Month in Review

Commerical - October 2024

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

CEO's Address

Welcome to our October edition of Month in Review

Our reports each month consistently illustrate both the diversity and inter-relatedness of property markets across Australia. What happens on a national and international scale has ramifications for market activity, but local drivers also contribute substantially to value shifts across each population centre.

Because of this, I've been struck by disparate moves in Melbourne's residential real estate prices compared to those in other major capital cities. It begs the question, "Is Melbourne's performance a lead indicator for other Australian markets?"

Melbourne's house price has trended lower at a time when most other major centres have seen value growth. Double digit annual gains in Brisbane, Adelaide and Perth, along with a solid increase in Sydney's median, are contrary to Melbourne's median-price decrease. This has seen Melbourne go from being the nation's second most expensive capital city to its sixth in a relatively short period.

What's been behind this shift in relativity? There are a few interesting data points to track when contemplating this.

Firstly, sales activity remains relatively robust in Melbourne. Its proportion of transaction volumes remains similar to those for Brisbane, Adelaide and Sydney. So, it isn't inactivity that's impacting prices.

Supply is another consideration too. Recent reports indicate Melbourne has created more new housing in the past 10 years than other capitals, and that higher density as a proportion of all housing has increased too. This would suggest demand for certain types of accommodation is being satisfied by supply, which would result in softer price movement.

There are other considerations as well. Overall population growth in Victoria has remained comparable to other states and territories, fuelled in large part by new overseas arrivals. Of course, a recently announced federal-level cap on international student visas in 2025 could dramatically impact this. Meanwhile, Victoria's net interstate migration (NIM) is flat - not a great outcome for housing demand but it is a move away from the negative NIM of recent years.

Taking in this sample of information, along with many other data points and comments from our on-the-ground specialists, I'd suggest Melbourne's property price is unlikely to quickly "bounce back" towards long-term relative norms compared to other capitals. Instead, current information suggests Melbourne values will remain subdued with eventual gains over a much longer period than some might hope. I'd also venture that other capital city prices will see their markets fall back to long-term average growth rates in the future.

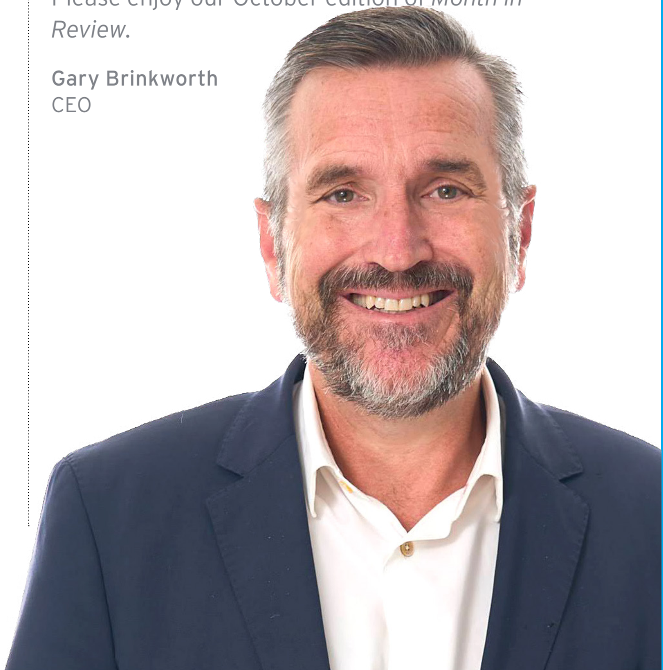
Certainly, increased competition among lenders for business at a time when rate cuts are on the horizon might imply enquiry levels are softening, which doesn't normally bode well for overall property market activity.

History shows that Australia's capital city property markets do tend to return to a relative normalcy, but the Melbourne experience indicates the rebound will be relatively conservative and extended this time around.

It's a lesson in why the complexities of Australian property require specialist advisors to combine broad market understanding with localised, on-the-ground experience. This is exactly the sort of expert guidance you receive from our teams at Herron Todd White.

Please enjoy our October edition of *Month in Review*.

Gary Brinkworth
CEO



What's been behind this shift in relativity? There are a few interesting data points to track when contemplating this.

EXECUTIVE ADDRESS

HERRON TODD WHITE

National Retail Overview

The appetite for prime retail properties with long leases to well-regarded tenants has remained comparatively strong and while these assets are clearly sought-after, the barriers to acquisition, mainly higher price points, can exclude many entry level investors.

