Intelligent Investment

Large Format Retail Australia

REPORT — Insights

CBRE RESEARCH
APRIL 2024

Key Points

01

The LFR sector is seeing the emergence of a new retail category known as “lifestyle”, which represents a shift towards more day-to-day lifestyle offerings rather than traditional hardware or furniture categories.

02

Currently, there are 332 LFR centres in Australia, with a total market size of approximately 5,345,000 sqm of floorspace.

03

Despite slowed growth recorded in December 2023, demand for household goods is validated by the 10-year average annual growth of 5%.

04

Australia’s population growth is expected to exceed 15% between 2023-2033. This equates to an additional 4.43 million residents nationally by 2033.

05

Pre to post-COVID LFR occupier annual sales growth of 6.4% (combined top 5 listed LFR players).

06

An acute lack of supply was present over 2023, with new national retail floorspace introduced to the market at a 10-year low, of which 26% stemmed from LFR.

07

The proportion of larger private buyers in 2023 equated to 66% of LFR transactions, compared to 2020 where only 36% of buyers were private.

08

Rental growth will be led by Adelaide at 3.8% followed by Melbourne at 3.6% and Sydney rebounding to 2.6%. Brisbane and, Perth are also forecasting healthy rental growth of 2.5% and, 2.1% respectively in 2024.

01

Robust Performance, High Barriers to Entry & Market Size

Robust outlook for LFR captures strong investor interest

The Large Format Retail (LFR) sector has outperformed in recent years, driven by economic factors such as strong population growth and rising housing prices. An evolving tenant composition coupled with strong tenant performance have also been major contributors to LFR's recent strength. There remains a promising outlook for the sub-segment's key fundamental drivers with promising population growth projections, robust housing demand and a limited supply pipeline. The LFR sub-segment's strong performance and attractive industry outlook has attracted growing investor interest into a sub-sector that is traditionally tightly-held.

LFR sees emergence of new retail category called "Lifestyle"

The LFR sector is seeing the emergence of a new retail category known as "lifestyle". Retailers and occupiers including Chemist Warehouse and Autobarn belong to this new category. Retailers such as these are not typical tenants, they represent a shift towards more day-to-day lifestyle offerings rather than fitting into traditional hardware or furniture categories. Notably, Chemist Warehouse is expanding from Shopping Centres to LFR spaces, which provide increased space, extended trading hours and lower rents.

Market size in Australia

There are currently 332 LFR centres in Australia, with a total market size of approximately 5,345,000 sqm of floorspace. The average size of an LFR centre is around 16,690 sqm[1]. While this appears to be a large number, it reflects Australia's highly regulated retail sector, which focuses on clear planning for councils and the Government. Australia's 10 largest LFR assets represent 600,694 sqm, or 11%, of the total LFR floorspace (FY23). Unlike other retail assets, LFR assets can be repurposed for industrial use and often sit on land-rich parcels of land. If this trend persists it could continue to negate LFR supply, thus making these assets scarcer. This underlying factor, combined with Australia's robust and rapidly growing economy, will strengthen the position of LFR owners. LFR floorspace continues to be dominated by the furniture category, accounting for 34% of total floorspace.

LFR vacancy

The vacancy rate for LFR assets in Australia decreased from 3.5% in 2021/22 to a record low of 2.5% in 2022/23. This tightening vacancy reflects a growing tenant demand for these assets, particularly given the limited new floorspace being added to the market. As a result, occupancy and rental rates for these assets are expected to continue to rise, along with their asset values. This trend is indicative of the strong market conditions for LFR in Australia.

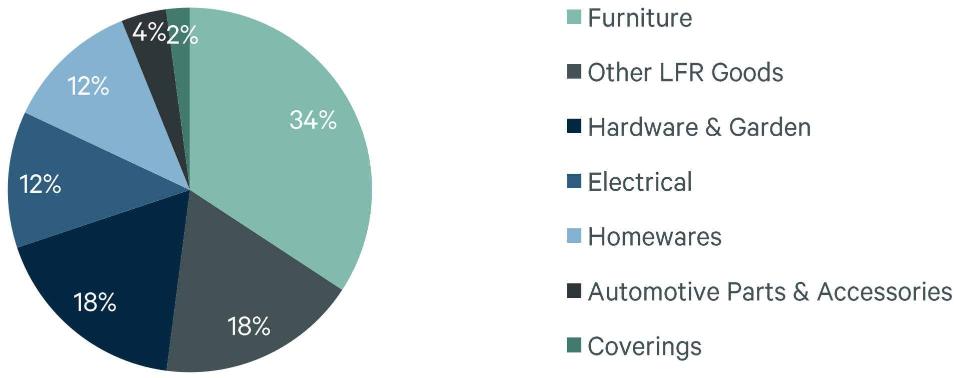
High barriers to entry

LFR development in Australia is a capital-intensive endeavour. The cost of land acquisition can also be prohibitive, especially in prime locations, further adding to the expense of building new assets. Moreover, the development approval process in Australia is highly regulated, with stringent planning and environmental regulations. Obtaining DA Approval is usually a costly and lengthy process, which has limited the supply pipeline for LFR assets. As a result, new entrants into the LFR market face significant barriers to entry, while established owners with existing infrastructure and experience have a distinct advantage. This is exemplified by the fact that Australia has c.0.9 sqm of total retail per capita, compared to c.2.1 sqm in the US and c.1.5 sqm in Canada (as at December 2022)[2].

FIGURE 1: Prime LFR Net Face Rent Growth

Source: CBRE Research

FIGURE 2: Share of LFR Categories in Australia



1. According to Large Format Retail Association (LFRA).
2. Property Council of Australia (PCA)
Source:: LFRA as at FY23

02

Population to Drive Strong Long-term Growth

Robust population growth to support future LFR demand

Australia experienced significant population expansion in 2023, providing a strong demographic tailwind for the LFR sector. Net overseas migration rebounded to over c.518,000 new arrivals, coupled with a natural increase of c.106,000. This drove Australia's 2023 population growth rate to a robust 2.4%.

Looking ahead to 2024 and beyond, projections indicate Australia will maintain one of the highest population growth trajectories among developed nations over the next decade at over 15% between 2023-2033. This equates to an additional 4.43 million residents nationally by 2033.

The concentration of growth in Eastern states like New South Wales, Victoria and Queensland aligns closely with major LFR trade areas. This expanding population base, particularly on the Eastern seaboard, will fuel heightened housing formation and consumer demand for bulky goods categories served by LFR centres.

