Investment activity surges as yields begin to stabilise.

▼ 1,680 sqm
New retail supply 1Q24

▲ 2.3%
South Australia Retail Sales Y-o-Y Growth

▲ 11.1%
Regional Centre Y-o-Y Face Rent Growth

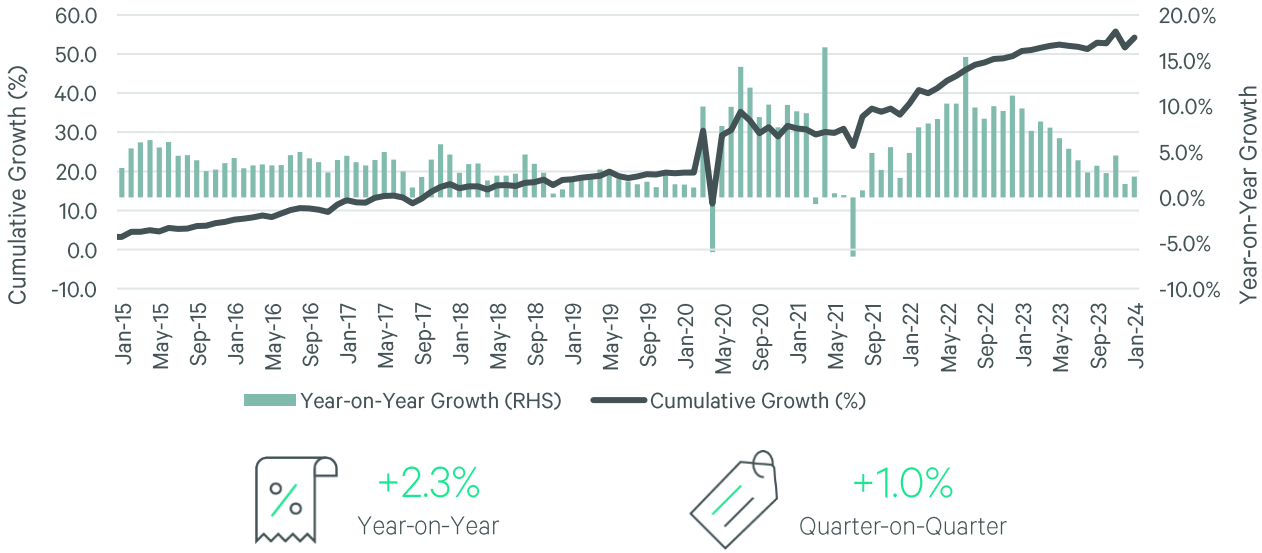
▲ $165m
1Q24 South Australia Retail Asset Sales

Note: Arrows indicate change from previous quarter.

Key Points

- South Australian retail sales reached $2,319m in January, representing a +1.0% increase quarter-on-quarter and 2.3% increase year-on-year.
- Supply for 2024 and 2025 is expected to exceed the 5-year average. The extension of Burnside Village Shopping Centre, a Sub Regional centre and Richmond Village, an LFR centre will bring a combined c.68,000sqm over the two years.
- Regional net face rents outperformed other retail assets, on a year-on-year (11.1%) basis.
- In line with strong rental growth, yields in Super Prime CBD centres saw greatest expansion year-on-year, with highest yields in Regional centres at 6.98%.
- Retail investment sales saw Sub-Regional assets contributing to sales in Q1 2024, with $165m recorded, a major increase from $63m in 2023. Sales may continue to increase in 2024 as yields and interest rates are expected to stabilise.

FIGURE 1: South Australia Total Retail Turnover (Seasonally Adjusted), Cumulative and Year-on-Year Growth.



+2.3%
Year-on-Year

+1.0%
Quarter-on-Quarter

Source: ABS, CBRE Research.

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Economic Overview

GSP expected to moderate over 2023-24.

South Australia is forecast to see a 1.0% rise in GSP over the 2023-24 financial year, representing weaker growth in comparison to prior years. Various initiatives provided in the 2023-24 budget however will support the South Australian economy including increased training subsidies to alleviate skills shortages. The 2022-23 financial year saw the mining industry as being the leading contributor to economic growth in South Australia. According to the 2023-24 state budget, increased operating expenses allocated towards Child Protection, Education, and Health are expected to support economic growth over the next three years.

