

FIGURES | MELBOURNE RETAIL | Q2 2024

Rental growth normalises amidst growing competitive pressures

▼ 6.9%

Melbourne CBD Vacancy H1 24

▼ 1.7%

Victoria Retail Sales Y-o-Y Growth

▼ -3 bps

Regional Centre Y-o-Y Yield Change

▼ \$70m

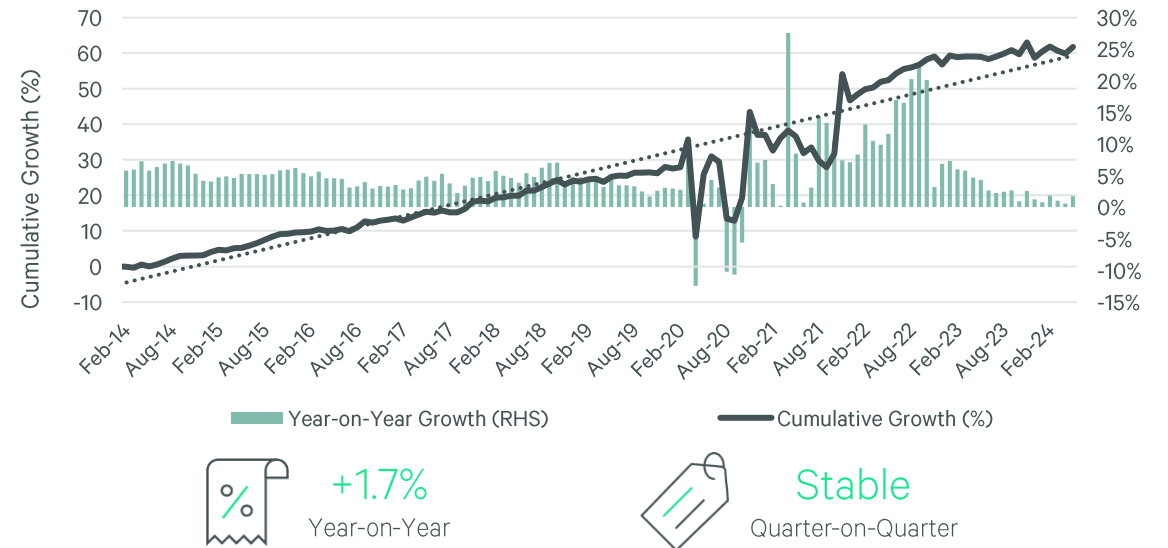
Q2 2024 Victoria Retail Asset Sales

Note: Arrows indicate change from previous quarter.

Key Points

- Victorian retail turnover continues to decline as consumers adjust to rising cost of living pressures, with a recorded -0.54% change over the previous three months to \$9,142m.
- Labour market conditions continue to ease, with Victoria’s unemployment rising to 4.3%. This aids retail tenants’ ability to expand whilst limiting inflationary pressures on local wages.
- Retail supply over 2024-2025 is expected to reach c.210,000sqm across CBD, Shopping Centre and LFR assets. Supply over this time is expected to remain in line with the five-year historical average of c.160,000sqm.
- Melbourne CBD vacancy in H2 2023 was recorded at 6.9%, a 50bp decrease from H2 2024.
- Net face rents across Melbourne’s shopping centre and LFR assets have stabilised in Q2 2024, with downward pressures on super prime CBD assets returning over the quarter.
- Retail investment sales continue to be subdued across Melbourne in Q2 2024, with a recorded c.\$70m transacting.
- Yields showed little movement over the quarter, attributed to limited deal evidence.

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



Source: ABS, CBRE Research.

Economic Overview

Economic growth remains positive, driven by elevated migration levels.

Economic growth conditions nationally remained positive over Q1 2024, growing by 0.1% on a nominal basis. This was the lowest recorded quarterly growth over the last 12-months. The June data release also signalled the fourth consecutive quarter of negative per capita GDP growth.

The Australian economy continues to be held up by elevated migration levels. Without the significant population increases associated with a liberal migration stance, Australia’s GDP is likely to have already turned negative over the last 12-months. Policy decision-makers are likely to take this information into account.

Future interest rate path showing heightened uncertainty amidst the May inflation read.

Australia’s cash rate remains at its recent peak of 4.35%, however heightened inflation conditions have created further doubt as to whether this will be the peak, or when the RBA will begin decreasing rates. These concerns have been spurred by the May monthly CPI (inflation) indicator, which showed a year-on-year increase of 4.0%, higher than many official forecasts and expectations.