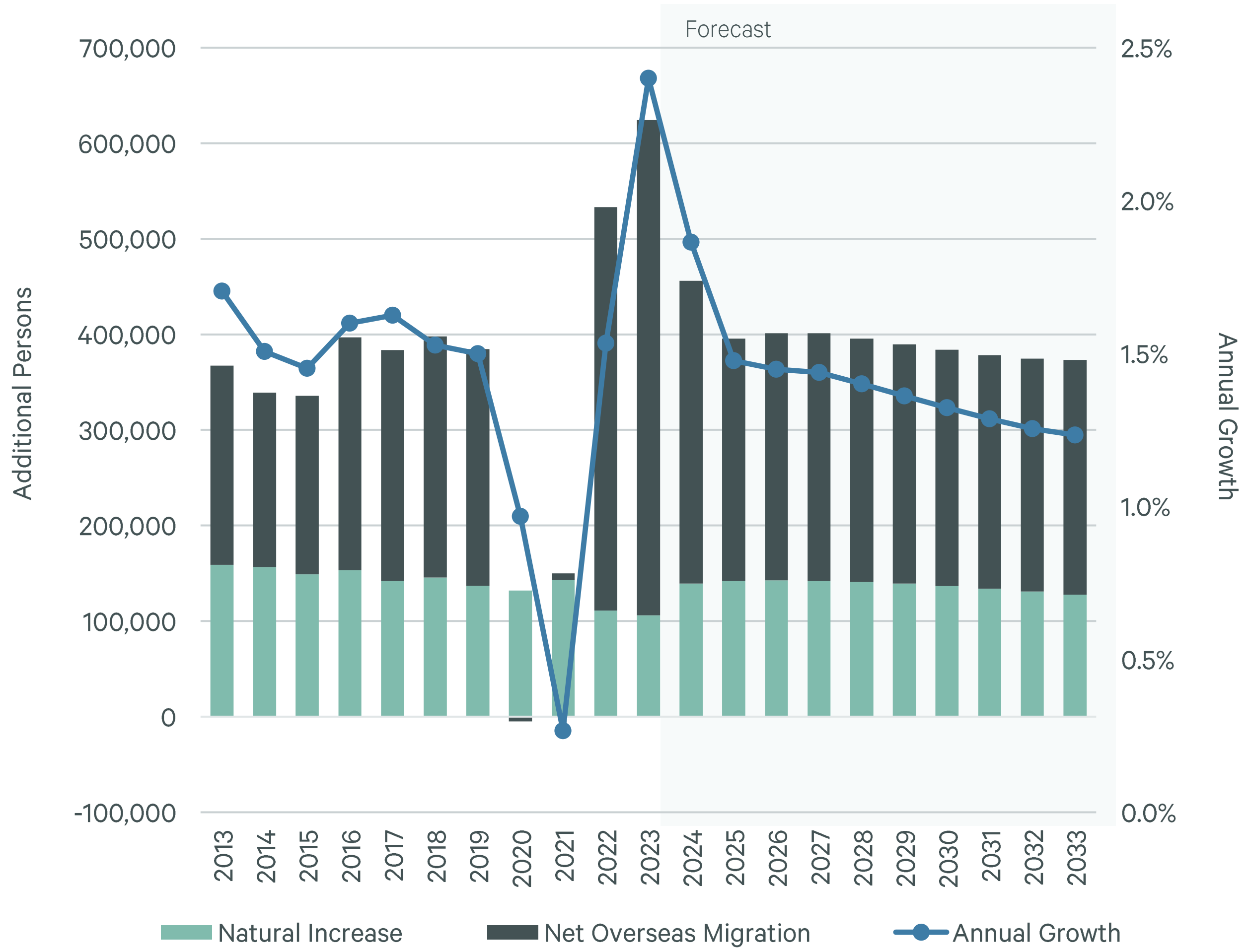
An influx of skilled migrants targeted through updated immigration policies should further stimulate buying power for durable goods associated with establishing new households. As a result, LFR retailers and asset owners are positioned to capitalise on these favourable population and migration trends supporting higher sales productivity and tenant demand moving forward.

A$41 bn

Additional annual retail spend from migration related demand over 2024-33.

On average, each additional person generates $16,000 p.a. in retail spend. Net overseas migration expected to add c.2.57m additional people over 2024-2033.

FIGURE 3: Australian Population Growth Forecasts



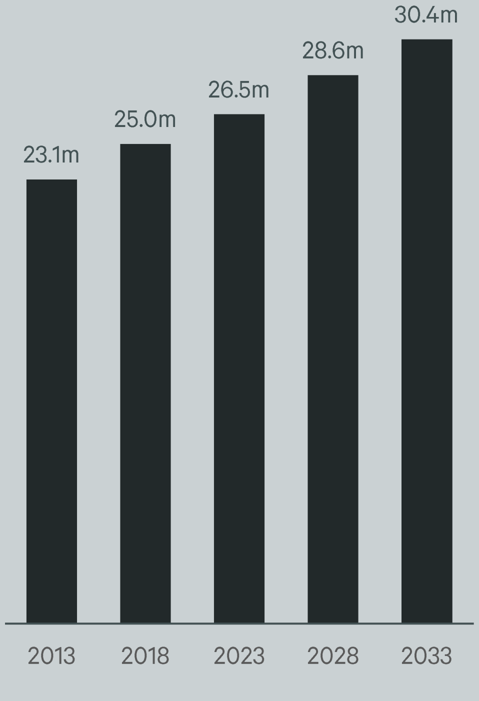
To note: Calendar Year

Source: CBRE Research, Deloitte Access Economics 2023.

Population Growth

+3.9m

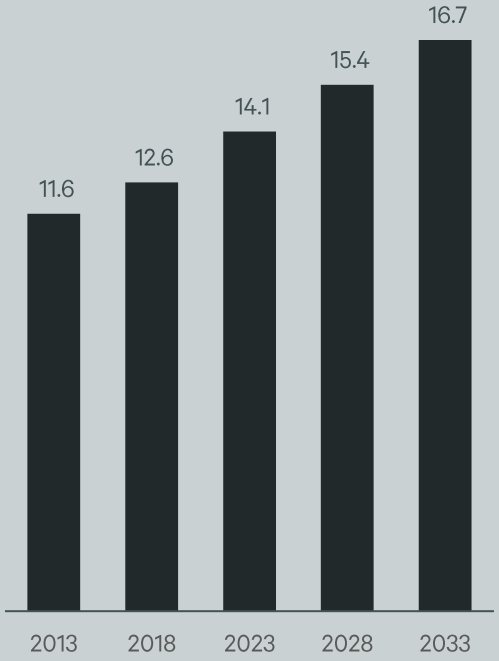
Immigration is likely to contribute to two-thirds of Australia's population growth, from 26.5m in 2023 to 30.4m by 2033.



Jobs

+2.6m

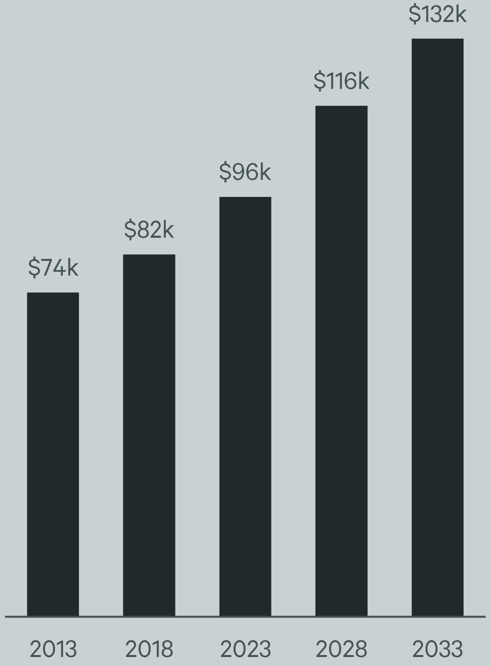
Employment is expected to grow from 14.1m in 2023 to 16.7m in 2033.



