Australia's Retail yields expansion starting to slow

▼ 82.4
Consumer Sentiment
April 2024

▲ 1.6%
Retail Trade Growth
y-o-y February 2024

▲ $5,419
CBD Super Prime Net Face Rents

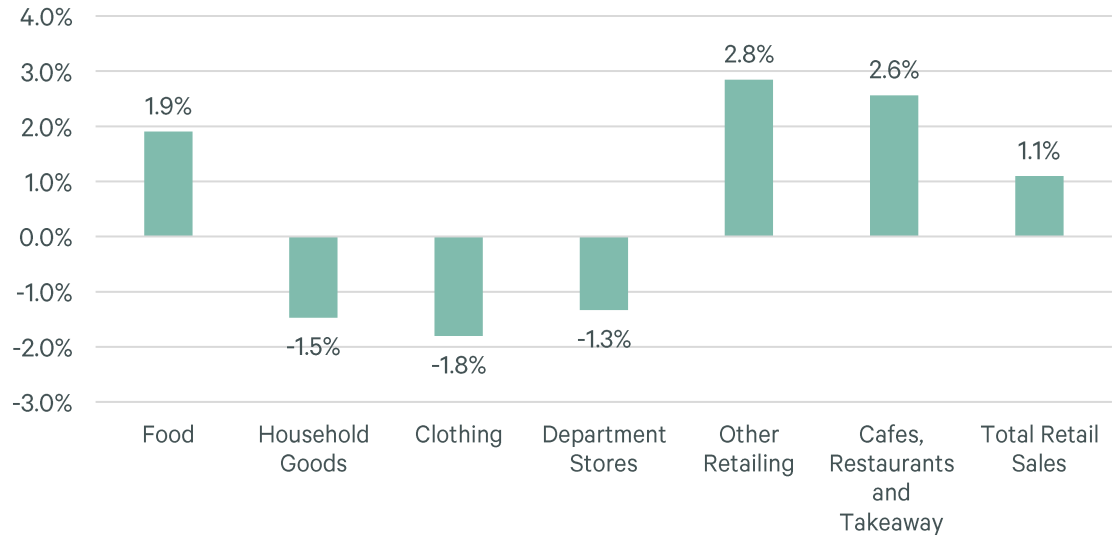
▲ 6.06%
Regional Centre Yields

Note: Arrows indicate change from previous quarter.

Key Points

- Retail sales continued to rise modestly in February 2024, recording a growth of 0.3% Q-o-Q and 1.6% Y-o-Y. Retail sales growth was primarily driven by Clothing Retailing 4.2% (M-o-M) and Department Stores 2.3% (M-o-M), with Cafes & Restaurants increasing by 0.5%.
- Consumer sentiment fell to 82.4 in April 2024 from 84.4 in March, amid ongoing cost-of-living pressures. Despite a brief improvement in February, consumer sentiment in March and April indicates that progress continues to be slow.
- Super Prime CBD rents remained stable across all markets, except for Perth which saw a slight increase. Rental growth in shopping centers slowed, with only marginal growth in most markets. Prime LFR net face rents either increased or remained stable in most states compared to the previous quarter, except for Melbourne which saw a decline.
- All retail assets experienced a modest increase in yields over Q1 2024. We are seeing growth slowing, indicating stabilisation compared to last year.
- In Q1 2024, there were 14 retail transactions totalling c.$1,215 million. Shopping centres continued to dominate transaction activity, comprising 79% share by transaction value.

FIGURE 1: Year-on-year Retail Sales Growth by Industry (January 2024)



Source: ABS

© 2024 CBRE, INC.

National Retail Trends

Retail Sales show continued growth

Retail sales continued to rise modestly in February 2024, recording a growth of 0.3% Q-o-Q and 1.6% Y-o-Y. This positive trend follows a significant uptick in January 2024, reversing from the drop in December 2023. Retail sales growth was primarily driven by Clothing Retailing 4.2% (M-o-M) and Department Stores 2.3% (M-o-M), with Cafes & Restaurants increasing by 0.5%. However, Food and Household Goods Retailing experienced a decline of 0.1% and 0.8%, respectively. Cost-of-living pressures continue to impact households spending, due to elevated interest rates and inflation.

Consumer sentiment fell to 82.4 in April 2024 from 84.4 in March, amid ongoing cost-of-living pressures. Despite a brief improvement in February, consumer sentiment in April and March indicates that progress continues to be slow. However, consumer sentiment remains below 90, similar to levels seen during the recession of the 1980s and 1990s.

