Month in Review

Commercial - April 2024

The Month in Review identifies the latest movements and trends for property markets across Australia.

CEO's address

Welcome to our April edition of Month in Review

This year, our organisation celebrates its 55th year of business.

Our success as one of Australia's largest independent property advisories is a function of many things including effort, talent, tenacity and, most of all, support. I'm proud to say that the company has forged on over the past five and a half decades to establish itself as one of the most trusted property advisories in the nation. Our organisation was founded on, and remains rooted in, the idea that local experts with intimate knowledge of their markets will deliver unparalleled guidance to clients.

We are enormously proud of the relationships we have cultivated over that time and remain grateful to those who turn to us for their specialist property advice. After all, clients are at the centre of what we do at Herron Todd White.

We look forward to many more decades of helping people and organisations navigate Australia's property market landscape.

Turning to this month's report and affordability is again a core theme for our residential teams. For April, our valuers have tackled the topic of buying reasonably priced property in prime suburbs or, as has been put more colourfully in these pages, buying into champagne locations on a beer budget.

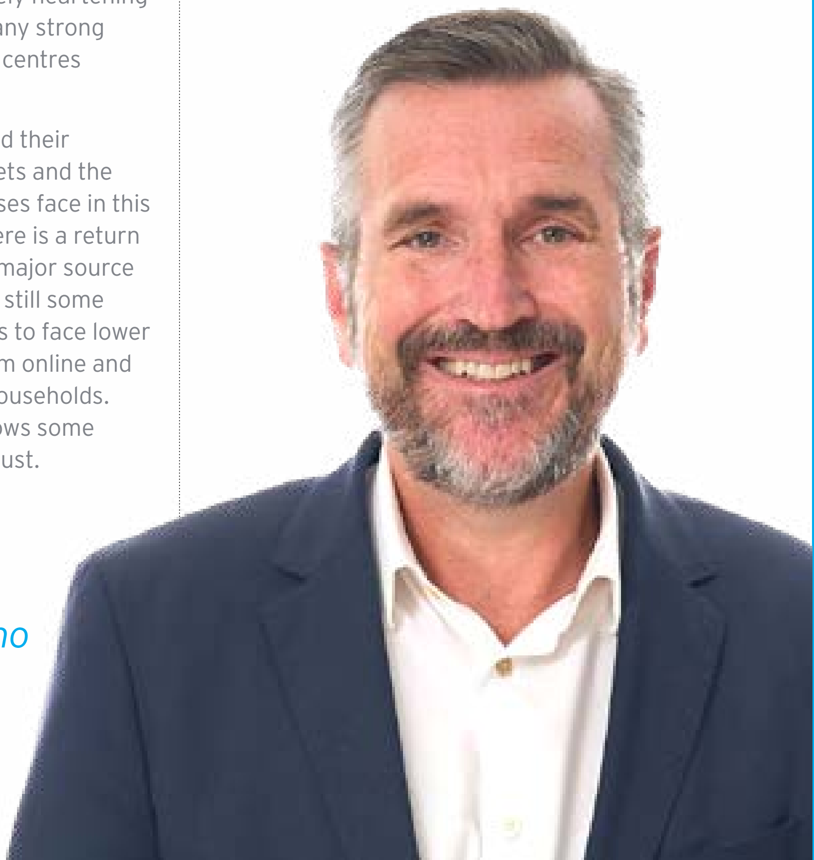
This is analysis that will be of interest to most readers, but particularly those who are first-time homebuyers or investors. Our valuers have, on a location-by-location basis, identified suburbs with the best fundamentals for value growth based on consistently strong demand among purchasers. The teams have then picked property types priced at a more modest level within these areas where acceptable compromises can deliver long-term upside for less outlay. What's ultimately heartening is that it is still possible to get into many strong markets on a limited budget in major centres around the nation.

Our commercial teams have dedicated their April analysis to studying retail markets and the challenging conditions many businesses face in this space in 2024. For instance, while there is a return to CBDs around Australia (which is a major source of traffic for retail operators), there's still some way to go. In addition, retail continues to face lower consumer confidence, challenges from online and less discretionary spending among households. Despite this, our valuers' analysis shows some locations and sub-sectors remain robust.

Finally, our rural divisions deliver a comprehensive study of Australia's grain sector. The analysis shows last financial year saw extraordinary production numbers for the grain sector, but it's the nuances of location that will prove most valuable to readers with an interest in the field.

Please enjoy our April edition of Month in Review

Gary Brinkworth
CEO



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EXECUTIVE ADDRESS

HERRON TODD WHITE

National Retail Overview

In the past 12 months, higher interest rates, increasing inflation and uncertain economic conditions have negatively affected consumer confidence which has declined to levels experienced during peak Covid-19 pandemic lockdowns – and retail spending remains highly impacted.

The Australian Bureau of Statistics reported that monthly Australian retail turnover (seasonally adjusted) rose slightly by 0.3 per cent in February 2024 following a rise in January of 1.1 per cent and a fall of 2.1 per cent in December 2023. The largest increases in February 2024 were in the categories of clothing, footwear and personal

Vanessa Hoey,
Director

Reduced retail spending in addition to rising costs such as wages and energy put pressure on retailer affordability of rents and other outgoings.

accessory retailing (4.2 per cent) and department stores (2.3% per cent however the results followed significant negative movements for these categories in December 2023 of -6.2 per cent for department stores and -4.9 per cent for clothing, footwear and personal accessory retailing. Retail turnover rose very slightly across all states and territories in February 2024 except in Queensland (-0.5 per cent) and Tasmania (-0.4 per cent), with the highest increase being in Victoria and Northern Territory (both 0.7 per cent). Retail turnover growth remained relatively flat over the past six months as consumers spent less on discretionary goods in response to cost-of-living pressures and rising interest rates. Retail turnover growth is forecast to remain flat for the next 12 months.

Consumer confidence has been significantly dampened by higher inflation and the impact of multiple interest rate rises and consumers are concerned about the near-term outlook of the economy. The Westpac-Melbourne Institute Consumer Sentiment Index fell by 0.2 per cent to reach 84.4in March 2024. It was reported in the survey results that consumers were generally most concerned about inflation although the negativity about inflation has become less intense. Many consumers remain concerned about the challenging year ahead for the economy and their personal financial situation.

Reduced retail spending in addition to rising costs such as wages and energy put pressure on retailer affordability of rents and other outgoings. In many retail precincts, leasing conditions remain challenging and downward pressure on rents for retail tenancies is evident. Tenants are seeking greater flexibility including shorter initial terms. They're also looking to negotiate lower rents and higher levels of incentive such as discounted rent or rent-free periods upon commencement of new leases or renewals. Although general leasing conditions in some areas are difficult, there is still good demand within prime locations, particularly from food based and retail service tenants.

The retail investment market has recorded varied results over the past 12 months across different market sectors. Since the implementation of cash rate increases, investor demand has weakened for retail properties in secondary locations, particularly within areas with low tenant demand and high vacancy rates. There is still a good level of demand for quality retail properties in strong retail locations from investors, particularly high net worth buyers and those with strong cash reserves and good borrowing capacity.

