

# MARKETBEAT



## KEY TAKEAWAYS



**\$1.6bn**

**Q3 INVESTMENT VOLUME 2019**



**\$6.4bn**

**ROLLING ANNUAL VOLUME Q2 2019**



**6.4%**

**AVG YIELD (ROLLING ANN.)**

### AUSTRALIAN RETAIL INVESTMENT

Declines in Australian rolling annual retail investment volumes were recorded for the fifth consecutive quarter. Challenging market conditions have contributed to softer volumes, which were down 34% to \$6.4 billion. While Q3 volume (\$1.6 billion) was around 50% stronger than Q2, Q1 to Q3 2019 was the softest nine month period since 2012. Despite the weaker conditions, opportunistic buyers are now appearing.

Some trends have emerged amid the retail market headwinds. Transaction volumes at the larger end of the retail hierarchy have declined 80% year-on-year, and recently, several transactions have fallen over in the due diligence period. The bright spot has been strong performance of neighbourhood and freestanding supermarkets, where investor appeal to defensive non-discretionary and convenience retail has resulted in a 6% year-on-year increase in transaction volumes. Looking forward, numerous retail centres remain available for purchase, and headwinds suggest transaction volumes are likely to remain relatively low.

### ECONOMIC & RETAIL MARKET REVIEW

Relatively soft economic growth has continued to test the Australian retail sector. Moving Annual Turnover growth (MAT) as at August 2019 was weak at 2.9%, below the ten year average of 3.7%. Although factors such as weak income growth and price competition from online trade have hurt sales growth recently, there is cause for optimism with signs of recovery in the housing market, resilient business conditions, and three cuts to cash rates (-75 bp).

### ECONOMIC INDICATORS

	Q1 19	Q2 19	12-month Forecast
GDP Growth (National)*	2.4%	2.0%	▲
Moving Annual Turnover*	3.1%	3.0%	▬
Unemployment (National) †	5.1%	5.2%	▬
CPI Growth ‡	1.3%	1.6%	▬

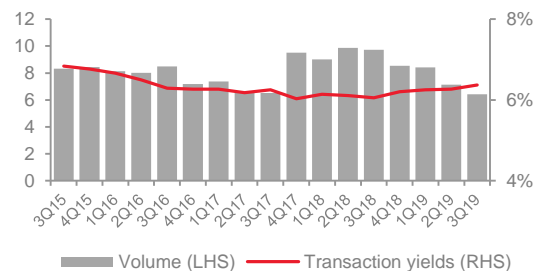
\*Average annual growth rate, †Seasonally adjusted, ‡ Year-on-Year  
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

### RETAIL TRADE BY STATE

STATE	MAT (AUDbn)	YoY %
NSW	104	1.6
VIC	86	4.5
QLD	65	4.3
SA	21	2.1
WA	34	1.2
TAS	7	3.3
NT	3	-2.0
ACT	6	4.0
AUST	327	2.9

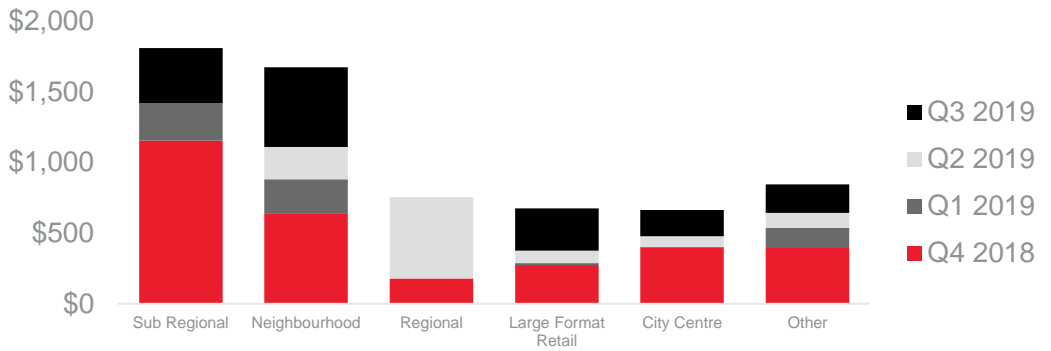
\*Source: ABS (Aug 2019); Cushman & Wakefield Research

### 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**

Factors such as slowing economic conditions, potentially unsustainable rents, and the late position in the cap rate cycle have catalysed a shift in retail investment sentiment. A decline in 2019 transaction volumes has highlighted this shift with Q3 volumes down 25% year-on-year to \$1.6 billion and rolling annual volume of \$6.4 billion down 33% year-on-year.