At a national level, retail spending has remained somewhat steady with the Australian Bureau of Statistics reporting that seasonally adjusted retail turnover rose 0.7 per cent in the month of August. Trend adjusted annual spending over the twelve months to July 2024 shows a 2.76 per cent increase in café, restaurants and takeaway food spending, 2.69 per cent increase in food retailing and a 2.61 per cent increase in other spending which includes cosmetics, sports and recreational goods in comparison to the twelve months to July 2023 while household goods retailing showed a decline of 1.81 per cent over the same period. This potentially highlights the "lipstick effect" on consumer spending behaviour where consumers are thought to spend on little indulgences rather than big ticket items during an economic downturn.

Although many entry level investors typically look towards residential investment, there are retail investment opportunities available at affordable price points typically with more attractive yields albeit at higher levels of risk and complexity. Softening yields, predominantly as a result of the increased cash rate and uncertain economic conditions, continue to push down values for some assets and markets. Entry level retail investments for freehold properties within many of Australia's CBDs may be hard to come by as strong land values, particularly due to the scarcity of stock, have underpinned values. Vacancy levels for retail premises in popular positions, particularly within Sydney and Melbourne, have begun to fall as weekend visitor and tourist numbers return to pre-pandemic levels even as office vacancies remain at elevated levels.

Premises within well-regarded retail strips remain an option for entry level investors although consideration needs to be given to vacancy rates, achievable rental rates and local factors which could impact future demand from tenants and purchasers. Secondary retail precincts in local neighbourhood shopping strips which cater to local residents may also provide opportunities for owner-occupiers to establish themselves in affordable premises. Zoning regulations may also permit mixed use, home based businesses within these premises allowing flexibility traditional residential dwellings don't provide.

Opportunities for entry level retail investors around Australia are available although many of the drivers underpinning the more widely publicised investment transactions, such as long lease terms and well regarded national or international tenants, are likely to be missing from the more affordable options in the current market. Retail spending has been relatively flat throughout Australia although there are signs of decreasing retail vacancy rates in some popular CBD areas as tourism and visitor numbers return to pre-pandemic levels. Entry level investment options range from small strata-titled premises within CBDs to secondary outer locations. Investors should cautiously evaluate the underlying fundamentals and their objectives. While everyday investors may be attracted to entry level retail investments, significant care should be taken to understand the current headwinds and complexities of commercial property. It is clear that the full effects of the higher cash rate environment are continuing to impact retail property markets and there is uncertainty around when markets will stabilise.

Nathanial Ramage
Associate Director

COMMERCIAL - RETAIL

HERRON TODD WHITE

National Property Clock: *Retail*

Entries coloured purple indicate positional change from last month.

Central Coast
Port Macquarie

Ballina/Byron Bay
Burnie-Devonport
Gippsland
Gold Coast
Hobart
Launceston
Mid North Coast
Townsville

Ballarat
Bendigo
Bundaberg
Emerald
Fraser Coast
Gladstone
Mackay
Rockhampton

Adelaide
Canberra
Coffs Harbour
Darwin
Echuca
Esperance
Geraldton
Illawarra
Newcastle
Sunshine Coast

Adelaide Hills
Barossa Valley
Brisbane
Cairns
Geelong
Ipswich
Lismore
Mildura

Melbourne
Sydney

Alice Springs
Perth
South West WA
Toowoomba

New South Wales - Retail 2024

Sydney

The retail market in Sydney continues to decline. There are fewer transactions as a result of the current economic conditions. We anticipate weaker market conditions and the continued softening of the market. Retail has been heavily impacted by rising interest rates, inflation and an overall reduction in consumer spending.

Investors in the retail market remain cautious. Demand is limited to strongly performing retail assets with good lease covenants and future growth potential. As a result, prime assets and those with national tenants have performed well whilst secondary assets have struggled. Yields are generally higher across the board.

As a result of this, there is a fairly good level of stock available for entry level assets. Strata retail on the ground floor of mixed-use developments is still out of favour and therefore there is good supply. Most of these units are in the sub $1 million price range. They are generally offered to the market as a bare shell with vacant possession. Investors will need to allow for generous incentives and long letting up periods if purchasing a vacant suite. Purchasing a vacant suite and then securing a good tenant may provide for uplift in value and potentially reasonable returns.