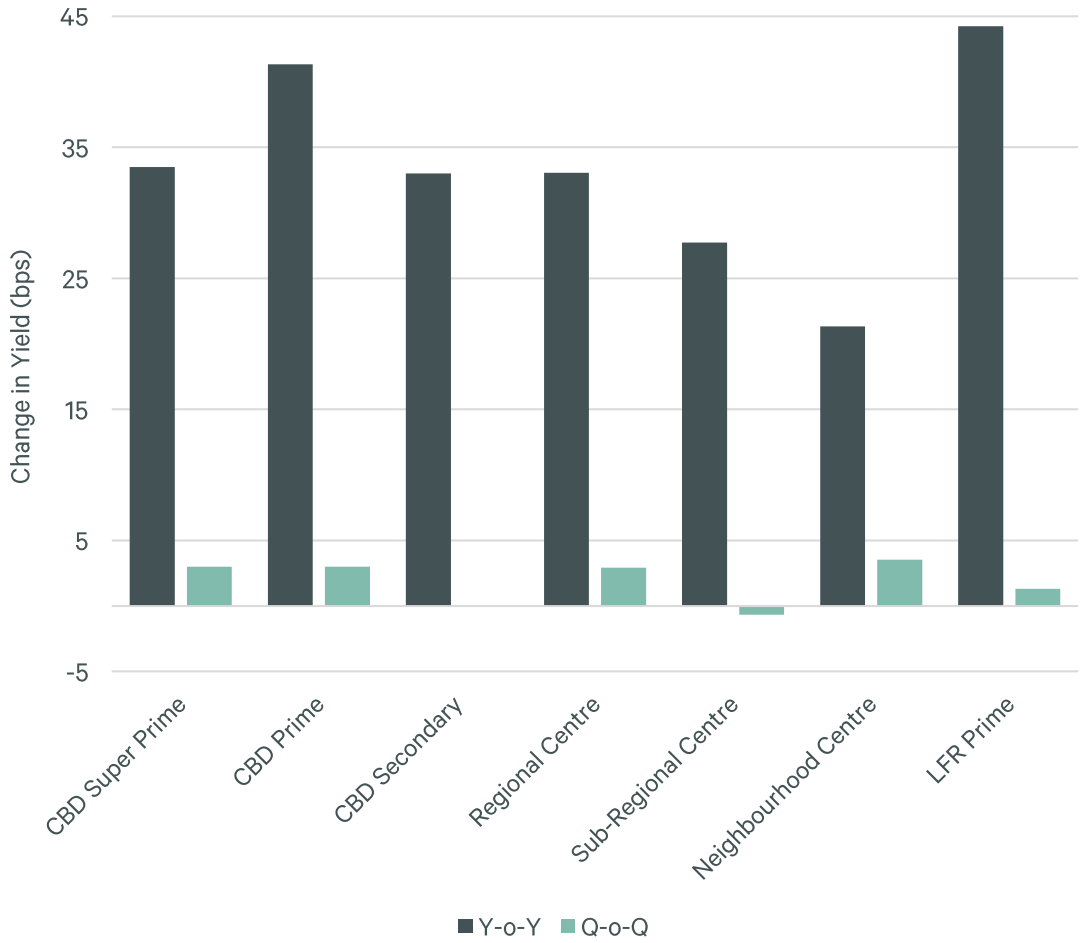
Yields rise modestly across most asset classes

Nearly all retail assets experienced a modest increase in yields over Q1 2024 (Figure 2), with neighbourhood centres seeing the greatest quarterly expansion of 4bps. Although yields have seen slight expansion, we are seeing stabilisation compared to last year. Over the past 12 months, regional, sub-regional and neighbourhood centres have expanded by 33bps, 28bps and 21ps Y-o-Y, respectively. Prime Large Format Centres saw 44bps expansion Y-o-Y. CBD Super prime assets expanded by 34bps Y-o-Y, with CBD Prime yields increasing 41bps Y-o-Y.

Shopping Centre's remain the dominate force behind retail investment activity

Shopping Centre's continued to be the dominant driver of transaction volumes in Q1, with retail investment activity totalling c.$1,215 million across 14 assets. This represented a 15% decrease in transaction volumes Y-o-Y. Shopping Centre's comprised of 79% of investment activity this quarter, with the Cairns Central Shopping Centre ($390m) being the most notable transaction.

FIGURE 2: National Yield Delta by Category



Source: ABS

Source: CBRE Research

© 2024 CBRE, INC.

CBD Retail

Rental stability remains driven by mixed economic activity

Super Prime CBD rents remained stable across all major markets in Q1 2024 except for Perth, which experienced a minor increase in rents of 0.92%. Aside from these states, all other major CBD markets maintained stable rents this quarter.

Whilst year-on-year growth rates in all markets (besides Melbourne) indicate a recovery in Super Prime CBD performance, the stability experienced in Q1 is conflicting. CBRE Research believes the stability seen in most markets to be a product of subdued economic activity. High interest rates, rising inflationary pressures and a tight labour market are all key contributors to subdued activity amongst CBD retailers.

Consumer discretionary spending habits are expected to continue to adjust over 2024. If consumer confidence sees a strong increase over the year, demand for CBD asset locations may see a rise, contributing to strong rental growth in select markets.

Limited repricing in Q1 2024 as no major CBD assets transact

Q1 2024 CBD Super Prime yields remained stable across most major markets besides Melbourne which saw a 15bps increase to 4%. Repricing occurred in all markets over 2023 following mismatched expectations and rising interest rates. Whilst Q1 2024 saw no major CBD transactions, it is expected that as more investment activity occurs throughout the year, we may see further repricing across Australia's CBD markets.

