

## 11. RETAIL PROPERTY SECTOR ANALYSIS

Generally, strip shopping centres form a three-tiered structure. Prime centres are characterised as the strongest centres, with constantly high levels of patronage and representation from a number of national based traders and banking institutions. A second tier of tightly held neighbourhood centres lacks the profile and stronger locality characteristics of the prime centres but nonetheless provide adequate convenience goods for the local community. The third tier consists of fringe or secondary strip shopping centres that are “struggling” to meet the retailing demands of surrounding residential areas and which tend to reflect the needs of a by-gone era. Such centres generally have no anchor or major tenants, have a high lessee turnover and/or high vacancy rates and immediately feel the impact of changes in consumer behaviour.

Over recent years, investor demand for securely leased quality retail holdings within “prime” shopping centres has been strong, the catalyst being the comparatively lower returns offered by alternative forms of investment. Although prime retail holdings generally offer a relatively low return, low risk long-term investors have nonetheless traditionally preferred retail property. Strip retailing is rarely associated with high profile corporations, long term leases or passive management (which is generally applicable to industrial holdings). However, retail holdings are subject to far less risk of obsolescence, as land is the main component of value and, significantly, improvements are regularly revitalised with incoming lessees. Furthermore, although lease tenure is not long, generally three - five years, vacancies are relatively rare in main strip centres, and therefore is not a significant issue.

### 11.1 Key Characteristics of City of Yarra Activity Centres

Properties within the five centres that have been the focus of this Study may be generally described as being:

- Tightly held, investment grade properties for which there has been strong growth in demand over recent years;
- Generally sought after by tenants due to the strong catchment characteristics of the centres with potential for further growth in trading conditions;
- Subject to low vacancy levels, particularly within the core retail precinct;
- Generally well maintained properties in terms of internal fitout, although properties which have been in one ownership for a significant period of time (e.g. family businesses) may be in need of additional maintenance;
- Low levels of obsolescence due to location being the primary source of value, and
- Low yields reflecting the low level of obsolescence discussed above, as well as low vacancy risks.

### 11.2 Key Issues

#### Car Parking

Across the retail sector there has been a shift towards larger floor areas in order to sustain more efficient retail operations. While this may be easily achieved in the development of new suburban centres, inner city centres have relied upon the consolidation of existing Victorian style buildings into single retail premises. Carparking requirements have proven in many cases to be a significant impost upon the redevelopment potential of individual properties. The provision of carparking concessions by Council may provide sufficient incentive for the consolidation of properties to a level where the provision of on-site basement parking may become viable for developers.

#### Distinction Between Restaurants and Cafes

The gentrification of Melbourne’s inner urban area has resulted in a proliferation of restaurants and cafes within traditional retail centres including those centres which have been the subject of this Study. While the impact upon these centres has been significant, there is a need to distinguish between café and restaurant style activities. Cafés generally trade during traditional shopping hours and hence complement other retail activities. Restaurants however usually trade

in the evening and therefore represent a void in the continuity of a retail strip during shopping hours. The consolidation of restaurants and related activities into identifiable precincts acts to:

- Remove a void from the retail component of the centre; and
- Strengthen the role of the centre outside of traditional shopping hours by consolidating activity to increase the atmosphere of a precinct, and increase levels of public safety and general amenity.

### **Precinct Development**

The development of strong, identifiable precincts within centres will provide significant support for tenancy demand and rental rates, as businesses draw upon the attractiveness of the precinct and the wider catchment that is generated. There are opportunities for Local Government to work proactively with business and property owners to encourage and promote such precincts.

## **11.3 Market Conditions – Retail Rental Rates**

Retail rents are determined through the interaction of supply and demand in the marketplace. At a metropolitan level, rents have increased by around 40% since the early 1990's reflecting the improved retail trading environment that has increased the ability of tenants to pay higher rents (refer Figure 23).

At a local level, rental rates are again determined by the strength of a centre in terms of:

- The number of people attracted to the centre;
- The ability of the centre to support high-order retailers which draw from a wide catchment area; and
- The uniqueness of a centre and its ability to differentiate itself from other centres (e.g. through strong identifiable precincts) and hence also draw visitors from a wider area.

All these factors influence the trader's turnover, and hence their ability to pay rent.

