FIGURES | SYDNEY RETAIL | Q2 2024

Rents stabilise over the quarter

▼ 7.4%
Sydney CBD Vacancy Rate

▼ 0.17%
NSW Retail Sales 2024YTD

▲ 0.8%
Regional Centre Y-o-Y Rent Change

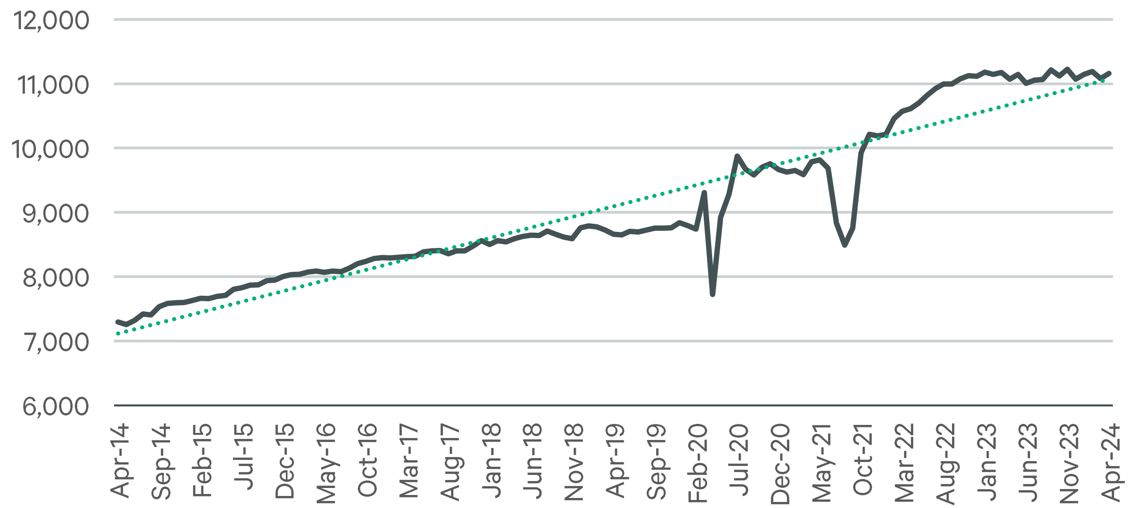
▲ $169m
Q224 Sydney Retail Investment Volume

Note: Arrows indicate change from previous quarter.

Key Points

- New South Wales GSP increased 3.7% in 2022-23, following a rise of 2.6% in the previous year.
- NSW retail sales remain relatively stable since January 2024 (as at April 24).
- The major Sydney Metro City and Southwest line development is set to open in August 2024.
- Development supply increased over the quarter with c.32,000 sqm in completions.
- Sydney CBD retail vacancy tightened over H124, now at 7.4%.
- Retail rents remained stable across all asset grades over the quarter.
- A total of $169 million of investment sales has been recorded in Q2 across a single major transaction in Sydney (for sales > $5 million).
- Regional shopping centre yields softened by 14bps over the quarter.

FIGURE 1: NSW Total Retail Turnover, Seasonally Adjusted (Apr 14 - Apr 24)



0.8%
Year-on-Year

0.7%
Month-on-Month

Source: ABS as at Apr 2024, CBRE Research

Economic Overview

Household spend leans more towards services than retail related spend.

NSW GSP rose 3.7% in 2022-23 (1.9% per capita), up from 2.6% (2.5% per capita) the previous year. As of April 2024, year-over-year household spending growth was led by miscellaneous goods and services (14.3%), health (14.1%), services (6.7%), and non-discretionary (5.9%).[1] These categories are less aligned with retail spend, which comes off the back of high household spend on retail indicators last quarter.

Retail sales remain stable amidst market uncertainty.

NSW retail sales remain relatively unchanged since January 2024 (seasonally adjusted), following a relatively flat year with a 0.7% decline over CY2023. Across Australia, retail trade has been relatively mute since January 2024, although the most resilient categories were other retailing and department stores, which recorded the highest growth YTD, reaching 1.0% and 0.6% respectively as of April 2024. Despite increasing interest rates and market uncertainty, retail sales in NSW have remained relatively stable.