Rising Income

+$35k

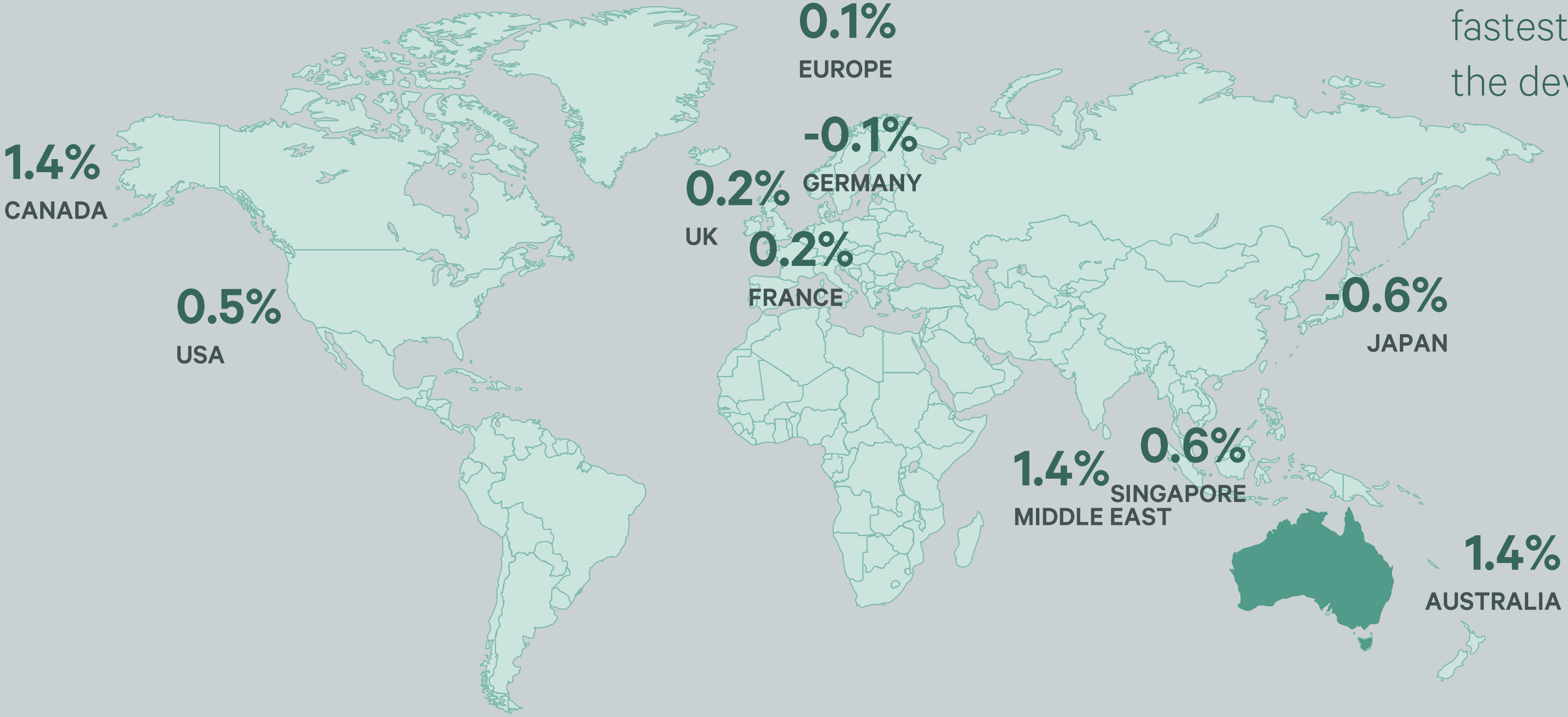
Australian average annual income is forecast to increase from $96,000 currently to $132,000 p.a. by 2033.



+$860bn annual wealth effect

Global comparison

Figure 4: Population forecast annual growth rate 2024-33



Australia has secured the 2nd fastest growing population of the developed world.

0.5% APAC

0.9% WORLD

(%)	Dec-23	Jun-24	Dec-24	June-25	Dec-25	Jun-26
GDP growth	1.98	1.47	1.35	1.64	1.85	2.06
Unemployment Rate	3.67	4.00	4.38	4.55	4.59	4.59
CPI inflation	4.30	3.67	3.00	2.72	2.60	2.51
Wage Price Index	3.86	4.12	3.84	3.40	3.22	3.15

Source: RBA, Oxford Economics, World Bank, CBRE Research.

03

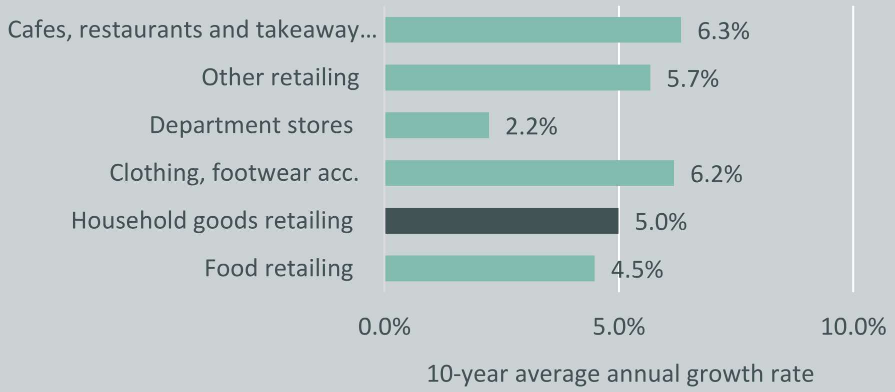
Occupier Performance & Sales Growth

Occupier performance

During COVID, household goods expenditure experienced significant growth, reaching a peak of 20.1% in 2H 2020. Following this spike, household consumption has trended downwards. However, given that furniture goods are items typically purchased once every few years, we expect household consumption to improve in 2024 and onwards. This will most likely occur post interest rate cuts commence, prompting consumers to purchase larger ticket items once the pressure on household expenditure begins to alleviate.

The demand for household goods, a major occupier in LFR assets, is validated by the 10-year average annual growth of 5% (from 2014 to 2023).

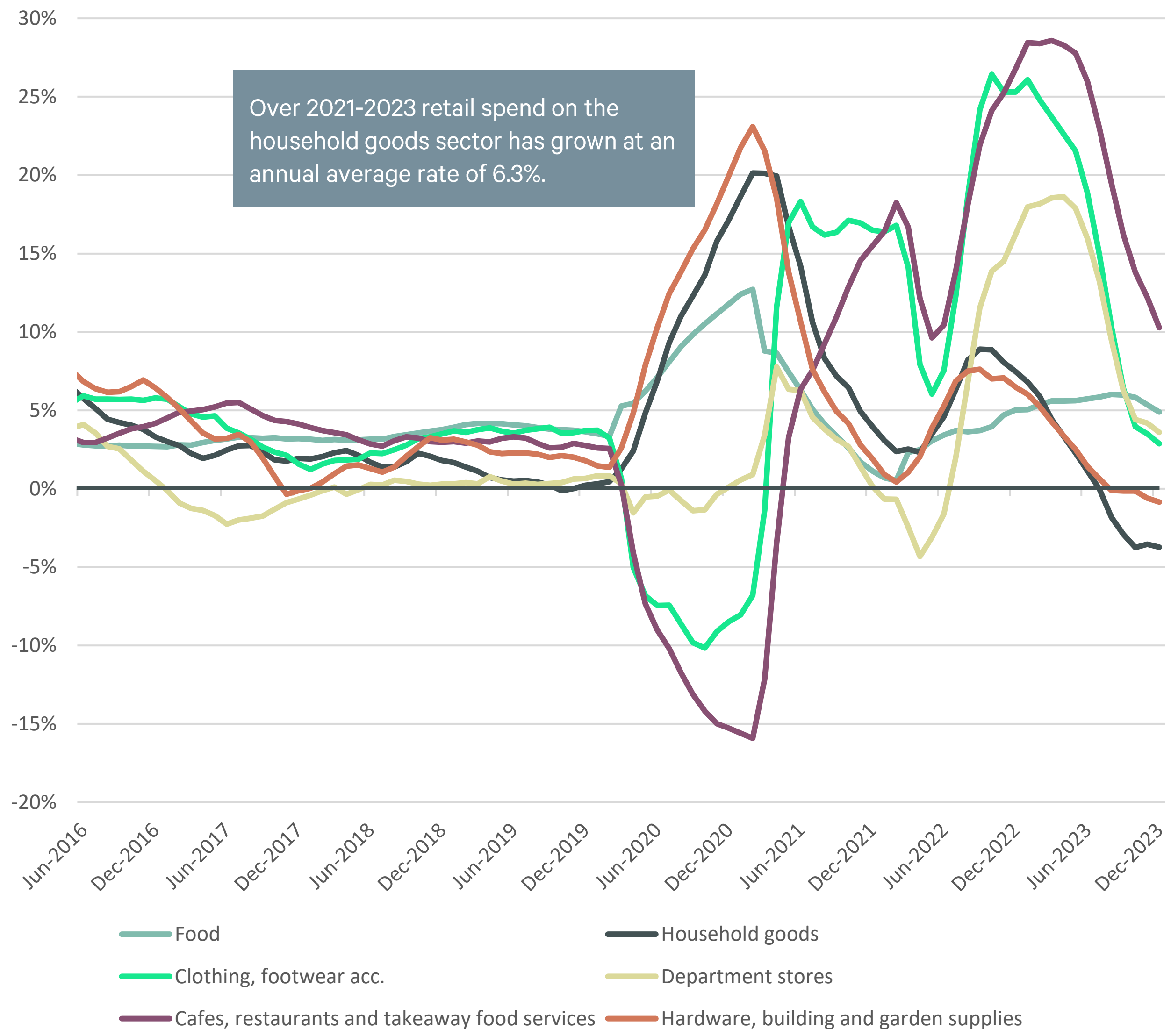
Figure 5: Retail spend by category, 10-year annual average growth rate (2014-2023)



A$70 bn

Retail spend on household goods over 2023.

