

FIGURES | WA RETAIL | Q2 2024

# Perth retail investment transaction volumes pick up in Q2

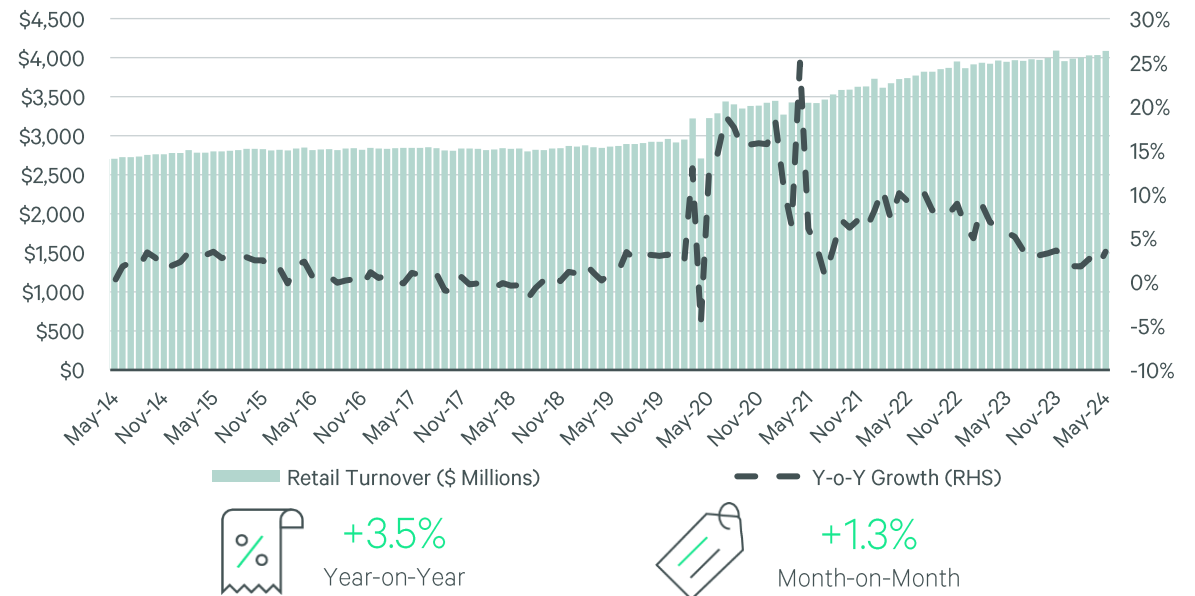
▶ 1.4% WA annual population growth FY24-27<sup>1</sup>    ▲ c.6,800 sqm New retail supply Q224    ▼ 25.0% CBD Vacancy rate (H124)    ▶ 6.24% Shopping centre midpoint yield

Note: Arrows indicate change from previous quarter.

## Key Points

- WA's retail sales growth has remained relatively resilient, despite higher interest rates and rising cost of living continuing to pressure consumer spending. WA retail sales grew 3.5% y-o-y in May 2024, being the strongest nationally.
- Limited new retail supply totaling c.8,600sqm was completed during Q224. This related to completion of a large format retail asset on 8 Clayton Street, Midland.
- Vacancy in the Perth CBD improved marginally by 30bp half on half to 25.0% in H124.
- Super prime net face rents in the Perth CBD increased for the second consecutive quarter, recording 2.7% q-o-q and 3.7% y-o-y growth.
- Shopping centre rents except neighbourhood centres grew during Q224. Regional shopping centre rents increased 1% q-o-q and 2.3% y-o-y.
- Yields across the CBD increased 25bp q-o-q while they remained stable q-o-q across shopping centres and LFR centres. CBD super prime yields increased 25 bp q-o-q to 5.75%.
- Retail investment transaction volumes picked up significantly during Q224 driven by sub-regional and neighbourhood shopping centres changing hands during the quarter, including Maddington Central for \$107m and Halls Head Central for \$68.8m.