SA recorded strongest retail sales growth in the nation from December 2023.

Retail sales from the January data release showed a slight increase in South Australia. South Australia's retail sales increased by +1.0% on a quarter-on-quarter basis and 2.3% on a year-on-year basis. This is higher than the national growth of 1.1% year-on-year. Retail sales were up 1.7% from December 2023, which was the highest growth compared to all other states. This indicates consumers were more inclined to spend following the festive season. Retail sales in SA recorded the highest growth among Electrical and electronic goods (+7.8%), clothing (6.7%), and department stores (5.7%).

SA currently has lowest unemployment rate in the nation, providing tailwinds for SA's retail sales.

South Australia's seasonally adjusted unemployment rate fell from 4.0% in January to 3.2% in February 2024. This is below the national unemployment rate of 3.7% and now the lowest level of all states. South Australia's tight labour market will continue to boost retail spending however may limit tenant expansion as competition for skilled workers will lead to higher operating costs for businesses.

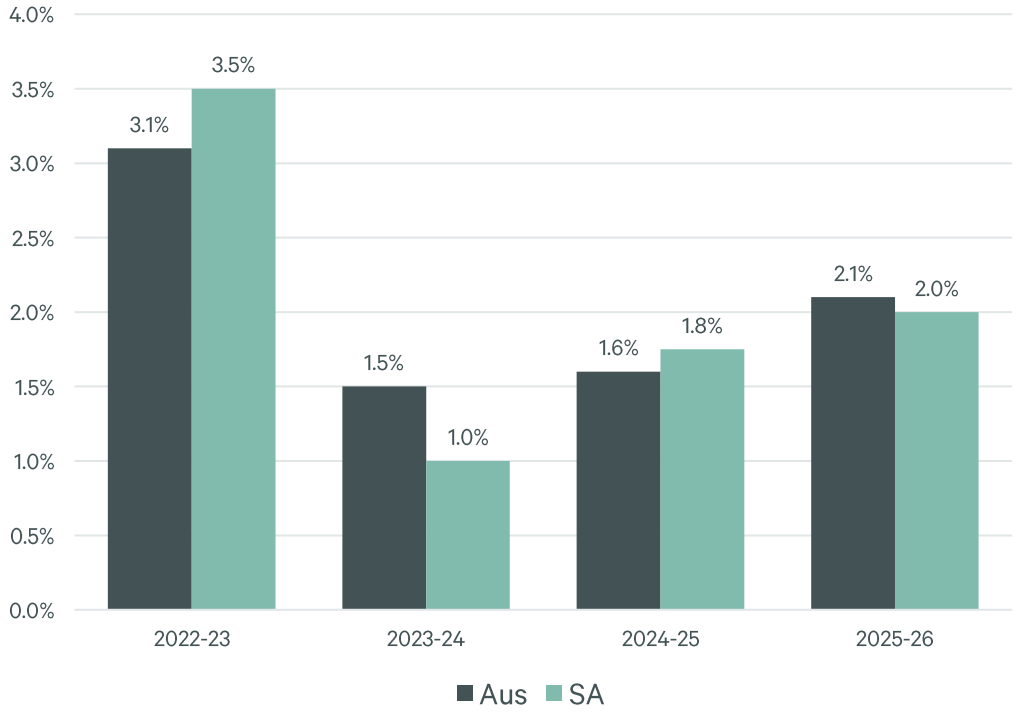
Infrastructure development pipeline to boost retail expenditure.

Investment in roads and public transport is estimated to reach $9.9b. Notable investments include the North-South corridor ($5.3bn) and $8.7m towards a Lightsview to City Go Zone bus service. Investment in transport infrastructure will increase accessibility, which will likely boost visitation levels to existing retail assets in the CBD and suburbs, aiding retail expenditure.

Historically high migration levels expected to support the retail sector.

Australia's population grew by 2.5% annually in September 2023. South Australia's population reached 1.86m, a growth of 1.7% year-on-year. Despite this, SA's population growth rate was slowest compared to the other major states, which saw WA leading with 3.3% annual growth. South Australia's population increase was primarily driven by net overseas migration (2.6% increase quarter-on-quarter). This increase will support the retail sector.