Investment demand for some retail property types such as neighbourhood shopping centres (with less exposure to discretionary spending) and freestanding supermarkets continued to strengthen

The retail investment market is forecast to record varied results during 2024.

throughout the previous 12 months due to large volumes of capital seeking high quality secure investments. Demand for these defensive asset types is expected to remain strong throughout 2024. Investors are looking to acquire supermarket assets due to factors such as the strength of the high-quality lease covenant, security of the long-term lease and potential for income growth as turnover increases, particularly in areas throughout Australia with strong population growth.

The retail investment market is forecast to record varied results during 2024. The volume of sales transactions of retail property assets in Australia was low during the past 12 months, with fewer active buyers and sales taking longer to transact and there currently appears to be a gap between vendor and purchaser expectations. Due to current economic uncertainty, the effects of higher inflation and higher interest rates, some retail property asset types may experience a further softening in yields and correction in values. We note that in recent months there has been an increase in sales activity which is expected to continue during 2024 and there is generally a more positive outlook than during 2023.

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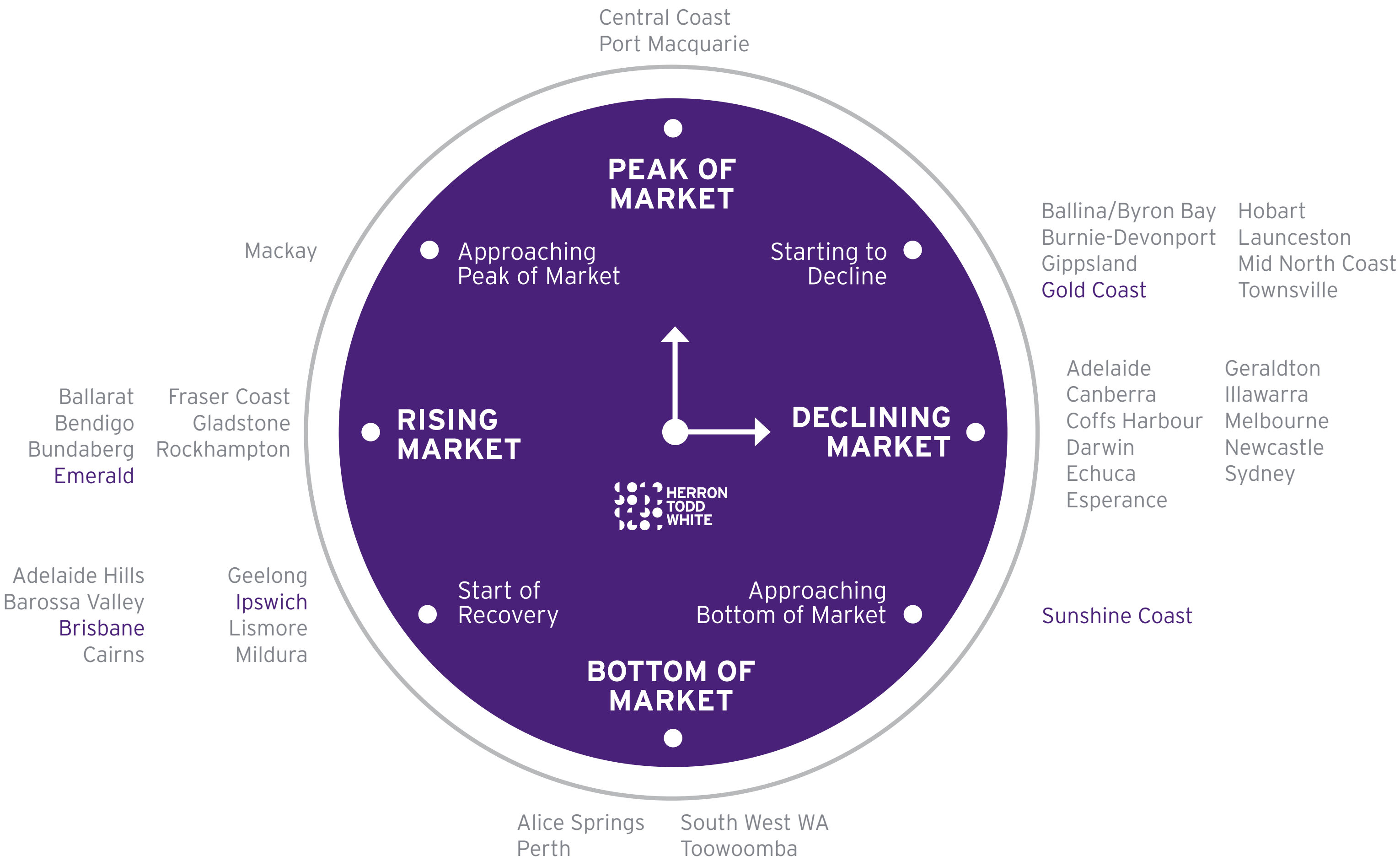
National Property Clock: *Retail*

Entries coloured purple indicate positional change from last month.



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New South Wales - Retail 2024

Sydney

The retail market in Sydney continued to be subdued throughout 2023.

There were far fewer transactions as the market adjusted to the changing economic conditions. Looking ahead we anticipate weaker market conditions and the continued softening of conditions. Retail has been adversely impacted by rising interest rates and inflation. Consumer spending has declined following the pandemic surge of demand.

The market is being influenced by the pressure of interest rates and inflation, significant lack of tenant demand along with oversupply in some suburban areas. It is likely the retail market will continue to suffer from declining values in our service area.

Investors this year will require a higher return to compel them to act. We believe that buyers will demand stronger income in order to counter those impactful of interest rates and increased risks.

In 2024 we expect to see reduced retail trade. As a result we anticipate decreases in rental rates with stronger incentives needed to secure tenants.

One sector of not is food and beverage which has been performing quite well in some areas. For this element of the market ther remains reasonable demand for well-located properties. In the CBD in particular, new restaurant openings are common. The dark cloud on the horizon is that market commentary indicates consumers are pulling back on this type of discretionary spending.

As you can see, we predict the next 12 months will be challenges for Sydney's retail market as the general outlook is for weakening conditions. A lack of consumer spending and high interest rates will fuel a slowing of retail demand and as a result the market should expect declining values and returns. Investors will be very cautious and remain risk averse.

Angeline Mann
Commercial Director

Newcastle

The local retail market has been subdued in the Newcastle and Hunter region so far in 2024, with relatively muted selling activity. While industrial activity remains high and the residential market has picked up, the retail market is lagging somewhat under cost-of-living pressures.

The really lagging market is the office market, which is struggling to come to terms with new work-from-home protocols. While many corporates are insisting staff come back into the office, the reality is that things have changed and less office space is required throughout the city.

With this in mind, we are seeing retail space activity – which usually feeds off office workers (think CBD cafes and lunch spots) – really slowing down. Investors are identifying this risk and yields are now moving out to reflect the situation. There are of course significant exceptions such as well tenanted property which is still selling strongly. A McDonalds in Cardiff on a 20-year ground lease has just sold on a yield of 3.27%, a very tight yield, notably reflective of the low risk associated with a McDonalds ground lease tenancy profile.

So, caution is required in the retail market at present. New strata industrial developments are selling hand over foot currently and opportunities for retail may exist in these localities where they have not previously. Buyers need to look at new infrastructure as well as market segment trends if looking to buy into the local retail market.

Other examples include Boolaroo. Once a sleepy lakeside strip in place to service the Pasminco Smelter and associated workers, this suburb has not only seen significant new residential estate development, Munibung Road has been extended

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through the Cardiff industrial estate, Costco and Bunnings are up and running and opportunities exist in the sleepy Main Road retail strip precinct to capitalise on this growth.