FIGURE 1: WA Retail Sales & Year-on-Year Growth



Source: ABS, CBRE Research  
<sup>1</sup> Deloitte Access Economics

## Economic Overview

### Economic growth forecast to continue in the face of interest rate headwinds

In recent years, WA’s economic growth has outperformed the rest of the nation, driven in large part by strength in the mining sector. WA’s GSP grew by 3.5% in FY23, outpacing Australian GDP growth of 3.1%. The latest WA and Federal budget papers estimates WA’s GSP to increase 1.75% in FY24, in line with the national GDP growth forecast of 1.75%. Looking beyond FY24, WA’s economy is forecast to continue growing at a solid pace of 2.0%-2.25% p.a. Economic growth forecasts have returned to more normalised levels as the population growth rate moderates from the elevated levels of 3.0%+ seen through 2023 and as commodity prices, particularly iron ore prices are forecast to moderate.

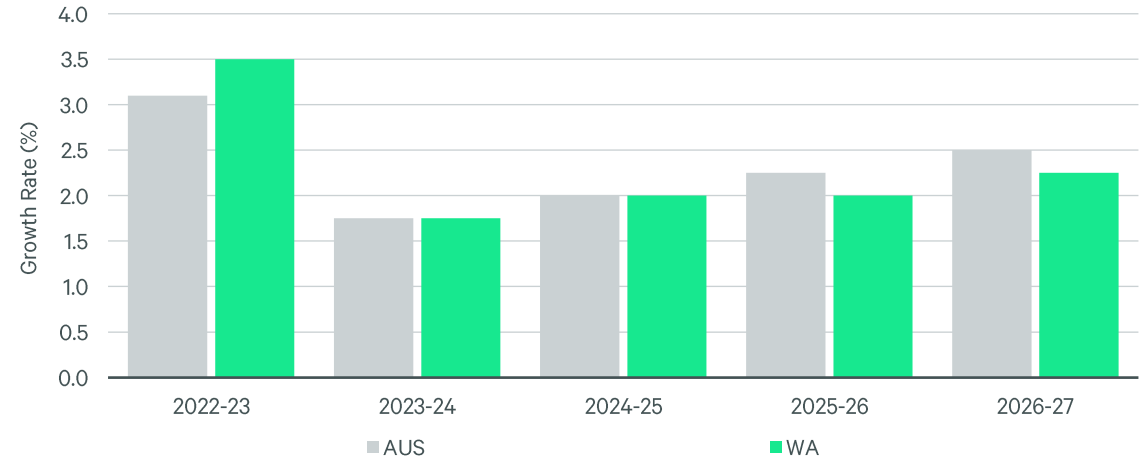
### WA retail sales growth accelerates to 3.5% y-o-y in May

WA’s retail sales have continued to grow in y-o-y terms with growth accelerating to 3.5% y-o-y in May 2024 (compared to an average of 2.0% y-o-y from Jan-Apr 2024). WA has recorded the fastest population growth rate in the country which has driven retail sales growth despite the consumption headwinds from high interest rates. The latest available data from the ABS shows that WA’s population grew by 3.3% y-o-y in the Dec 2023 quarter. Over the 12 months ending Dec 2023, WA’s population grew by c.93,800 people with 73% of the increase coming from overseas migration.