FIGURE 2: South Australia Gross State Product Growth vs National GDP Growth



Source: ABS, CBRE Research, SA State Budget Papers

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Supply

Supply exceeds 5-year average levels over 2024-2025, with majority of stock to come from LFR assets.

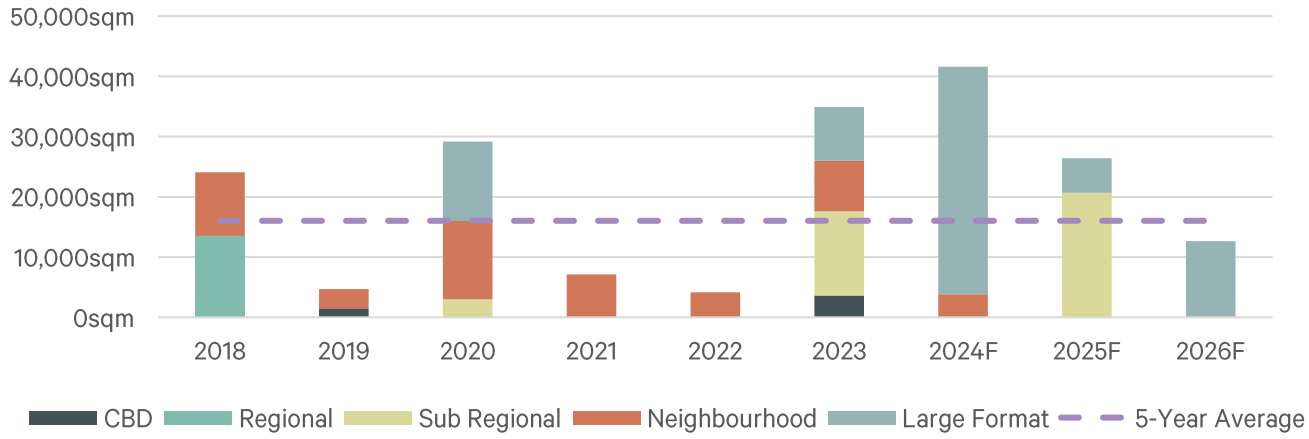
In Q1 2024, the construction of ALDI Glynburn Road was the only retail asset completed this quarter. Adelaide is expected to further see approximately 41,600 sqm of retail supply arrive to market in 2024, rising to levels well above the 5-year annual average. The construction of Richmond Village, a Large Format Retail centre, is the largest development in the pipeline.

2025 supply levels are expected to exceed the average (c.26,400 sqm), with the extension of Burnside Village Shopping Centre being a key asset (c.20,000 sqm of supply).

LFR assets are expected to largely contribute to Retail supply over 2024-2026, with majority of LFR developments expected to be complete in the second half of 2024.

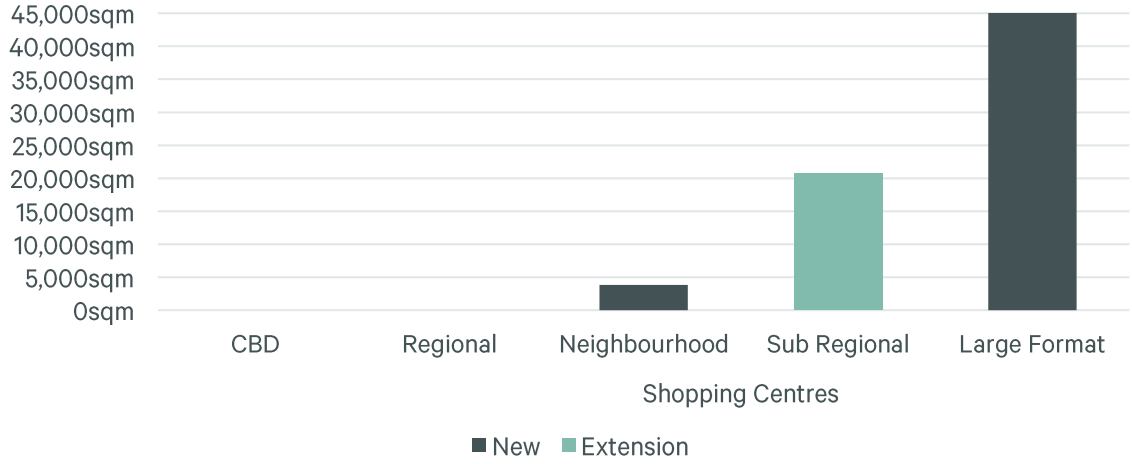
Limited new supply across CBD and shopping centre assets over the next few years should lead to continued rental growth and subdued incentives across Adelaide.