Prior CBRE research in ‘Why Melbourne Office’ noted that throughout prior cash rate cycles from 2000, the longest duration rates have been at a relative peak is 12-months. Currently, Australia has been at its relative peak for eight-months. CBRE Research continues to have a house-view that Australia will see its first rate cuts before the end of 2024. This is supported by historical trends, and a view that declines in the cash rate will be necessary to spur future economic growth.

Unemployment rate loosening, both on a state and national level.

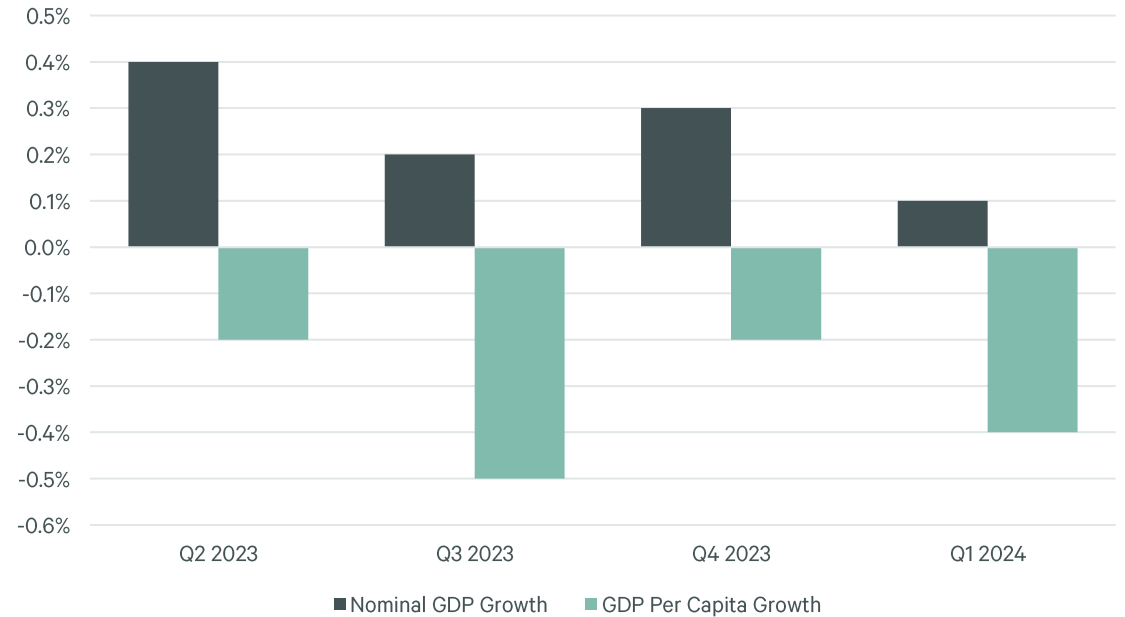
Labour market conditions continue to soften across the country. Australia and Victoria unemployment rates grew by 20bp and 40bp to 4.0% and 4.3% respectively in the three-months to May 2024. A softening labour market has helped reduce inflationary pressures across the country and should further assist arguments supporting declines in the official cash rate. This will also aid retail tenants' ability to expand whilst limiting inflationary wage pressures in the short term.

Retail sales sees a modest rebound driven by end of financial year spending.

Victoria’s retail trade rebounded in May 2024, increasing by 1.2% month-on-month and 1.7% year-on-year. Retailers across the state engaged in earlier than normal end of financial year (EOFY) sales and discounts which has created a spur in activity amidst a relatively bleak economic backdrop.

This spur in activity followed two consecutive months of retail trade declines. Beyond the EOFY activity, retail sales remains on a declining trend, driven by high cost of living pressures in the form of elevated interest rates and inflation.

FIGURE 2: Australian Nominal and Real Growth Comparison by Quarter



Source: ABS, CBRE Research

Supply

Melbourne is expected to be undersupplied relative to historical levels.

Melbourne is expected to see c.210,000sqm of retail supply to enter the market over 2024-2025. These levels are moderately below the five-year annual average of c.155,000sqm per annum. Supply over the coming years remains modestly concentrated in neighbourhood centre and large format developments, accounting for over 70% of supply in the coming two years.

