VALUATION AND ADVISORY

SUBURBAN MIXED RETAIL MARKET OVERVIEW

CUSHMAN & WAKEFIELD

The slowdown in Sydney residential values through 2018 and into 2019 and subsequent decline in profitable redevelopment opportunities, (in conjunction with the low interest rate, low return environment) are providing opportunities for entrepreneurial investors to take medium to long term positions on income producing assets within a declining market in hope of future potential upside.

Key Points

Entrepreneurial investors are seeking well located mixed-use properties which provide a reasonable holding income and are accepting lower returns in favour of future potential upside.

Changing retail habits are creating opportunities for value-add investors to create mixed retail developments within established residential areas to expand to and enhance existing retail areas.

The premiums paid for these assets can be easily lost should the softening development market be present for an extended period and values revert in line with normalised returns of retail assets.

Investors are seeking retail investments within higher density locations around existing and proposed transport hubs with plans to create diverse mixed retail developments in these areas and provide greater consumer environments. As new residential supply subsides, on-going population growth will place further pressure on established suburban locations.

This has led to the rise of the value-add investor within the suburban retail market creating greater competition for underdeveloped assets. The cyclical changes within the development site market has seen a shift of capital flow towards investments which show future redevelopment upside.

The direction of capital is focussed towards these retail properties as high density environments are placing more importance, and consequently value, on the retail component of future mixed-use developments.An analysis of mixed retail investment sales within the last 18 months demonstrates a distinct yield differential in sales which represent stronger redevelopment potential to conventional retail freehold investments.

A selection of notable mixed retail investment sales follows.

Sales

Address	Sale Price	Sale Date	NLA	CMY	$/m² NLA
59 Smart Street, Fairfield	$5,260,000	Apr 2019	1,147m²	4.35%	$4,586/m²
282-288 Peats Ferry Road, Hornsby	$4,100,000	Jan 2019	640m²	5.24%	$6,406/m²
118-124 Willoughby Road, Crows Nest	$14,000,000	Dec 2018	1,305m²	4.08%	$10,728/m²
22-24 Oak Street, Rosehill	$10,000,000	Nov 2018	1,364m²	5.58%	$7,331/m²
2-10 Gallipoli Street, St Marys	$7,000,000	Nov 2018	6,426m²	6.18%	$2,764/m²
395 West Botany Street, Rockdale	$22,000,000	Nov 2018	3,816m²	5.67%	$5,765/m²
151-157 Bondi Road, Bondi	$12,000,000	Oct 2018	990m²	4.23%	$12,121/m²
117 Majors Bay Road, Concord	$5,500,000	Oct 2018	385m²	4.88%	$14,286/m²
13-17 Kennedy Crescent, Bonnet Bay	$3,760,000	Oct 2018	980m²	5.93%	$3,837/m²
304-308 Chapel Road, Bankstown	$8,700,000	Sept 2018	1,179m²	4.60%	$7,379/m²
906-908 Military Road, Mosman	$8,900,000	Sept 2018	Na	4.18%	Na
63 Majors Bay Road, Concord	$7,650,000	Mar 2018	394m²	4.28%	$19,416/m²

VALUATION AND ADVISORY

CUSHMAN & WAKEFIELD

SUBURBAN MIXED RETAIL MARKET OVERVIEW

The slowdown in Sydney residential values through 2018 and into 2019 and subsequent decline in profitable redevelopment opportunities, (in conjunction with the low interest rate, low return environment) are providing opportunities for entrepreneurial investors to take medium to long term positions on income producing assets within a declining market in hope of future potential upside.

Key Points

Entrepreneurial investors are seeking well located mixed-use properties which provide a reasonable holding income and are accepting lower returns in favour of future potential upside.

Changing retail habits are creating opportunities for value-add investors to create mixed retail developments within established residential areas to expand to and enhance existing retail areas.

The premiums paid for these assets can be easily lost should the softening development market be present for an extended period and values revert in line with normalised returns of retail assets.

Investors are seeking retail investments within higher density locations around existing and proposed transport hubs with plans to create diverse mixed retail developments in these areas and provide greater consumer environments. As new residential supply subsides, on-going population growth will place further pressure on established suburban locations.

This has led to the rise of the value-add investor within the suburban retail market creating greater competition for underdeveloped assets. The cyclical changes within the development site market has seen a shift of capital flow towards investments which show future redevelopment upside.

The direction of capital is focussed towards these retail properties as high density environments are placing more importance, and consequently value, on the retail component of future mixed-use developments.An analysis of mixed retail investment sales within the last 18 months demonstrates a distinct yield differential in sales which represent stronger redevelopment potential to conventional retail freehold investments.

A selection of notable mixed retail investment sales follows.

