

MARKETBEATS



KEY TAKEAWAYS



\$1.1bn

Q2 INVESTMENT VOLUME 2019



\$7.1bn

ROLLING ANNUAL VOLUME Q2 2019



6.3%

AVG YIELD (ROLLING ANN.)

AUSTRALIAN RETAIL INVESTMENT

Australian retail transaction volume slowed significantly in Q2 of 2019. Volume over the quarter was recorded at \$1.1 billion, down 55% on Q2 2018. The reduced volume limited the 2018/19 financial year (FY) total to just \$7.1 billion, 28% lower than the FY17/18 total.

A key driver of the decline was a reduction in the number of transactions of larger centres, where a higher exposure to discretionary retail has created challenging conditions. Volume for regional centres was down 61% from FY17/18. Transaction volumes for smaller neighbourhood centres and freestanding supermarkets, with a higher exposure to non-discretionary and convenience retail, only declined by 12%.

Looking forward, while a significant quantity of retail centres are available for purchase, ongoing cyclical and structural headwinds facing the retail sector suggests transaction volumes are likely to remain relatively low in H2 2019.

ECONOMIC & RETAIL MARKET REVIEW

Relatively soft economic growth continues to test the Australian retail sector. Moving Annual Turnover growth (MAT) as at May 2019 remained relatively soft at 3.1%, below the ten year average of 3.7%. Factors such as weak income growth, the housing market downturn and price competition from online trade are hampering sales growth. On a positive note, the housing market appears to be stabilising supported by the removal of concerns regarding negative gearing and capital gains tax as well as two cuts to interests rates by The Reserve Bank of Australia.

ECONOMIC INDICATORS

	Q4 18	Q1 19	12-month Forecast
GDP Growth (National)*	2.8%	2.5%	▬
Moving Annual Turnover*	3.0%	3.1%	▬
Unemployment (National) †	5.0%	5.1%	▬
CPI Growth ‡	1.8%	1.3%	▲

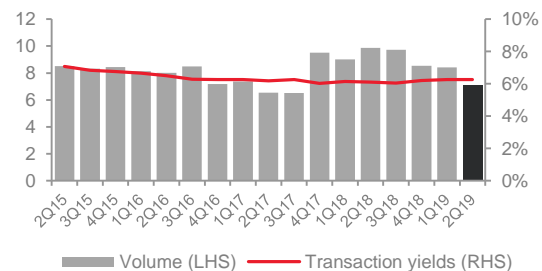
*Average annual growth rate, †Seasonally adjusted, ‡ Year-on-Year
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

RETAIL TRADE BY STATE

STATE	MAT (AUDbn)	YoY %
NSW	104.3	2.4%
VIC	84.8	5.0%
QLD	64.6	3.4%
SA	21.2	2.4%
WA	34.1	0.4%
TAS	6.5	4.0%
NT	0.3	-1.4%
ACT	0.5	4.1%
AUST	324.8	3.1%

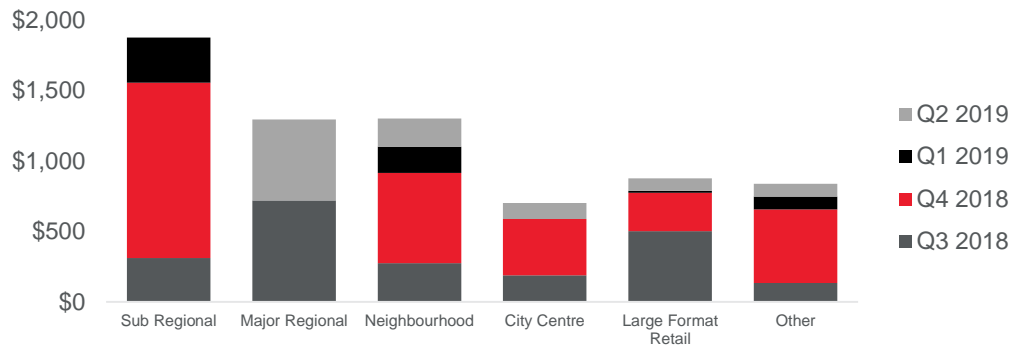
*Source: ABS (May 2019); Cushman & Wakefield Research