A great example of this is a strata shop in Crows Nest. The shop was sold vacant in bare shell condition. The shop has a generous frontage and benefits from close proximity to the new Crows Nest Metro station. The sale at $763,636 reflects a rate of over $13,000 per square metre.

There are still some retail properties at an entry level price point that are income generating, an example being the recent sale of a shop in Wolli Creek. The shop is strata titled and has a lettable area of 29 square metres. The property was sold subject to a five-year lease to a hairdresser. The passing income was reportedly $18,500 per annum net and shows a passing yield of 6.00%. The sale included a car space.

Wolli Creek retail — Source: Herron Todd White

Over the next 12 months we anticipate continued challenges for the retail market. This may present some opportunities for speculative investors to enter the market, but caution should be exercised as the market may decline further.

Angeline Mann
Commercial Director

There is a fairly good level of stock available for entry level assets.

COMMERCIAL - RETAIL

HERRON TODD WHITE

Victoria - Retail 2024

Melbourne

Over the past 12 months there has been a reduction in property prices observed across parts of Victoria's retail sector. Falling market prices are being driven by a range of factors, with two being subdued retail spending and changes to land tax. A flattening of consumer retail spending across the state, which is attributable to factors including higher interest rates and cost of living pressures, has resulted in rental affordability concerns for some retailers and decreasing rents in many areas, which in conjunction with softening yields has placed downward pressure on overall capital values. Recent changes to land tax have also played a part, as any property with a statutory site value of $50,000 or more now attracts a land tax obligation. Previously, this threshold was set at $250,000, meaning that countless properties which were previously exempt on a single holding basis now incur a tax liability. In some cases, land tax has more than doubled from 2023 to 2024 for properties.

Strata retail units stand as a great entry point into the commercial property market as they typically have a lower site value, meaning that the incurred land tax obligation is far lower than for a freehold property. It should be mentioned, however, that such properties typically hold lower prospects for capital growth and are restricted in redevelopment potential.

We have begun to see evidence of the softening market through sales of neighbouring comparable properties. An example is 94 Bay Street, Port Melbourne, a strata retail unit with a lettable area of 72 square metres, which sold in February 2019 for $1.265 million at a passing yield of 5.03%. The adjoining unit at 92 Bay Street, Port Melbourne, with a lettable area of 75 square metres, sold in June 2024 for $980,000 at a passing yield of 5.87%. This stands as one of many observed instances of discounted purchases, with landlords offloading investments to reduce their portfolio's accumulated site value and overall land tax liability. This trend gives rise to opportunities for new investors to enter the market.

Falling market prices are being driven by a range of factors, with two being subdued retail spending and changes to land tax.

Properties with quality tenants and long-term leases have maintained stronger levels of demand from investors, particularly those occupied by large national retailers who are able to better weather the harsher economic conditions. Conversely, properties which are vacant are less attractive to purchasers looking to hold them as an investment due to decreased demand from new tenants and longer letting up periods. This creates opportunities for owner-occupier purchasers to buy in at a cheaper price point.

Regional and commuter town locations are similarly offering opportunities for new purchasers to secure an affordable investment. This is partly due to the Victorian state government reducing the stamp duty obligation by 50 per cent for commercial, industrial and extractive industry property in regional Victorian areas, which provides an incentive for buyers. Retail property in regional towns can often be purchased at a far lower price than in metropolitan areas. We are aware of the sale of 4 Station Street, Seymour, a dual occupancy retail premises, that serves as an example of a regional entry level purchase, having sold in February 2024 at a price of $365,000.

Secondary retail locations in suburban areas also provide scope for first time and entry level investors to acquire a commercial property at a significantly lower price compared to property within the main retail precinct of the same neighbourhood. This is particularly advantageous when the occupant's business doesn't depend on high levels of exposure to vehicular and pedestrian traffic. Conversely, occupants that do require high exposure may not find secondary locations as suitable. 3-5 Merlyn Street, Coburg North, a shop-dwelling property comprising a 241 square metre allotment and a building area of approximately 185 square metres sold in August 2024 for $565,000, equating to a passing yield of 3.19%. Whilst Merlyn Street is subject to inferior exposure levels compared to Gaffney Street and Sussex Street, the main retail precinct in Coburg North, the sale property is close to Merlynston Railway Station and stands as an example of an entry level purchase in a secondary location.