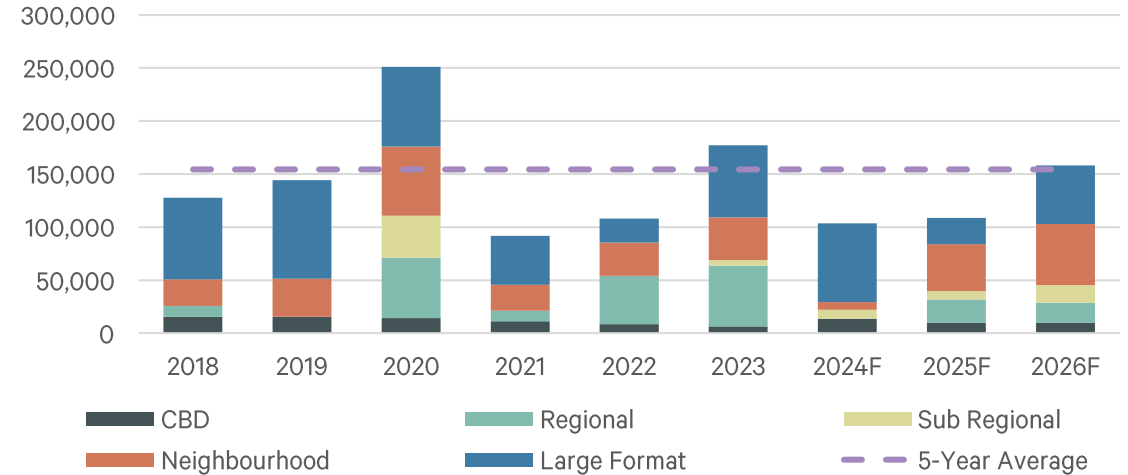
Despite close to 100,000sqm of regional supply expected to be coming over the next two years, developments remain concentrated across a few projects. Given the competitive landscape across Melbourne, limited opportunities exist for new regional centres in the current market. As a result, to remain competitive and improve asset performance, owners continue to take extensive efforts in refurbishing and extending existing supply.

Large format retail assets are expected to see strong levels of supply over the coming years, with multiple new developments emerging across the state. Developer confidence in the asset continues to show resilience across Melbourne.

CBD development delays expected to create further uncertainty over H2 2024.

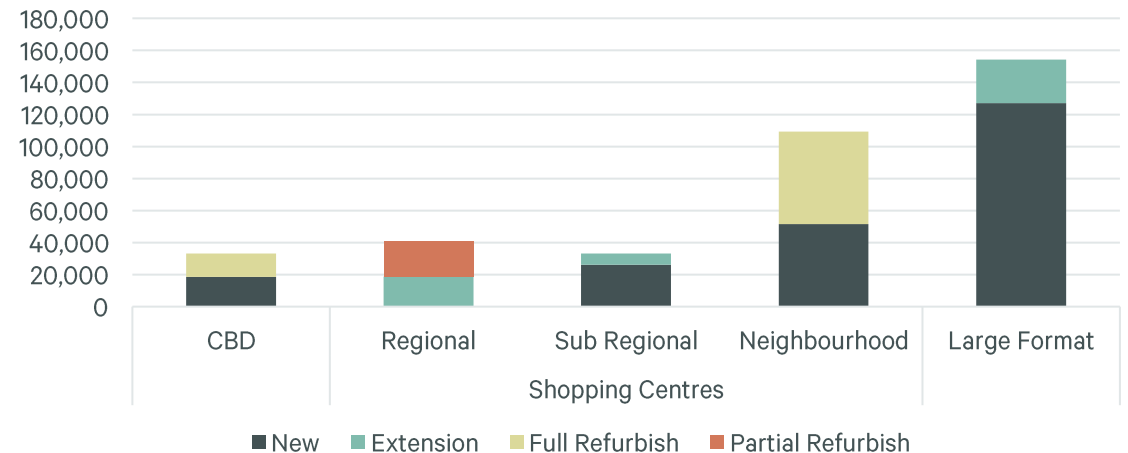
Supply in CBD assets is limited, with just over 35,000sqm expected over 2024-2026. Major developments include 'The Walk', 299 Bourke and Mecca's Flagship Bourke street store. As of Q2 2024, CBRE Research expects delays in the completion of all developments previously noted, with both Mecca's development and 'The Walk' expected to reach practical completion in 2025 and 2026, respectively. As delays occurs, Melbourne's CBD revitalisation continues to be put on hold. Subdued leasing levels are expected as multiple retailers are likely to delay decision making until uncertainty dissipates as to the future of Melbourne's CBD.

