LMW Research

LandMark Byte

A LandMark White Group publication

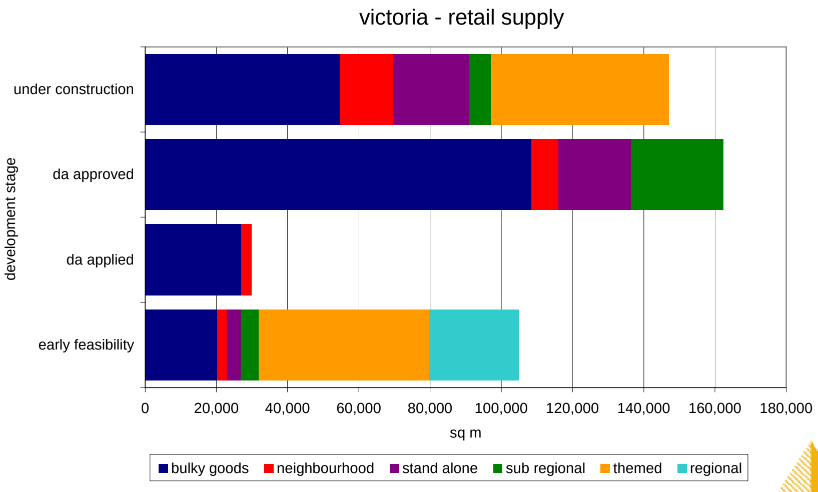
MELBOURNE RETAIL OVERVIEW

- More Bulky Goods development on the horizon, representing close to half of all new retail supply;
- Net Face Rents showing minimal growth over the last year, inching upwards across all retail classes;
- Coming off another year of lowering yields, how low can they go?

SUPPLY

Currently there is over 444,000 sq m of new retail supply in the development pipeline due to enter the Victorian market over the next two years. The bulk of new supply is in the form of Bulky Goods development, there are 17 major projects representing over 210,000 sq m of stock at various levels of planning due to come on line in 18-24 months.

Neighbourhood centres only represent approximately 27,950 sq m, these centres being added to the market specifically in new residential locations where retail infrastructure is currently at a low. Similarly extensions to existing centres also will feature over the coming years with 37,100 sq m of sub regional development due to enter the market.

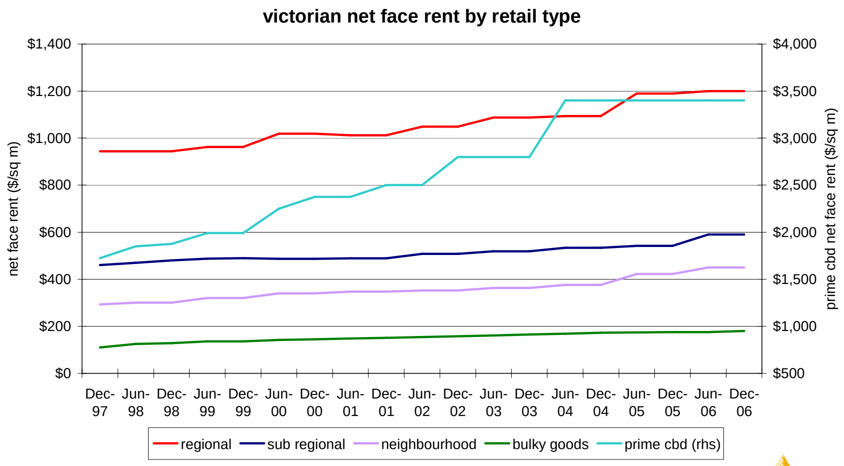


Source: LandMark White Research & Reed Construction Data

There are two large themed centres proposed in Melbourne, including the Airport development and the currently under construction Southbank development. Stand Alone development includes large supermarket type development; this is a growing segment of the market given chains such as Dan Murphy and Aldi in the marketplace. Close to 46,000 sq m of this type of retailing is proposed, catering for small local markets, providing convenience based shopping.

RENTS

Net Face Rents vary immensely depending on their location, size and centre type. The current average ranges for CBD rents is the vastest range given the Super Prime, Prime and Secondary categories, for Prime CBD retail (includes Super Prime) the current range is $1,300/sq m to $5,500/sq m. Regional centres are in the vicinity of $800/sq m to $2,000/sq m, while Sub Regional centres range between $420/sq m and $850/sq m with an average of $590/sq m. Neighbourhood centres currently average $450/sq m in the $275/sq m and $700/sq m range. Bulky goods retailing currently averages $180/sq m for an average 750 sq m space.



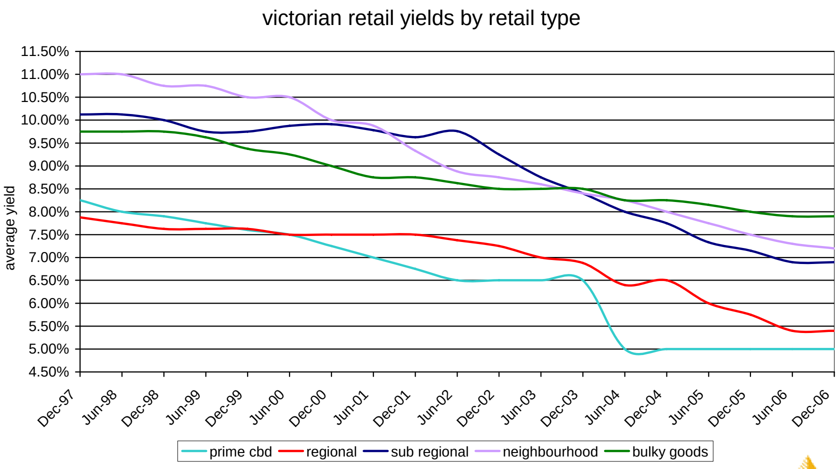
Source: LandMark White Research

Net face rents have seen good growth in the last three years, with competition to be located within Regional Centres high resulting in a steady 3.71% annual growth over the past five years. Despite this, it is the Sub Regional and Neighbourhood Centres which have achieved the best growth results of 4.13% and 5.93% per annum over the same time frame.

YIELDS

Retail yields have been substantially falling over the last ten year; however their greatest compression has occurred in the last three year. All retail types have enjoyed lowering yields, however large ranges are still typically found depending on the quality, location and amenity of the property.

Regional and CBD retail enjoy the lowest yields currently averaging 5.40% and 5.00% respectively. Centre yields have maintained this sub 6% yield given the competition between large retail owners such as Westfield and AMP.



Source: LandMark White Research

Sub Regional and Neighbourhood centres have a much larger yield range given the differing quality and location of stock. Sub Regional range between 6.50% and 7.25% with an average of 6.90%, while Neighbourhood centres have a range of 6.75% and 8.25% and an average of 7.20%.

Bulky goods have emerged over the last five years as an asset class suitable for institutional investment, and as a result yields have trended down. Currently averaging 7.90% in a range between 7.00% and 8.00%, this retail type has seen some softening inline with a reduction in household goods spending.

Overall, the retail investment market has been fierce with competition driving yields lower, more recently given interest rate increases limiting discretionary spending, yields have had little movement.

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