### WA’s labour market the strongest nationally

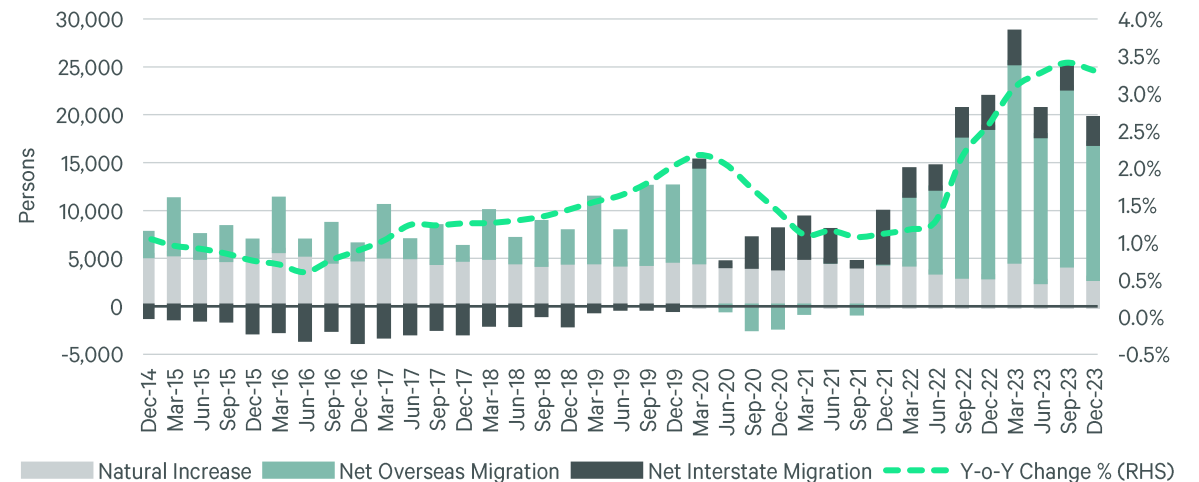
Supportive to WA’s overall retail market and consumer spending is the strong resources sector conditions and labour market. In seasonally adjusted terms the unemployment rate in WA stood at 3.6% as of May 2024, the lowest of all capital cities and below the national unemployment rate of 4.0%. Similarly, the under-employment rate in WA as of May 2024 was only 5.8% compared with the national under-employment rate of 6.7%. Due to the strong labour market, the workforce participation rate in WA is also higher at 69.2% compared with the national rate of 66.8%.

FIGURE 2: WA GSP Growth vs National GDP Growth



Source: Federal Budget Papers, WA State Budget Papers, CBRE Research

FIGURE 3: WA Sources of Population Growth (Quarterly)



Source: ABS, CBRE Research

## Supply

### High construction costs expected to limit retail supply in the near term

There was limited new retail stock of c.6,800 sqm completed during Q224. This related to the completion of the large format retail asset at 8 Clayton Street in Midland. As of June 2024, the retail supply expected to be delivered over H224 totals c.13,700 sqm bringing the forecast 2024 total to c.20,500 sqm. New retail supply expected to be delivered in 2025 also remains muted at c.20,000sqm.

Supply is expected to pick up to above 110,000 sqm over 2026 and 2027 (Figure 4) however, the majority of projects over this forecast period are only in development approval stages so may not all proceed to construction in the near term, particularly given the current elevated financing and construction cost environment. Most of the supply over the forecast period to 2027 is in the large format retail and neighborhood centre category.

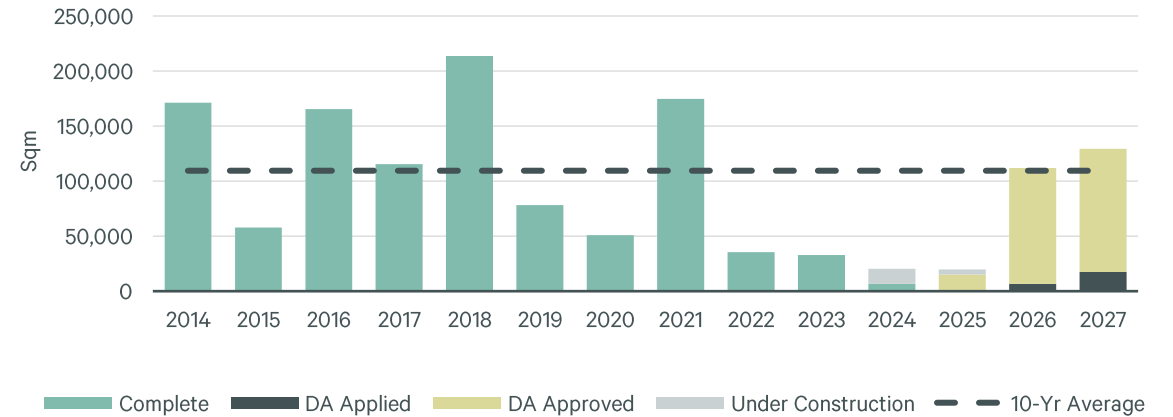
## Vacancy

### CBD vacancy rate continues to improve marginally

WA’s strong population growth and strong jobs market has supported continued retail sales growth in WA. This has supported the overall retail vacancy rate in the Perth CBD which has trended down over the past 24 months (Figure 5). Perth’s CBD retail vacancy improved slightly by 30bp half on half to 25.0% in H124.