FIGURE 3: Adelaide Retail Supply by Category



Source: CBRE Research

FIGURE 4: Adelaide Future Supply by Property and Development Type (2024-2026)



Source: CBRE Research

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Vacancy

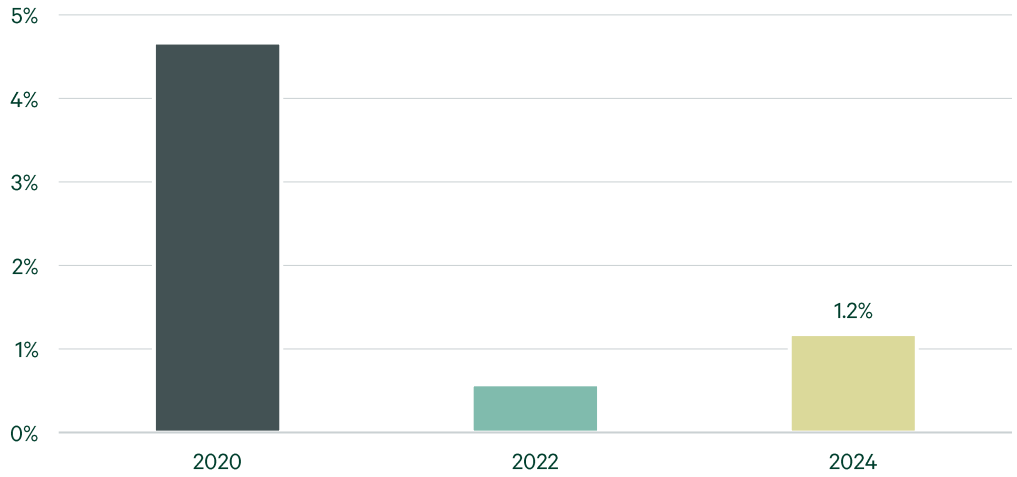
Adelaide CBD vacancy drops to a record low, driven by CBD Centres.

Adelaide's overall CBD vacancy levels declined by -533 bps in H2 2023, reaching the lowest CBD vacancy rate recorded over the past two years. Vacancy has been on a downward trend since peaking in H1 2022. The decrease in vacancy was led by a large drop in Centres by -890 bps at H2 2023 compared to the first half of 2023.

Vacancy across CBD Centres (Rundle Place and Myer Centre), which comprise 47% of the surveyed CBD area, saw a major decline over the last 6 months from 20.7% to 11.8%. Arcades continued to record lowest vacancy across Adelaide, however at H2 2023 recorded slight softening to 2.0%. This can be attributed to the relocation of a furniture & homewares store within Adelaide Arcade. Vacancy within Strips also increased at H2 2023 by 140 bps, due to the relocation of stores within the Clothing and Beauty retailing categories.

Vacancy in LFR centres was at 1.2% from the most recent count in Q4 2023, well below the pre-pandemic rate of 4.7%. This reinforces the strength of demand and retail consumer spending during a high-pressure economic climate with high interest rates to combat inflation.