FIGURE 3: Super Prime CBD retail key metrics

WA	Q1 24	q-o-q	y-o-y
R	$2,755	0.92%	0.92%
Y	5.50%	Stable	+25bps

QLD	Q1 24	q-o-q	y-o-y
R	$3,622	Stable	+7.9%
Y	5.25%	Stable	+25bps

NSW	Q1 24	q-o-q	y-o-y
R	$10,944	Stable	+1.5%
Y	4.75%	Stable	+25bps

SA	Q1 24	q-o-q	y-o-y
R	$3,275	Stable	+7.4%
Y	4.75%	Stable	+50bps

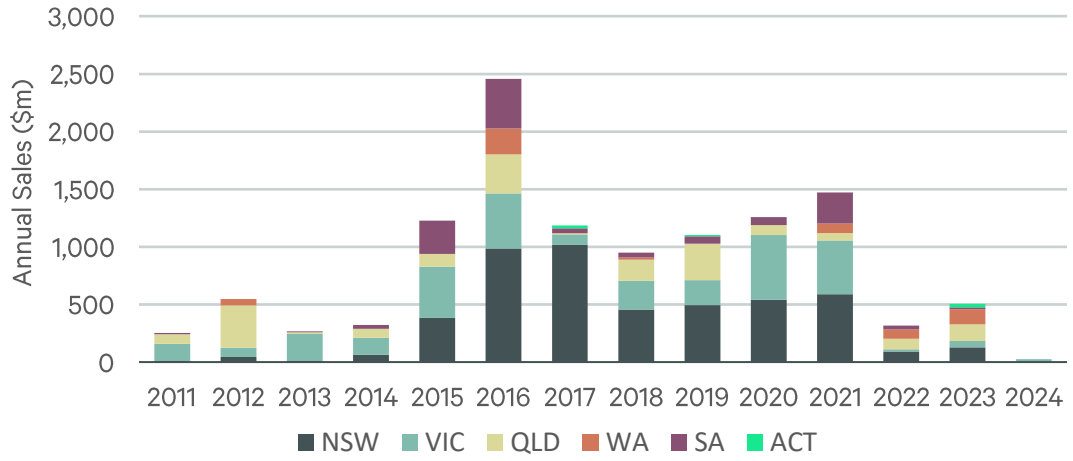
VIC	Q1 24	q-o-q	y-o-y
R	$6,500	Stable	-8.77%
Y	4.00%	+15bps	+43bps

Legend
R - Net Face Rents
Y - Yields

Source: CBRE Research

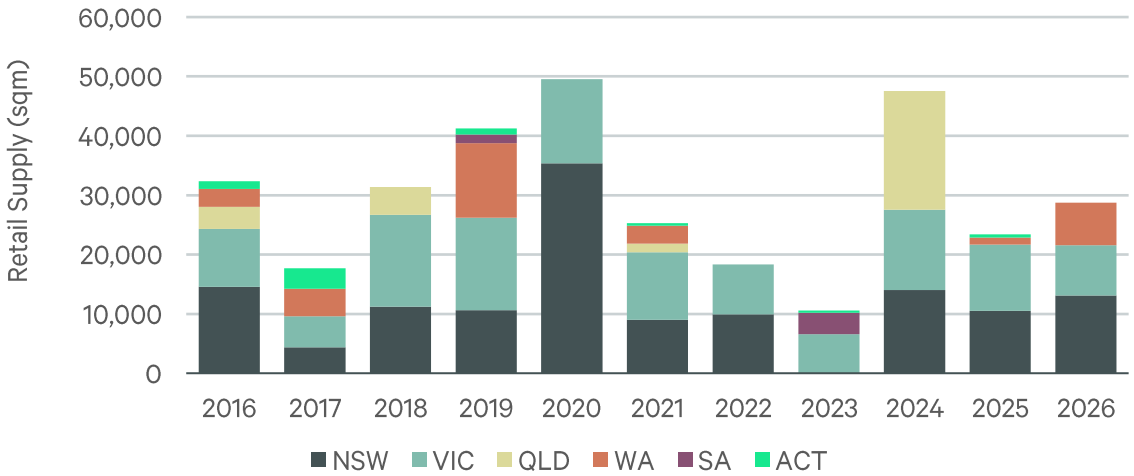
© 2024 CBRE, INC.