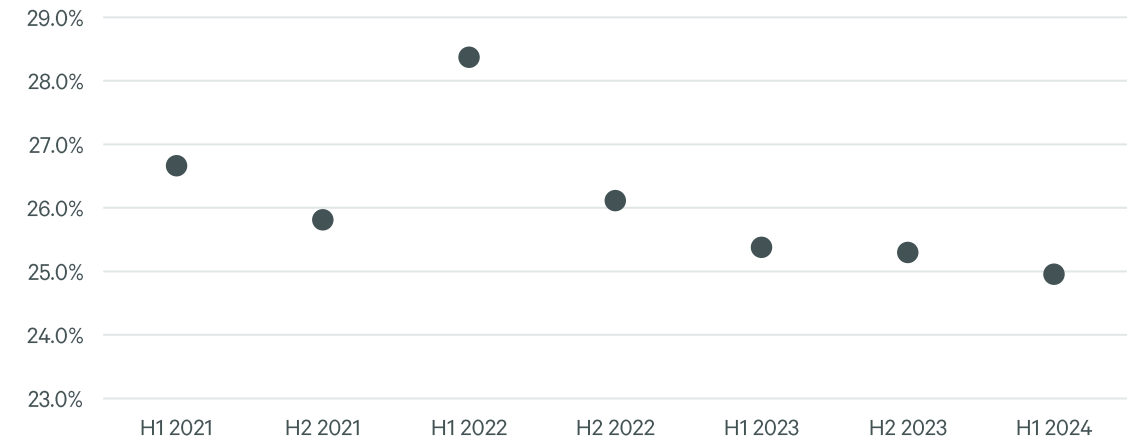
Vacancy in Perth’s CBD retail strips improved 30bp half on half to 23.9% driven primarily by Perth’s core Murray Street Mall retail strip. Murray Street has continued to improve with the relocation of luxury brands to the west end of Murray Street Mall. In contrast the retail strip on King Street and Barrack Street remains elevated with vacancy rates north of 30%.

FIGURE 4: WA Retail Supply Pipeline



Source: Cordells, CBRE Research

FIGURE 5: Perth CBD Vacancy by Period



Source: CBRE Research

## Rental Performance

### Super Prime CBD Rental Growth Outperforms During Q224

Net face rents increased q-o-q across most retail asset types during Q224. Super prime CBD recorded the strongest net face rent growth q-o-q increasing 2.7% to \$2,830/sqm. The CBD super prime rental correction has reversed in recent quarters following a contractionary period that began in mid 2016 as the state’s mining sector went through a downturn. The improvement is being driven by tighter vacancy in the Murray Street Mall due to the emergence of international anchors and relocation of luxury brands to the west end of Murray Street Mall. Furthermore, Perth continues to lead the nation in office occupancy which is supporting retail spend and revival of the CBD (Perth CBD average weekly occupancy at 93% of pre-pandemic levels according to CBRE’s Q124 return to office indicator compared to 76% nationally).

Net face rents across regional and sub-regional shopping centre formats increased 1.0% q-o-q while neighborhood centres remained stable during Q224. Having seen major rental corrections that began with WA’s mining downturn and then the pandemic, regional and sub-regional centres are now experiencing rental growth. In contrast rents for the more defensive neighbourhood centres saw little impact during the mining downturn and continued to increase through the pandemic. Rent growth in neighbourhood centres have been muted over the past 12 months as the asset class plays ‘catch up’ to the rental growth seen since pre-pandemic.