FIGURE 3: Melbourne Retail Supply by Category*



Source: CBRE Research

FIGURE 4: Melbourne Future Supply by Property and Development Type.



Source: CBRE Research

Vacancy

Melbourne’s CBD continues to see strong leasing activity as vacancy continues to decline.

Melbourne’s CBD saw vacancy levels decline by 50bp in H1 2024, the lowest level seen since 2021. Vacancy remains elevated compared to the long-run average, which hovered below 4%. Vacancy over the last 24 months has been trending downwards as tenants returned to the CBD following the pandemic.

Notably, landlords across Melbourne are demonstrating confidence with respect to the future of Melbourne’s CBD. CBRE notes approximately 4% of surveyed stock was under development across core centres, strips and arcades. Current developments in progress across Melbourne’s CBD coincide with Mecca’s flagship store opening. Retail investment in the CBD has begun to ramp up as landlords seem to be anticipating heightened demand levels over the coming years.

Significant bifurcation between retail categories as tenant preference becomes more pronounced.

Vacancy across all retail categories saw half-on-half decreases as of H1 2024. Centres continue to see the lowest vacancy across Melbourne, partly driven by a few notable core centres with strong accessibility options in premium locations. CBRE data suggests core centres experienced vacancy of 2.7%, compared to 11.1% seen across non-core centre assets. Similar bifurcation was viewed within Melbourne’s strips. Core strip locations saw a vacancy of 4.9% contrasted by 11.6% in non-core strips. Tenants continue to show a clear preference for key locations across Melbourne’s CBD.



FIGURE 5: Victoria Retail Vacancy by Category

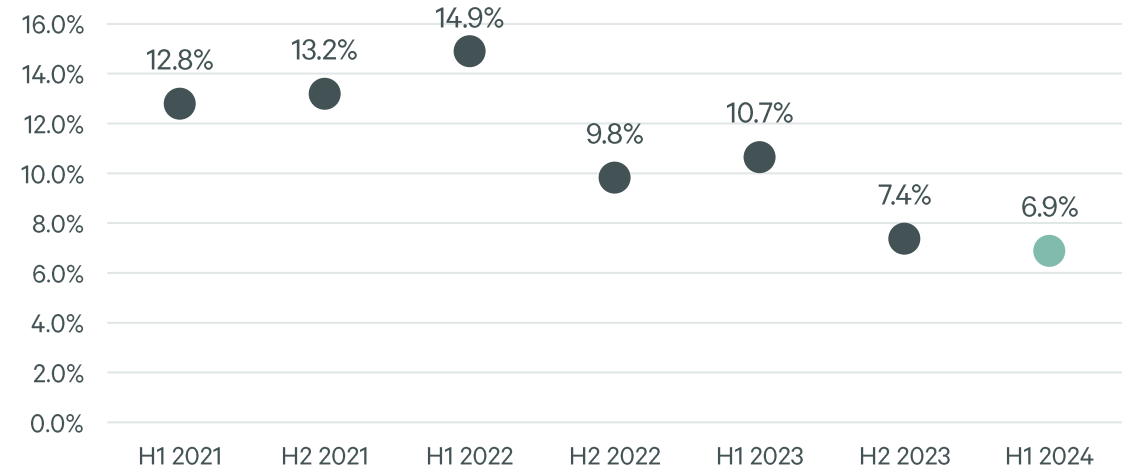
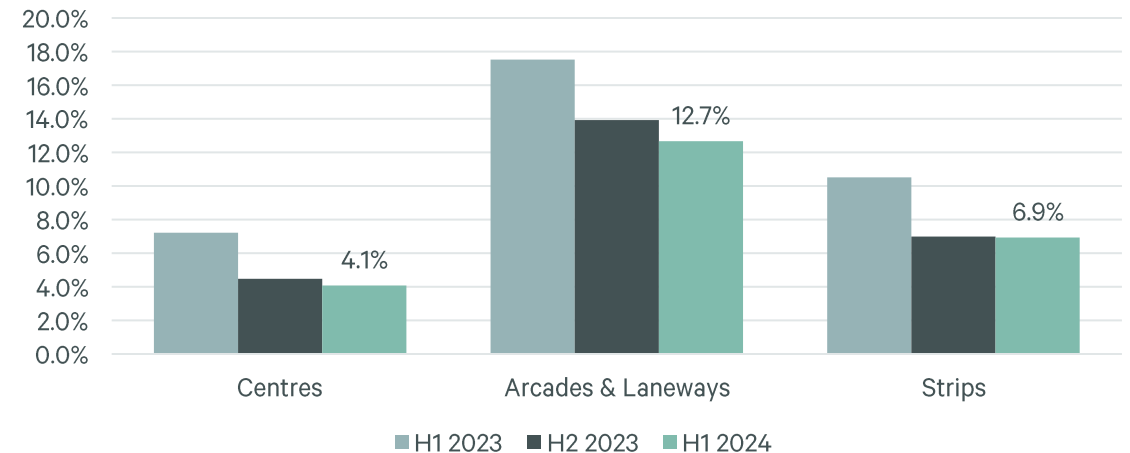