FIGURE 4: CBD Retail Transactions by State



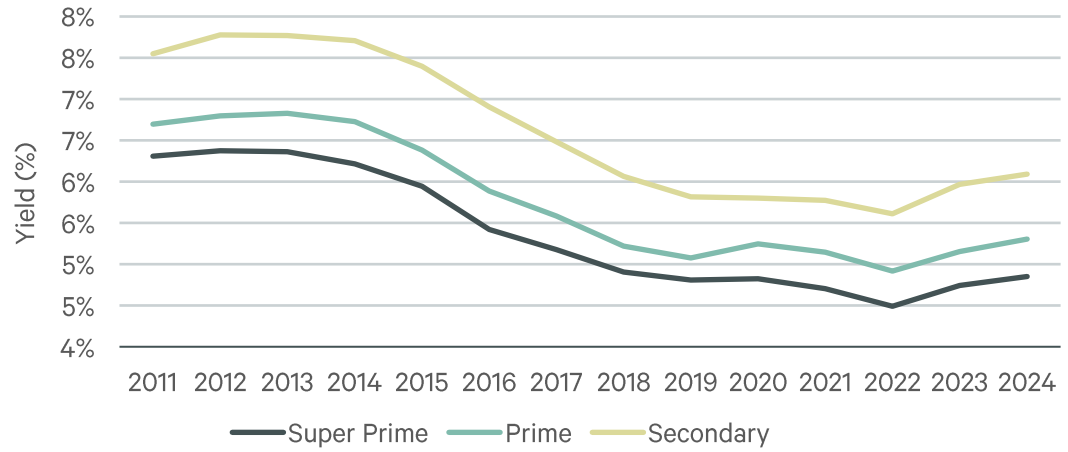
Source: CBRE Research

FIGURE 5: CBD Retail Supply by State



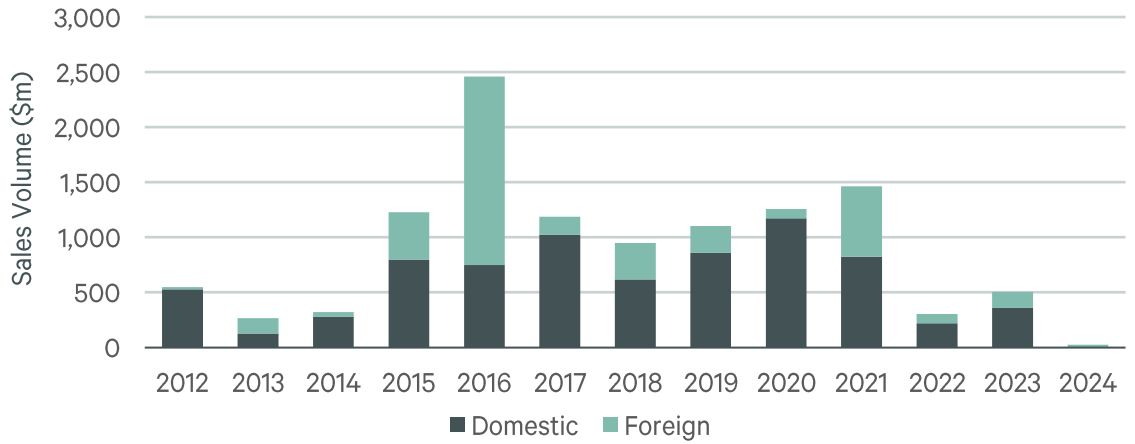
Source: CBRE Research

FIGURE 6: Australian Average CBD Retail Yield



Source: CBRE Research

FIGURE 7: Retail Buyer Profile



Source: CBRE Research

© 2024 CBRE, INC.

Shopping Centres

Slow rental growth in Q1 2024 as yields stabilise.

Rental growth slowed throughout Q1 2024, with marginal rental growth across Brisbane, Melbourne, Sydney and Perth, whilst rents across Adelaide stabilised. Brisbane's regional centres saw the strongest growth for the second consecutive quarter, returning q-o-q growth of 1.95%, however y-o-y growth was strongest in Adelaide at 11.11%. Melbourne and Perth followed closely with q-o-q rent growth of roughly 1.00%. Sydney was the only capital city to experience negative y-o-y rent growth of -0.70%, due to high vacancy levels.

Regional centre yields remained fairly stable in Q1 2024, reaching a national average of 6.06% (+3 bp q-o-q). Sydney and Melbourne saw yields expand by +9bps and +6 bps respectively, while the remaining markets were stable.

Future supply continues to be concentrated in Neighbourhood centres.

Australia's shopping centre supply pipeline continues to be dominated by neighbourhood centres, accounting for almost 60% of expected supply by volume over the remainder of 2024-2027. Regional developments in the supply pipeline primarily comprise of extensions and additions, with only one new regional development in the pipeline coming from Sydney to be completed in 2027 (c.21,300 sqm). The existing regional supply pipeline is concentrated in Sydney, followed by Melbourne.

Forecasted supply amongst sub-regional developments over 2024-2027 is lowest, with c.153,065 sqm total over this period (21% of expected supply). New developments are expected to dominate the supply pipeline amongst sub-regional assets, with c.110,300 sqm expected for completion over 2024-2027.

Sales activity started to improve

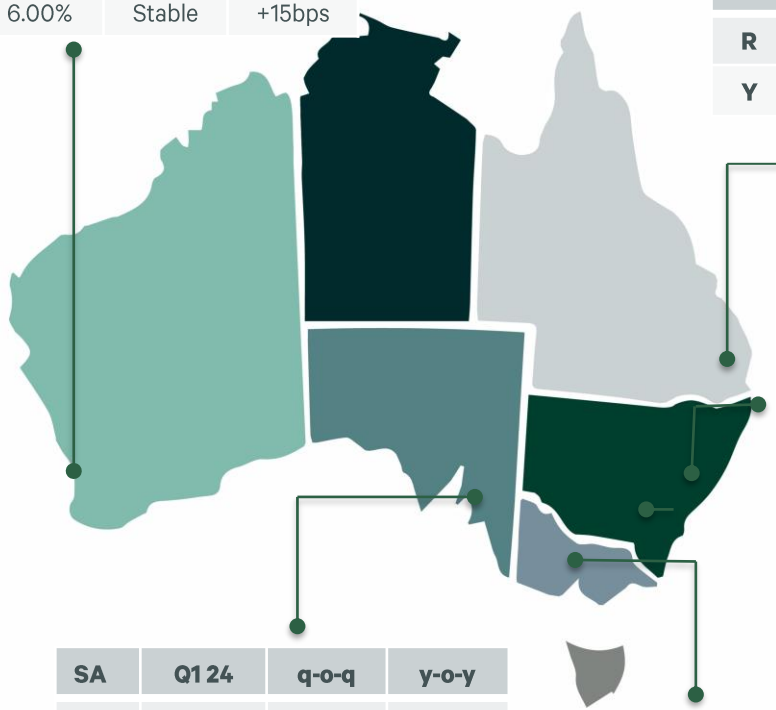
Sales in Q1 2024 reached $1,176m with transactions highest in Sub-Regional centres. This increased slightly from Q4 2023, which saw $1,100m in sales activity however was lower than the same time last year ($1,238m). The lack of growth in sales activity can be attributed to the high cost of debt and uncertainty within the current economic climate.