FIGURE 6: Australia retail trade spend by category (seasonally adjusted, y-o-y growth)



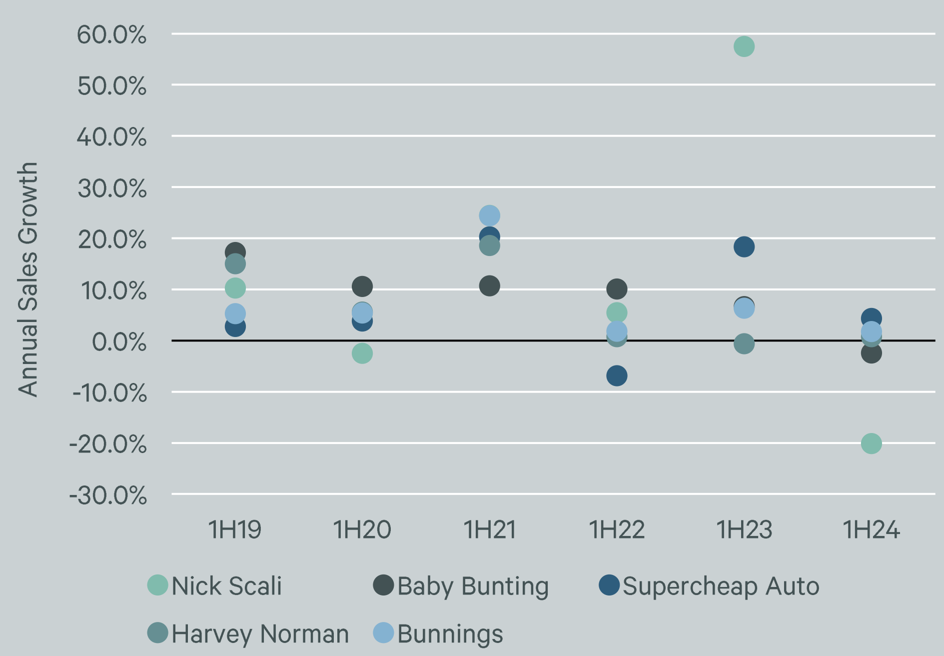
Source: CBRE Research, ABS. As at 4Q23 (latest date available as of Jan 2024)

Occupier sales growth

LFR occupiers have performed exceptionally since 1H19. Despite the challenges of the COVID pandemic, LFR occupiers were a comparatively resilient asset class. Notably, 93% of 5 major listed retailers recorded positive growth (between 1H19 and 1H21). Despite slowed sales growth in 1H24, due to rising interest rates, retailers remain well positioned.

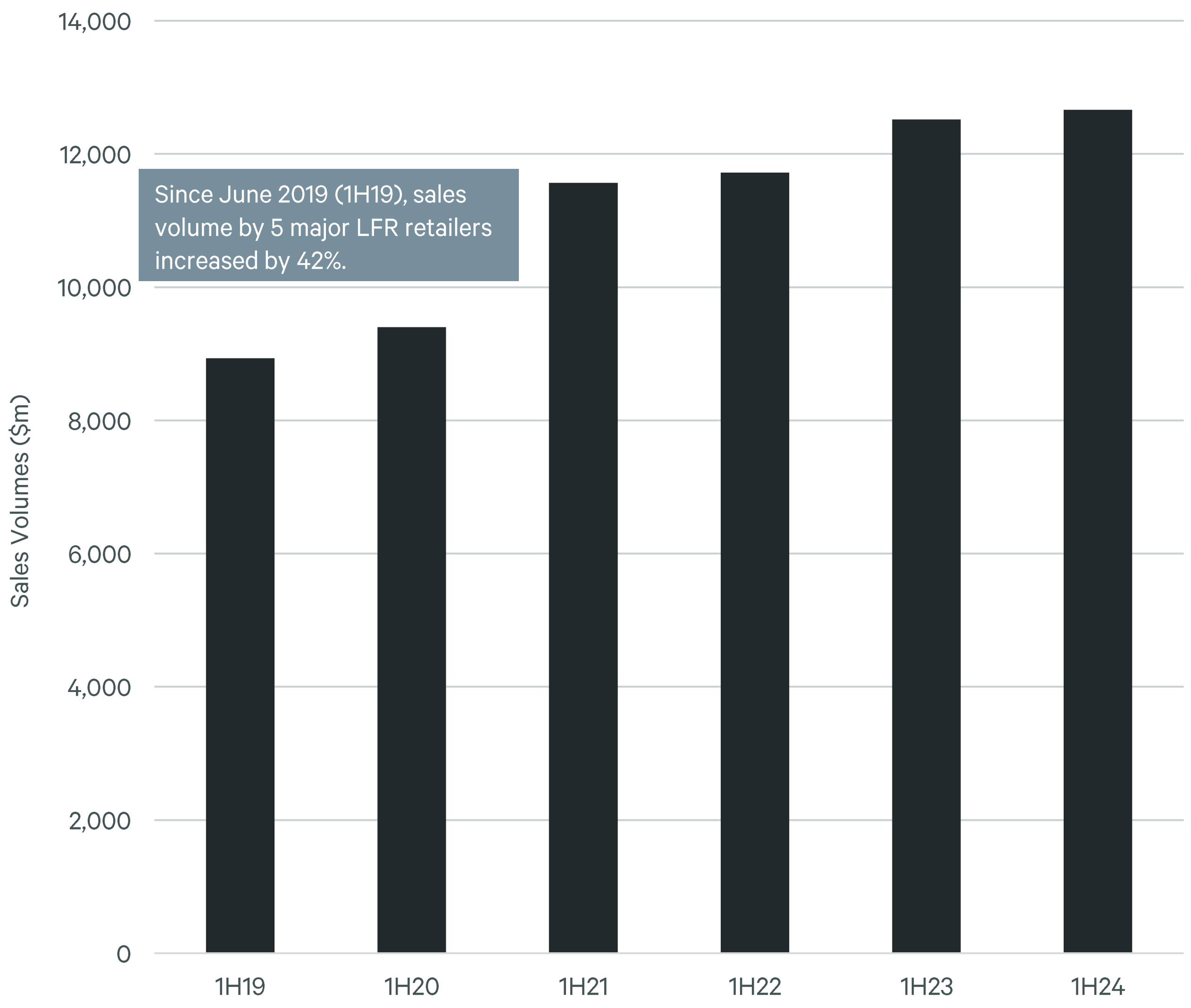
Pre to post-COVID LFR occupier annual sales growth of 6.4% (combined 5 major listed LFR retailers).