1-YEAR ROLLING ANNUAL INVESTMENT VOLUME (AUDbn) AND TRANSACTION YIELDS*



*Rolling average annual unweighted yields
Source: Cushman & Wakefield Research

TRANSACTION VOLUME BY CENTRE TYPE



Source: Cushman & Wakefield Research

TOTAL RETAIL INVESTMENT ACTIVITY

2019 marked a shift in sentiment for retail investment in Australia. Q2's national retail investment volume was just \$1.07 billion – down 55% on Q2 2018, while FY18/19's volume of \$7.1 billion was down 28% on FY17/18.

Between 2016-2018 many landmark retail assets traded, helping retail investment volume average \$8.5 billion per year, and in 2017 volumes reached \$9.4 billion, a new record.

INVESTMENT BY CENTRE TYPE

The decline in retail investment volume can largely be attributed to a reduced number of larger shopping centres transacting. For H1 2019, a 50% stake in Westfield Burwood (\$575m), was the only major or super regional centre to trade. Over FY18/19 regional centre transaction volume totaled \$1.5 billion, down 61% from the \$3.8 billion traded in FY17/18.

In contrast, demand has been more consistent for smaller neighbourhood centres and freestanding retail. Total transaction volume was \$1.7 billion in FY18/19 compared to \$1.9 billion in FY17/18.

Sub regional volumes were higher in FY18/19 compared to FY17/18. This was driven by 11 transactions in Q4 2018, however, no sub regionals traded in Q2 2019.

Large format retail transaction volume also fell in FY18/19. 21 centres traded for \$876 million compared to 34 for \$1.04 billion in FY17/18.

RETAIL INVESTMENT BY LOCATION

Over H1 2019 New South Wales transactions accounted for 60% of transaction volumes. Queensland accounted for 26%, or \$451m, while Victoria accounted for only 7% (\$128.5m).

By volume, metropolitan assets dominated transaction volume with 85% (\$1.45bn). By count non-metro assets were more notable with 12 of 33 transaction (36%).

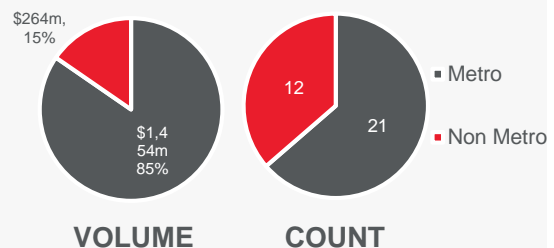
South Australia and Western Australia lead estimated volume of assets currently on-market. Each have at least one large centre on the market. Queensland leads the nation in terms of stock that Cushman & Wakefield Research consider "available".

TRANSACTION VOLUME BY LOCATION, H1 2019



Source: Cushman & Wakefield Research

METRO/NON METRO



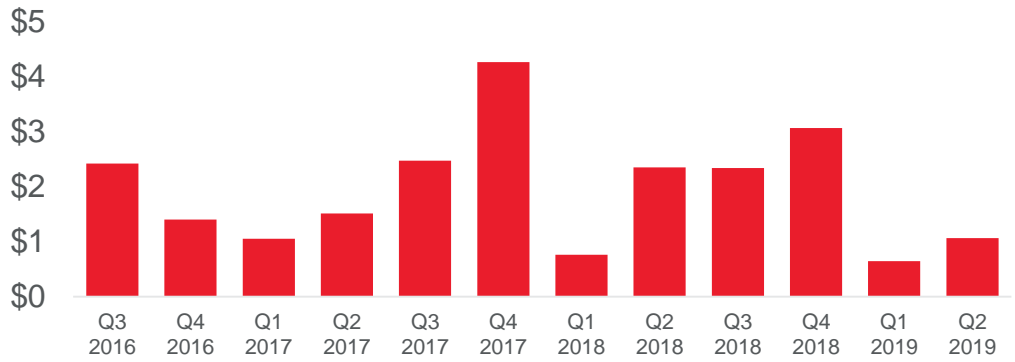
Source: Cushman & Wakefield Research

A Cushman & Wakefield Research Publication

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RETAIL TRANSACTION VOLUME BY QUARTER (AUDbn)



Source: Cushman & Wakefield Research

PURCHASER ACTIVITY

Investment markets have reacted to the cyclical and structural headwinds facing the sector with both an increase in (potential) vendors and a reduction in the depth of purchasers. The conditions have prompted some investors to reduce exposure to the sector and, as a result, multiple institutions have noted that wholesale funds are experiencing increased redemption requests.