NSW forecast to receive one third of next decades migrant intake.

Deloitte's Access Economics projects 13% national population growth from 2024 to 2033, with NSW positioned to absorb a substantial portion of this increase.[2] The state's anticipated 10.7% population expansion is expected to catalyse significant housing and retail demand. CBRE's analysis suggests an additional $4.7 billion in retail expenditure attributable to annual net migration. As NSW is forecasted to accommodate nearly one-third of Australia's migrant influx, the state is well-positioned to leverage substantial economic benefits from this population inflow over the next decade..

The labour market in Australia remains strong, maintaining an unemployment rate of 4% in May 2024. The NSW unemployment rate increased to 3.8% (from 3.6% in December 2023), the lowest *nationally*.

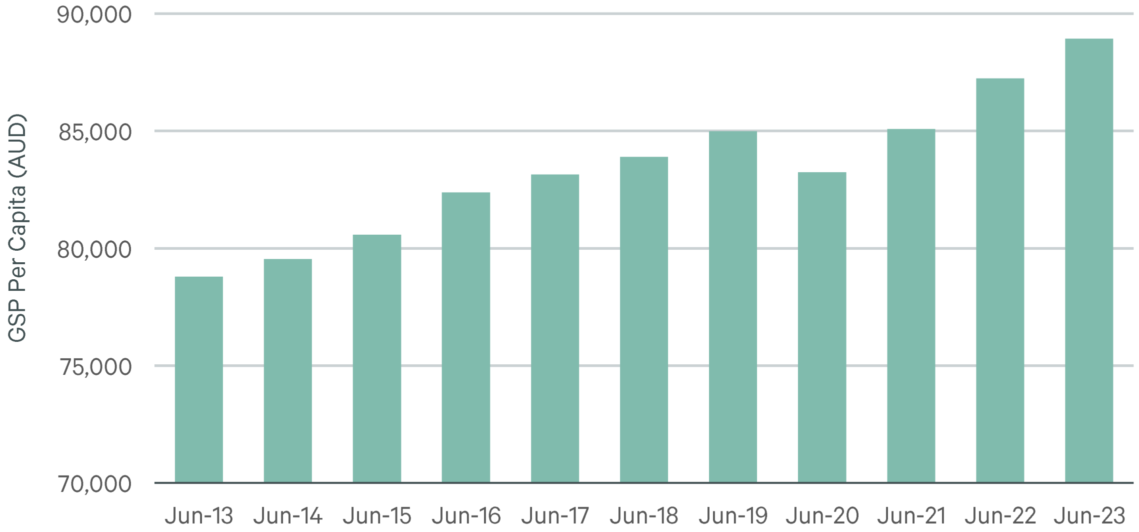
1. According to ABS.
2. According to Deloitte Access Economics.
3. NSW Government, Sydney Metro.

Major Sydney Metro developments expected to open next quarter.

Sydney's CBD retail and shopping centre landscape is poised for transformation, catalysed by significant transport infrastructure investments, most notably the AUD 45 billion Sydney Metro project. This comprehensive development is projected to substantially reduce transit times over the next decade, with passenger capacity expected to surge from 26,000 to 40,000 people per hour per line. The Sydney Metro City and Southwest line, slated for commissioning in August 2024, will feature Martin Place station as its central 'super hub'.[3]

CBRE's analysis indicates that commute times between key suburbs and the CBD could decrease by up to 35 minutes. This enhanced accessibility and connectivity is anticipated to unlock considerable retail expenditure and economic growth, particularly within the CBD and for shopping centres located near new metro stations. The magnitude of this infrastructure investment underscores the confidence in Sydney's economic potential.

FIGURE 2: NSW Gross State Product Per Capita (Jun 13 - Jun 23)



Source: ABS, CBRE Research.

Supply

Supply increased significantly from last quarter

The supply of new floorspace increased in the Sydney market with c.32,000 sqm in completions over quarter (excludes non-metro). Completions last quarter were significantly lower with no major additions of retail floorspace. Despite the increase in new floorspace over the quarter, developments for 2024 are forecast to be well below the long run average. This is likely due to developers delaying projects due to higher construction costs coupled with the lack of appetite for new shopping centre developments. Investors continue to opt for existing centre expansion rather than new developments as the cost of capital remains high.