Looking ahead, the retail property sector is expected to face further uncertainty with retail spending currently remaining flat. It is anticipated that eventual cuts to interest rates which are possible in 2025 could generate increased market activity levels and stronger demand from purchasers which may have a positive flow on effect on values in the retail property sector.

Nathanial Ramage
Associate Director

Queensland - Retail 2024

Brisbane

Brisbane's retail sector is expected to remain stable with modest growth. Ongoing development in suburban areas and increased consumer activity are likely to sustain demand. However, keep an eye on economic factors such as interest rates and retail trends (consumer spending and confidence) which may impact the market.

Entry-level opportunities properties typically range from 50 to 400 square metres and include small free-standing shops or strata-titled units. They are often situated in suburban areas or on the ground floors of mixed-use developments. The price range in this sector cost generally falls between $500,000 and $2 million, with properties rarely selling for less than $500,000.

Let's look at investment returns.

Expected net returns typically range from 5.0% to 7.0%, depending on factors such as lease duration, tenant quality and rent levels. Meanwhile the potential for capital appreciation is influenced by broader economic conditions, local population growth and urban development trends.

There are some distinct advantages from investing in entry-level retail.

There's the stable rental income they generate. Retail properties often provide consistent rental income due to long-term leases and regular tenant payments. Investing in retail properties also offers a strategic diversification away from residential assets, adding variety to an investment portfolio.

Then there's the potential for significant property value appreciation, particularly in areas experiencing growth or redevelopment.

Of course, these investments aren't without their risk too. Broader economic trends, interest rate fluctuations and changes in consumer spending can impact investment returns. There's also potential vacancies to deal with, particularly if tenant quality is subpar or if market conditions deteriorate. The stability and financial health of tenants are crucial too of course. Weak tenants can negatively impact rental income and property value. Ongoing maintenance and upgrades may be necessary to keep the property attractive to tenants, leading to additional costs as well.

Looking to current market dynamics and, despite the inherent risks, entry-level retail properties continue to attract interest from investors seeking more affordable opportunities compared to larger commercial assets. Of course, sellers may need to adjust their pricing expectations to align with current market conditions to successfully close deals.

Some examples of entry level retail sales are as follows:

Alistair Weir
Director

Freehold Properties

Address	Sale Date	Sale Price	Land Area (m2)	Lettable Area (m2)	Passing Yield	Analysed Market Yield	$/m2 Lettable Area
Lots 1 -6, 3376 Mount Lindsay Hwy, Regents Park	9/08/2024	$1,925,000	3,368	335	5.76%	5.52%	$5,746
19 Latrobe Tce, Paddington	11/12/2023	$1,960,000	491	252	6.13%	5.93%	$7,778
78 MacGregor Tce, Bardon	3/07/2023	$1,400,000	703	266	VP	5.53%	$5,263

Strata Titled Properties

Address	Sale Date	Sale Price	Lettable Area (m2)	Passing Yield	Analysed Market Yield	$/m2 Lettable Area
137-143 Racecourse Rd,Ascot Lot 19	14/07/2024	$560,000	40	VP	5.99%	$14,000
17 Bowen Bridge Rd, Bowen Hills - Lot 1	8/06/2023	$690,000	67	5.23%	5.23%	$10,299
11-17 Lytton Rd, East Brisbane - Lot 3	29/11/2023	$542,000	32	6.15%	6.15%	$12,500

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Gold Coast

The central Gold Coast offers numerous entry-level retail investment opportunities for everyday investors. These opportunities typically consist of strata retail units located in core retail precincts or suburban commercial hubs. While retail investments often yield higher returns than entry-level industrial assets, the retail market in areas such as the Southport CBD tend to comprise higher vacancy rates and longer lease-up periods for vacant properties.

A notable example of this type of investment is 6/137 Laver Drive, Robina, which sold for $537,500 in May 2024. This is a 71 square metre strata retail unit leased to a tattoo parlour, with an analysed yield of 6.59%. Another example is 7/33 Jade Drive, Molendinar, a 28 square metre café/takeaway unit within an industrial estate, which sold for $270,000 in October 2023. This property was leased to a local business, with an analysed yield of 7.33%, demonstrating how a secondary retail asset can reflect a higher risk yield rating.