So while retail in many localities across our region is slow overall, savvy investors are out there finding the bargains and opportunities that new infrastructure is providing.

Scott Beker
Valuer

Coffs Harbour

In general, it is anticipated the local Coffs Harbour retail market will not change during 2024.

There is a distinct lack of urgency and overall low level of interest from the investment market. The Coffs Harbour main commercial centre has shown a low level of transactional activity with the most recent sales based on owner-occupation.

Rental levels vary considerably depending on owner motivation and individual characteristics of each property, however overall the rental market is soft and this trend should continue in the short to medium term.

There is a trend within the North Coast commercial strip centres to repurpose buildings or move to site redevelopment incorporating residential accommodation.

There has been strong interest in the Bellingen commercial market with recent record-breaking commercial sales based on the intention to repurpose.

Sawtell and the Woolgoolga commercial markets have attracted purchaser interest, mainly from those with a view to medium to long term redevelopment, and therefore exhibit firm yields.

Sawtell, Woolgoolga and Bellingen are considered to be niche markets.

There is strong demand for specialised retail outlets, with long term leases to national companies offering secure income and the added benefit of high tax depreciation.

Ken Potter
Director

Illawarra

Conditions in the retail segment continue to be challenging as consumers tighten their purse strings due to inflationary pressures and the impact of interest rate increases over the past two years. As a result, many areas have seen an increase in empty shop fronts and agents are reporting longer letting up periods and higher than usual tenant incentives. However, it's not all doom and gloom as some precincts such as Thirroul, Woonona and Kiama are holding steady with a list of tenants looking to secure shop fronts at relatively full rental rates.

Strong investor appetite remains for retail assets underpinned by established corporate tenants on long lease terms with fast food, service stations and supermarket assets generally in high demand.

Scott Russell
Director

Victoria - Retail 2024

Melbourne

The Australian Bureau of Statistics has released its monthly retail trade data for January 2024 which indicates a 1.1 per cent rise in seasonally adjusted retail turnover, but a steady slowing of overall monthly turnover across the 2023 calendar year. The "Clothing, footwear and personal accessory retailing" and "Household goods retailing" categories demonstrated the strongest percentage change from previous months reflecting 2.4 per cent and 2.3 per cent increases respectively. "Food retailing" saw a monthly reduction of 0.1 per cent (or $10.4 million), the only category to experience decline. Victoria saw a slightly higher percentage increase in seasonally adjusted monthly turnover of 1.4 per cent. The rising cost of living is considered to be a contributing factor to the flattening of the monthly turnover figures at a Victorian and national level which is anticipated to continue throughout 2024. It remains somewhat unclear when the Reserve Bank of Australia will begin to cut the cash rate however some economists believe it could be towards the end of 2024. This follows the 13 consecutive rate rises between May 2022 and November 2023 which put significant strain on household budgets for mortgage holders and softened retail spending growth. Reduced interest rates have the potential to ease the cost-of-living pressure on many households.

Collins Street, Melbourne Source: realestate.com.au

As reported by leasing agents, the Melbourne Central Business District has experienced an increase in activity since the Covid-19 pandemic, and demand appears to be showing signs of improvement, particularly in the most desirable locations such as the Collins Street precinct. We are aware of some tenants taking advantage of the increased vacancy rates to secure new premises in a superior location or at a lower rent in comparison to their existing premises. According to data produced by the City of Melbourne, activity in the CBD is at its highest level since 2015. Sustained increases of activity combined with potential easing cost of living pressures on households will likely see continual improvement throughout the CBD's retail precincts in 2024. With major infrastructure projects such as the Melbourne Metro Tunnel now expected to reach completion by late 2024, it is predicted that we will experience a further influx of foot traffic around the city towards the end of the year with easier commutes enticing more workers back to the office.

Across the board, many strong metropolitan retail precincts are still performing quite well and attracting quality tenants. Larger premises or those requiring higher levels of fit out are still needing to offer increased incentives to secure long-term tenants. Secondary retail precincts appear to be performing the worst, with suburbs such as Frankston displaying high levels of vacancy, even within their respective central retail precincts. How these secondary precincts will fare in 2024 remains somewhat unclear even if cost of living pressures ease late in the year. Established precincts such as Chapel Street still appear to be recovering from the impacts of the Covid-19 pandemic with high levels of vacancy and softening rents from their peak in the late 2010s.

On 1 January 2024, the land tax threshold for Victoria reduced from $300,000 to $50,000, causing a sizable increase in outgoings for investors and owner-occupiers. A property with a Statutory Site Value of $1 million would see a 56 per cent increase in Land Tax ($2975 to $4650)

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under the new rules. This has the potential to increase properties being offered to the market, with some investors looking to sell, particularly those with multiple properties in their portfolios. This is a trend already being reported by commercial selling agents. Furthermore, we note that Land Tax is a non-recoverable outgoing in accordance with the Retail Leases Act 2003 which reduces net income.

Overall, 2024 could see a number of changes occurring in the retail property market. New tax rules and interest rates will play key roles in shaping the market landscape this year, on the sides of both supply and demand. Whilst the market is showing signs of improvement, it is believed that further softening yields could be observed across the board, particularly for secondary properties.

Nathanial Ramage
Associate Director

Queensland - Retail 2024

Brisbane

Australia experienced robust population growth of 2.4 per cent in 2023, significantly bolstering the retail property market. Retail sales surged to $425 billion, marking a $15 billion increase from the preceding year. The latest figures from the Australian Bureau of Statistics for January 2024 reveal a 1.1 per cent rise compared to January 2023 and a notable 1.6 per cent uptick from February 2024 compared to the same period last year.

Despite these positive trends, the retail sector faces several challenges. Approximately 1.6 million households are grappling with mortgage stress, casting a shadow over consumer spending. Moreover, online sales, particularly by Chinese retailers such as Temu and Shein, continue to soar. Temu and Shein collectively boast over two million Australian customers monthly, translating to an impressive annual sales figure of $2.5 billion.

Amidst this landscape, investor confidence in retail property is poised to strengthen further in 2024, fuelled by expectations of a peak in interest rates and potential rate reductions by year-end. Already, the first quarter of 2024 has witnessed heightened bidder activity at auctions, albeit against a backdrop of limited availability of quality assets, mirroring the trend observed in 2023.

Looking ahead, Queensland's upcoming state election on 26 October 2024 introduces the element of uncertainty commonly associated with political transitions. Historically, such events tend to momentarily dampen property market activity, with November and December typically experiencing subdued transactions.

The divergence between prime and secondary assets observed in 2023 is expected to persist in 2024. However, opportunities abound, particularly in well-positioned large format retail properties with rental rates at the lower end of market and retail convenience centres boasting diversified tenant mixes resilient to online competition.

In our outlook for 2024, we anticipate stable retail yields, with rental growth driven by new developments and substantially refurbished properties, reflecting escalating land prices and construction costs.

Terry Munn
Director

Gold Coast

On reflection, 2023 was a period of repositioned expectations across the Gold Coast retail market as stakeholders adjusted to lower retail spending and increasing cost of debt. This resulted in moderating rental growth and some yield expansion across the board.