FIGURE 6: Melbourne CBD Vacancy by Period



Source: CBRE Research

Rental Performance

Rents decline in Melbourne’s CBD with further stability across other categories.

Following the mild growth experienced in Q1, Q2 2024 has seen rental stability across all asset classes except Super Prime CBD, which recorded -3.8% q-o-q. Rental conditions in Melbourne’s Super prime CBD market continue to recalibrate driven by increased uncertainty and declining retail expenditure. Given the delays experienced with Mecca’s Bourke Street development and ‘The Walk’, we expect further rental recalibration to occur throughout H2 2024.

Flat rents in other retail categories has been driven by softening retail trade growth across the state. Both official data sources and local insights paint a similar picture of many retailers struggling in the current economic environment, as consumers cut back on discretionary spending. Rents are expected to remain flat as landlords remain conscious of the pressures tenants are experiencing in the current economic climate.

Market dynamics shifting for shopping centre assets towards tenant favorability as incentives increase.

Across Melbourne continued pressure on retail occupiers and increasing bifurcation has shifted market dynamics over the quarter. On the occupier side, continued inflationary pressures on cost of goods sold and a tight labour market have begun to be felt across the state. The result of this is dampened face rental growth and increasing tenant negotiations for elevated incentives.

Despite this, key performing centres across all shopping centre grades continue to be less impacted by this driven by resilient visitation levels and elevated demand levels.

FIGURE 7: Victoria 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	6,250	-3.8%	-10.7%	4,688	-9.9%	-16.3%	25.0%	500	500
Regional	1,484	Stable	-0.7%	1,329	-2.7%	-3.4%	10.5%	250	250
Sub-Regional	886	Stable	8.3%	773	-2.8%	5.9%	12.8%	250	199
Neighbourhood	711	Stable	0.7%	640	-1.8%	-1.1%	10.0%	167	167
Prime Large Format	296	Stable	-1.2%	254	Stable	-0.9%	14.2%	Stable	-32

Source: CBRE Research

FIGURE 8: Net Face Rent Growth by Retail Asset Category



Source: CBRE Research

Investment Market

Sales volumes remain subdued in H1 2024.

Investment activity has been limited in Q2 2024 with c.\$67m recorded, bringing the total for H1 2024 to c.\$167m. This is a significant reduction from the c.\$1.1B recorded in H1 2023. Subdued deal volumes over the quarter is believed to be a product of timing, rather than limited interest in the sector.

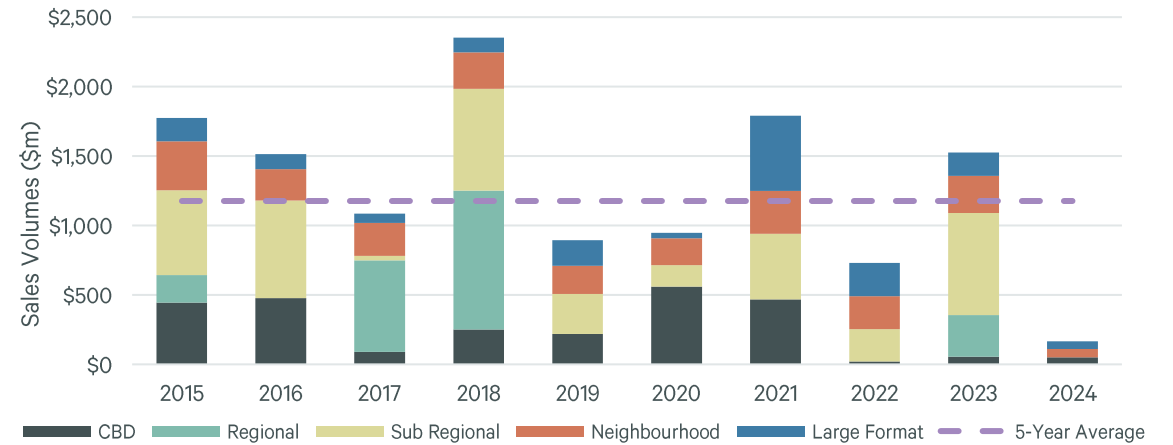
Our expectations around deal volumes over 2024 are that total volume is likely to increase to levels comparable to the five-year average of c.\$1,175m. This is driven by two factors, a belief that interest rates have peaked and that buyer-vendor expectations starting to become more aligned following significant yield expansion. Multiple high-profile sales experienced in H2 2024 can contribute to elevated volumes.

