

# INVESTMENT MARKETBEAT

## AUSTRALIA RETAIL

A Cushman & Wakefield Research Publication



Q2 2015



## EXECUTIVE SUMMARY

The Australian economy has performed well in the first half of 2015, with GDP growth in the first quarter of 2015 stronger than expected. Much of this growth has been attributed to improvement in exports and consumption, due to the falling Australian dollar and a sustained low interest rate environment.

The official cash rate is currently at a historic low of 2.0%, with possible further cuts. On the back of the loose monetary environment and increasing house prices, retail sales have picked up as consumers ramp

up their spending. In addition, the Federal Government has introduced a A\$5.5 billion tax relief package in the Budget for 2015–16, in an attempt to further stimulate the economy.

Investment activity in the retail sector was strong with neighborhood and sub-regional retail centers in high demand, particularly from institutional investors. On the back of this strong demand, cap rates continue to stay firm as we expected. Despite the recent compression, the yield spread remains above the long term trend.

# MARKET SNAPSHOT

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## ECONOMIC OVERVIEW

**The Australian economy has performed well in the beginning of 2015.** The latest economic figures show GDP stronger than expected in the first quarter of 2015, rising by 0.9%, up from 0.5% in the fourth quarter of 2014. Net exports and consumption were the main contributors to GDP, adding 0.5 percentage point and 0.4 percentage point respectively, thanks to a weaker Australian dollar and lower interest rates.

**The RBA slashed the official interest rate by another 25 basis points to a record low of 2%.** As we expected, the central bank cut the cash rate target to an historic low in May 2015. This is the second cut since the beginning of the year by the RBA in an attempt to boost economic growth. The expansionary monetary measures have already seen some improvement in dwelling investment, private consumption and export figures.

**Rising retail sales signal a recovery in consumer confidence.** The low interest rate environment and rising wealth have boosted consumer spending in Australia in the first few months of 2015, particularly in discretionary spending. Recent economic indicators have indicated a healthy performance of the retail sector, with retail turnover in trend terms rising by 4.4% in April 2015 compared with April 2014.

**Small business tax relief to boost growth.** The 2015–16 Federal Budget includes a A\$5.5 billion tax relief package for small businesses aiming at boosting employment and business growth. In particular, small businesses will receive a tax deduction for any asset valued up to A\$20,000, and a reduction in the company tax rate from 30% to 28.5%. These stimulus measures, in addition to the record-low interest rates and strong growth in the housing market, are expected to boost retail turnover substantially in the coming years.

## RETAIL TRANSACTIONS OVERVIEW

**Investment activity remained strong in 2015 with neighborhood and sub-regional retail centers in high demand.** Over A\$2.4 billion of retail assets have been transacted over the first six months of 2015. Queensland has dominated investment activity by transaction volume, representing 32% of total transactions. Investor demand remains strong for neighborhood and sub-regional centers, particularly defensive stock with large amount of non-discretionary retail. Sub-regional centers have dominated retail property transactions with over A\$897 million transactions over the first six months of 2015, accounting for 36% of total retail sales above A\$10 million. This is followed by neighborhood centers with over A\$737 million transactions, representing 30% of total retail sales.

**Strong investor demand continues to put a downward pressure on yields.** Since the fourth quarter of 2014, the average retail cap rate across all categories has compressed by approximately 55 basis points to 6.95% in the second quarter of 2015. This is consistent with our forecast as the weight of capital searching for yield remains (see our **Australian Retail Investment Review and Outlook 2015** report).

The largest transaction recorded in 2015 is the sale of **Myer Centre** in Adelaide (SA), a landmark retail and office mixed-use asset, for A\$288 million at a yield of 6.0%. The asset was purchased by an offshore investor, Starhill Global REIT from Novion Property Group.

The largest neighborhood transaction over the period was **Pacific Square Shopping Centre** (NSW), which Charter Hall purchased from Clycut in an off-market transaction for A\$137 million or A\$9,983 per square meter (/sq.m.) at a yield of 6.6%. The transaction highlights the group's focus on neighborhood centers in search for exposure to non-discretionary retail sales.

Among the other major sales was the **Surry Hills Shopping Village** (NSW) sold for A\$96 million (A\$17,272/sq.m.) at a yield of 2.69%. It is estimated that the site could yield approximately 200 apartments and some 8,000 sq.m. of additional retail space. This is an example of the high demand for retail assets with future development potential within established areas of metropolitan Sydney where greenfield opportunities are limited.

Regional locations are also on the institutional investors' shopping list. The largest transaction recorded was the **City Centre Plaza** in Rockhampton (QLD) bought by 360 Capital Group from Mirvac Funds Management for A\$48 million (A\$3,422/sq.m.) at a yield of 8.0%.

The merger between two shopping center giants—Federation Centres and Novion Property Group—was implemented in June 2015. The combined group, to be rebranded as Vicinity, will have a market cap of A\$11 billion, with approximately A\$22.2 billion of retail AUM (102 assets), becoming second to market leader Scentre Group (SCG). We believe the market is set for more merger and acquisition activities in A-REITs in the coming years, driven by a lower Australian dollar to attract inbound capital, low interest rates and the strong underlying asset market.