LFR rent growth continued during Q224 with net face rents increasing 0.9% q-o-q and 5.5% y-o-y to \$229/sqm. The LFR category has been an outperformer since the pandemic, spurred by the defensive nature of the category, strong population growth and improving tenant mix by LFR operators/developers.

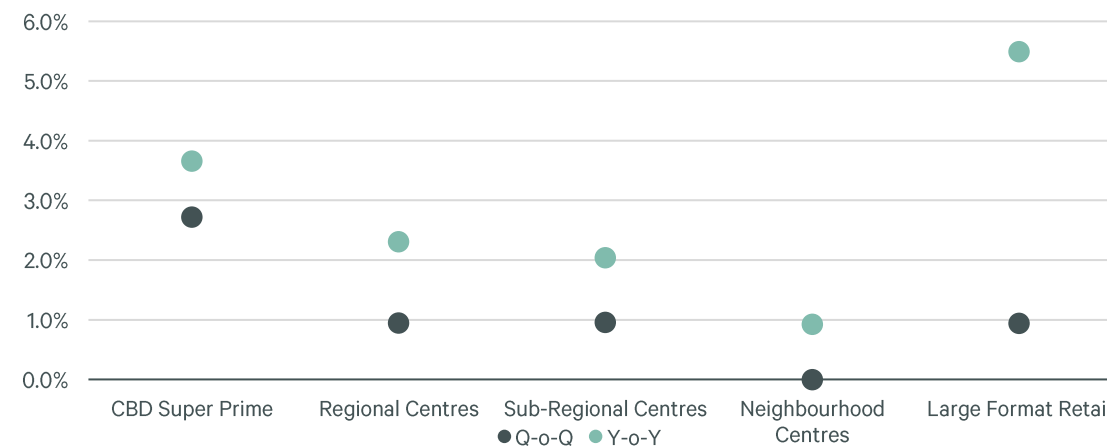
Incentives were stable across all asset classes during Q224. Super prime CBD has seen the largest decline in incentives on a y-o-y basis (-750bp) given the above-mentioned tailwinds.

FIGURE 6: Retail Rents and Incentives by Category

| Asset Type                 | Net Face Rent (AUD/sqm) |              |              | Incentives (%) |              |              | Net Effective Rent (AUD/sqm) |              |              |
|----------------------------|-------------------------|--------------|--------------|----------------|--------------|--------------|------------------------------|--------------|--------------|
|                            | Q224                    | Q-o-Q Change | Y-o-Y Change | Q224           | Q-o-Q Change | Y-o-Y Change | Q224                         | Q-o-Q Change | Y-o-Y Change |
| <b>CBD Super Prime</b>     | <b>2,830</b>            | +2.7%        | +3.7%        | <b>27.5%</b>   | Stable       | -750bp       | <b>2,052</b>                 | +2.7%        | +15.6%       |
| <b>Regional SC</b>         | <b>1,328</b>            | +1.0%        | +2.3%        | <b>25.0%</b>   | Stable       | Stable       | <b>986</b>                   | +1.0%        | 2.3%         |
| <b>Sub-Regional SC</b>     | <b>714</b>              | +1.0%        | +2.0%        | <b>25.0%</b>   | Stable       | Stable       | <b>531</b>                   | +1.0%        | +2.0%        |
| <b>Neighbourhood SC</b>    | <b>655</b>              | +0.0%        | +0.9%        | <b>22.0%</b>   | Stable       | Stable       | <b>511</b>                   | +0.0%        | +0.9%        |
| <b>Large Format Retail</b> | <b>229</b>              | +0.9%        | +5.5%        | <b>15.0%</b>   | Stable       | Stable       | <b>193</b>                   | +0.9%        | +5.5%        |

Source: CBRE Research

FIGURE 7: Net Face Rent Growth y-o-y, by Category



Source: CBRE Research

## Investment

### Transaction volumes pick up significantly during Q224

With the re-rating in pricing/capitalisation rates that has already occurred since 2022 retail investment transaction volumes in WA picked up significantly during Q224. There was c.\$240 million of assets changing hands over the quarter (for transactions ≥ \$5 million) with volumes driven by the sub-regional and neighbourhood centre category.