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. In 2019, similar landmark assets have been for sale, however, they have struggled to achieve bids in line with price expectations and have not yet sold.

**INVESTMENT BY CENTRE TYPE**

The decline in retail investment volume can largely be attributed to a reduced number of larger shopping centres transacting. Demand at that end of the market has softened, however, demand for smaller convenience based centres has remained solid. By centre type Neighbourhood centres lead transaction volumes in Q3 with \$565 million across 14 transactions. Sub Regional centres ranked second with \$390 million.

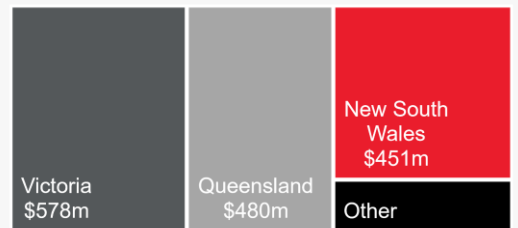
Rolling annual volumes are led by Sub Regional centres with \$1.8 billion, however, around two thirds of this volume dates to Q4 2018. Neighbourhood centre rolling annual volumes have remained remarkably steady through the volatility, tracking between \$1.3 billion and \$1.8 billion for the last two years.

**RETAIL INVESTMENT BY LOCATION**

In Q3 retail transaction activity was focused on the east coast, where 92% of the volume transacted. Victoria, which recorded the strongest MAT growth (Aug 2019), led quarterly investment volume with \$578 million. Here, Large Format Retail centres accounted for \$170 million, while another \$145 million was from the sale of a 50% stake of the Waurn Ponds Shopping Centre.

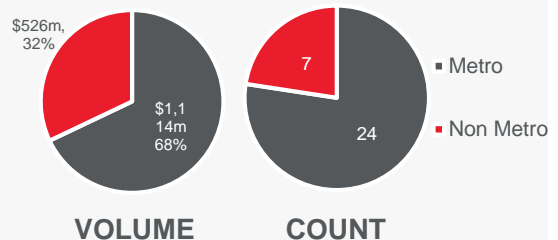
By volume, metropolitan assets accounted for 68% of transaction volume (\$1.1 billion). Seven non-metropolitan assets traded in Q3, totaling \$526 million, and featuring the sale of Noosa Civic Shopping Centre, the second largest retail sale of the year.

**TRANSACTION VOLUME BY LOCATION, Q3 2019**



Source: Cushman & Wakefield Research

**METRO/NON METRO**



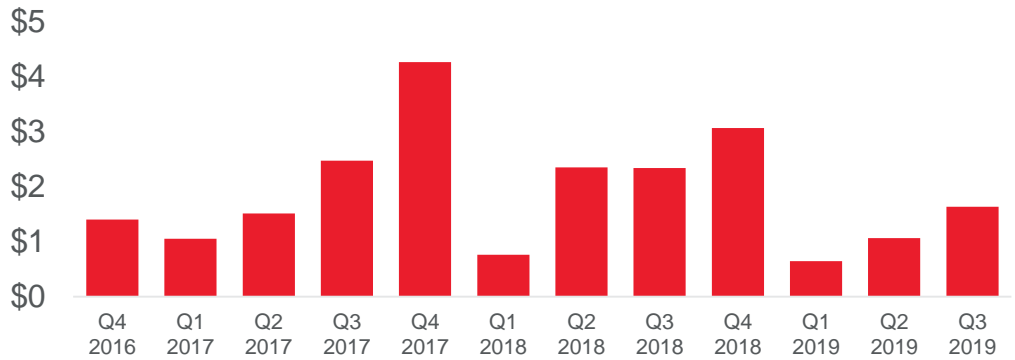
Source: Cushman & Wakefield Research

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**RETAIL TRANSACTION VOLUME BY QUARTER (AUDbn)**