FIGURE 5: Adelaide LFR Vacancy rates 2020-2024



Source: CBRE Research

FIGURE 6: Adelaide CBD Vacancy by Period

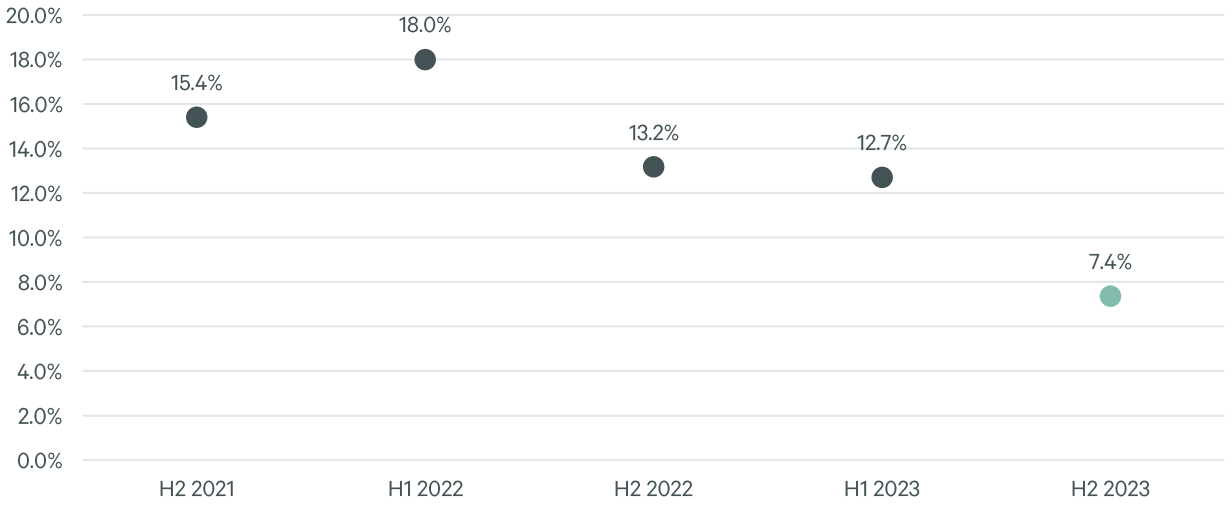
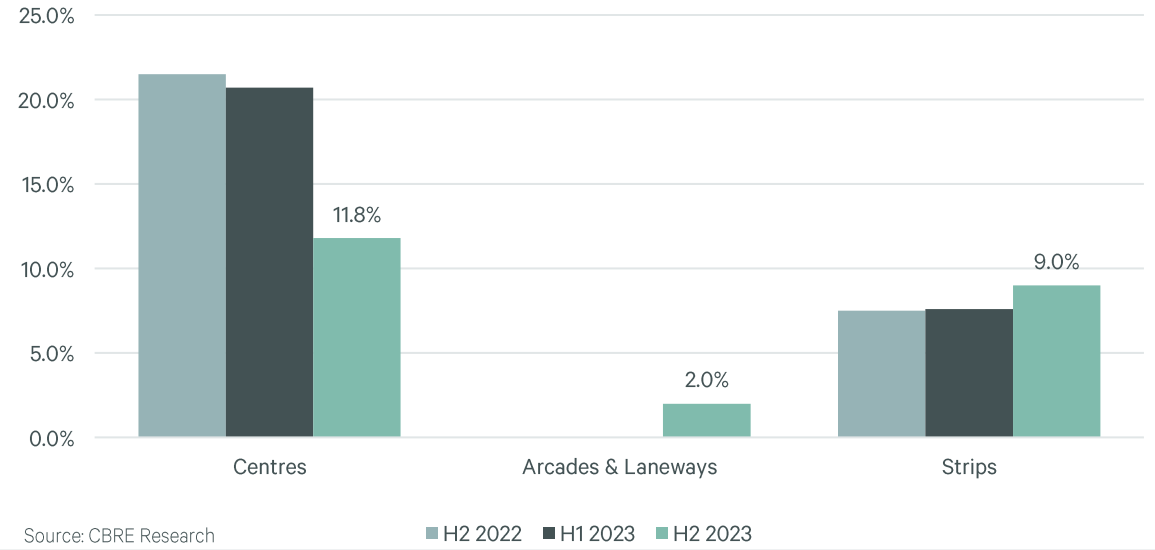


FIGURE 7: Adelaide CBD Vacancy Breakdown by Retail Tenancy



Source: CBRE Research

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Rental Performance

Regional centres continue to have highest rental growth.

All retail assets in South Australia increased on a year-on-year basis, with Regional centres outperforming other shopping centre categories with a 11.1% increase. Rents within the Super Prime CBD and Large Format Retail assets also recorded strong growth over the year at 7.4% and 4.1% respectively. This growth is driven by a reduced vacancy within both assets at H2 2023 (9.4% in CBD centres and 1.2% amongst LFR centres). Low vacancy and increasing competition in tenants for LFR assets will further drive rental growth in the future.