Notwithstanding this, there were still several strong noteworthy results:

- Ampol, fast food, medical and Aldi at Robina - circa 5.0%

Ampol, fast food, medical and Aldi at Robina Source: commercialrealestate.com.au

- Ampol and fast food at Yatala interchange - off market at circa 5.0%
- Hungry Jacks at Beenleigh – sub-5.0%

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A major influence on the Gold Coast retail property market this year will be the recent release of new statutory site valuations.

Looking further in 2024, there is a sense of stability in the retail sector, with supply and demand metrics across the Gold Coast and northern New South Wales in check, inflation coming back under control somewhat and interest rates holding for now.

However, a major influence on the Gold Coast retail property market this year will be the recent release of new statutory site valuations. Upon initial review, many suburban retail offerings have been increased by 10 per cent to 25 per cent and with Land Tax being a non-recoverable expense item, this will flow directly to the bottom line for affected property owners.

It goes without saying that most landlords will be eager to offset rising outgoings with any available rental increases, however with a continuation of moderated spending on discretionary items, it may well be premature to expect any notable uplift in rental rates beyond CPI just yet.

We anticipate yield compression is unlikely this year, and as a result of increased statutory charges, capital values may be under pressure once again.

Ryan Kohler
Director

Rockhampton

The Rockhampton retail market can be typically viewed as two different markets – bulky goods retail and traditional small format retail.

The bulky goods retail is generally quite robust due to limited supply in high exposure, established precincts. Purchasers or tenants looking to get into the market now need to consider redevelopment of existing non-retail sites. An example is the sale of 353-355 Yaamba Road in late 2023, which was previously the Ambassador Motel, sold in vacant possession and purchased by a national retailer who has plans to develop the property into a purpose-built retail showroom. It is predicted this market will remain robust for the year ahead.

Whilst Rockhampton has seen growth in new business activity, notable leasing vacancies remain in small format retail, particularly in traditional high streets and CBD areas, although this is improving. This is largely due to the age and condition of buildings which require substantial cost to renovate and also the lack of car parking. Pro-active owners and developers willing to incentivise and refurbish buildings are likely to attain desired tenants.

Smaller format retail in the sub $1 million price bracket remains highly sought after by local investors and with limited supply on the market, yields remain robust.

Gladstone

The Gladstone retail market is experiencing similar trends to its Central Queensland counterparts, showing growth in new business activity across a number of industries.

National retailers are expanding their networks into regional Queensland. Bulky goods retail, particularly along Hanson Road, continues to be robust, with purchasers or tenants looking to get into the market now needing to consider redevelopment of alternative uses. An example is the sale of 50 Hanson Road for circa $3 million in late 2023. The site was operating as light industrial, however was purchased by a national retailer for future use. Demand is expected to remain for the year ahead.

Richard Dunbar
Valuer

Wide Bay

The Wide Bay retail market is relatively stable and is experiencing low vacancy rates and short letting up periods compared to historical trends. Typically, smaller retail shops in the CBD or CBD fringe locations are in good demand. There has been limited recent activity for the larger tenancies throughout the region. Larger scale retail premises within the CBDs of Maryborough, Hervey Bay and Bundaberg are more vulnerable to longer vacancy and capex risks due to the age and style of the buildings.

We noticed a number of sales in CBD locations where investors purchased retail tenancies with the view of refurbishing the tenancies and increasing the passing rent to market in an attempt to add value. This activity has been below circa $1 million which we consider reflects the market's view on capital risk and cash flow risk in the higher price brackets.

The supermarket-anchored shopping centre market saw new supply and a major retail centre, Hinkler Central transact in early 2024. The shopping centres are still attracting the lion's share of national brands. Specialty retail leasing in the neighbourhood centres is presenting a more challenging task.

There is a risk of yields softening over 2024 in the higher price brackets in our regional markets and it appears the spread of yields between high quality retail premises and the rest of the stock on the market may widen. Keep an eye on the older retail stock around the proposed Fraser Coast Administration Centre and large format retail development around the proposed new Bundaberg Base Hospital site as these areas may offer developers or investors opportunities to add value after redevelopment.

Grant Collins
Associate Director

Townsville

While we don't have a crystal ball, we can assume more of the same as last year for the Townsville retail market, particularly with interest rates continuing to be a focus and dictating cost of living pressures. Considering the backdrop, retail trade is expected to be relatively good, underpinning investor demand.

There has been some recent jostling of regional shopping centres and sales of large format retail centres in recent years. Recent sales of large format assets indicate price points of between $10 million and $20 million with a resultant analysed market yield spread of 6.60% to 7.15% with sales of poorer quality assets showing 8% plus.

Investment yields remain firm although typically the market is seeing some separation between strongly performing retail centres and those in secondary areas. Supermarket-anchored suburban centres are generally considered a lower risk investment with property commentators indicating at least a 50 basis point differential in yield terms in comparison to higher risk, higher priced shopping centres.

2024 is likely to be a year of low sales volume with centres remaining tightly held, especially those that provide adequate yield buffering against rising interest rates and debt funding scenarios.

In any case our prediction is towards decompression in yields in the commercial sector during the latter stages of 2024. Furthermore, costs of new construction will continue to eradicate new bricks and mortar entrants and in turn outprice any off the plan proposals. Based on previous cycles, this may trigger movement towards a tightening of retail vacancy rates within existing centres with some potential for uplift in rental rates in the medium to long term.

Jason Searston
Director

Whitsundays

Macroeconomic factors including a combination of inflation, rising interest rates and cost of living concerns across the nation have left consumer sentiment and business confidence low over the past few years. This has meant a dip in discretionary spending to make room for rising non-discretionary spending. This spending trend, along with rising costs for businesses, has had most impact on small to medium retailers that don't benefit from brand loyalty or high profit margins.

The Whitsundays retail market is primarily reliant on tourism. Visitor levels have already exceeded pre-pandemic levels and are forecast to grow in 2024, particularly from international travel.

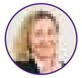
Top on the list of Whitsundays visitors' preferred activities is eating out at restaurants. Airlie Beach town centre has attracted new and relocating restaurants over the past few years with tenants moving into refurbished space and absorbing vacancy. This trend is expected to continue in 2024, albeit this sector can be volatile due to its reliance on quality and expertise of management.

With few national brand retailers, the Whitsundays retail sector is largely made up of local small to medium size businesses. Rentals that have been subject to CPI annual reviews over the past three years have been inflated and as lease terms expire and undergo market reviews, landlord expectations are typically high. Whilst vacancy has improved over recent times, affordability issues limit actual market rental growth, particularly in the non-food and beverage retail sector.

Cannonvale has seen strong post-pandemic growth as a retiree and lifestyle residential location and regional service centre. This has led to growth in the Whitsundays retail sector. Development of commercial zoned land over the past few years around the Woolworths and Big W anchored Whitsunday Plaza has already attracted big-box national retailers such as Super Cheap Auto, BCF, KFC and Aldi supermarket. Land sales in this precinct over the past 12 months have shown price growth of around ten per cent, indicating market confidence in future returns. Establishment of this precinct is likely to attract new tenants filling any further new space and backfilling vacancy from relocating tenants. Whilst construction of

Rentals that have been subject to CPI annual reviews over the past three years have been inflated and as lease terms expire and undergo market reviews, landlord expectations are typically high.

Super Cheap Auto, BCF and KFC stores is well underway and expected to be completed in 2024, the proposed Aldi supermarket is still in the pre-development stage.