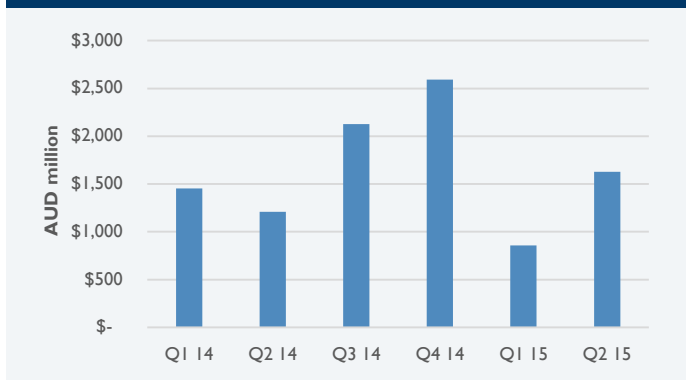
## STATS ON THE GO

	Q2 2014 (AUD)	Q2 2015 (AUD)	Y-O-Y CHANGE IN (AUD)
<b>RETAIL</b>			
Investment Volume	1.21bn	1.62bn	25.6%
Price per square metre	3,108	4,040	
	Q2 2015	Q-O-Q CHANGE	Y-O-Y CHANGE
<b>YIELD</b>			
Sub Regional	7.30%	-0.40%	-0.50%
Regional	6.60%	n/a	n/a
Neighbourhood	6.70%	-0.50%	-1.60%
Large Format Retail	7.30%	1.10%	-1.00%
Freestanding	5.90%	n/a	n/a
City Centre	5.00%	n/a	-1.20%
STATE	TRANSACTION VOLUME Q1 & Q2 2015 (AUD)	NO. OF TRANSACTIONS Q1 & Q2 2015	% OF TOTAL TRANSACTIONS
QLD	798.2m	13	32%
NSW	659.7m	12	27%
VIC	513.7m	14	21%
SA	300.0m	2	12%
WA	128.0m	6	5%
TAS	85.0m	3	3%

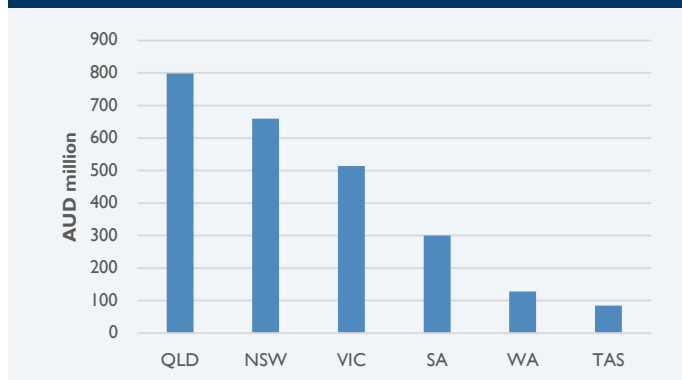
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## RETAIL TRANSACTIONS 2014 - 2015



## TRANSACTION VOLUME BY STATE YTD 2015



## SELECTED MAJOR TRANSACTIONS Q1 &amp; Q2 2015

PROPERTY NAME	SUBMARKET	STATE	PURCHASER	GLA SQ.M.	SALE DATE	PURCHASE PRICE (AUD)	AUD/SQ.M. GLA	YIELD
<b>REGIONAL</b>								
Karingal Hub (50% interest)	Frankston	SA	ISPT	29,759	Jun-15	\$115,000,000	\$3,864	6.34%*
Myer Centre, Adelaide	Adelaide	SA	Starhill Global REIT	69,667	May-15	\$288,000,000	\$4,134	6.60%
<b>SUB REGIONAL</b>								
Capalaba Park Central Shopping Centre	Capalaba	QLD	Shayher Group	42,124	May-15	\$148,500,000	\$3,525	7.75%
Auburn Marketplace	Lidcombe	NSW	Novion Property Group	33,000	Feb-15	\$120,000,000	\$3,636	7.25%
Hinkler Shopping Centre	Bundaberg	QLD	QIC Private Capital	20,754	May-15	\$110,000,000	\$5,300	6.60%
The Oasis Shopping Centre	Broadbeach	QLD	Abacus Property Group JV KKR	20,411	Feb-15	\$103,500,000	\$5,071	7.90%
<b>NEIGHBOURHOOD</b>								
Pacific Square Shopping Centre	Maroubra	NSW	Charter Hall	13,723	Mar-15	\$137,000,000	\$9,983	6.64%
Surry Hills Shopping Village	Surry Hills	NSW	Private Investor	5,558	Apr-15	\$96,000,000	\$17,272	2.69%
Centro Meadow Mews	Kings Meadows	TAS	SCA Property Group	7,609	Jun-15	\$44,000,000	\$5,783	7.50%
Forrestfield Forum and Marketplace	Forrestfield	WA	Hawaiian	13,315	Feb-15	\$41,950,000	\$3,151	N/A
<b>CITY CENTRE</b>								
Chevron Renaissance Shopping Centre	Surfers Paradise	QLD	Precision Group	13,076	May-15	\$73,200,000	\$5,598	N/A
MidCity Arcade	Melbourne	VIC	Private Investor	2,040	May-15	\$60,000,000	\$29,412	5.00%
<b>LARGE FORMAT RETAIL</b>								
Domain Central	Townsville	QLD	QIC	52,705	May-15	\$130,000,000	\$2,467	8.00%
Bunnings Warehouse	Maribyrnong	VIC	BWP Trust	17,551	Feb-15	\$39,075,000	\$2,226	6.50%
Masters Home Improvement	Preston	VIC	Private Investor	12,850	Mar-15	\$36,000,000	\$2,802	6.00%
Masters Home Improvement	Williams Landing	VIC	Private Investor	13,500	Mar-15	\$36,000,000	\$2,667	6.04%

\* Yield is approximate only

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