



MAY 2012

PERTH CBD RETAIL

Market Overview

Knight Frank

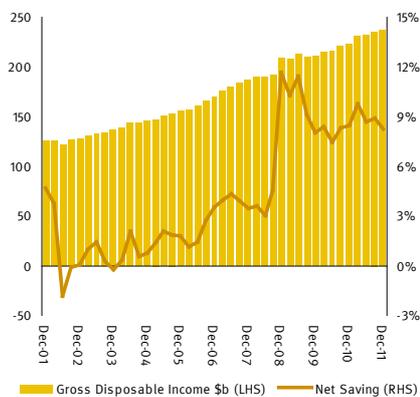
HIGHLIGHTS

- The Australian Bureau of Statistics (ABS) recorded growth in Western Australian retail turnover of 10.6%, year-on-year for March 2012, the strongest change in Australia. However, caution remains and changes to consumer spending habits are being observed.
- The past five years has seen around 23,000m² of new retail space open in the Perth CBD. A further 24,000m² will be opening in 2012 with the completion of Raine Square and City Square. No further space is under construction at present beyond this time.
- Investment sales have been limited in the Perth CBD in the past 12 months. The major sale was City Central for \$57million in December 2011, transacting on a core market yield of 9.4%. Yields, however, have remained stable, with core market yields for Prime assets estimated at 7.0% to 8.0%, and as low as 5.5% to 7.5% for smaller retail assets.

Economic Overview

With strong growth in disposable income and a relatively tight unemployment rate of 3.8% (Australia 4.9%), the ABS recorded growth in WA retail turnover at 10.6% YoY to March 2012, the strongest change in Australia. However, caution remains in Western Australian households and changes to spending habits are being noted.

Figure 1
Australia Household Income & Saving
Disposable Income \$b (LHS) & % net saving (RHS)

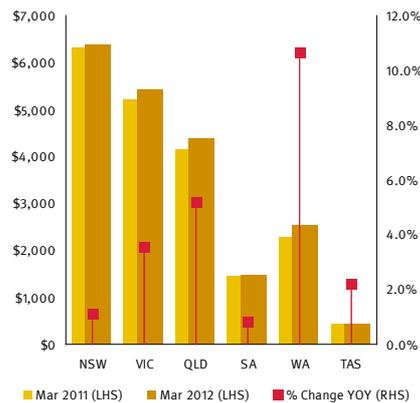


Source: ABS 5206.14 seasonally adjusted

Analysis of retail turnover to March 2012 shows that in Western Australia the strongest change in turnover was recorded in the “café, restaurant & takeaway food” category with 22.1%. The category of “other” (newsagents, bookstores, general retail, etc) recorded a 20.7% change in turnover.

This continues observations in the market where experiences, such as going to cafés, are becoming the new collectables.

Figure 2
Retail Turnover by State, March 2012
Year on Year, Seasonally Adjusted (\$million)



Source: ABS 8501.3

Perth CBD

Retail within the Perth CBD has traditionally been focused on the Hay and Murray Street Malls, with the two major department stores (MYER and David Jones) being the central focus along these. Retail arcades have connected the two streets allowing pedestrians to move between the two malls.

The heritage precinct of King Street has been upgraded and developed to create a shopping destination, with many luxury retailers establishing flagship stores along this street. For example: Tiffany’s (est. 2008), Sass & Bide (est. 2010), and Prada (est. 2011).

Filtering from King Street through to the Wesley Quarter is an up-and-coming section of flagship stores along Hay Street, including the Apple store. With the nearing completion

of Raine Square, the parallel section along Murray Street is also seeing revitalisation, with the Margaret River Chocolate Company establishing a stand-alone shop front in the CBD at 317 Murray Street.

Following the State Government’s liquor licensing reform in 2007, the City of Perth has facilitated the creation of small bars in the CBD, which have been championed for helping to create vibrancy in the area. However, gaining a liquor license remains difficult, with many would-be licensees’ failing to provide evidence of public need as a requirement for this type of trade.

Trading hours have also been of benefit to the Perth CBD, where it has been one of four special trading precincts in the metropolitan area allowing Sunday trading. This has been a boon to retailers in the city and has been reported as being the busiest retailing day of the week. In addition, it has established Friday night as an alternative to suburban Thursday night late night trading, and has been seen to be successful.

Development

The Perth CBD consists of two main retail streets (Hay and Murray Street Malls) with retail arcades between for pedestrian shoppers to move between the malls.