The southern Gold Coast retail market is currently very tight with limited opportunities under the $1 million price point. In addition, owner-occupiers remain a stronger buyer profile for properties with vacant possession, further restricting properties suitable for investors chasing fair returns. It has become common for this type of property to sell off-market, given peak price levels.

Currently, there is only a handful of retail properties listed for sale in the Coolangatta to Burleigh Heads region that are under the $1 million level. For investor product in this category, analysed yields would typically be expected to fall within the 5.75% to 6.25% range, highly dependent on location, tenant quality and lease security. These yields are attractive compared with other asset types, however with rental rates under pressure at present given economic challenges, value levels could potentially be at risk unless anticipated future rate cuts assist.

Ryan Kohler
Director

Sunshine Coast

The Sunshine Coast retail market is largely defined by its key tourist hubs, including Noosa Heads, Maroochydore, Mooloolaba and Caloundra. These prime retail areas are home to marquee assets that attract a blend of national brands, established local businesses and long-standing owner-operators. While entry-level opportunities do exist in these sought-after locations, they often come with trade-offs in terms of compromised physical attributes or less favourable lease agreements.

The Sunshine Coast retail property market does offer opportunities for everyday investors or small business owners seeking to invest or own space in the rapidly growing region. As highlighted above, entry level assets are found within the main well-known precincts, however are more prominent in secondary retail locations or hinterland and regional townships.

Entry level on the Sunshine Coast can be found in various forms including small strata shops in central locations to strip retail complexes in hinterland and regional townships. In terms of potential returns, rental yields in this sector can broadly range between 5.50% and 8.50%. Areas such as Maroochydore, Mooloolaba and Caloundra, with growing commercial activity and more affordable price points, tend to offer more stable long-term returns.

Entry level strata lots on the Sunshine Coast generally range from $400,000 to $1 million depending on their location, size, quality and exposure attributes. Those in high-demand tourist areas such as Noosa or Mooloolaba can command a premium. Stand-alone entry level retail assets can broadly range from $500,000 to mid-$1 million, again heavily dependent on the same attributes.

Amid rising economic uncertainty, the retail sector has seen a softening in yields and market activity over the past 12 months. Higher borrowing costs and pressures from the increasing cost of living have had a notable impact on the market. While demand remains steady for well-located, high-quality assets with strong lease covenants, secondary properties of lower quality or with weaker lease agreements and vacancies are currently less attractive.

For entry-level investors and small business owners on the Sunshine Coast, there are still opportunities in the entry-level retail market, though these assets are not immune to the broader economic volatility. Careful consideration is essential in navigating this challenging environment.

Jaydon McDowell
Associate Director

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> *Current high construction costs are retarding new developments, which inversely increases buyer competition and places upward movement on values and compression of yields.*

Mackay

Potential purchasers at the entry level of the market comprise owner-occupiers and investors. Entry-level opportunities are limited but include the infrequent listing of single and small multi-tenanted properties with up to three or four tenancy areas. Retail and office uses are often interchangeable and dependent on purchaser requirements and tenant demand. These types of "easy-buy-in", stand-alone assets are located in Mackay City and the city fringe especially along Wood, Shakespeare, Victoria, Alfred and Sydney Streets. Entry-level strata units are located in the suburb of Rural View.

The entry-level sector includes assets up to $1 million. Investment yields generally range from approximately 6.5 % to 8.5% per annum net.

The recent sale of 121 Victoria Street is a good example of an entry-level investment. It comprises a 367 square metre allotment improved with a 244 square metre double-storey, 1930s style commercial building which sold for $650,000 ($2,664 per square metre of net lettable area) with vacant possession.

A suburban retail convenience property at 60 Tolcher Street, Mount Pleasant was sold last year at $820,000 to show an analysed market yield of 8.7%. Improvements comprise a basic brick retail building comprising three shops occupied by Carinya Mini-Mart, Hair Story and Carinya Takeaway with nine on-site car parks. The WALE was 0.86 years.

Retail rental rates generally range from $250 to $450 per square metre per annum net.

Supply of good quality accommodation within this sector is fairly limited and building replacement costs have risen considerably in recent years, vastly exceeding rental growth over the same period in percentage terms. It is therefore unviable to construct new, entry-level retail premises if investment return is the sole consideration. We do not envisage much new stock coming into the market soon. Short of any major regional economic crisis, we expect that rents and value levels will rise steadily moving forward.