FIGURE 8: Regional Centre Key Metrics

WA	Q1 24	q-o-q	y-o-y
R	$1,315	+0.96%	+2.33%
Y	6.00%	Stable	+15bps

QLD	Q1 24	q-o-q	y-o-y
R	$1,738	+1.95%	+5.88%
Y	5.88%	Stable	+50bps

NSW	Q4 23	q-o-q	y-o-y
R	$1,777	+0.68%	-0.70%
Y	5.62%	+9bps	+32bps



SA	Q1 24	q-o-q	y-o-y
R	$1,450	Stable	+11.11%
Y	6.98%	Stable	+44bps

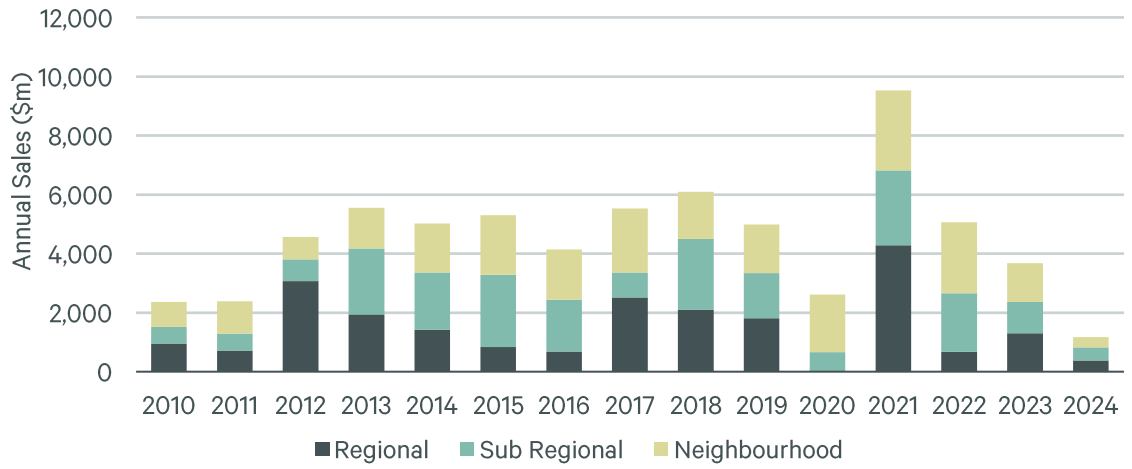
VIC	Q1 24	q-o-q	y-o-y
R	$1,484	+1.00%	+2.73%
Y	5.85%	+6bps	+25bps

Legend
R - Rents
Y - Yields

Source: CBRE Research

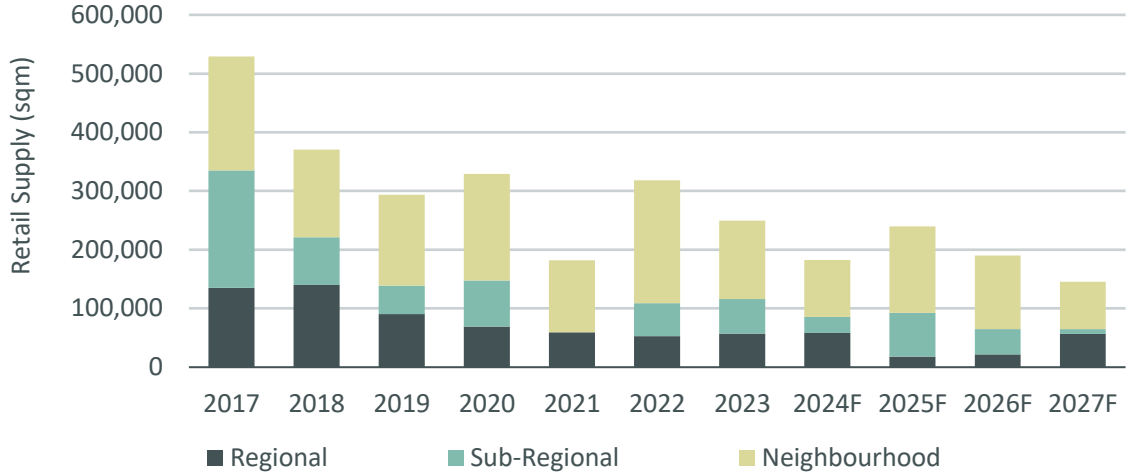
© 2024 CBRE, INC.

