckle St, Moonee Ponds	Sportscraft	475	200	3	Nov-17
142 Glenferrie Rd, Malvern	Commonwealth Bank	859	320	7	Sep-17
511 Chapel St, South Yarra	Linen House	549	164	2	Jul-17
263 Coventry St*, Sth Melb	Ziggy's Eatery	536	140	5	Jul-17

*Covered in Clarendon St survey

Source: Knight Frank Research



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Outlook

The Victorian economy is forecast to continue to strengthen over the medium term. The ABS predicts population growth of 4.1% between 2018-2020 for Melbourne, and flowing from this employment is expected to grow by 3.0% during the two year period. Such growth should provide further impetus for the retail sector. Indeed, retail turnover growth is forecast to increase at an average of 3.0% p.a between 2018-2021, and an expected increase in wages should further support the retail industry.

Melbourne's population growth, coupled with an increase in CBD white collar employment (up by 6.0% in the last 3 years) is translating into demand for higher density living close to the CBD. This is in turn creating demand for strata and mixed-use developments as well as creating pressure to expand maximum building heights. Developments along Melbourne's prime retail strips, such as 17-23 Puckle Street in Moonee Ponds, Capitol Grand on Toorak Road South Yarra, Aloft Hotel on Chapel Street South

Yarra, and Richmond Plaza on Bridge Road Richmond, all involve a combination of residential, food and other retailing. With retail embedded within residential space, these developments could potentially pave the way for more boutique food options such as organic groceries and butchers.

The game-changer though, for Melbourne's prime retail strips is Chapel Street's Jam Factory, which is being redeveloped into a 100,000 sq m, \$1.25 billion mixed-use precinct featuring entertainment, office, cinema, dining and other retail elements.

Melbourne's prime retail strips will face competition not only from emerging strips (signposted in last year's report), but also from neighbouring areas. Historically the less popular part of Chapel Street, the 'Windsor end' has in recent years flourished as trendy eateries have struck a chord with Melbourne's hipster crowd, and food retailing has also proliferated west and east of Chapel Street along High Street.

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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