FIGURE 7: Listed LFR Occupiers Annual Sales Growth (1H19 - 1H24)



Source: CBRE Research

FIGURE 8: 5 Major Listed LFR Companies Sales Volume (1H19 - 1H24)

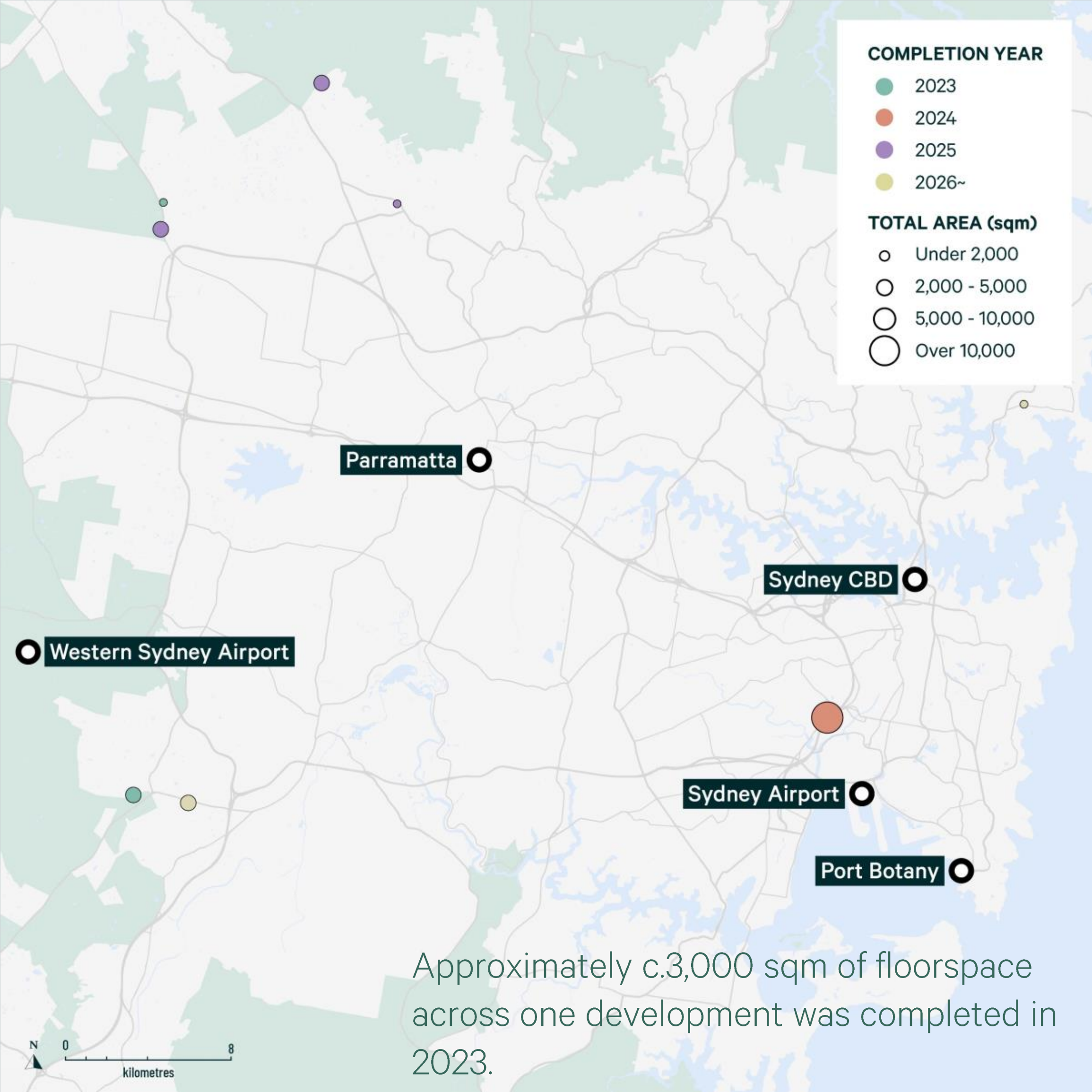


To note: Includes Bunnings, Supercheap Auto, Nick Scali, Baby Bunting & Harvey Norman
Source: CBRE Research