Looking ahead, neighbourhood centres are expected to account for the largest share of retail supply between 2024 and 2026 at around 39%, followed by CBD retail at c.22%, and sub-regional centres at c.39%.

Next quarter is forecast to see a decrease in new floorspace, with around 10,600 sqm expected to be added to the market. The highest quarterly contribution anticipated for the CY2024 is Q4, with c.32,200 sqm expected to be added. Notable development projects expected for completion next quarter include Bourke & Bowden Mixed-Use, Alexandria (c.1,500 sqm), and 100-102 Walker Street, North Sydney (c.1,100 sqm).

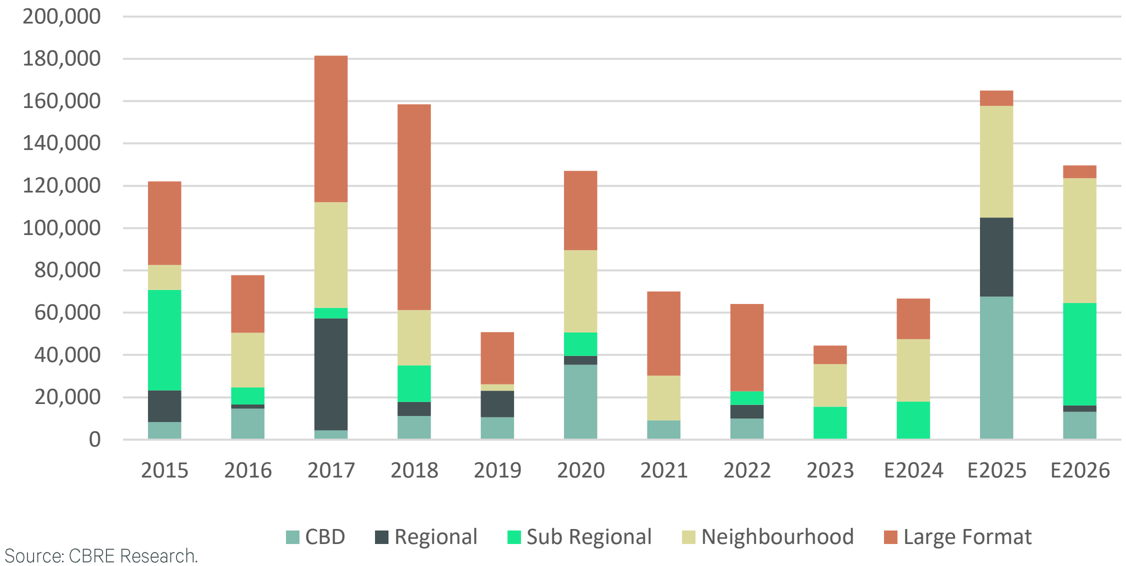
Vacancy

Sydney CBD vacancy continues to tighten over H124

Sydney CBD retail vacancy tightened in H124, contracting by 66bps to 7.4% - the second consecutive half-yearly decrease since H124.