The majority of new retail space in the Perth CBD has come about with the development of new office buildings. The past five years has seen around 23,000m² of new retail space, including ENEX100 and One40William. This year will see the completion of Raine Square and C2 City Square which will bring just over

Table 1
Western Australia Retail Turnover Figures \$million March 2012

	Food Retail	Department Stores	Clothing & Soft Goods	Household Goods	Café, Restaurants & Takeaway Food	Other	WA Total	Australia Total
Mar 2011	936.6	162.5	156.8	416.2	339.3	281.3	2,292.7	20,471.3
Mar 2012	973.4	177.3	153.4	479.4	414.3	339.5	2,537.2	21,321.0
% change	3.9%	9.1%	- 2.2%	15.2%	22.1%	20.7%	10.6%	3.7%
Year to Mar 2011	10,853.4	2,066.9	1,879.4	4,787.7	3,839.7	3,278.8	26,705.9	244,085.4
Year to Mar 2012	11,465.2	2,097.1	1,746.5	5,441.5	4,482.9	3,806.8	29,040.2	250,126.3
% change p.a	5.6%	1.5%	- 7.1%	13.7%	16.7%	16.1%	8.7%	2.5%

Source: ABS 8501.12 Seasonally adjusted



24,000m² of retail, food and beverage space to the market. Beyond this, there is no further retail space under construction at present.

The City of Perth has developed a strategy to re-activate underutilised space within the Perth CBD, which includes laneways and upper-floor space. Adopted in 2008, the strategy has seen upgrades to three laneways (Wolf Lane, Howard Lane and Grand Lane) with Prince Lane soon to be redeveloped. Opening up access to these laneways has added a new dimension to retail space in the CBD, with new retail and bar/restaurant opportunities available for patrons.

Vacancy and Tenant Demand

High-profile liquidations over the past couple of years saw some larger space in the Perth CBD become vacant. And while General Pants has leased the ground floor of the former Angus & Robertson store (with the basement still available), the former Borders store, Colorado store and more recently the former Fletcher Jones store all remain vacant.

However, vacancy remains limited along the Hay and Murray Street Malls, with only three sites unoccupied at present.

With the addition of new retail thoroughfares in the Perth CBD, the traditional arcades have seen a fall in foot traffic that patronise these parts. As a result, vacancies have increased along arcades.

Whilst most of the new retail space in the CBD have seen strong absorption (ENEX100, St Martins Arcade and Wesley Quarter), One40 William has had mixed fortunes particularly with the upper levels and rear tenancies, with many initial retailers terminating leases in the building. As a change in strategy, One40 William has embraced the “Pop-up Shop” concept, establishing this temporary style of retail within the empty space of the centre.

Demand is being seen from “big-box” retailers to have small-format style stores in the CBD capitalising on the weekday trade. In addition, rumours are circulating regarding Zara and Topshop opening flagship stores in Perth. The biggest constraint to all these stores appears to be finding suitable

premises from which to operate that meet their stringent criteria.

Rental Levels

Traditionally, higher rents have been the domain of Hay and Murray Street Malls, where retailers are paying for “shop-fronts” on the ground floor mall level. Deals done may include additional space such as basement or mezzanine space, which the tenant may “activate” if required. Flight Centre is one such tenant to take the opportunity to activate the floors above its new retail space, refurbishing the building at 729 Hay Street to incorporate its office requirements.

Recent major leasing deals in the CBD include Kathmandu (moving from 897 Hay St to 698 Hay St Mall), Nespresso (new flagship store, 277m² at 255 Murray St), Quiksilver (from 255 Murray St to 239 Murray St) and Flight Centre (729 Hay St).

Small to medium tenancies (up to 150m²) along the malls are achieving up to \$400,000 per annum gross. Larger tenancies on the malls are showing strong returns at around \$1,500/m² net. Newer centres in the CBD are commanding rents at around \$1,100 - \$1,300/m² net.

Pop-up shops are commanding around \$1,000 - \$1,500 per week as a going rate for these short term tenancies.

Investment Activity

Many retail properties within the Perth CBD have traditionally been held long-term within family trusts and by private investors.

The Perth CBD recorded only two major retail investment sales over \$5 million during 2011, being City Central at 166 Murray Street and 317 Murray Street.

City Central was purchased by ISPT Pty Ltd, who also owns the adjoining Myer department store. Sold for \$57million by Centro MCS Manager Limited, City Central encompasses three major tenants (Woolworths, Crazy Clark’s and Fitness First) as well as minor specialty stores and office space (45% of NLA). The building transacted

on a core market yield of 9.4% and passing yield of 10.1%.