Net Effective rents recorded declines quarter-on-quarter in CBD Super Prime, Sub-Regional and Neighbourhood shopping centres. Large Format Retail centres recorded marginal growth (1.9%) from the prior quarter. Regional shopping centres dominated in growth on a yearly basis (11.6% increase), followed by CBD Super Prime (10.6%), then Neighbourhood (7.0%) assets. The yearly decline in incentives (-380 bps amongst CBD Super Prime and -500 bps amongst Neighbourhood) had a significant impact on the yearly growth in effective rents.

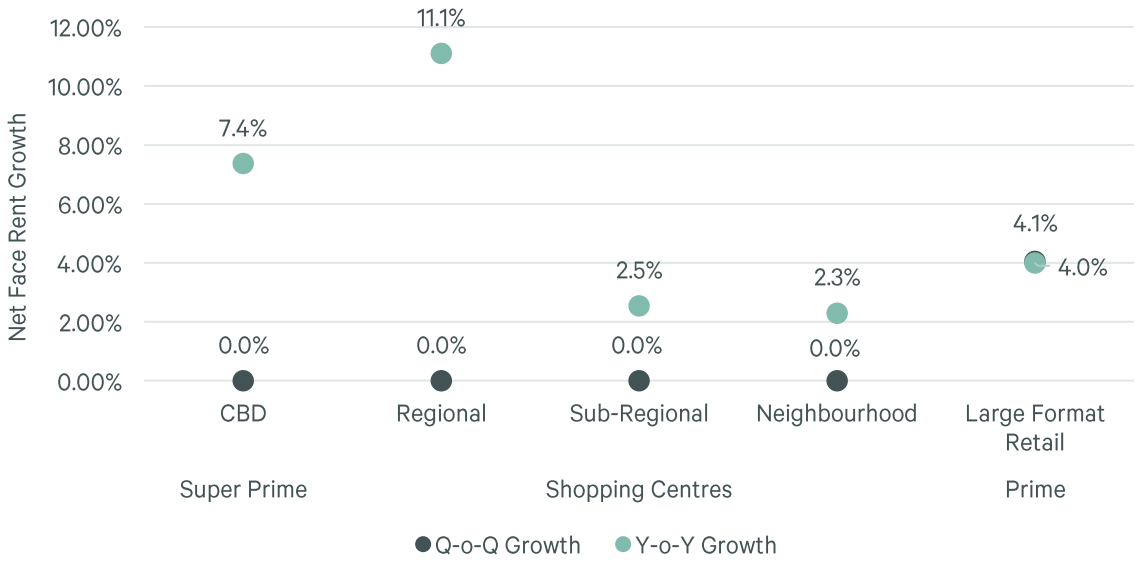
Incentives remained stable quarter-on-quarter across all retail asset types over 1Q24, except for Super Prime CBD assets which increased by 40bps. On a yearly basis Neighbourhood and CBD Super Prime incentives recorded decreases of -500 bps and -380 bps, indicating there is high demand for retail assets across these categories.

FIGURE 8: South Australia Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	1Q24	Q-o-Q Change	Y-o-y Change	1Q24	Q-o-Q Change	Y-o-y Change	1Q24	Q-o-Q Change	Y-o-y Change
CBD Super Prime	3275	Stable	7.4%	2905	-1.8%	10.6%	10.1%	+40bps	-380bps
Regional	1450	Stable	11.1%	1235	-0.1%	11.6%	14.8%	Stable	-40bps
Sub-Regional	673	Stable	2.5%	570	-1.4%	1.4%	14.2%	Stable	-20bps
Neighbourhood	493	Stable	2.3%	412	-1.7%	7.0%	15.0%	Stable	-500bps
Large Format Retail	257	4.0%	4.1%	217	1.9%	1.9%	13.8%	Stable	Stable

Source: CBRE Research

FIGURE 9: Net Face Rent Growth by Retail Asset Category



Source: CBRE Research

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Investment Market

Investment volumes increased significantly from 2023 with two assets selling.