FIGURE 9: Australian Shopping Centre Retail Transactions



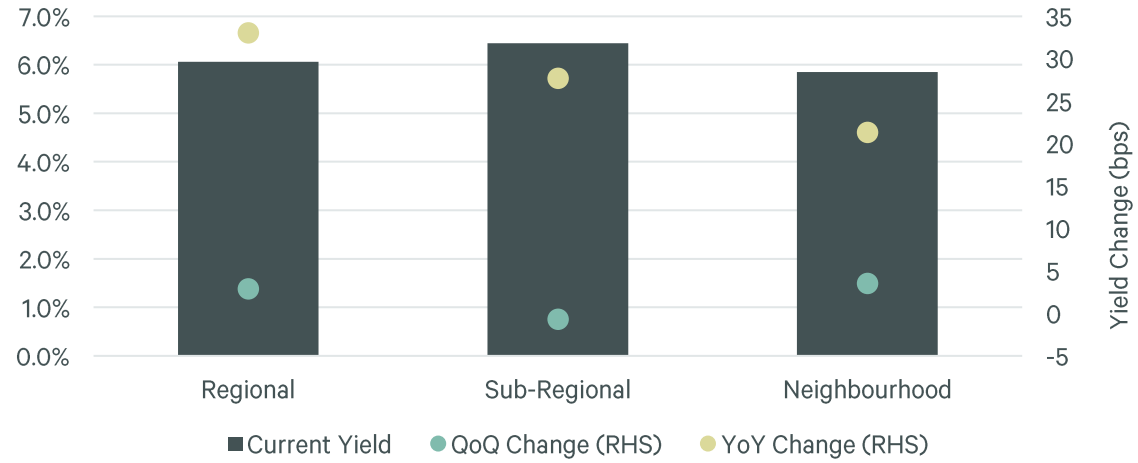
Source: CBRE Research

FIGURE 10: Australian Shopping Centre Retail Supply



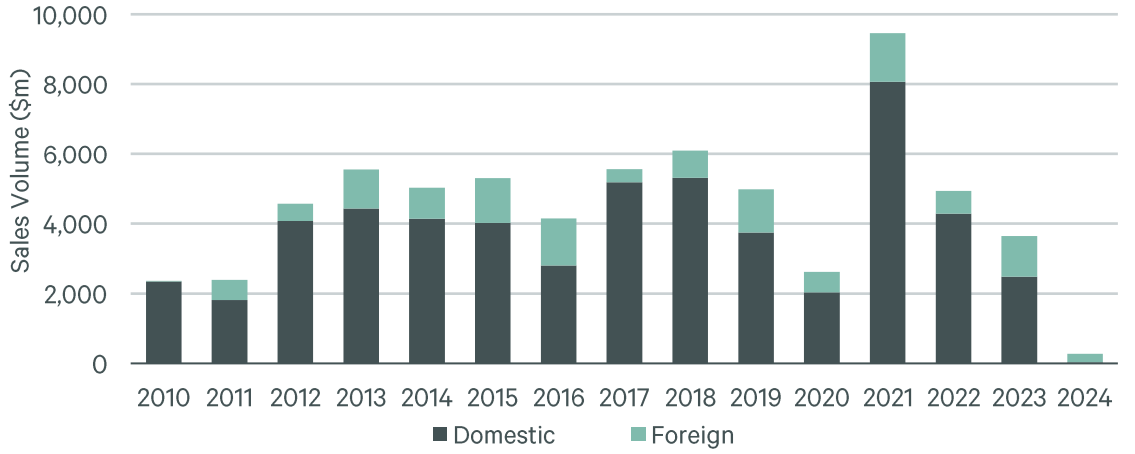
Source: CBRE Research

FIGURE 11: Australian Average Shopping Centre Retail Yield



Source: CBRE Research

FIGURE 12: Shopping Centre Buyer Profile



Source: CBRE Research

© 2024 CBRE, INC.

Large Format Retail

Large Format Retail (LFR) rents hold steady across most states

Household goods spend has trended downwards since its 2020 peak; however in their January 2024 results the ABS showed a positive reversal of 2.3% for national household good spend (seasonally adjusted).[2] Furnishings and household equipment spend returned to negative growth in January 2024 (-3.4% y-o-y as at Jan-24) following a strong end to 2023.[3] We expect spend to increase on larger ticket items towards the second half of 2024, especially if interest rate cuts commence.

Prime LFR net face rents recorded either positive or stable growth in most states q-o-q except for VIC (-1.24%). Victoria continues to see a lack of demand for LFR assets over 2023, due to consumer and occupier preference for large format stores positioning in shopping centres. However, WA and SA recorded positive growth of 0.9% and 4.05% q-o-q respectively. These states have seen heightened demand for LFR assets, driven by a constrained supply pipeline and higher competition over a select pool of Prime grade assets. We expect to see similar growth across most states in 2024 as national LFR vacancy sits at a record low of 2.5% couple with demand forecast to increase in 2H24.[4]

Yields stabilise nationally

Nationally, LFR yields remained stable over the quarter at 6.37%. (+44bps y-o-y). By state, yields were unchanged for all states except VIC which recorded a marginal softening of +7bps q-o-q.

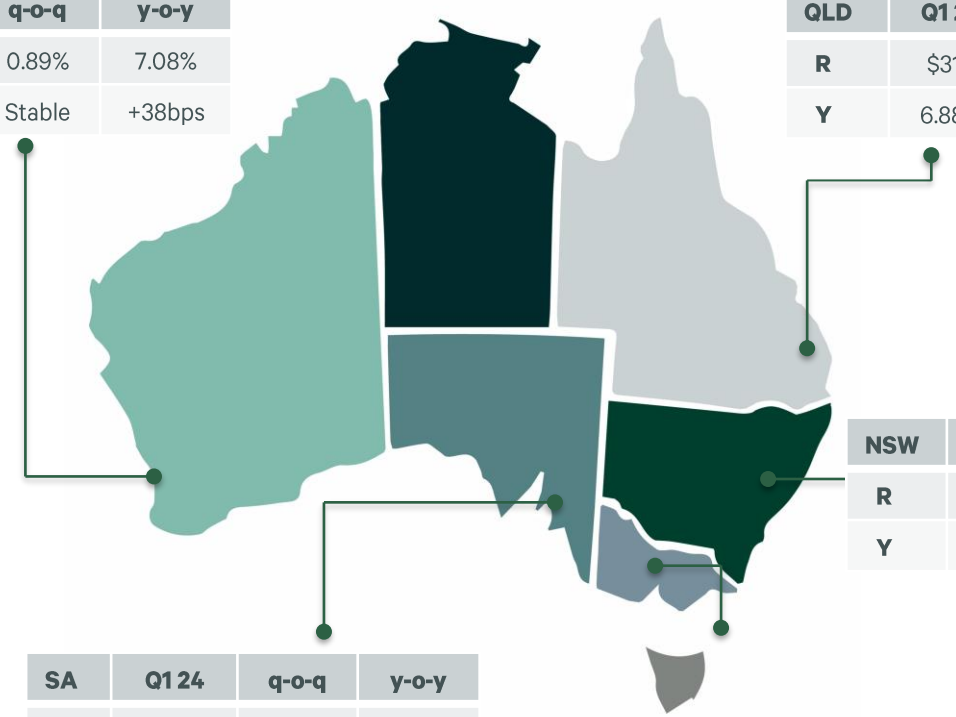
There were no LFR transactions recorded over 1Q24. This follows from a continued disparity in the bid-ask spread, as well as a lack of institutional capacity to invest in larger assets whilst the cost of capital remains high. We expect private investors to dominate sales volumes over 1H24 until interest rate cuts potentially provide institutional buyers with some flexibility in 2H24.