Gregory Williams
Director

Townsville

Townsville's entry level retail sector has performed relatively well over the past two years. The typical price range commences in the sub $1 million bracket and includes standalone fringe CBD and strip commercial ribbon development along major roads. Buyers are both owner-occupiers and entry level investors. The mum and dad investor market remains quite buoyant up to $3 million.

Small standalone commercial offices, showrooms, multi-tenanted strip retail, small childcare and standalone fast-food properties are well sought after although stock levels are somewhat low. The prevalence of buyer's agents continues to drive investor competition from southern investors with local buyers finding it more difficult to pin down assets worthy of investment. Our analysis of sales reveals a stable yield spread of 6.25% to 7.50%.

We do not envisage elevated risk in the sub $3 million range given the depth of participants. In relation to the balance of 2024, we are expecting more of the same. High interest rates have not tempered investor attitudes with entry level assets proving to be somewhat of a safer bet. Current high construction costs are retarding new developments, which inversely increases buyer competition and places upward movement on values and compression of yields. In any case, whether it be purchasing for owner-occupation or investment, property drivers remain the same and include:

- Location, position and exposure attributes;
- Price point and overall affordability;
- Days on market;
- Cash flow levels, resultant yield profile (ROI) and depth of active tenant/s;
- Age, historic vacancy and any perceived obsolescence issues;
- Market positioning and depth of active buyers;
- Population growth, forecasts and local demographics.

Jamison Sayce
Associate Director

Cairns

Retail in Cairns at present caters to two different markets, locals and tourists. Retail catering to the local market remains reasonably strong with relatively low vacancies and reasonable demand with very limited stock to either rent or buy. Smaller suburban retail rents tend to be in the range of $350 to $450 per square metre and yields in the order of 6.0% to 7.0% depending on quality of tenant, building and lease tenure, though smaller affordable stratas will show lower yields, primarily driven by owner-occupiers.

Higher interest rates and rising cost of living expenses may see this situation change as disposable income decreases.

Retail catering to the tourist market which is primarily located in the central business district and the Esplanade is very different, with high vacancies in non-Esplanade locations and limited demand for retail accommodation.

Much of the retail in this precinct is supported by international tourists which were non-existent during COVID, though numbers of international tourists are increasing, which will eventually lead to more demand for CBD retail space.

Domestic tourism has been buoyant since early 2022 and food outlets and restaurants have been trading very well within the prime areas mainly along the Esplanade retail precinct.

Shane Quinn
Director

Toowoomba

Retail leasing activity in Toowoomba increased slightly throughout 2022 and 2023 after two years of subdued demand with the market negatively impacted by the effects of COVID-19. Investor demand has remained strong but the lack of quality, fully leased properties has significantly limited the number of investment sales.

For the entry-level investor, opportunities are limited as a result of flat, if not declining growth within the retail sector as a result of economic challenges stemming from rising living costs, increasing utility prices and increased mortgage repayments due to higher interest rates. As a general observation, consumers appear to have generally reduced discretionary spending which has a flow-on effect into the retail sector with retail tenants tending to opt for shorter lease terms.

The one retail investment sale of note in Toowoomba was 13-19 Princess Street, Newtown which sold in February 2022 for $4.25 million to an interstate investor with a passing net yield of 6.14%. This is a former Aldi supermarket that was converted into a fitness centre and leased to Gold's Gym on a 12 year lease. Quality retail investment assets are generally not sold locally with a large number included in non-local auction campaigns targeting interstate investors.

The level of development activity is strong with a number of projects in the planning or development approval stage, including the following:

- Brisbane developer Capital Transactions has submitted plans for a new commercial precinct on Brisbane Street, Drayton featuring a 2,000 square metre supermarket and a mix of shops and food and drink outlets.
- Construction of The Habitat residential subdivision has commenced. The masterplan includes a supermarket, tavern and retail outlets with an application currently under consideration by Toowoomba Regional Council.
- Construction of a Woolworths-anchored shopping centre with 900 square metres of retail tenancies in North Toowoomba.
- Plans to transform the 10,569 square metre Gasworks site into a retail-focused, mixed use development area.
- The owners of Clifford Gardens Shopping Centre have proposed to construct two detached food outlets for KFC and Taco Bell.
- Two detached food outlets on the corner of Bridge Street and Richmond Drive in Wilsonton with one to be leased to Guzman y Gomez.
- A food outlet with drive-through at 360a and 360b Bridge Street, Wilsonton (opposite Wilsonton Shopping Centre).
- A food outlet with drive-through at 350 Bridge Street, Wilsonton (adjoins Red Rooster). This project has been linked with Mad Burgers.