Sales

Address	Sale Price	Sale Date	NLA	CMY	$/m² NLA
59 Smart Street, Fairfield	$5,260,000	Apr 2019	1,147m²	4.35%	$4,586/m²
282-288 Peats Ferry Road, Hornsby	$4,100,000	Jan 2019	640m²	5.24%	$6,406/m²
118-124 Willoughby Road, Crows Nest	$14,000,000	Dec 2018	1,305m²	4.08%	$10,728/m²
22-24 Oak Street, Rosehill	$10,000,000	Nov 2018	1,364m²	5.58%	$7,331/m²
2-10 Gallipoli Street, St Marys	$7,000,000	Nov 2018	6,426m²	6.18%	$2,764/m²
395 West Botany Street, Rockdale	$22,000,000	Nov 2018	3,816m²	5.67%	$5,765/m²
151-157 Bondi Road, Bondi	$12,000,000	Oct 2018	990m²	4.23%	$12,121/m²
117 Majors Bay Road, Concord	$5,500,000	Oct 2018	385m²	4.88%	$14,286/m²
13-17 Kennedy Crescent, Bonnet Bay	$3,760,000	Oct 2018	980m²	5.93%	$3,837/m²
304-308 Chapel Road, Bankstown	$8,700,000	Sept 2018	1,179m²	4.60%	$7,379/m²
906-908 Military Road, Mosman	$8,900,000	Sept 2018	Na	4.18%	Na
63 Majors Bay Road, Concord	$7,650,000	Mar 2018	394m²	4.28%	$19,416/m²

A selection of notable mixed retail sales which show strong redevelopment potential follows.

Sales

Address	Sale Price	Sale Date	NLA	CMY	$/m² NLA
126-128 Willoughby Road, Crow's Nest	$4,650,000	March 2019	510m²	3.85%	$9,118/m²
496-498 Anzac Parade, Kingsford	$5,388,000	March 2019	337m²	2.92%	$15,988/m²
31-33 Knox Street, Double Bay	$12,500,000	Nov 2018	486m²	3.47%	$25,720/m²
475-477 Marrickville Road, Dulwich Hill	$3,735,000	Sept 2018	400m²	4.66%	$9,338/m²
123 Midson Road, Epping	$6,250,000	Aug 2018	781m²	4.83%	$8,003/m²
165-171 Oak Road, Kirrawee	$5,100,000	Jul 2018	Na	4.92%	Na
874 Pittwater Road, Dee Why	$9,500,000	Jun 2018	741m²	4.15%	$12,821/m²
5-13 Clarke Street, Earlwood	$28,720,000	May 2018	2,675m²	4.22%	$10,736/m²
12 Cross Street, Double Bay	$14,700,000	Mar 2018	313m²	2.25%	$46,965/m²
437 & 439 Illawarra Road, Marrickville	$5,725,000	Mar 2018	500m²	3.10%	$11,450/m²
334-338 Sydney Road, Balgowlah	$5,700,000	Mar 2018	Na	3.56%	Na
193 Parramatta Road, Camperdown	$7,600,000	Feb 2018	1,254m²	4.21%	$6,061/m²
404 Sydney Road, Balgowlah	$10,500,000	Dec 2017	886m²	3.17%	$11,851/m²

Address	Yield Range		Average
Investment	4.08%	6.18%	4.93%
Redevelopment	2.25%	4.92%	3.79%

The above sales indicate that entrepreneurial investors are seeking well-located mixed-use properties which provide a reasonable holding income and are accepting lower returns in favour of future potential upside.

Of the sales noted above, 165-171 Oak Road, Kirrawee includes DA for 4 shops and 18 units, 874 Pittwater Road, Dee Why was purchased by an adjoining owner who submitted a DA for 12 shops and 97 apartments, 437 & 439 Illawarra Road, Marrickville has since had a DA submitted for 2 shops and 18 units and 404 Sydney Road, Balgowlah has since been approved for ground floor retail and 17 units. The remainder of the sales show significant permissible GFA's above the existing floor areas.

Vendor's have tested the market a number of times as tightly held strips have provided landmark retail properties to the market which include potential upside. These include 31-33 Knox Street & 12 Cross Street, Double Bay, 5-13 Clarke Street, Earlwood to Coles & BWS returning 4.22% at $28,720,000 with significant development potential as well as 19-27 Cross Street Double Bay which is currently for sale and marketed as Double Bay's best development opportunity.

Jack Moseley
Valuer
+61 431 223 101
jack.moseley@cushwake.com

James Burney
Divisional Director
+61 414 648 368
james.burney@cushwake.com

Valuation Implications

Increased buyer competition for mixed retail assets with these attributes are inflating prices beyond reasonable returns for the underlying use. The premiums paid for these sales can be easily lost should the softening development market be present for an extended period and values revert in line with normalised returns of retail assets.

Valuers should examine sales with suggested upside to ascertain whether any speculative upside is priced into the sale amount and indicate whether a premium has been paid for the asset. Greater price volatility and downside risk will occur if demand reduces from speculative investors who seek opportunities over the conventional buyer. Cushman & Wakefield Valuations look forward to providing you with other sector updates across 2019, particularly as our Valuation team expands nationally.

In the meantime, should you have any queries in relation to this update, please do not hesitate to contact the undersigned.

Level 22, 1 O'Connell Street, Sydney NSW 2000 | Australia