Britt Atkin
Valuer

Darling Downs

Retail leasing activity in Toowoomba is expected to be moderate throughout 2024 following increases in interest rates, high inflation and increasing levels of economic uncertainty.

Investor demand is expected to be strong in 2024 with the number of transactions limited by supply. Investment yields in Toowoomba in 2023 remained strong despite the increases in interest rates. The yields in 2024 may soften following the trend observed in most major retail markets in Australia in 2023.

Development activity was strong in 2023as well, and this will continue in 2024 with a number of projects in various stages of development, including:

- A new Officeworks and two fast food tenancies to be constructed on the corner of James and West Streets in Harristown.
- The owners of Clifford Gardens Shopping Centre have proposed to construct two detached food outlets for KFC and Taco Bell.
- A food outlet with drive-through at 360A and 360B Bridge Street, Wilsonton (opposite Wilsonton Shopping Centre) to be leased to Carl's Jnr.
- A food outlet with drive-through at 350 Bridge Street, Wilsonton (adjoins Red Rooster). This project has been linked with Mad Burgers.
- A new bulky goods/showroom complex in Carrel Drive next to Bunnings Warehouse.

Clifford Gardens Shopping Centre Source: cliffordgardens.com.au

Overall 2024 is expected to be relatively stable with no major changes to leasing or investor demand.

Ian Douglas
Director

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South Australia - Retail 2024

Adelaide

The Adelaide retail market had a resilient performance throughout 2023 with moderate levels of growth. The Westpac-Melbourne Institute of Consumer Sentiment index, whilst still below the neutral 100 mark, recently grew to 81, indicating that sentiment is improving off the back of moderating inflation and expectation shifts for interest rates. South Australian retail turnover saw a slight loss in Quarter 4 which is to be expected as the surging cost of living pressures and interest rate hikes force everyday consumers to sustainable levels of spending. Regardless, we have experienced a positive yearly change on retail turnover created through a growing labour force surge post COVID with South Australia's seasonally adjusted unemployment rates being at historically low levels. Record high levels of migration with a forecast 1,135,000 in net migration in the 2023 to 2025 financial years indicates strong future growth.

Most of the commentary surrounding the Adelaide retail property market indicates that retail yield softening has already been priced in, with office and industrial sectors due to soften further over 2024. CBD retail experienced a tightening of yields year-on-year while the majority of other categories have softened.

A recent major sale in the Adelaide retail market was Kurralta Central, Kurralta Park which sold for $74.25 million in February 2024. Sold from the Vicinity Centres asset portfolio, the sale achieved an initial yield of 4.11% with a WALE of 6.2 years (by income) and $6956 per square metre of NLA.

Most of the commentary surrounding the Adelaide retail property market indicates that retail yield softening has already been priced in, with office and industrial sectors due to soften further over 2024.

Vicinity Centres also sold Roxburgh Village (Victoria) for $124 million and Dianella Plaza (Western Australia) for $76 million in 2023. The divestment is understood to be part of a larger strategy to upweight the group's portfolio to more premium retail assets. Vicinity purchased a remaining 49 per cent share of Chatswood Chase (New South Wales) for $307 million in March 2024 and has entered into a long-term partnership with Cartology (part of Woolworths Group Limited). Cartology will operate over 1100 digital small and large format advertising screens across its centres (commencing in the second half of financial year 2024). This new model is expected to deliver greater certainty of income and enhanced commercial value to Vicinity's assets.

Discussions with local agents have indicated that incentives in neighbourhood shopping centres and CBD super-prime centres have decreased drastically, indicating strengthening demand for retail assets within these sectors. A flow-on effect has been observed with retail rents showing moderate levels of growth.

Occupier demand along Adelaide's prominent retail high streets has reportedly been extremely strong with a blended vacancy rate nearing historic lows. Suburban retail precincts have seemingly been outperforming CBD precincts in terms of vacancy with a prominent factor being greater hybrid working environments increasing weekday pedestrian traffic levels. The tenancy mix within these precincts has changed over recent years reflecting changing consumer preferences with a focus on hospitality destinations. Many opportunities are often presented within these precincts with high levels of demand and low vacancy levels.

Ben Millar
Property Valuer

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Western Australia - Retail 2024

Perth

This year, Perth retail property stakeholders must be prepared to navigate terrain that is shaped by both challenges and opportunities.

Initially, we expect market participants to exercise a degree of caution and await further clarity surrounding key economic indicators. There is mounting uncertainty as to the direction of mortgage interest rates in light of conflicting economic data. The air of optimism that permeated the market at the beginning of 2024 has been quelled to a degree by persistently high inflation and low unemployment.

There is a risk that consumers' disposable income will be diminished which, together with other cost of living pressures, will rein in spending habits.

Nonetheless, purchase demand for local retail assets from eastern states-based buyers appears likely to continue throughout the year with the yields on offer in Western Australia remaining above and beyond those available within their local markets.

We expect investment-grade retail property (e.g. neighbourhood shopping centres) to remain a highly sought-after yet tightly held asset in 2024, meeting key criteria that sophisticated investors continue to seek such as long remaining lease terms (i.e. WALE), non-discretionary tenancy mix backed by strong lease covenants (typically associated with Coles or Woolworths) and sound locational attributes with a growing population catchment.

Notably, the year kicked off with the news that Dianella Plaza sold for $76.25 million to Greenpool Capital at a passing yield of 6.65%. The neighbourhood-sized, dual supermarket shopping centre has over 54 speciality tenancies and is located in an established, near Perth CBD suburb.

This was followed closely by the sale of Whiteman Edge Village Shopping Centre and an adjacent development site in Brabham. The near-new centre, anchored by a Coles supermarket and over 10 speciality tenancies, sold for $39 million. Adjusting for the value of the surplus development site, the sale demonstrated a yield of 5.99%. Centres underpinned by Coles or Woolworths lease covenants are still achieving relativity tight yields despite the recent spate of interest rate rises.

The above transactions demonstrate that retail assets which possess a non-discretionary tenant base, and clear value-add opportunities remain on institutional investors' shopping lists.

Whiteman Edge Village Shopping Centre Source: realcommercial.com.au

Discussions with a number of industry participants suggest an apparent disparity in yield expectations between buyers and sellers which may limit the number of transactions in the short term. Further, the minimal yield differential between prime and secondary assets that has characterised the market over the past 36 months is likely to widen, impacting transaction volumes, particularly for secondary assets.

Traditional high streets and suburban shopping hubs, despite much-publicised trading difficulties, are likely to retain their convenience-driven customer pull. It could be argued that such destinations have benefited from the work from home movement but also the growth in higher-density housing. Accordingly, we expect current

Purchase demand for local retail assets from eastern states-based buyers appears likely to continue throughout the year with the yields on offer in Western Australia remaining above and beyond those available within their local markets.

HERRON TODD WHITE

occupancy levels to remain fairly stable in the short term with minimal movement in achievable rental rates.

Interestingly, fast food has emerged as the new darling of the retail asset class as demonstrated by a flurry of recent transactions in Perth demonstrating yields of sub-5% for modern, purpose-built premises subject to long-term leases to parent companies (as opposed to franchisees). Investors seem to be attracted to the perceived security of rental income afforded by such tenants, their resilience in the face of economic downturns and depreciation benefits.