317 Murray Street was purchased by a Private Investor for \$9.6 million (7.45% passing yield), and whilst tenanted by Pierucci at the time of sale, the building is now occupied by the Margaret River Chocolate Company.

Core market yields for Prime CBD retailing assets are estimated at 7.0% to 8.0% with Secondary assets edging up to 9.5%. Core market yields for smaller retail investments can range between 5.5% - 7.5%.

Outlook

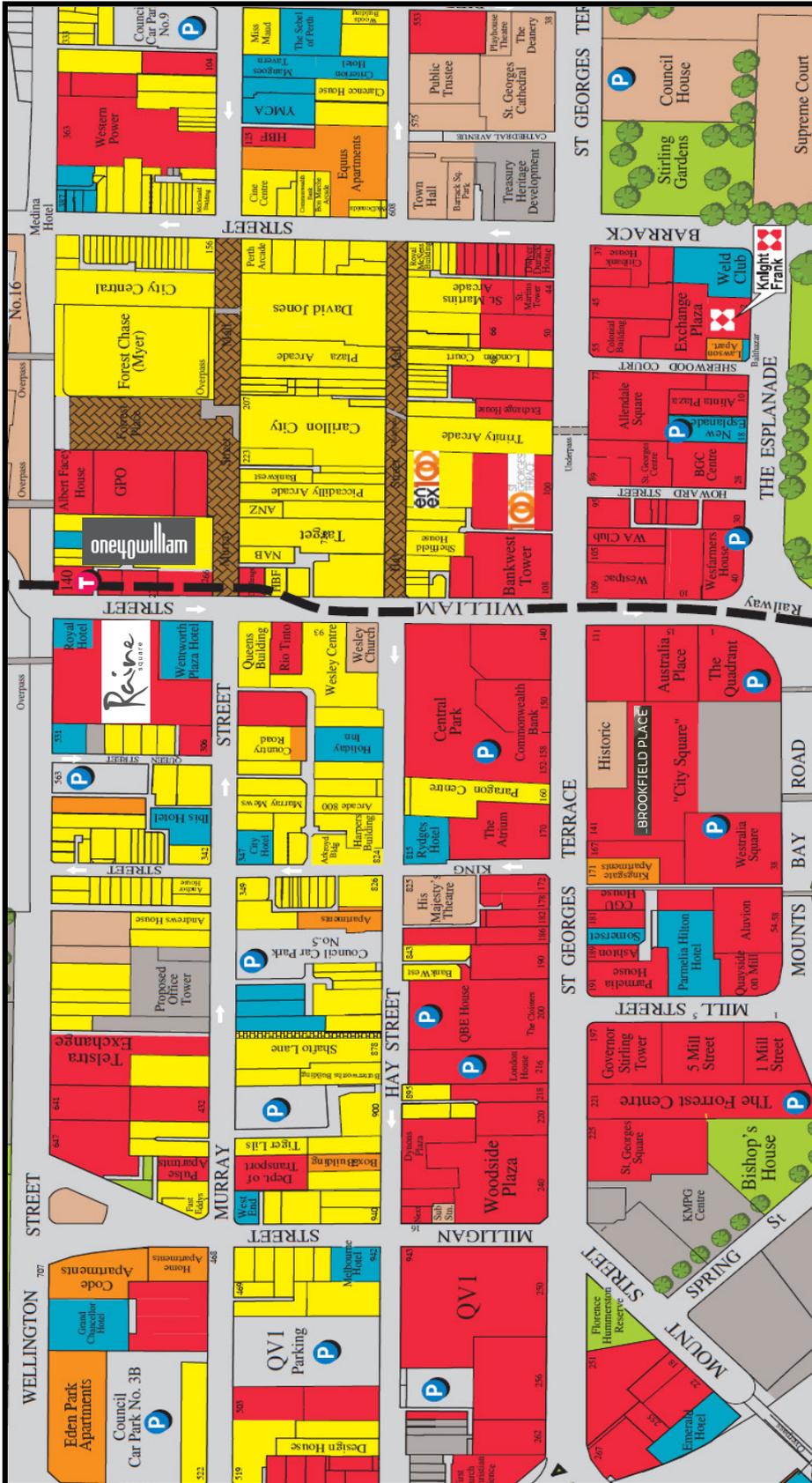
The strength of the economy has supported the retail environment in the Perth CBD, however the spending habits of consumers has been changing, which is reflected in the statistics gathered by the ABS. Whilst the growth category is food and beverage at the moment, those stores retailing well have in-demand products with a point of difference, such as Apple.