04

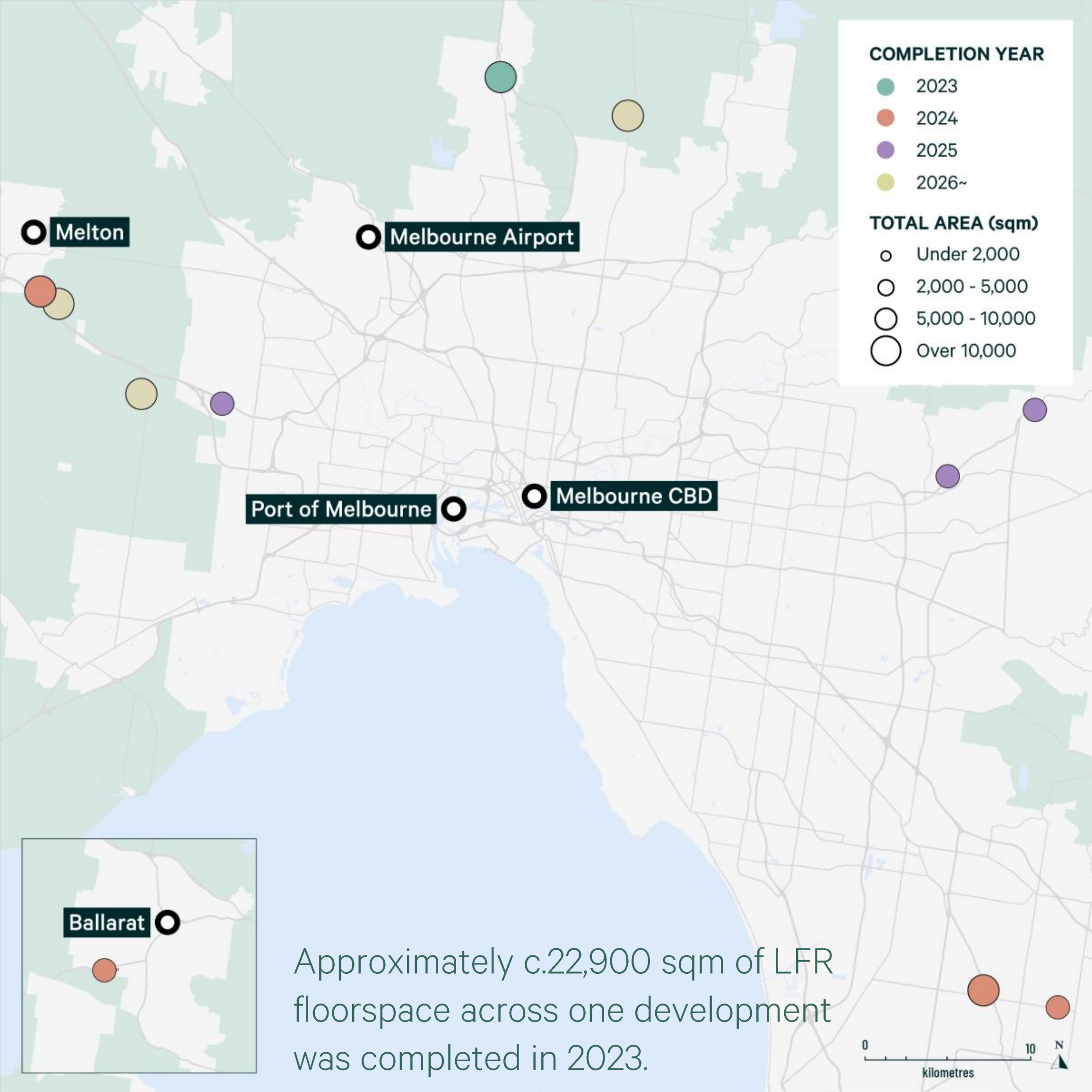
Constrained Supply Pipeline

Sydney LFR Supply Pipeline



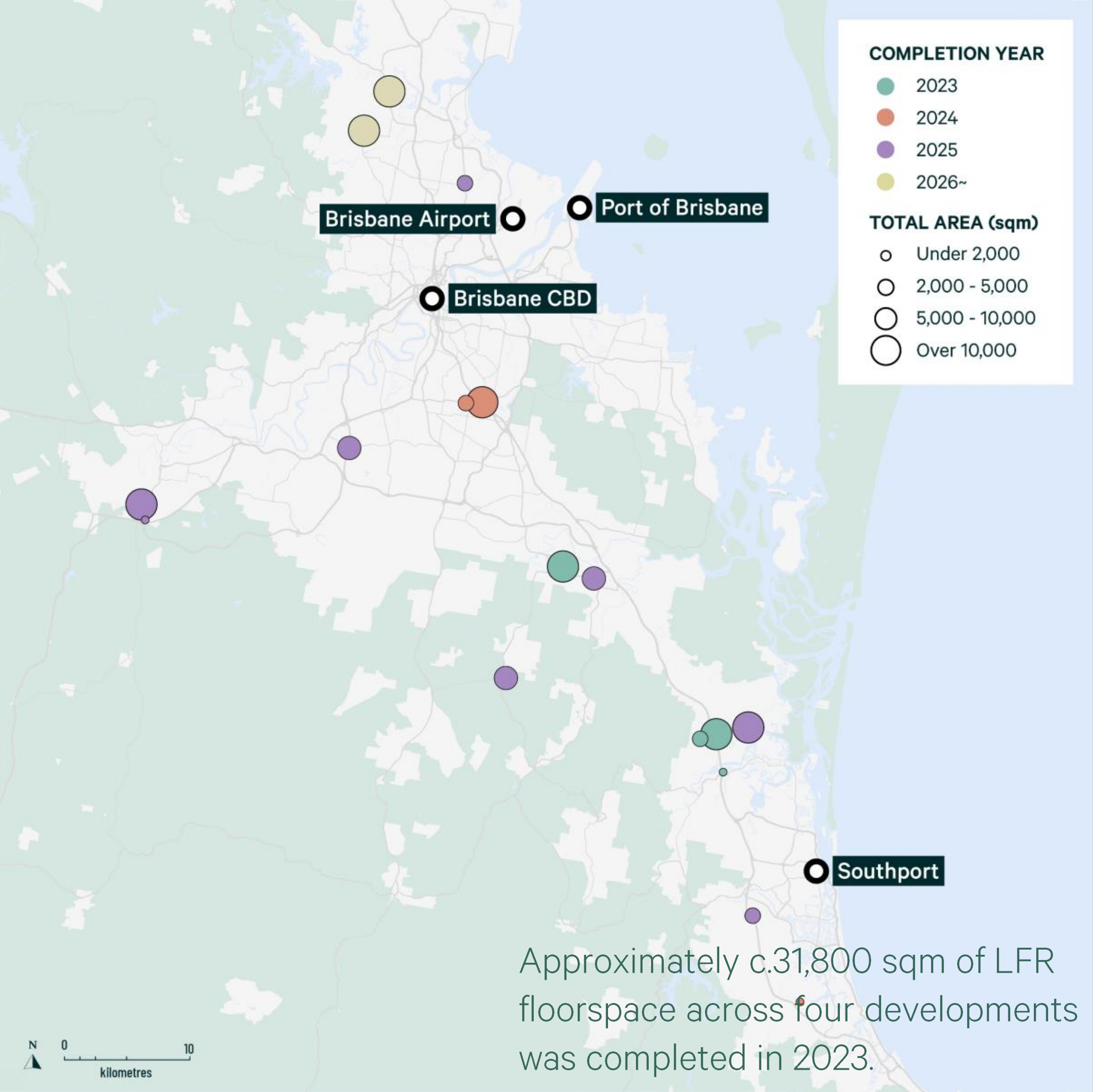
Approximately c.3,000 sqm of floorspace across one development was completed in 2023.

Melbourne LFR Supply Pipeline



Approximately c.22,900 sqm of LFR floorspace across one development was completed in 2023.

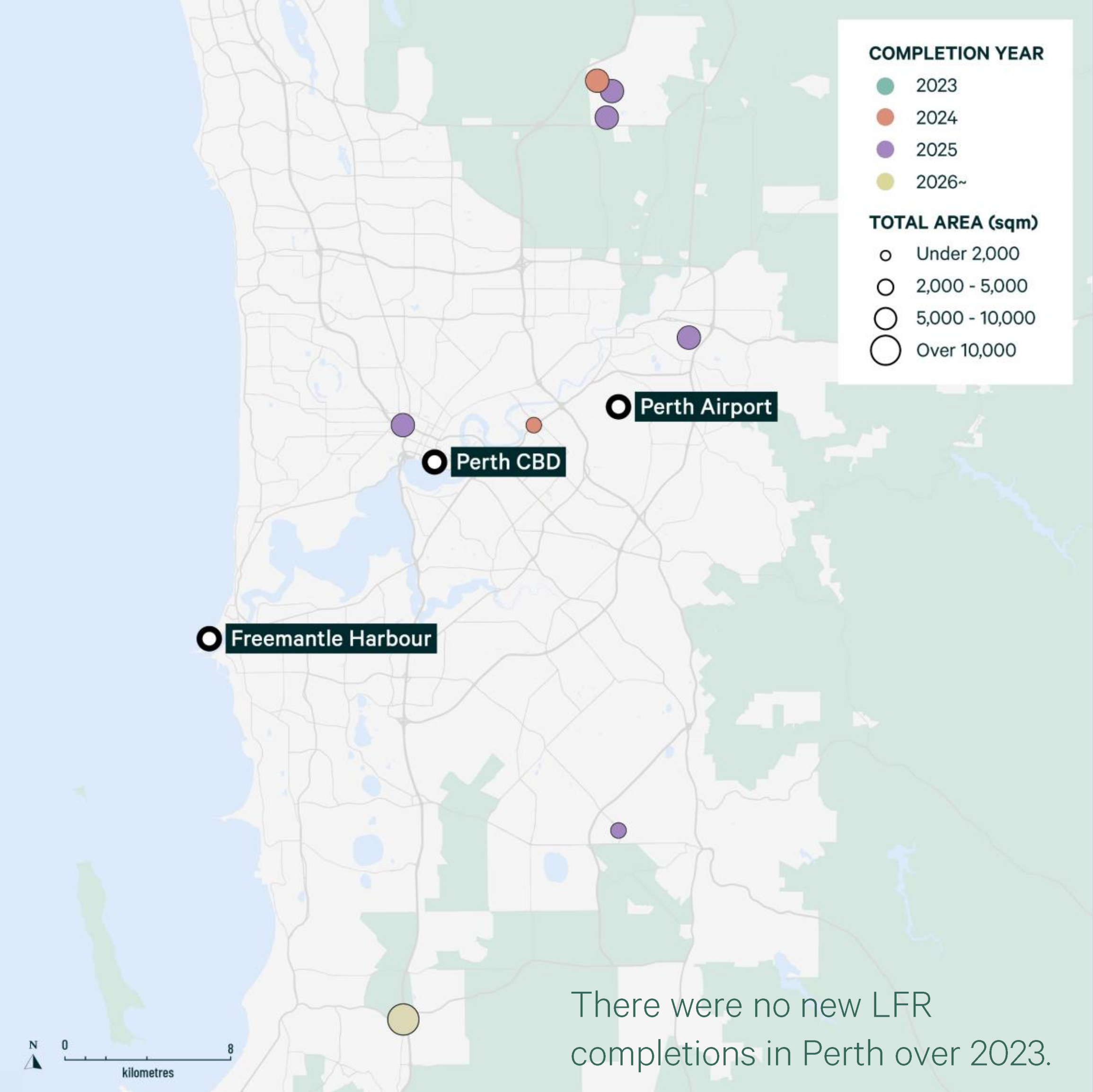
Brisbane LFR Supply Pipeline



Approximately c.31,800 sqm of LFR floorspace across four developments was completed in 2023.