At this stage, it remains difficult to predict how the market will perform in the short to medium term, however there is likely to be both caution and optimism for the retail sector as we navigate 2024.

Greg Lamborn
Director

Northern Territory - Retail 2024

Darwin

Financial year 2023/24 is proving to be a big, although somewhat belated, wet season for the Top End. We are now expecting a substantial run-off and the Million Dollar Fish campaign has been extended until the end of the month. Recreational fishing should therefore continue to be an important source of tourism dollars for the Northern Territory.

Operators in the tourism industry are hoping that this will be extended into the dry season with high visitor numbers in the traditional peak season. Deloitte recently estimated that over 17,000 people, or 12 per cent of the NT labour force are directly employed in hospitality. The success of this industry sector therefore has an important impact on retail property in the NT.

However recent years have seen the sector dealing with a range of difficulties including Covid and crime issues. In fact, petty crime has directly resulted in the closure of a number of long-term Darwin hospitality ventures in recent months. There are concerns that some prospective interstate visitors have been deterred by the NT's reputation in this regard, and the effect on tourism, with its consequent flow-on effects on retail and hospitality property values cannot be disregarded.

Retail in the Darwin CBD continues to be difficult and this is reflected in subdued rental growth in this market sector. This will only be reversed by a population increase, whether that be long-term workers or short-term visitors. Whilst the upcoming dry season may bring a surge in numbers, Darwin needs to see an increase in its permanent population before there is a substantial improvement in demand and values in all market segments, including retail property.

Terry Roth
Director

Darwin needs to see an increase in its permanent population before there is a substantial improvement in demand and values in all market segments, including retail property.

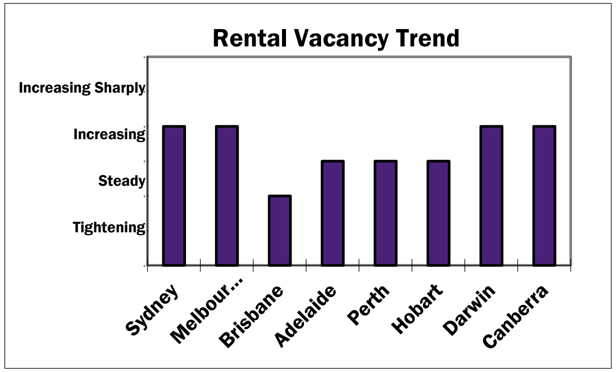
Property Market Indicators

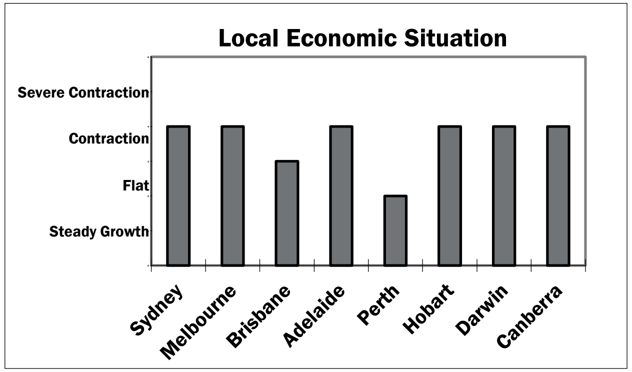
April 2024

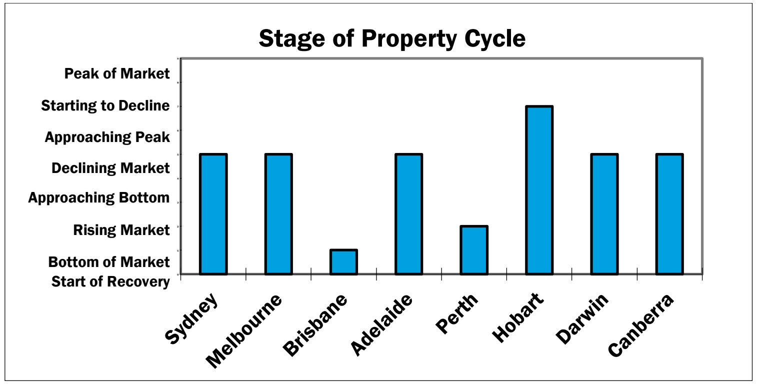
Capital City Property Market Indicators –Retail

Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Increasing	Tightening	Steady	Steady	Steady	Increasing	Increasing
Rental Rate Trend	Declining	Stable	Stable	Stable	Stable	Stable	Declining	Declining
Volume of Property Sales	Declining	Declining	Declining significantly	Steady	Steady	Declining	Steady	Steady
Stage of Property Cycle	Declining market	Declining market	Start of recovery	Declining market	Bottom of market	Starting to decline	Declining market	Declining market
Local Economic Situation	Contraction	Contraction	Flat	Contraction	Steady growth	Contraction	Contraction	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Large	Large	Large	Significant	Large	Significant	Significant	Significant

Red entries indicate change from 3 months ago to a higher risk-rating   *Blue entries indicate change from 3 months ago to a lower risk-rating*







East Coast & Country New South Wales Property Market Indicators – Retail

Factor	Canberra	Central Coast	Coffs Harbour	Ballina/Byron Bay	Lismore	Mid North Coast	Illawara	Newcastle	South East NSW	Sydney
Rental Vacancy Situation	Over-supply of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Balanced market	Large over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market - Over-supply of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Increasing	Steady	Steady	Increasing	Steady	Steady	Steady	Increasing	Steady	Increasing
Rental Rate Trend	Declining	Stable	Stable	Stable	Stable	Stable	Stable	Declining	Stable	Declining
Volume of Property Sales	Steady	Steady	Declining	Steady	Steady	Steady	Steady	Declining	Steady	Declining
Stage of Property Cycle	Declining market	Peak of market	Declining market	Starting to decline	Start of recovery	Starting to decline	Declining market	Declining market	Peak of market	Declining market
Local Economic Situation	Contraction	Flat	Flat	Flat	Flat	Flat	Steady growth	Flat	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Small	Significant	Significant	Large	Large	Significant - Large	Large

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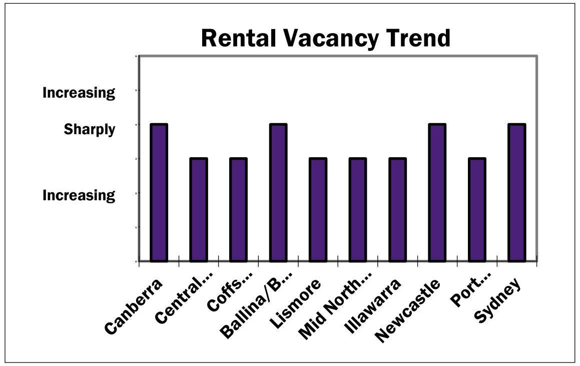