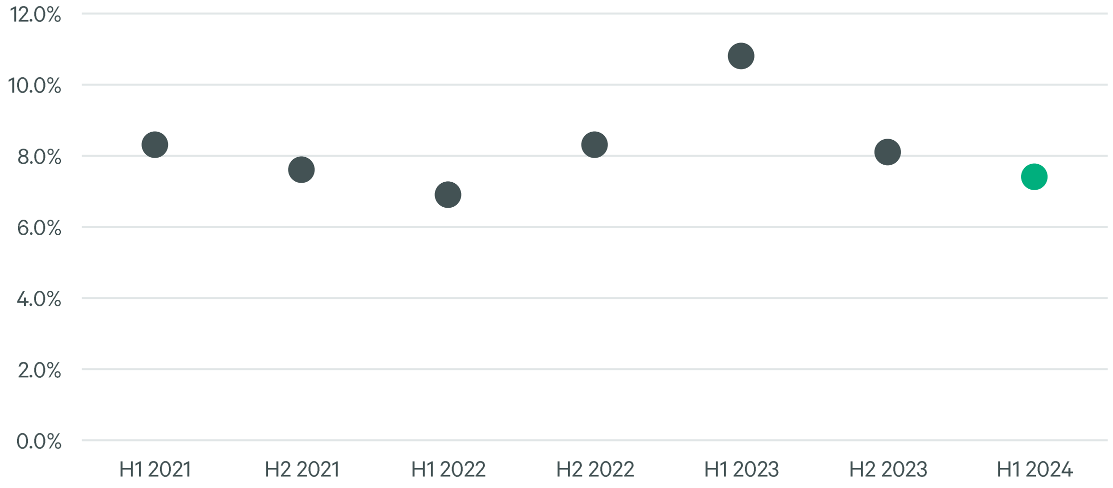
While strip retail vacancy softened slightly to 8.1%, the core CBD continued to attract global brands and flagship tenants over H124. Arcade retail experienced the most significant reduction in vacancy declining by 120bps to 6.9%. Centre retail also saw a reduction, falling by 47bps to 7.7%, driven by strong performances from luxury brands and F&B outlets in major centres like Westfield and the MLC Centre. A growing bifurcation between core and non-core CBD locations was seen over the half with core vacancy sitting at 5.7% and non-core at 10.4%.

FIGURE 3: NSW Retail Supply by Category



Source: CBRE Research.

FIGURE 4: Sydney CBD Vacancy by Half Year



Source: CBRE Research.

Rental Performance

Rental growth stabilises across the board over the quarter

Sydney average super prime and prime CBD net face rents remained stable over the quarter. On a y-o-y basis these super prime and prime CBD assets recorded 0.0% and 1.5% growth y-o-y. Foot traffic and CBD retail trade continued to improve over H124 with CBD vacancy reducing significantly to 7.4% (66bps decline from H223). We expect vacancy to continue to sharpen in the second half of 2024 with the return to work rising and an expectation that interest rates will ease in H224 or early 2025. The opening of the Sydney Metro City and Southwest line in August will drive new traffic and demand into Sydney's CBD.

Furthermore, shopping centres over Q224 showed remained flat across all grades. Regional, However, year-over-year, all centre grades experienced positive growth with regional, sub-regional and neighbourhood recording 0.8%, 3% and 1.2% y-o-y growth, respectively. Sydney shopping centres continue to see improvements in vacancy however retail sales has begun to stabilise due to market uncertainty. Hence, we expect rental growth to continue for the remainder of 2024 and H125, albeit at a slower rate whilst interest rate decisions remain uncertain.

Prime LFR rents remained stable over the quarter. In this extremely tight market leasing activity has been relatively mute with existing occupiers aiming to secure lease renewals and avoiding the risk of being unable to find new floorspace. Household goods spend showed signs of improvement m-o-m with a 0.7% increase over April 2024 (seasonally adjusted). However, this follows a period of decline since November 2023, hence occupiers opting to remain in position rather than potentially paying higher rents in a new tenancy or not securing space. With national LFR vacancy currently sitting at c.2.5%, coupled with a limited new supply pipeline for the sector, LFR assets are well positioned to experience rental growth over the second half of 2024 and 2025 if interest rate cuts commence. LFR Prime growth was 1.5% y-o-y (as at Q224).