Ian Douglas
Director

For the entry-level investor, opportunities are limited as a result of flat, if not declining growth within the retail sector as a result of economic challenges stemming from rising living costs, increasing utility prices and increased mortgage repayments due to higher interest rates.

COMMERCIAL - RETAIL

South Australia - Retail 2024

Adelaide

With the office sector facing heightened uncertainty over the past few years and the industrial market peaking in terms of rental rates and yields, retail property sentiment has lingered somewhere in between. The challenges that face the retail property market include the rising cost of living and inflation, which are having an impact on consumer demand. This in turn has a flow-on effect to bricks and mortar retailers, with retail turnover falling as consumers have less discretionary income to spend on retail goods.

Similar to industrial property, entry-level retail opportunities exist mainly in the form of strata-titled units or smaller stand-alone properties in the outer metropolitan suburbs. These offer the purchaser either a tenanted investment or vacant possession. There are a number of prospects for a buyer looking to purchase retail space in the current market.

Shop 3 at 57-63 Bagster Road, Salisbury North offers 72 square metres of floor space and is on the market for $330,000 to $365,000 with vacant possession. Moving up in price, 324 Port Road, Hindmarsh, listed for $530,000, also offers a purchaser vacant possession for a 166 square metre tenancy in need of some capital expenditure. Shop 1 at 56 Mount Barker Road in Hahndorf is a tenanted investment opportunity, returning $46,584 per annum across a 195 square metre restaurant tenancy. The Commercial Agency is touting a 6.9% return, putting the price at approximately $675,000 based on these indicative figures.

The majority of opportunities for retail investors seeking an entry-level asset are in the form of small stand-alone shops and strata or community titled units.

Shop 1, 56 Mount Barker Road, Hahndorf Source: realcommercial.com.au

Shop 3, 57-63 Bagster Road, Salisbury North Source: realcommercial.com.au

Regionally, 3/17 Liverpool Street in Port Lincoln recently hit the market for $695,000. The property is offered with vacant possession, albeit rented for $44,832 per annum, and boasts a floor area of 127 square metres, disposed as a clothes retailer.

25 Norrie Avenue, Whyalla Norrie is another retail property on the market in regional South Australia. The 200 square metre hairdressing salon and beauty studio is listed for sale at $260,000 as a tenanted investment, with a periodic tenancy in place returning approximately $1,517 per month.

3/17 Liverpool Street, Port Lincoln Source: realcommercial.com.au

25 Norrie Avenue, Whyalla Norrie Source: realcommercial.com.au

COMMERCIAL - RETAIL

HERRON TODD WHITE

The majority of opportunities for retail investors seeking an entry-level asset are in the form of small stand-alone shops and strata or community titled units. Whilst major shopping centres and prime retail assets are able to mitigate some of the current market risks facing the retail sector, the entry-level retail investments have been more susceptible to the fluctuating market conditions. Given the broader economic challenges in the form of inflation and the cost of living, retail turnover has been impacted in recent years. Until these indexes stabilise, we may see tentative investment and purchasing activity, particularly at this end of the market.

Chris Winter
Commercial Director

Western Australia - Retail 2024

Perth

The retail property market in Western Australia continues to linger at the bottom of the sector's property cycle. However entry-level retail investments present an affordable opportunity for the astute, everyday investor.

Until recently, households had been well-placed to underpin retail sales on the back of the resilient state economy and strong growth in the residential property market.

However, household disposable income has come under strain as a result of inflationary pressures on essential items. With a degree of uncertainty as to the direction of interest rates in the short term, our recent experience suggests consumers will curtail their discretionary spending habits which acutely impacts the retail sector.

Investment-grade retail property (e.g. neighbourhood shopping centres) remains a highly sought after asset, often meeting key criteria that sophisticated investors and syndicates continue to seek such as long remaining lease terms (i.e. WALE), non-discretionary tenancy mix backed by strong lease covenants to anchor supermarket operators and sound locational attributes with a growing population catchment.