Limited deal evidence contributes to yield stability.

All asset categories recorded limited yield movement in Q2 2024, with no yield movement recorded in super prime CBD, sub-regional and neighbourhood asset classes. Regional assets saw mild yield contraction of -3bps, with LFR assets seeing mild expansion of 2bps.

Pricing stability is primarily attributed to limited deal evidence in the market. Sentiment remains strong for investor interest in Melbourne’s retail sector, which should contribute to elevated deal volumes in H2 2024.

FIGURE 9: Victoria Retail Sales by Asset Category



Source: CBRE Research

FIGURE 10: Victoria Retail Yields by Category



Source: CBRE Research

Contact - Research

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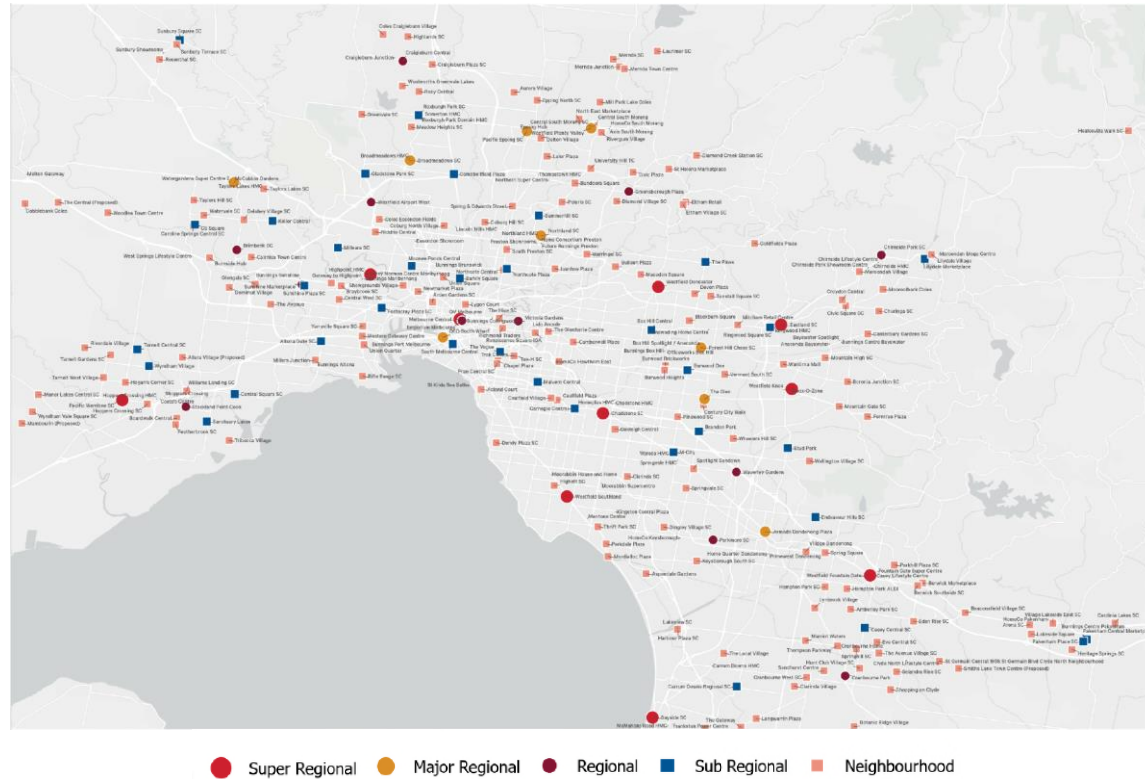
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