Notable transactions over the quarter include:

- Maddington Central - Realside purchased from Vicinity for \$107m.
- Halls Head Central – Centuria purchased from Vicinity and ISPT for \$68.8m.

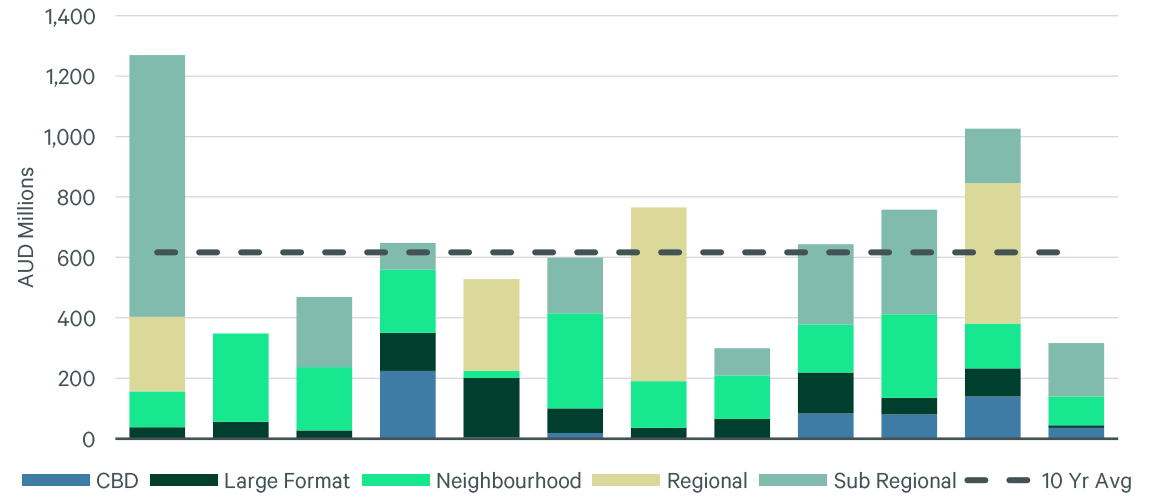
## Yields

### Yields soften in the CBD but stable across shopping centres

Prior to Q224 retail yields had been expanding across most retail asset types since mid 2022 and super CBD yields had seen less of an impact due to the inherent land value of these assets and lack of transactions. During Q224 however, we saw yields expand across the CBD on the back of recent transactions while yields across other asset types were steady q-o-q.

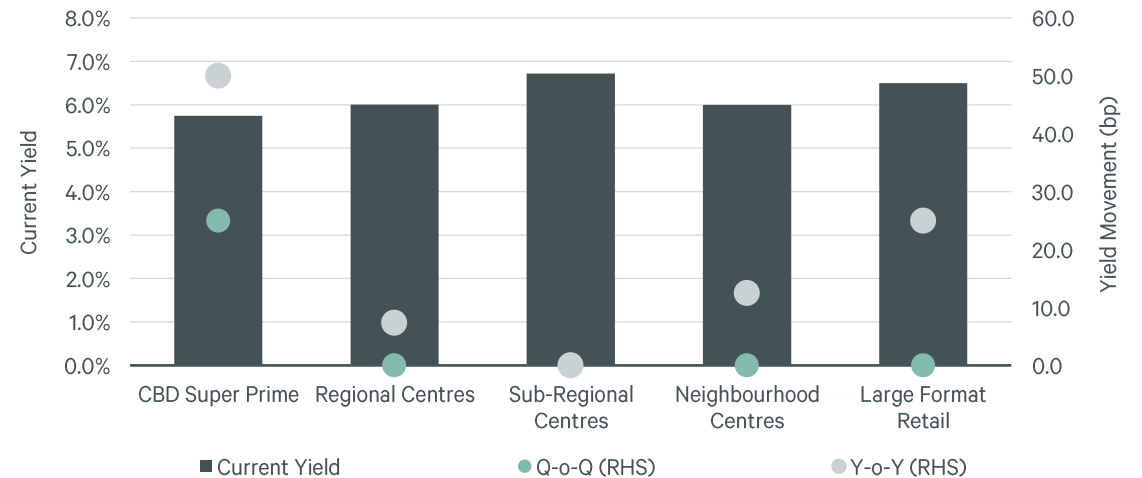
Super prime CBD yields expanded 25bp q-o-q to 5.75%, prime CBD yields expanded 25bp to 6.25% and secondary CBD yields expanded 25bp q-o-q to 6.75%. Notable transactions in the CBD during the quarter were 223-227 Murray St (Zara, City Beach tenancies) transacting for \$35.25m.