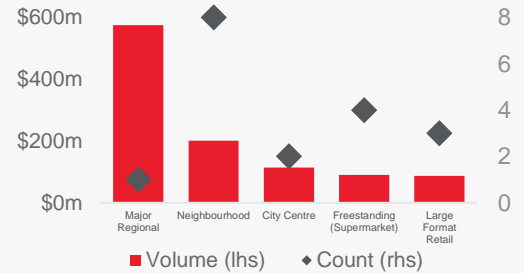
At the smaller end of the market, the reduction in purchaser demand has been far less marked, with the liquidity trend in the neighbourhood and convenience space continuing to hold up.

Privates were the dominant buyers in H1. However, this was the result of only one large transaction, Perron Group's 50% purchase of Westfield Burwood for \$575 million from Scentre Group, a Listed A-REIT. This transaction aside, Corporates were the group with the highest net transacting activity. Coles and Woolworths net sellers of generally freestanding supermarkets.

OUTLOOK

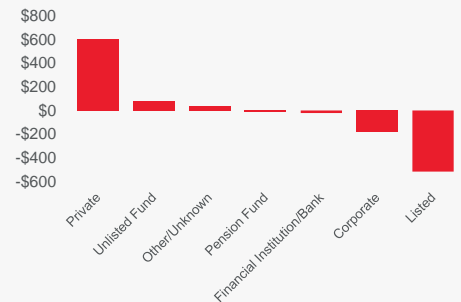
The structural and cyclical headwinds facing the retail sector are limiting the rental growth outlook and challenging valuations. As result, while there is a considerable amount of stock listed for sale, plus a significant list of assets that are 'available', purchasers are generally remaining on the sidelines. As a result transaction activity is likely to remain relatively soft in H2 2019.

RETAIL TRANSACTIONS BY SHOPPING CENTRE TYPE Q2



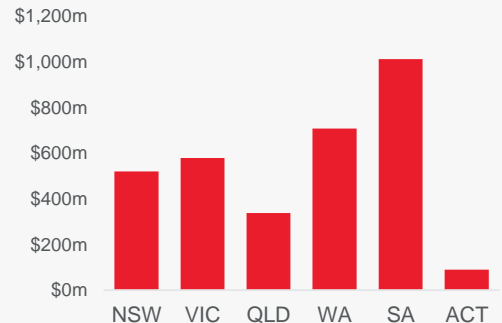
Source: Cushman & Wakefield Research

NET PURCHASING ACTIVITY H1 2019



Source: Cushman & Wakefield Research

ON MARKET RETAIL VOLUME, BY STATE (JULY 2019)



Source: Cushman & Wakefield Research

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KEY RETAIL TRANSACTIONS Q2 2019

CLASSIFICATION	PROPERTY	STATE	SALE PRICE (AUDm)	INTEREST (%)	YIELD	GLAR	\$psm GLAR
Major Regional	Westfield Burwood	NSW	575.00	50	4.80% [†]	63,248	18,182
City Centre	Queen Street Mall	QLD	77.00	100	5.60%*	3,587	21,466
Neighbourhood	Coburg North Village	VIC	48.00	100	4.73%*	6,283	7,640
Large Format Retail	Blaxland Home Centre	NSW	47.50	100	7.66% [‡]	19,299	2,461
Neighbourhood	Northwest Plaza	QLD	42.50	100	7.65%*	9,357	4,542
City Centre	Cockle Bay Wharf	NSW	36.75	25	5.50% [†]	8,151	18,035
Freestanding Supermarket	Kedron Coles	QLD	34.24	100	5.40% [‡]	4,092	8,368

[†]cap rate, *initial yield, [‡]fully let yield



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