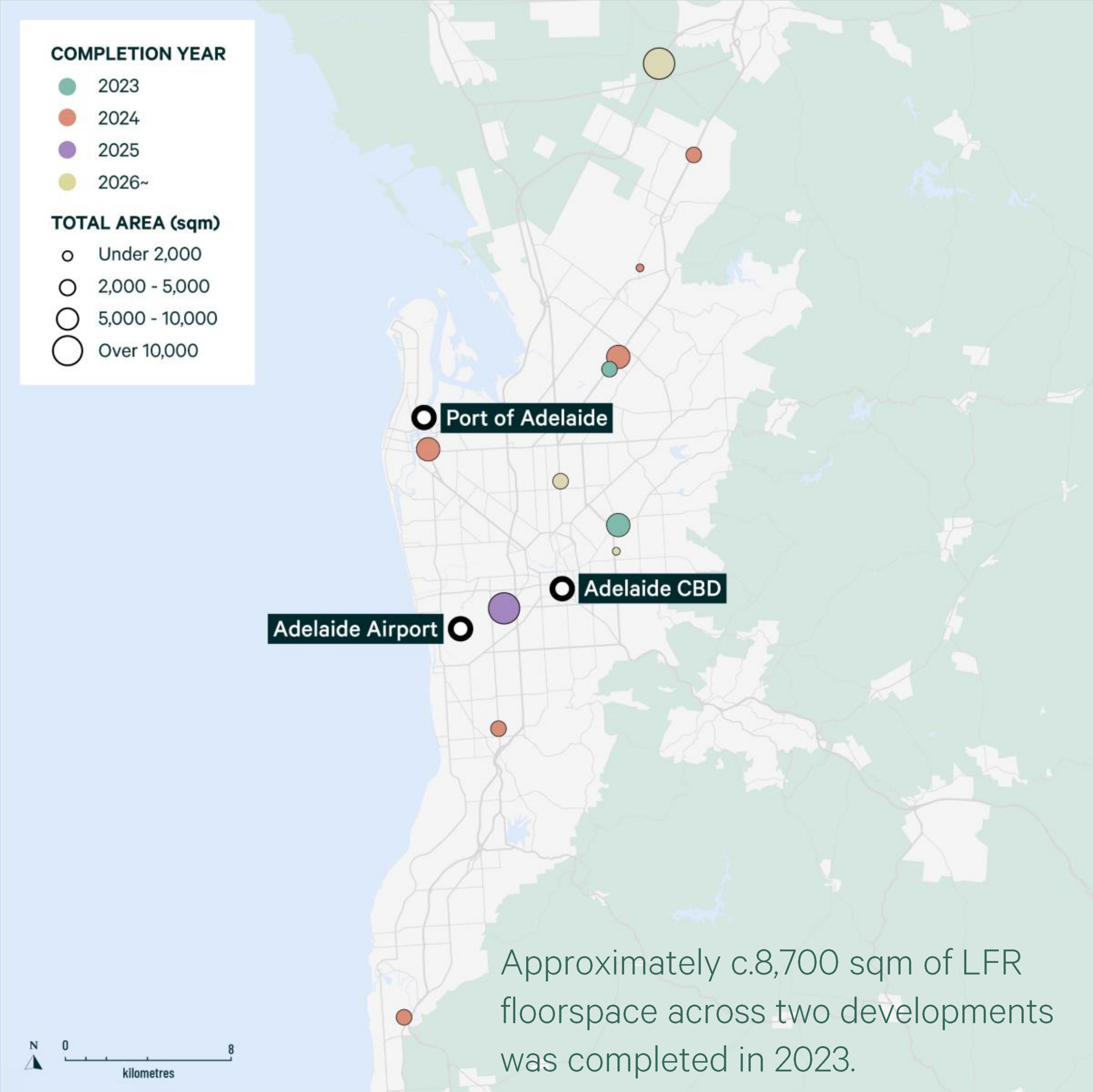
To note: Only includes Brisbane and Gold Coast metro developments.

Perth LFR Supply Pipeline



There were no new LFR completions in Perth over 2023.

Adelaide LFR Supply Pipeline



Approximately c.8,700 sqm of LFR floorspace across two developments was completed in 2023.

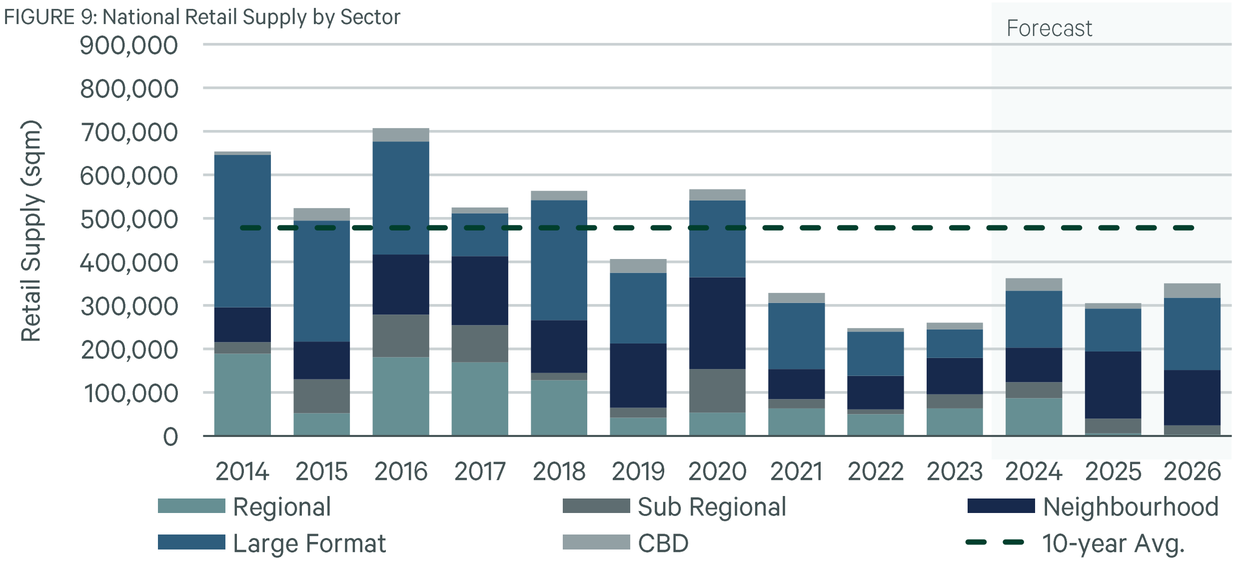
Chronic supply shortage drives vacancy lower

The overall retail supply pipeline has reduced considerably since 2020. This acute lack of supply was present over 2023, with new national retail floorspace introduced to the market at a 10-year low (261,000 sqm), of which 25% (65,000 sqm) stemmed from LFR. The average annual floorspace added from 2014 to 2020 (564,000 sqm p.a.) was significantly higher (18%) than the 10-year long run average of 636,000 sqm per year. Furthermore, the annual average forecast supply between 2024-2026 is 29% below the long-run average.

LFR as a portion of overall retail supply has decreased since 2021. This coupled with the decreasing level of total retail floorspace being added to the market, exacerbates the constraint on LFR supply and existing stock. Hence, LFR supply remains scarce, and many developments are being delayed due continually high construction costs and interest rates. This is validated by the vacancy rate reducing from 3.5% to 2.5% over FY23.

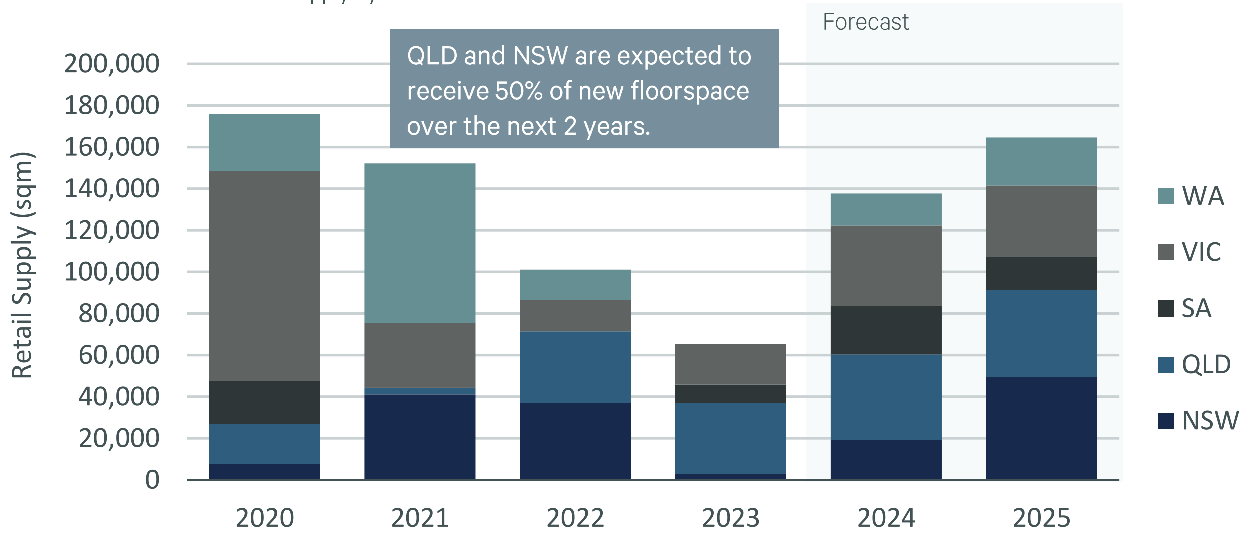
Source: CBRE Research

FIGURE 9: National Retail Supply by Sector



To note: Does not include Strip, Stand alone or Other retail
Source: CBRE Research