FIGURE 8: WA Retail Transactions by Category and Year



Source: CBRE Research

FIGURE 9: WA Retail Yield by Category



Source: CBRE Research

## Contact - Research

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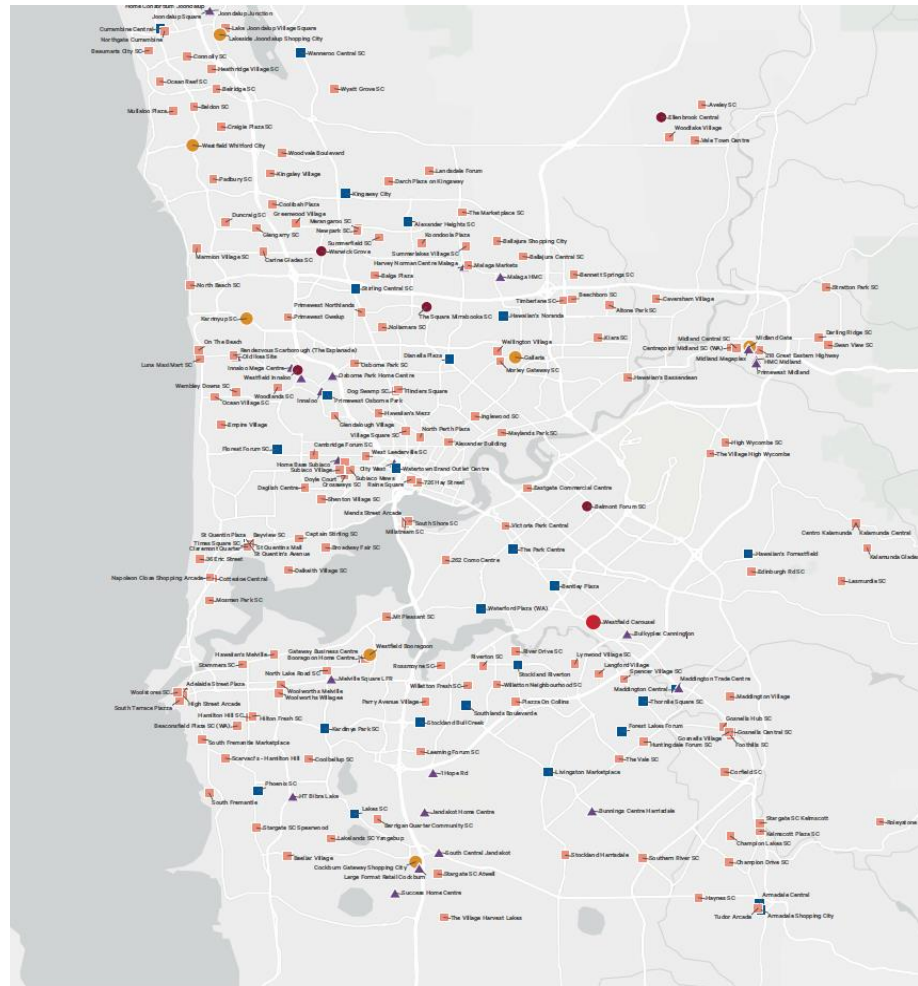
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