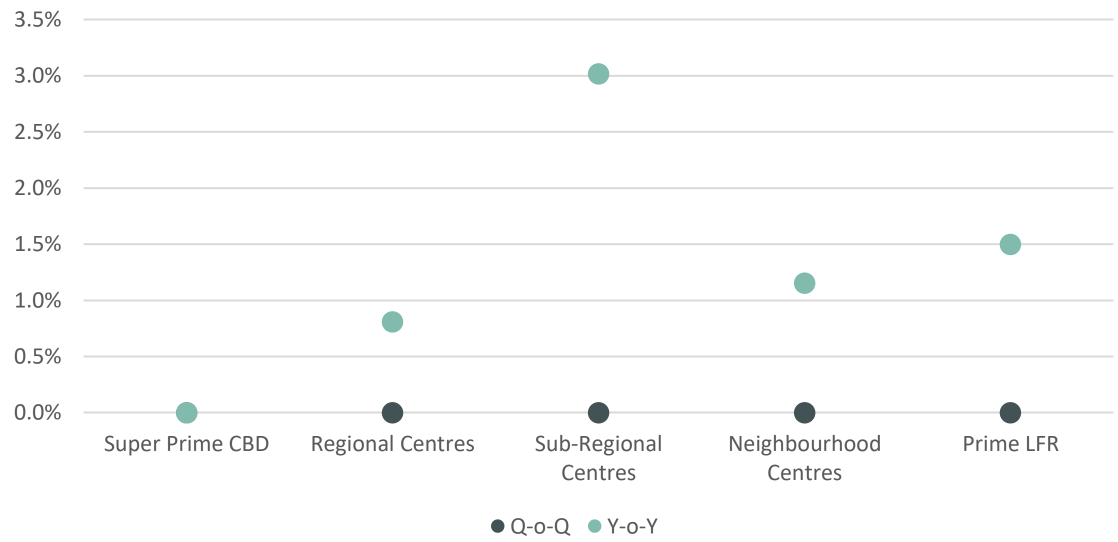
Incentives remained stable across all retail asset types over the quarter, except for Prime LFR assets which increased by 3%. Furthermore, the reduction in CBD vacancy over H124 has alleviated some pressure on CBD asset owners, allowing them to bring down incentives whilst holding rents, hence the decline of 2% y-o-y for super prime CBD assets.

FIGURE 5: NSW Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	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
CBD Super Prime	**10,944**	0.0%	0.0%	**9,303**	0.0%	2.4%	**15.0%**	Stable	-200bps
Regional	**1,777**	0.0%	0.8%	**1,511**	0.0%	0.8%	**15.0%**	Stable	Stable
Sub-Regional	**1,131**	0.0%	3.0%	**1,007**	0.0%	3.0%	**11.0%**	Stable	Stable
Neighbourhood	**1,137**	0.0%	1.2%	**995**	0.0%	1.2%	**12.5%**	Stable	Stable
LFR	**586**	0.0%	1.5%	**516**	-3.3%	-0.6%	**9.0%**	300bps	188bps

Source: CBRE Research

FIGURE 6: Net Face Rent Growth y-o-y, by Retail Property Type (Jun 23 - Jun 24)



Source: CBRE Research

Investment

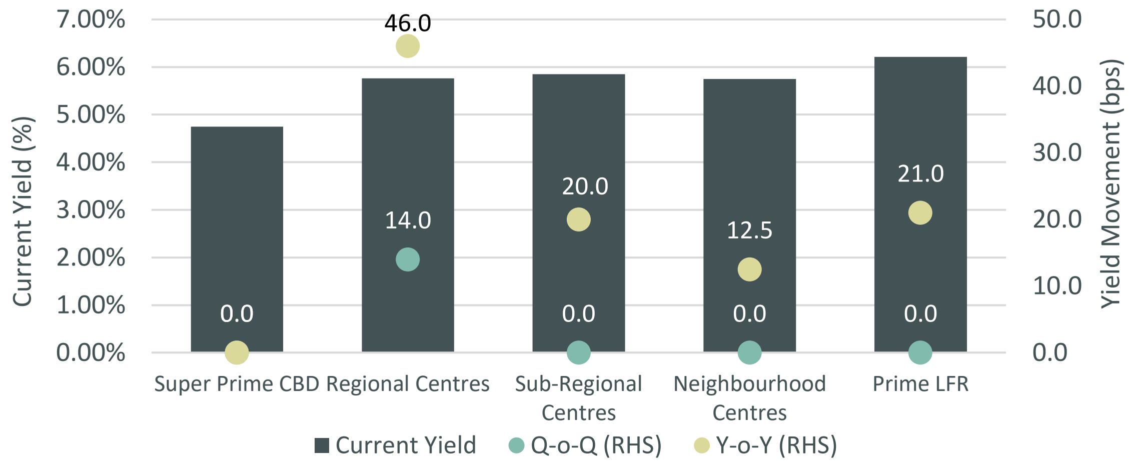
Sydney retail investment volumes remain muted

A total of $169 million of investment sales has been recorded in Q224 across a single transaction in the Sydney metro region (for sales > AUD 5 million). This transaction was Ashfield Mall which was purchased by Mintus.