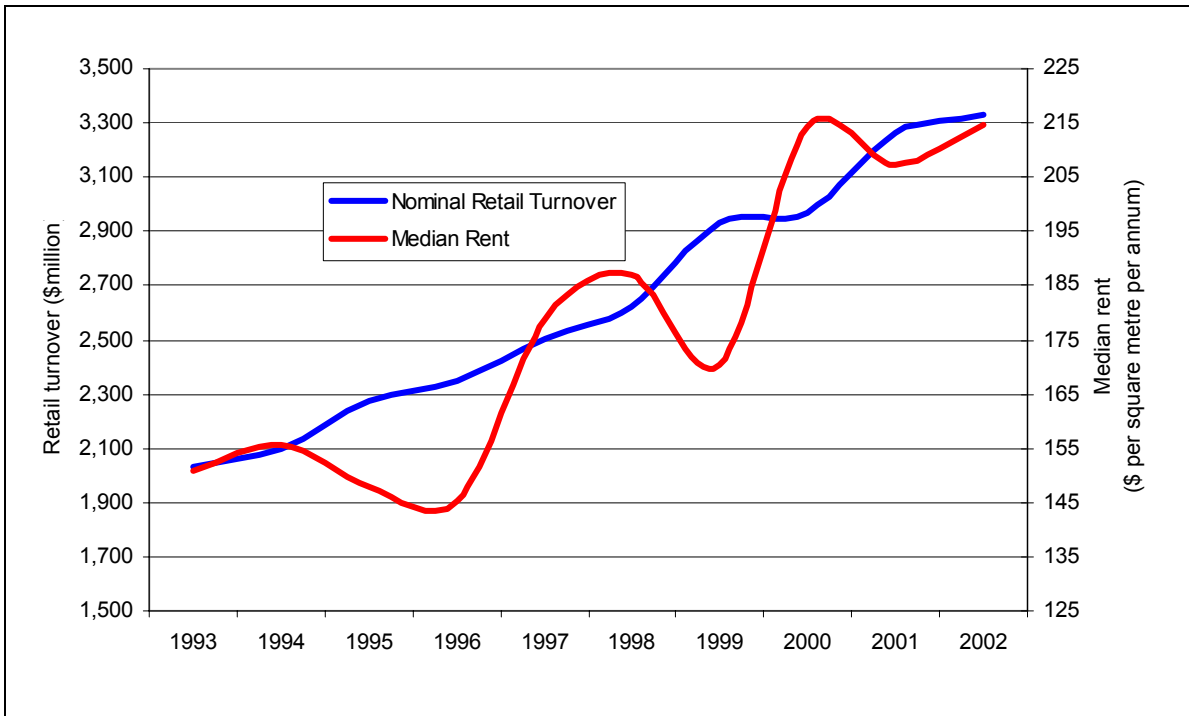
Based upon current market conditions, indicative rental levels expressed on a per square metre per annum basis for typical retail premises within the core retail precincts of each of the activity centres are as follows:

▪ Brunswick Street	\$280 - \$440
▪ Smith Street	\$140 - \$300
▪ Victoria Street	\$250 - \$470
▪ Bridge Road	\$450 - \$550
▪ Swan Street	\$380 - \$530

These rates have been calculated based upon current rental evidence collected by Charter Keck Cramer's *Retail Practice Group*.

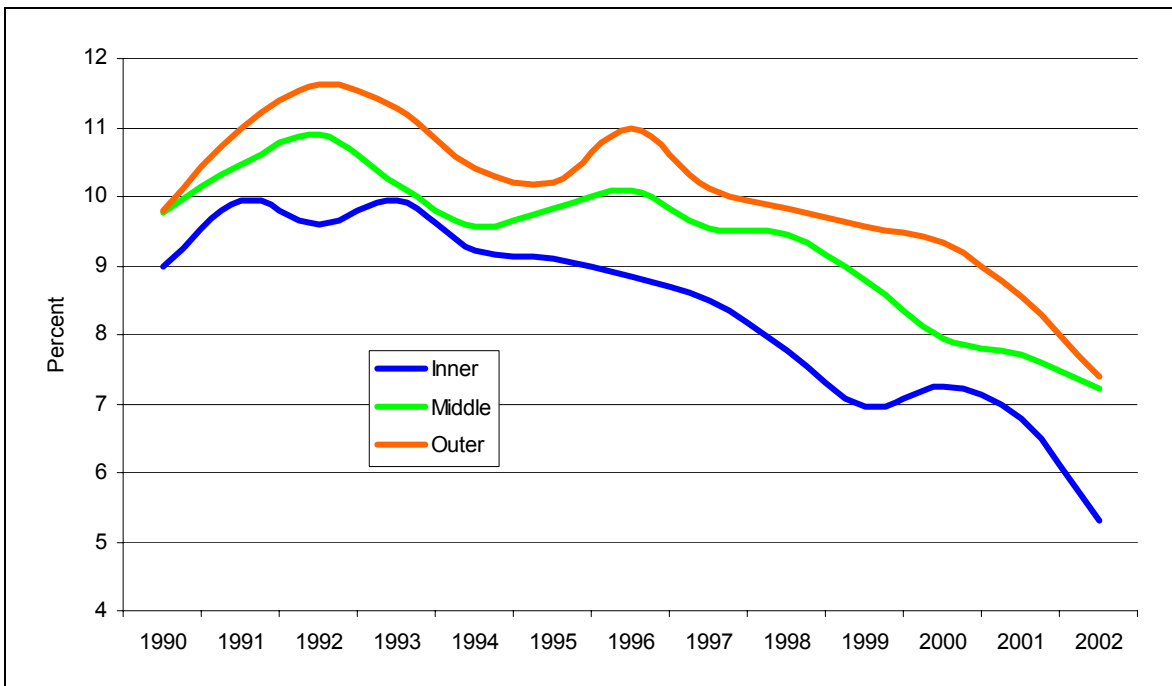
Changes in the capital value of retail properties is determined by the rental income derived from a property, and the market yield which reflects the perceived level of risk associated with a property and the potential for further capital growth. Risks associated with retail properties include the potential for obsolescence, increased competition from other developments and limited opportunities for rental growth. Over time overall yields will adjust to movements in interest rates as do yields on other forms of investment. Yields on retail properties have been analysed on a broad geographic level being inner middle and outer Melbourne (refer Figure 24). The inner Melbourne area has been characterised by significantly lower yields than in other areas of Melbourne principally reflecting the location value of retail properties.

**Figure 23: Victoria – Retail Turnover vs. Median Retail Rent (psm).**



Source: CPM, Charter Keck Cramer *Strategic Research*

**Figure 24: Melbourne – Retail Property Yields By Geographic Region.**



Source: CPM, Charter Keck Cramer *Strategic Research*