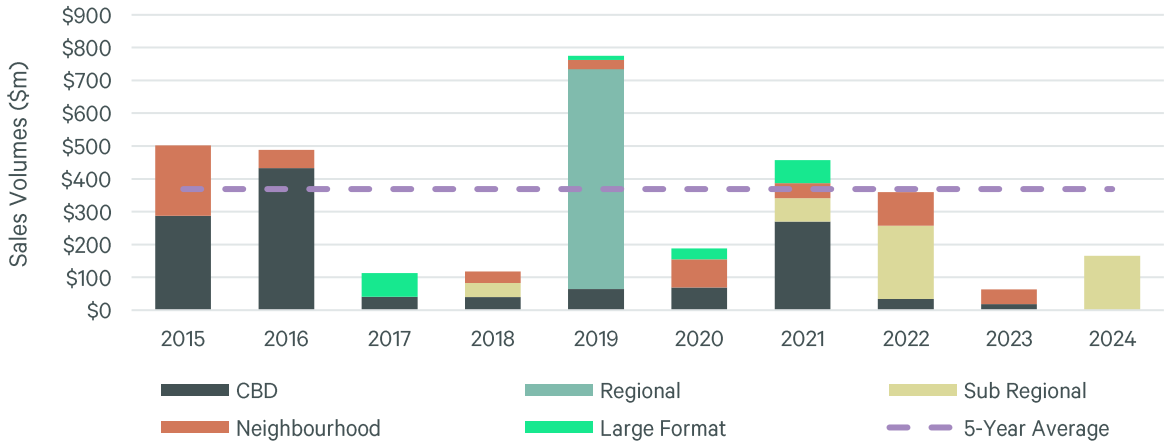
Investment volumes across Adelaide in the first quarter of 2024 exceeded those seen in the entire year of 2023, reaching approximately $165m. The sale of Kurralta Central and Southgate Square Shopping Centre, both Sub-Regionals assets, contributed to investment volumes this quarter.

Strong volumes over the quarter suggests yields are reaching levels where buyer-vendor expectation gaps are bridging. As a result we may continue to see heightened investment activity at suitable pricing points over the remainder of 2024.

Yield expansion across Super Prime CBD assets dominated in 1Q24.

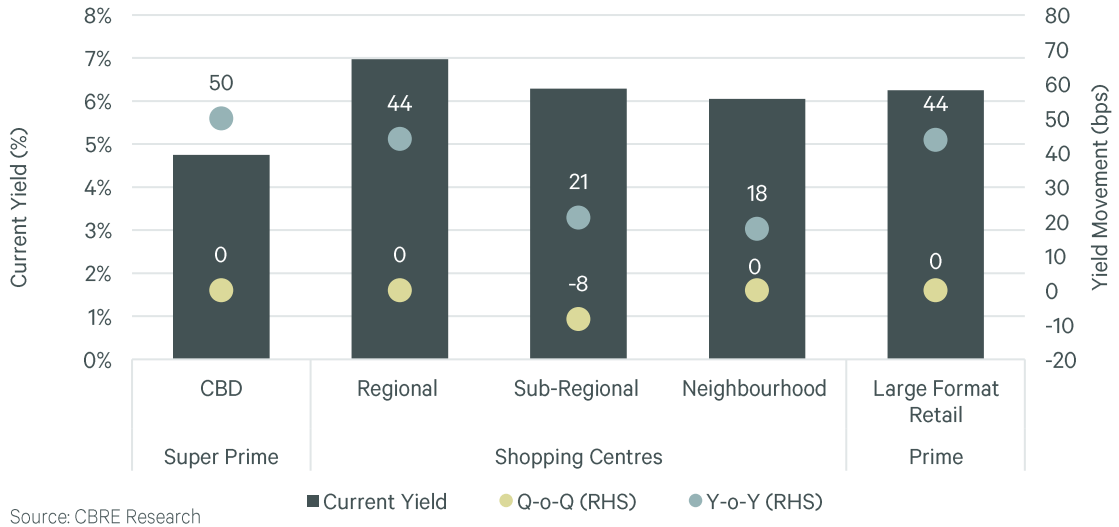
Yields remained relatively stable over 1Q24 for all retail asset types except for the Sub-Regional category, which recorded quarter-on-quarter decline by 8 bps. Sub-Regional yields remain lower than Regional centres, driven by different buyer-vendor profiles and differences in fundamentals. All shopping centre asset classes recorded year-on-year expansion in yields, with Super Prime CBD assets recording highest growth of 50 bps.

FIGURE 10: South Australia Retail Sales by Asset Category



Source: CBRE Research

FIGURE 11: South Australia Retail Yields by Category



Source: CBRE Research

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