National supply remains mute with only c.48,000 sqm in added floorspace over 1Q24.

FIGURE 13: Large Format Retail Key Metrics

WA	Q1 24	q-o-q	y-o-y
R	$227	0.89%	7.08%
Y	6.50%	Stable	+38bps

QLD	Q1 24	q-o-q	y-o-y
R	$314	Stable	2.38%
Y	6.88%	Stable	+63bps



NSW	Q1 24	q-o-q	y-o-y
R	$586	Stable	1.50%
Y	6.21%	Stable	+21bps

SA	Q1 24	q-o-q	y-o-y
R	$257	4.05%	4.00%
Y	6.25%	Stable	+44bps

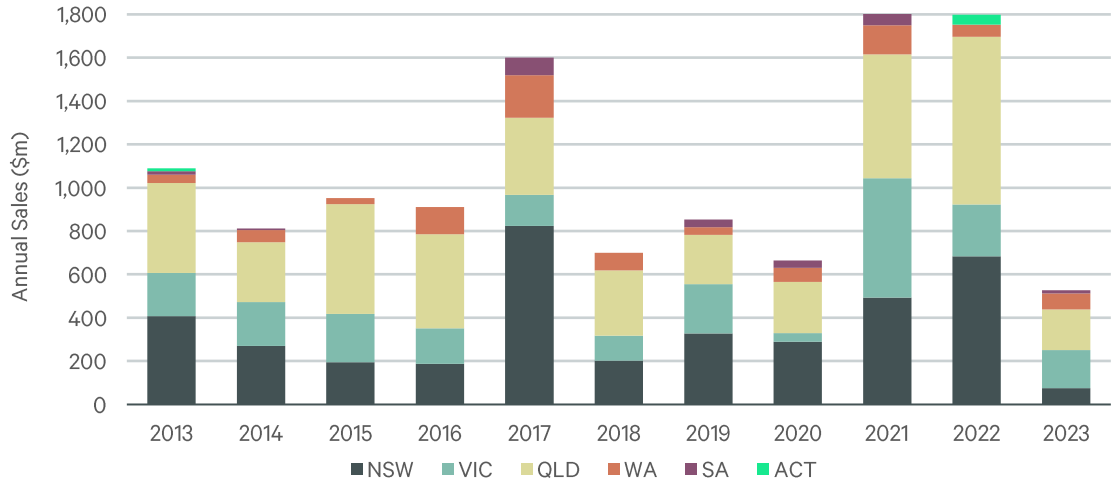
VIC	Q1 24	q-o-q	y-o-y
R	$296	-1.24%	-1.24%
Y	6.03%	+7bps	+56bps

Legend
R - Rents
Y - Yields

Source: 2 & 3. ABS. Source 4 LFRA.
Source: CBRE Research

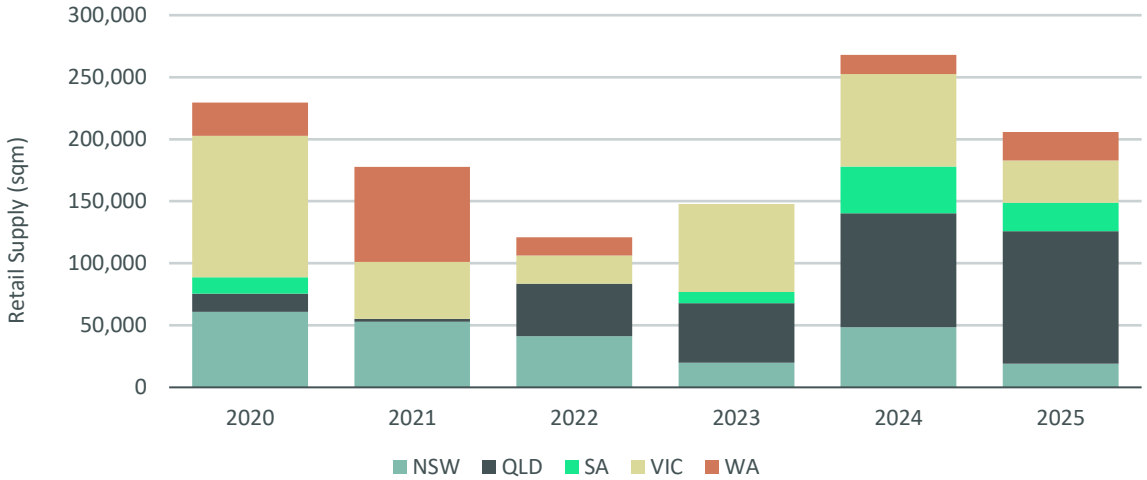
© 2024 CBRE, INC.