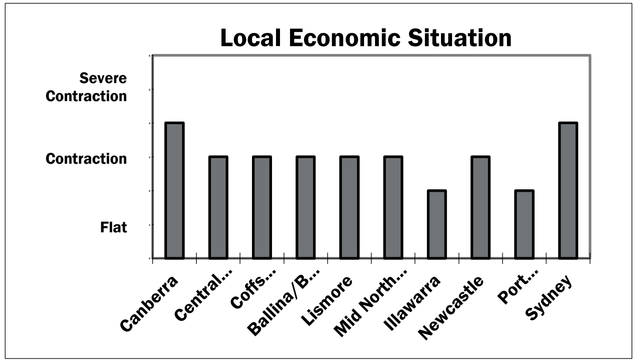

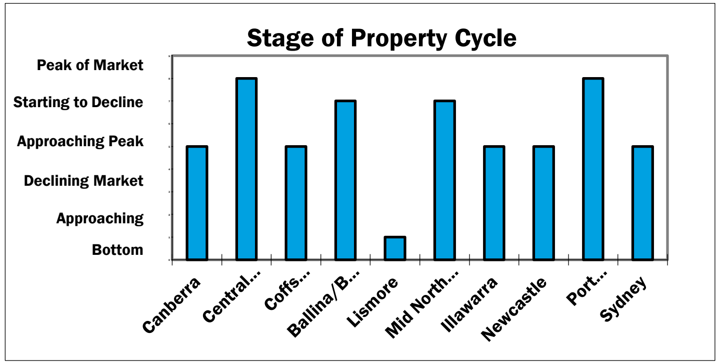

Victorian and Tasmanian Property Market Indicators – Retail

Factor	Ballarat	Bendigo	Echuca	Geelong	Gippsland	Melbourne	Mildura	Burnie/Develport	Hobart	Launceston
Rental Vacancy Situation	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Large over-supply of available property relative to demand	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Steady	Increasing	Steady	Steady	Steady	Increasing
Rental Rate Trend	Stable	Stable	Stable	Stable	Declining	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Declining	Steady	Steady	Steady	Steady	Declining	Steady	Steady	Declining	Steady
Stage of Property Cycle	Rising market	Rising market	Declining market	Start of recovery	Starting to decline	Declining market	Start of recovery	Starting to decline	Starting to decline	Starting to decline
Local Economic Situation	Steady growth	Flat	Flat	Flat	Flat	Contraction	Steady growth	Flat	Contraction	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Small	Large	Significant	Large	Small	Significant	Significant	Significant

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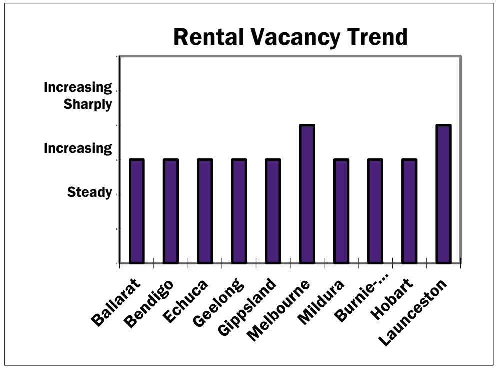

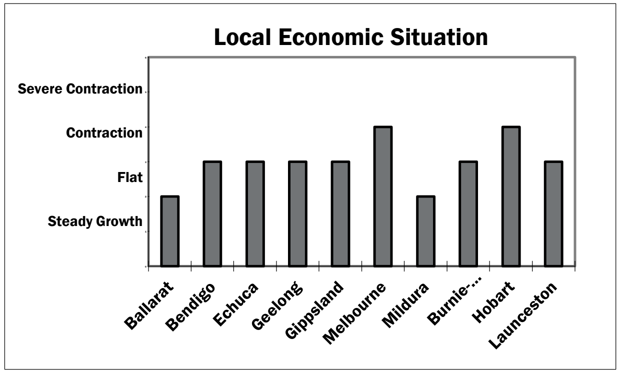

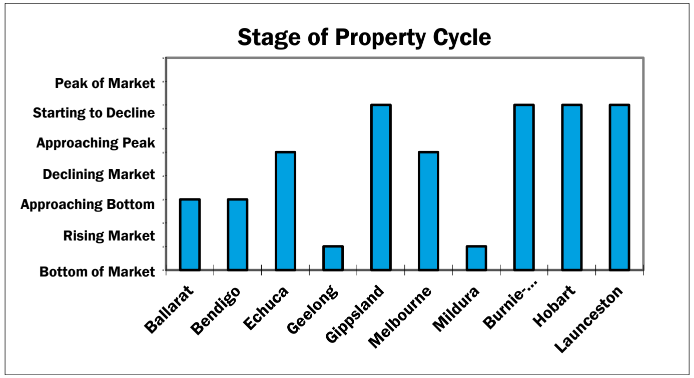

Queensland Property Market Indicators – Retail

Factor	Cairns	Townsville	Mackay	Bundaberg	Rockhampton	Gladstone	Emerald	Fraser Coast	Sunshine Coast	Brisbane	Ipswich	Gold Coast	Toowoomba
Rental Vacancy Situation	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Steady	Tightening	Tightening	Tightening	Steady	Steady	Tightening	Tightening	Steady	Steady
Rental Rate Trend	Stable	Stable	Stable	Increasing	Increasing	Increasing	Increasing	Increasing	Stable	Stable	Stable	Stable	Stable
Volume of Property Sales	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Steady	Declining	Declining significantly	Declining significantly	Steady	Steady
Stage of Property Cycle	Start of recovery	Starting to decline	Approaching peak of market	Rising market	Rising market	Rising market	Rising market	Rising market	Approaching bottom of market	Start of recovery	Start of recovery	Starting to decline	Bottom of market
Local Economic Situation	Flat	0	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Flat	Flat	Flat	Flat	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Small	Significant	Significant	Significant	Small	Significant	Large	Large	Significant	Large

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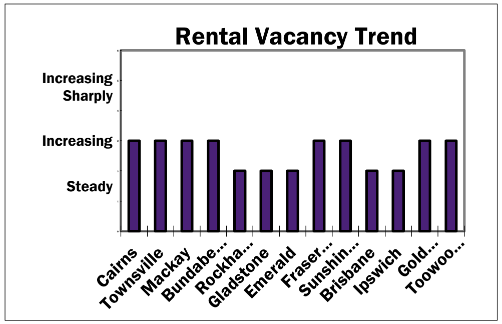

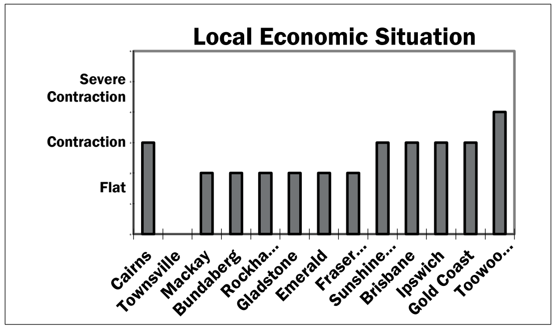

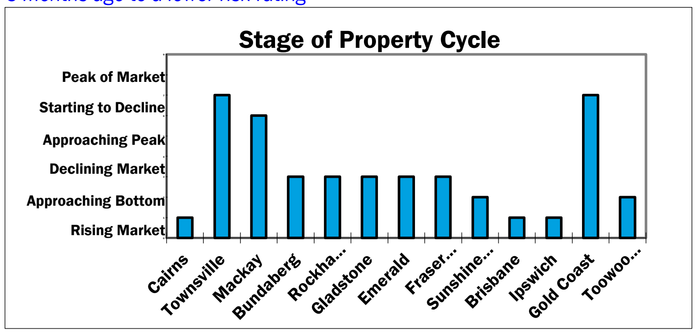

SA, NT and WA Property Market Indicators – Retail

Factor	Adelaide	Adelaide Hills	Barossa Valley	Alice Springs	Darwin	Perth	South West WA	Geraldton	Esperance
Rental Vacancy Situation	Balanced market	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Over-supply of available property relative to demand	Large over-supply of available property relative to demand	Large over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Increasing	Increasing	Steady	Steady	Increasing	Increasing
Rental Rate Trend	Stable	Stable	Stable	Declining	Declining	Stable	Stable	Declining significantly	Declining significantly
Volume of Property Sales	Steady	Steady	Steady	Declining	Steady	Steady	Steady	Declining significantly	Declining significantly
Stage of Property Cycle	Declining market	Start of recovery	Start of recovery	Bottom of market	Declining market	Bottom of market	Bottom of market	Declining market	Declining market
Local Economic Situation	Contraction	Contraction	Contraction	Flat	Contraction	Steady growth	Steady growth	Contraction	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Significant	Significant	Small	Significant	Large	Large	Large	Large