Retailing in the CBD is being further supported by population growth in the inner-city area, with residential development creating a demand for local retail and amenity.

“Big-box” retailing in the Perth CBD has been limited to department stores and supermarkets, such as Target and Woolworths. Items demanded by shoppers tend to be those that are portable, with the distance to car bays cited as being an inhibiting factor for larger items. Many stand-alone property owners are reticent in placing this style of tenant in their building often due to the lower rents that this type of store pays.

The deregulation of retail trading hours to allow for Sunday trading across all the whole metropolitan area will impact on the special status that the Perth CBD has held. What impact is yet to be seen, with some retailers appearing unconcerned by this change.

The activation of upper floors by tenants and the City of Perth could bring a new dynamic to the CBD, opening these areas up to an eclectic mix of tenants and consumers.



Central Perth CBD Retail

The majority of retail space within the Perth CBD is situated between Milligan Street in the west, Barrack Street in the east, Wellington Street to the north and St Georges Terrace to the south. However, retail is not limited to these boundaries.

Retail building space has been highlighted in yellow by Knight Frank and the surrounding office space in red.

New Development: Raine Square

The retail section of Raine Square is due to open in September this year and will include a food court at the Wellington Street level.

It is anticipated that the development will include one major supermarket, gym, child care centre, as well as over 50 specialty retail stores.

New Development: City Square, Brookfield Place

The retail section of City Square is due for completion mid-year, with tenancies incorporated into the refurbished heritage section as well as in the new tower building.

The development will include small bars, restaurants, food court, gym as well as a selection of small retail stores.



Table 2
Perth CBD Retail Leases May 2012

Address	Total Area (sq m)	Gnd Floor Area (sq m)	Gnd Floor Rent (\$/m ²)	Term	Type	Tenant	Date
306 Murray St	435.0	435.0	2,140 g	12.0	New Lease	Bankwest	Feb 2012
729 Hay St Mall	389.0	79.0	4,747 g	7.0	New Lease	Flight Centre	Feb 2012
239 Murray St Mall	341.9	170.9	1,433 g	5.0	New Lease	Quiksilver	Nov 2011
'Arcade 800', 800 Hay St	110.4	110.4	1,313 g	5.0	New Lease	Star Sushi	Oct 2011
321 Murray St	428.0	428.0	1,424 g	7.0	New Lease	Credit Union Australia	Oct 2011
611-619 Hay St	200.0	200.0	2,000 g	10.0	New Lease	Commonwealth Bank	Mar 2011
671 Hay St Mall	154.0	154.0	2,768 g	5.0	New Lease	Jacqui – E	Jan 2011

Source: Knight Frank g = gross rent

Trading Hours

The *Retail Trading Hours Amendment Act 2010* allows for retail trading until 9pm each weeknight in the Perth metropolitan area. In addition, special trading precincts for the areas of Armadale, Midland, Fremantle, Joondalup and Perth exist allowing for Sunday retail trading.

Proposed legislation, introduced by the Western Australian State Government, seeks to deregulate trading hours across the metropolitan area by allowing all retail stores to open on Sunday's from 11am to 5pm. The earliest this bill can pass through both houses is August 2012.

The Perth city centre has had a boon in recent times since the introduction of the special trading precinct and Sunday trading, with many commentators touting this day as the busiest retail trading day of the week. However, with the introduction of the deregulated hours across the metropolitan area this may change, with the potential for fewer people going into the city centre to spend due to greater retail options in the suburbs.

Perth Population Growth

The ABS has estimated the residential population for the City of Perth at 18,616 persons as at 30 June 2011. This was a growth of 3.7% over the 12-month period and a 49.5% increase over the 2006 estimate. New residential development, particularly the increase in the number of higher-density apartments in the City of Perth area, has been one of the main reasons behind this growth.

The City of Perth Council has initiated an amendment to the City Planning Scheme No. 2, proposing an increase in the maximum plot ratio across large parts of the city in order to provide additional development capacity to support the economy and to promote residential development in the city. Forecasts by the City of Perth show that this should bring around 41.0% growth in the residential population over the next 10 years to an estimated 26,242 persons by 2021.

The retail environment is supported by the population of an area, and the anticipated growth in population should support the businesses of the CBD. Appropriate amenity, such as supermarkets, small bars and restaurants, all need to be included and catered towards this community. The change in retail hours will impact upon retail in the CBD, however it is anticipated that the burgeoning residential community living in the CBD is expected to prop up the retail sector.



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