



SEPTEMBER 2012

MELBOURNE RETAIL

Prime Strip Market Overview

Knight Frank

HIGHLIGHTS

- Within the Knight Frank survey of 2,369 shops along Melbourne's prime retail strips, 126 were recorded as vacant resulting in a vacancy rate of 5.3% which is considerably higher than the historical average of 3.5%.
- Clothing & soft goods retailers and food retailers remain prevalent along the prime retail strips. National and international retailers continue to be attracted to the prime strips with the likes of Marimekko, Topshop and Kikki K having all opened new stores over the past 18 months.
- Given the scarcity of investment opportunities, yields remain steady for properties within Melbourne's prime retail strips. Private investors dominate recent purchases, however there is also increasing interest from self-managed superannuation funds (SMSFs) to invest in the prime strips.

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Economic Snapshot

Victoria has been relatively resilient despite being more exposed to a high \$AUD than most other states. The bulk of the evidence suggests Victoria's slowdown will be modest with the economy forecast to grow by an average of 2.5% over the next three years.

Despite the relatively strong spending levels reported, the money has not flowed into traditional retail; rather consumers have taken advantage of the favourable exchange rate by spending on travel, vehicles and health services while rising living costs have also had an impact. Consumers remain wary of the status of the economic climate and the carbon tax whilst retailers are impacted by the strength of the \$AUD and the growing online retail market. The September result of the Westpac – Melbourne Institute Index of Consumer Sentiment suggests a subdued result, albeit rising from 96.6 in August to 98.2 in September. The index has lingered below 100 over the past seven months; demonstrating that the index remains in slightly pessimistic territory.

In the 12 months to July 2012, Victoria's retail trade grew by 2.0% growth compared with 4.3% growth for the preceding 12 months. Western Australia's retail turnover showed the greatest improvement with 9.6% growth in the 12 months to July 2012.

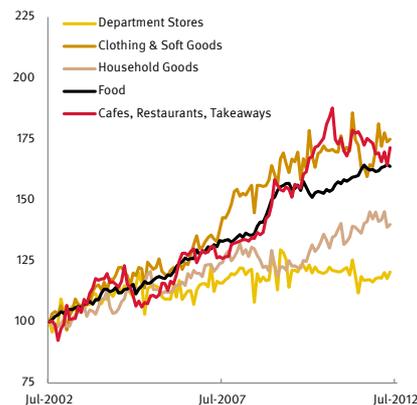
Figure 1
Retail Turnover by State, July 2012
12 Months to July 12, Seasonally Adjusted (\$ billion)



Source: ABS/Knight Frank

Analysis of retail turnover by industry to July 2012 shows that in Victoria, the largest falls in turnover was recorded in the “department store” and “other (including newspapers, recreational and pharmaceutical goods)” categories with a 6.6% and 6.5% (year on year) decrease in spending respectively. In contrast “household goods” and “clothing, footwear” categories recorded 6.9 and 6.7% (year on year) increases in turnover respectively, whilst “food” trade grew by 2.8%. Current retail trade data continues to show volatility by sector and State. The Federal Government’s Household Assistance Package, which provided \$2.8 billion to households has temporarily boosted discretionary items such as clothing and footwear. However, households are likely to continue to have a low appetite for credit in the wake of benign employment growth and are expected to spend much of the additional income from the carbon tax compensation and the earlier easing of monetary policy to repay debt or put into savings.

Figure 2
Retail Trade - Victoria
Index: July 2002 = 100



Source: ABS/Knight Frank

Vacancy and Tenant Demand

With the continued strength of the \$AUD, online retailing has become more prevalent in the market. Retailers are seeking an online version to complement their store front presence, adapting to the evolving consumers. The NAB Online Retail Sales Index (July 2012) reported that online retail

spending accounts for 5.3% of the \$220 billion traditional retail sector (year to June 2012). Online retailing continues to expand considerably, experiencing growth of 25% over the year to July 2012. Spending data reveals that domestic retailers account for 72%, the lowest level since October 2010. With the outlook for the \$AUD to remain high, it is likely that international retailers will continue to represent more of the online retail spending in Australia. Over the past year online spending by category remain divergent with weaker performance in household goods and electronics, but strong performance in department stores and fashion.

All but one of the prime strips monitored reported an increase in the vacancy rate. The vacancy rate in Toorak Road, South Yarra, has fallen to 6.9%, considerably lower than the five year average of 8.5%. Conversely, the vacancy rate in Bridge Road, Richmond rose to 11.5%, its highest vacancy rate in five years, and significantly above the five year average of 4.0%. Chapel Street, one of Melbourne's more popular retail strips known for its retail fashion offering, rose to 4.3%, also above the long term average of 3.2%. However Chapel Street will remain a sought after destination for consumers and retailers alike and Knight Frank does not expect this vacancy rate to get much higher given the tenancy mix, international reputation and its transport linkages.