Source: Cushman & Wakefield Research

**PURCHASER ACTIVITY**

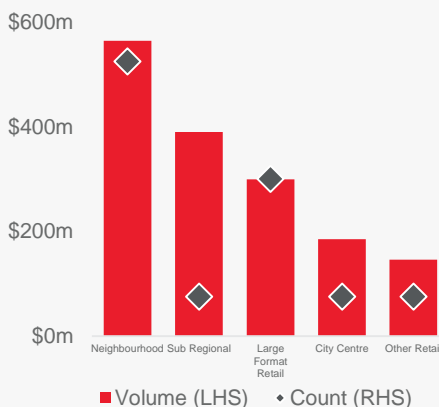
Investment markets have reacted to the cyclical and structural headwinds facing the sector with both an increase in (potential) vendors looking to reposition their retail portfolio weighting and a reduction in the depth of purchasers. The conditions have prompted some investors to explore a reduction of exposure to the sector, however softer demand for larger retail assets has reduced their liquidity; zero larger assets transacted in Q3 2019. Instead, capital was attracted to the neighbourhood and convenience space.

Private investors have been the dominant buyers in the year to Q3 2019 with a net purchasing position of \$835 million. Listed entities were the largest net sellers with a net position of -\$605 million, led by A-REITs who recorded net activity of -\$550 million.

**OUTLOOK**

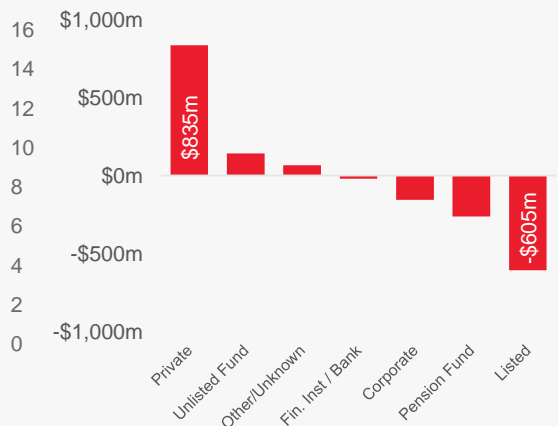
The structural and cyclical headwinds facing the retail sector are limiting the rental growth outlook and challenging valuations. As a result, while there is a considerable amount of stock listed for sale, plus a significant list of assets that are 'available', the potential purchasers of larger assets are generally opting to remain on the sidelines. As a result 2019 transaction activity is expected to close significantly below the levels seen in recent years.

**ROLLING ANNUAL RETAIL TRANSACTIONS BY SHOPPING CENTRE TYPE, Q3 2019**



Source: Cushman & Wakefield Research

**NET PURCHASING ACTIVITY Q1, Q2, Q3 2019**



Source: Cushman & Wakefield Research

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## KEY RETAIL TRANSACTIONS Q3 2019

CLASSIFICATION	PROPERTY	STATE	SALE PRICE (AUDm)	INTEREST (%)	YIELD (%)	GLAR (sqm)	\$psm GLAR
Sub Regional	Noosa Civic Shopping Centre	QLD	250.0	100	6.00 <sup>‡</sup>	24,999	10,000
Neighbourhood	Norton Plaza Shopping Centre	NSW	153.2	100	5.50 <sup>‡</sup>	11,800	12,983
Sub Regional	Waurin Ponds Shopping Centre	VIC	145.0	50		47,823	6,064
City Centre	155-159 King Street, Sydney CBD	NSW	105.0	100		1,472	71,332
Large Format Retail	Craigieburn Junction	VIC	100.0	100	~7.00*	23,000	4,348
City Centre	171 Edward Street	QLD	80.0	100	5.00 <sup>‡</sup>	1,500	53,333

<sup>†</sup>cap rate, <sup>\*</sup>initial yield, <sup>‡</sup>fully let yield

## RETAIL TRADE BY STATE, AUGUST 2019

	NSW	Vic	QLD	SA	WA	Tas	NT	ACT	Aust
Total MAT (AUD bn)	104	86	65	21	34	7	3	6	327
% total	32%	26%	20%	7%	11%	2%	1%	2%	100%
QoQ %	0.1%	0.8%	1.2%	0.5%	0.6%	0.5%	-0.4%	0.8%	0.6%
HoH %	0.5%	1.9%	2.6%	1.2%	0.8%	1.1%	-1.3%	1.6%	1.3%
YoY %	1.6%	4.5%	4.3%	2.1%	1.2%	3.3%	-2.0%	4.0%	2.9%
20-year average	4.6%	5.2%	5.3%	4.5%	4.8%	4.5%	4.6%	4.8%	4.9%



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