As Australia's most populated metro, Sydney remains a prime destination for retail investment, buoyed by robust consumption and occupier demand. However, the current macroeconomic climate, characterised by high interest rates and market volatility, has subdued transaction activity for major retail assets. This trend is reflected in the modest sales volume of $169 million this quarter (excluding strip, stand alone, and non-metro assets). Despite this, the only deal was a sub-regional centre, highlighting an increase in investor appetite for higher price point centres, rather than just neighbourhood and LFR centres. This sale also provide some support in rebasing the market and asset values.

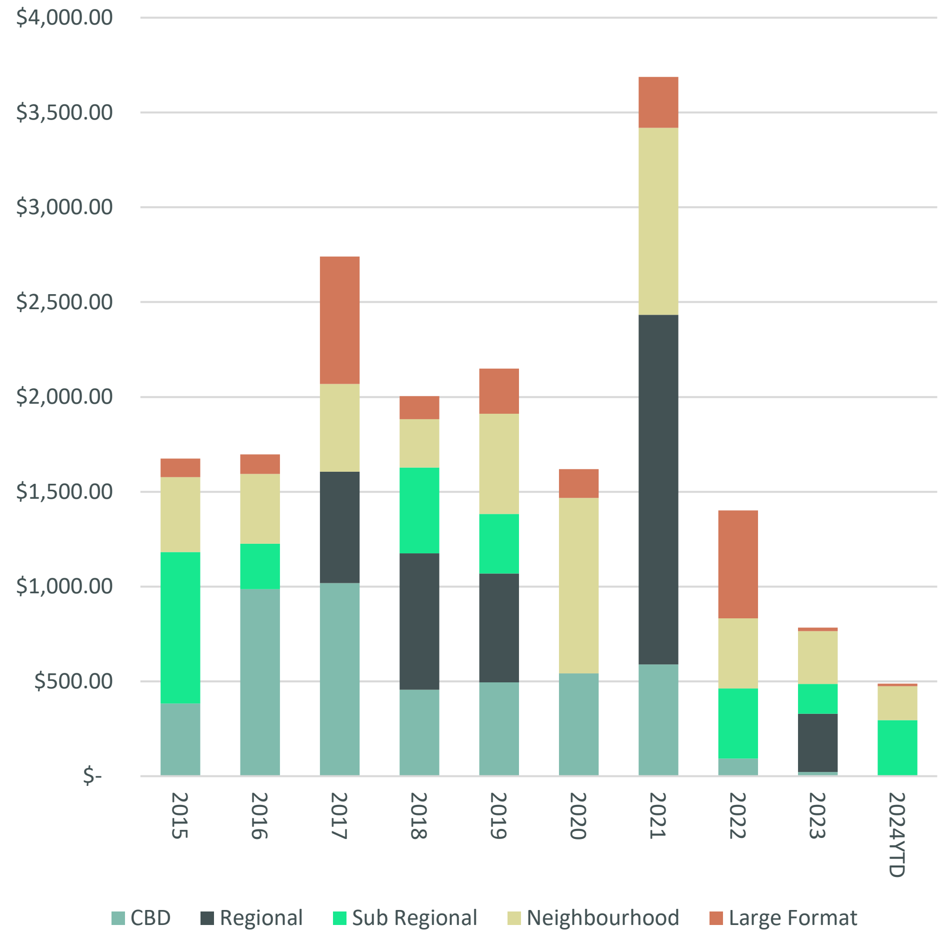
Yields have remained relatively stable over Q224 for all retail asset types except for Regional centres which expanded by 14bps to 5.76%. Further expansion in yields of up to 25 to 50 basis points is anticipated between now and mid 2025.

FIGURE 7: NSW Retail Yields by Category



Source: CBRE Research

FIGURE 8: NSW Retail Investment Sales by Category (greater than AUD 5 million)



To Note: Excludes non-metro, Strip and Stand Alone sales.
Source: CBRE Research

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