Lot #	Street #	Street Name	Suburb	Sale Date	Sale Price	Passing Yield
3	9	Moolanda Boulevard	Kingsley	Jul-24	$500,000	6.08%
54	38	Subiaco Square	Subiaco	Jul-24	$1,874,000	5.36%
5	2	Marchwood Boulevard	Butler	Nov-23	$379,500	5.56%
3	9	Bradshaw Crescent	Manning	Jul-24	$970,000	5.99%
7	1	Glenelg Street	Connolly	Apr-24	$410,000	5.85%
9	8	Adelaide Terrace	East Perth	Jun-24	$520,000	6.06%
4	489	Nicholson Road	Canning Vale	Aug-24	$1,790,000	6.04%

Prospective buyers, often based in the eastern states and seemingly undeterred by the uncertain interest rate outlook, remain focused on the length of agreed lease terms, prospects for rental growth and depreciation benefits.

On a smaller scale, local activity centres and traditional high streets are retaining their appeal to customers, despite their often-publicised trading difficulties, due to their convenience-based shopping appeal. Such assets present an entry-level investment option.

As demonstrated by the above sales, these low-end investments are demonstrating returns not too dissimilar to higher priced assets.

Often, entry level investments are strata titled and situated in middle to outer ring activity centres that emerge from newly created residential estates or rejuvenated neighbourhood hubs and tend to attract a younger demographic.

Tenants are commonly locally owned and operated entities, more often start-up businesses and local franchisees. For this reason, such investments tend to carry a higher risk of tenant default and accordingly understanding the difference between passing and market rent is key to mitigating future downside risk. Awareness of Western Australian legislation, and in particular the Retail Shops Act, is also essential to being a well-informed investor.

Nonetheless the relative affordability dictates similar properties are popular with local mum and dad investors and self-managed superannuation funds. Entry-level retail investments tend to be priced sub $1.5 million and thus are particularly appealing to first time investors or those looking to diversify their portfolios.

A large proportion of such properties however are owner-occupied, especially in the historically low-interest rate environment when it is more cost

Prospective buyers, often based in the eastern states and seemingly undeterred by the uncertain interest rate outlook, remain focused on the length of agreed lease terms, prospects for rental growth and depreciation benefits.

effective for a tenant to acquire premises than make rental payments.

Rental rates have remained stable in recent times with supply of small scale retail tenancies outweighing prevailing demand. Rental affordability in context of the tenant's business is often front of mind and can play in to lease negotiations.

In summary the outlook for retail property in Western Australia is highly uncertain with many factors at play in the market including cost-of-living pressures and other macro-economic headwinds.

Above all, the retail sector is one that is constantly changing. Innovation and re-invention are critical to meeting the evolving needs of customers and are key to the Western Australian retail sector going forward.

Greg Lamborn
Director

Northern Territory - Retail 2024

Darwin

There is a very limited supply of smaller scale retail assets across Greater Darwin. Whilst sub-$1 million Torrens Title assets do exist, most properties of this nature consist of strata units, often located on the ground floor of mixed-use developments in the CBD or inner suburbs.

There are some advantages to strata property over the more traditional Torrens Title, especially for interstate investors. The body corporate manager will look after the common property so there is less active management by the investor. Of course this comes at a cost, although the body corporate levies will cover building insurance, leaving Council rates as the only other outgoing for the owner to worry about.

Hot spots for this type of property are in the CBD and inner suburbs, along with Berrimah Business Park which is about 15 kilometres north-east of the CBD. Most of these units are below the $1 million price point, although there are some larger retail strata units above this mark.

Strata retail property of this type in Darwin can still generate net yields in the order of 7.0%, with the tenant paying the outgoings. This is quite a good return in the current environment. Net returns (after payment of costs) are generally lower for similar strata residential property, reflecting the perception of higher risk for commercial property in terms of finding and maintaining a suitable tenant. Whilst this perception can be true for older strata units in secondary locations, most of the better-quality stock is occupied. However, Darwin CBD remains difficult for more traditional retailers.

Strata retail property of this type in Darwin can still generate net yields in the order of 7.0%, with the tenant paying the outgoings.

A strata unit usually has a very low land content and as a result capital gain over time is more constrained than for a Torrens Title property, all other things being equal. Historically, capital gain for strata property has also been restricted by the ability of the market to increase supply more easily, although current building costs are tending to put a brake on any new development in Darwin.

Terry Roth
Director

COMMERCIAL - RETAIL