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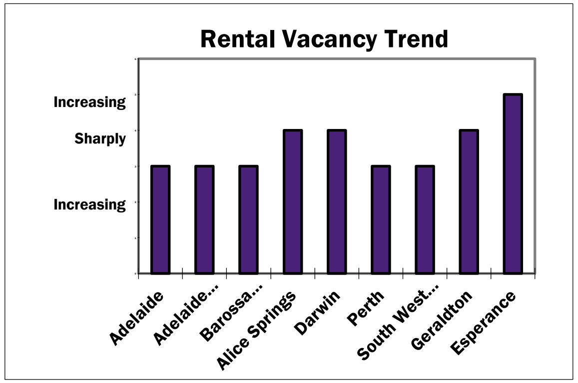

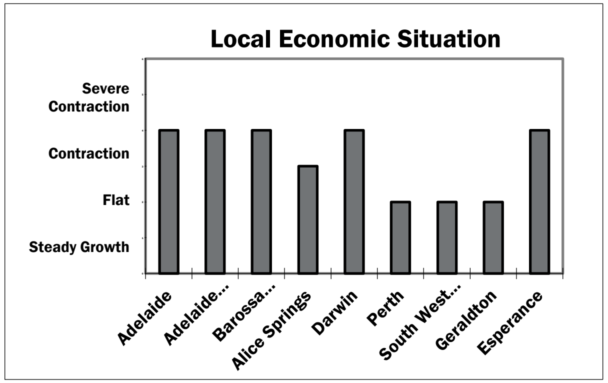

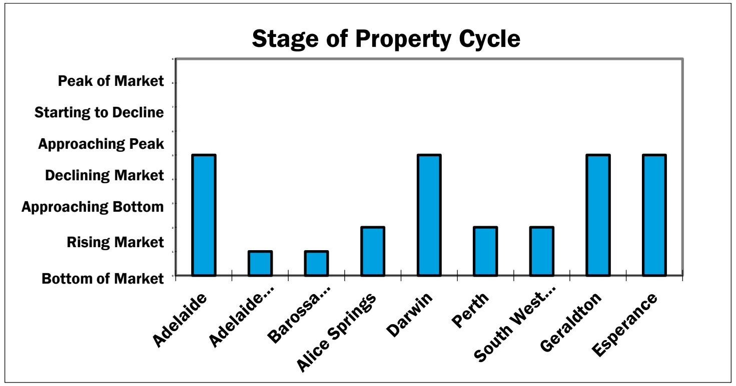

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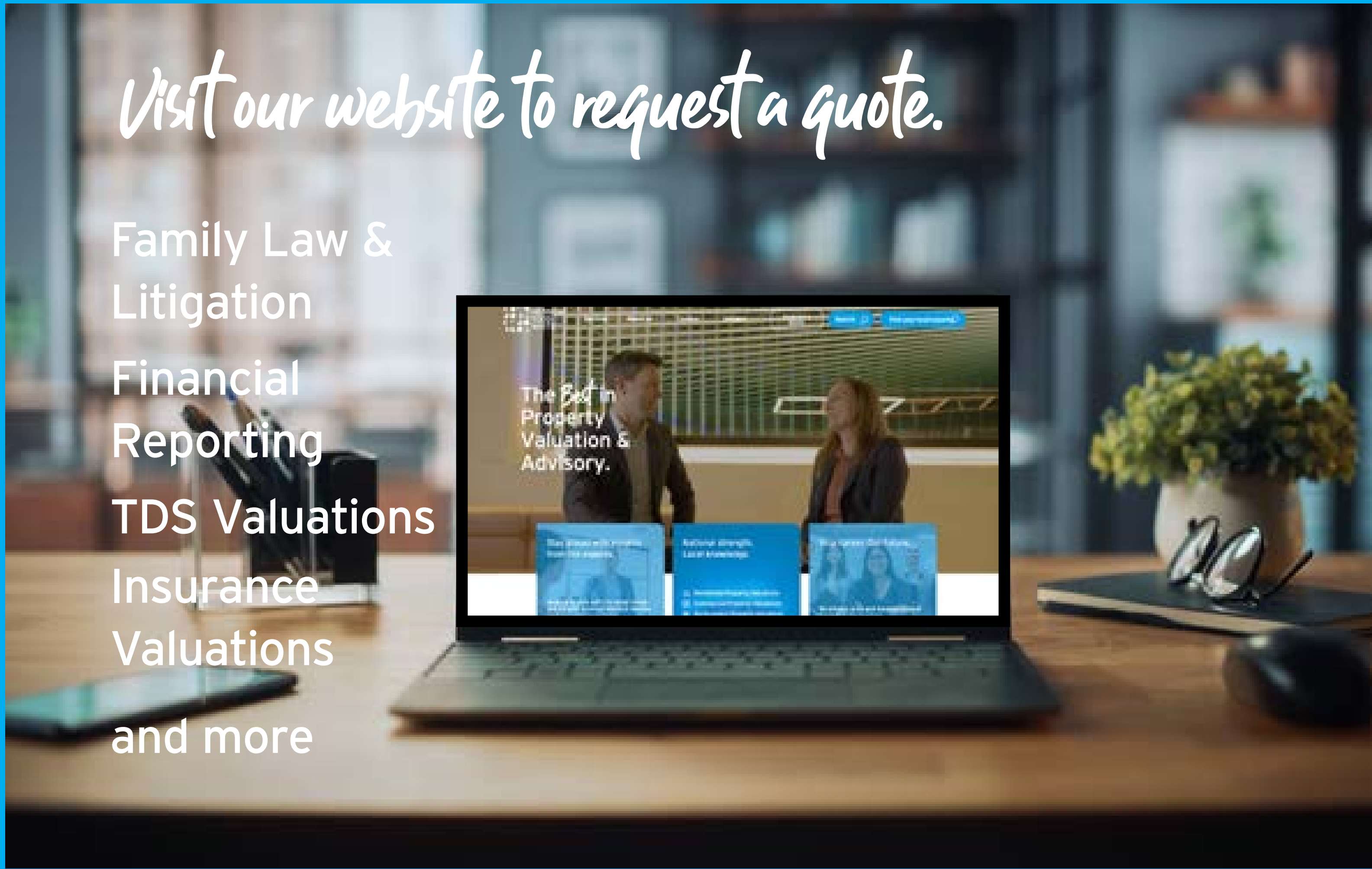

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