Table 1
Melbourne Prime Retail Strips
Vacancy by Street as at Sep 12 (%)

Bridge Road, Richmond	11.5
Burke Road, Camberwell	7.2
Toorak Road, South Yarra	6.9
Clarendon Street, Sth Melb	6.2
Glenferrie Road, Malvern	4.5
Puckle Street, Moonee Ponds	4.4
Chapel Street, South Yarra	4.3
Acland Street, St Kilda	3.7
Glenferrie Road, Hawthorn	3.6
High Street, Armadale	3.0
Church Street, Brighton	1.7
Total Prime Strips Retail	5.3

Source: Knight Frank Strip Survey

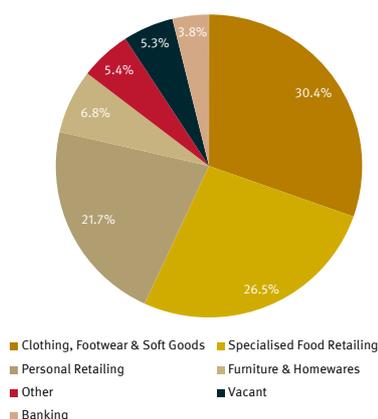


Chapel Street also remains in high demand from national and international tenants, which is likely to preserve Chapel Street as an iconic destination. Church Street, Brighton, was the best performing strip reporting the lowest vacancy rate at 1.7%, and was also below its five year average of 2.3%, offering a diverse tenancy mix focusing on clothing, food and personal retailing.

Tenancy Mix

Much like Melbourne's CBD, the tenancy mix in Melbourne's prime strips is dominated by clothing, food and personal goods retailers, accounting for 78.6% of all shops.

Figure 3
Melbourne Prime Strips Tenancy Mix
% of total number of shops



Source: Knight Frank Strip Survey

The strips traditionally enjoy relatively low churn rates due to the popularity of the destination shopping experience. The appeal of Melbourne's prime strip shops to both investors and tenants arise from the tenancy mix of the strips and irreplaceable nature of the precincts. Retail strips continue to evolve thriving on the surrounding residential population and focus on convenience shopping such as food and services. All of these precincts are anchored by supermarkets on or adjacent to the strips.

Upon further analysis by category; Bridge Road, Richmond and Chapel Street, South Yarra, were dominated by clothing, footwear and soft goods retailers, accounting for 61.3% and 52.3% respectively.

The prime retail strips continue to attract global brands with Finnish retailer Marimekko set to open one of its first Australian stores on Chapel Street, after Topshop opened its first Australian store in the Jam Factory, also on Chapel Street, a year ago. Another global brand, Jeans West, recently committed to space at 670 Burke Road, Camberwell. Department store retailers have also identified opportunities within Melbourne's prime strips as David Jones is set to open a 7,522m² store just off Glenferrie Road in the Malvern Shopping Centre, replacing Target. The uniqueness of these prime strips that bring a shopping experience together with the amenities offered will continue to result in the strips being a sought after location for retailers.

Investment Activity

Property values have also risen with the growing popularity of the strips. Given the difficulty in replicating these shopping strip precincts and the scarcity of investment opportunities, competition from investors remain strong.

Despite the clouded consumer and business confidence deriving from the global economic issues along with the domestic economic policies, demand for solid investments within prime locations remains buoyant. The purchaser profile is dominated by private investors; however there is also increased interest from self-managed super funds, as new regulations in buying property have made smaller commercial purchases attractive to DIY superannuation investors. Despite the vacancy rate increasing, yields have remained relatively stable over the past

12 months with recent sales in Glenferrie Road and Chapel Street selling with initial yields ranging from 3.5% to 5.5% indicating prime retail strip assets are still sought after, particularly by private investors.

Outlook

Continued uncertainty descending from the effects of the current economic climate has increased focus on consumer savings thus reducing levels of discretionary spending. Over the next six months retail trade is likely to remain patchy as retailers continue to be impacted by the strength of the \$AUD and subdued business and consumer sentiment heading into the last quarter of 2012.

It appears that the vacancy rates for the strips are closely linked to the tenancy mix composition within each. The tenancy mix in Bridge Road, Richmond, is dominated by fashion retailers, but offers very little of every other category. The vacancy rate in Bridge Road was the highest it has been in five years at 11.5% as Bridge Road has in some respects lost its identity as a retail destination now competing against the growth of factory outlet centres. In contrast High Street, Armadale, remains a destination by differentiating itself as a strip with numerous boutiques that service all facets of wedding ceremonies.

The increasing popularity of high-rise residential developments surrounding the prime strips with the likes of Lend Lease's Orrong Road, Armadale development and FKP's 'Aerial' development in Camberwell will only continue to attract retailers and investors capitalising on the increased population.

Table 2
Recent Sales Activity Melbourne Prime Retail Strips Market

Address	Price (\$ mil)	Initial Yield (%)	NLA (m ²)	\$/m ² NLA	Sale Date
547 Chapel Street, South Yarra	2.90	4.38	140	20,714	Sep 12
684 Glenferrie Road, Hawthorn	2.27	3.60	150	15,133	Aug 12
817 Burke Road, Camberwell	2.65	VP	165	16,061	May 12
69 Puckle Street, Moonee Ponds	2.18	4.60	206	10,558	May 12
630 Burke Road, Camberwell	4.05	5.39	250	16,200	Mar 12

Source: Knight Frank

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