FIGURE 14: Large Format Retail Transactions by State



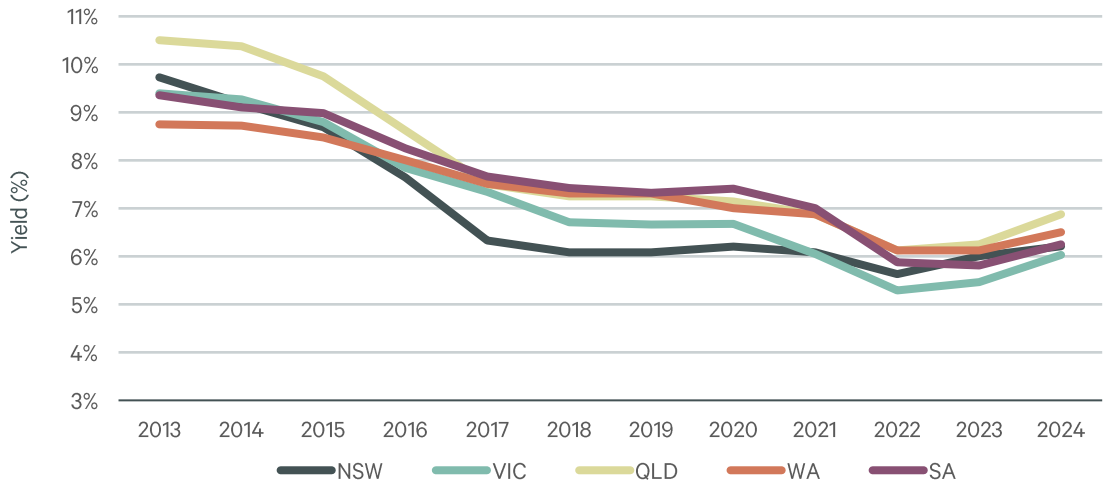
Source: CBRE Research

FIGURE 15: National Large Format Retail Prime Supply by State



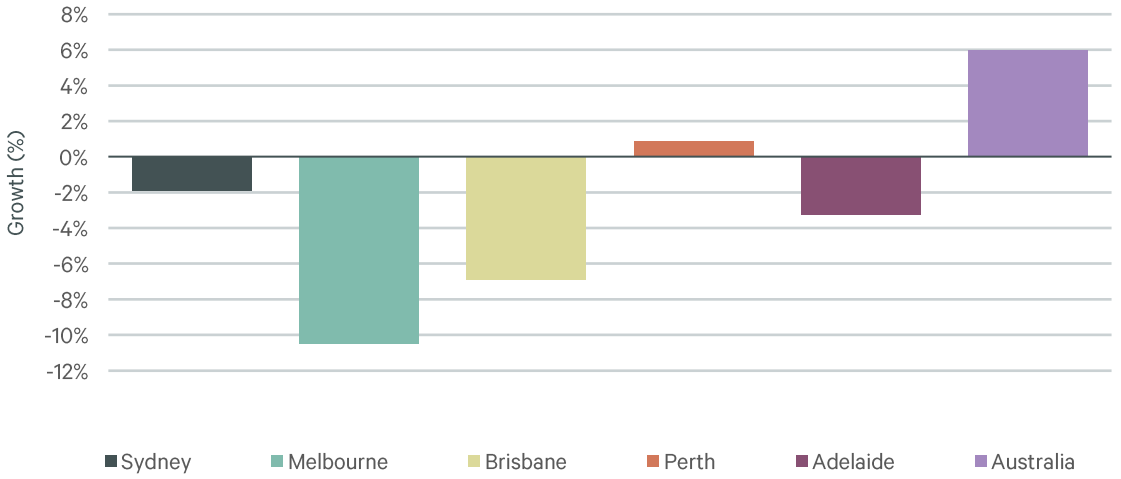
Source: CBRE Research

FIGURE 16: Prime Large Format Retail Yield by State



Source: CBRE Research

FIGURE 17: Annual Capital Value Growth – Prime Large Format Retail



Source: CBRE Research

© 2024 CBRE, INC.

Contact

Amita Mehra
Director
+61 400 355 667
amita.mehra@cbre.com.au

Sameer Chopra
Head of Research, Pacific and ESG APAC
+61 422 242 830
sameer.chopra@cbre.com

Sarun Kunakool
Senior Analyst
+61 403 084 770
Sarun.Kunakool@cbre.com

Cameron Douglas-Perrine
Senior Analyst
+61 450 801 459
Cameron.DouglasPerrine@cbre.com

Darcy Badgery
Senior Analyst
+61 428 746 118
Darcy.Badgery@cbre.com

Charlotte Fordyce
Analyst
+61 435 125 530
Charlotte.Fordyce@cbre.com

Masha Lobanova
Analyst
+61 405 393 449
Masha.Lobanova@cbre.com

© Copyright 2023. All rights reserved. The views and opinions in these articles belong to the author and do not necessarily represent the views and opinions of CBRE. Our employees are obliged not to make any defamatory clauses, infringe or authorize infringement of any legal rights. Therefore, the company will not be responsible for or be liable for any damages or other liabilities arising from such statements included in the articles.