FIGURE 10: National LFR Prime Supply by State



To notes: Excludes non-metro developments
Source: CBRE Research

05

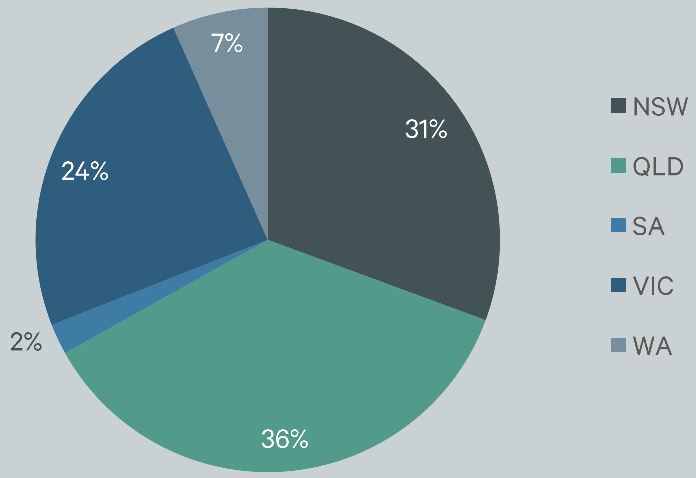
Buyer Landscape & Sale Size Categories

Strong interest from private investors

Despite LFR assets experiencing a decline in institutional capital investment, interest from private investors has significantly grown. Strong asset performance and limited supply, coupled with quality leases and strong tenant demand, are key contributing factors to private investor demand. The proportion of larger private buyers in 2023 equated to 66% of transactions, compared to 2020 where only 36% of buyers were private.

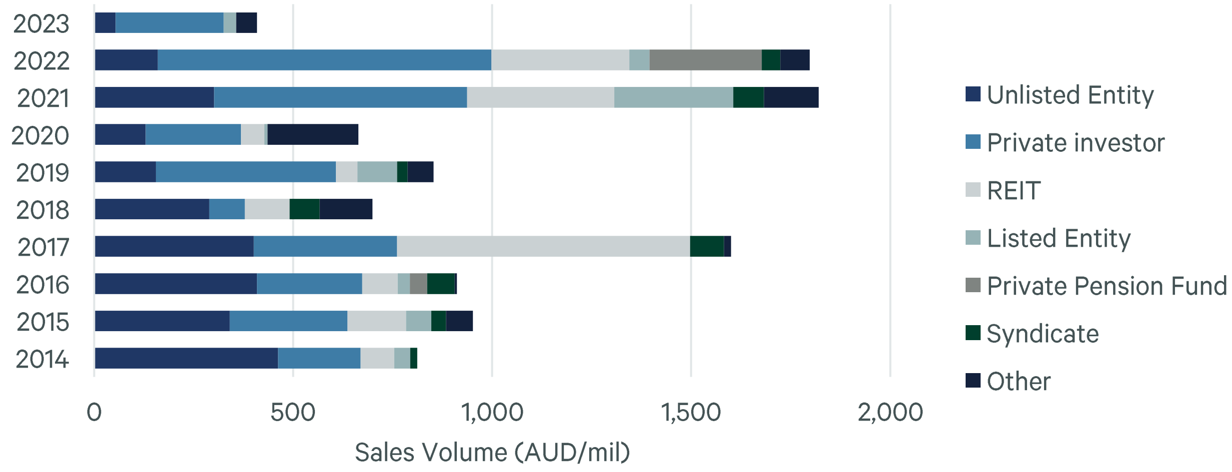
In regards to buyer origin, transactions have consistently been dominated by domestic buyers. In 2023, transactions consisted of 32% foreign and 68% domestic buyers.

FIGURE 11: Large Format Retail Sales by State (2021 - 2023)



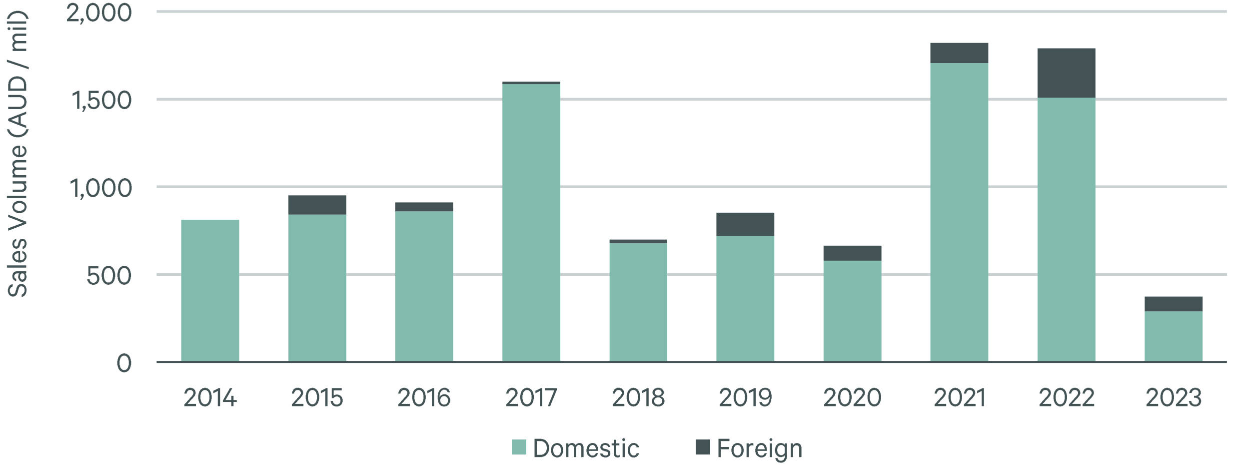
Source: CBRE Research

FIGURE 12: National Large Format Retail Buyers Type (2014 - 2023)



Source: CBRE Research

FIGURE 13: National Large Format Retail Buyers Origin (2014 - 2023)



Source: CBRE Research

Smaller transactions dominate sales

The majority of LFR transactions over the last 10 years have been between the $5 to $50 million range, accounting for 81% of sales in 2023. There have been few transactions greater than $100 million since 2014 and zero recorded in 2023. Notably, the $50 to $100 million sales category is typically the preferred value range of institutional investors.

This dominance of smaller transactions is due to increased activity of private investors. Conversely, institutional investors have been constrained from buying larger assets, as listed and wholesale entity's look to meet investor redemptions and preserve their balance sheet capacity.

FIGURE 14: National LFR Transactions Above AU$20m (January 2023 - Current)

Property	State	Date	Sale Price ($m)	Initial Yield (Passing)	GLA (sqm)	Vendor	Buyer
Robina Town Centre	QLD	Dec-23	53	7.0%	12,748	QIC Fund	Private Investor
HomeCo Box Hill	VIC	Nov-23	68	5.8%	13,911	HMC Capital	Private Investor
HomeCo Midland	WA	Aug-23	75	6.6%	23,316	HMC Capital	PWD
Broadmeadows Homemaker Centre	VIC	Aug-23	20	7.0%	5,631	Vicinity Centres	BWP Trust

Source: CBRE Research

FIGURE 15: National Large Format Sale Size Categories (2014 – 2023)

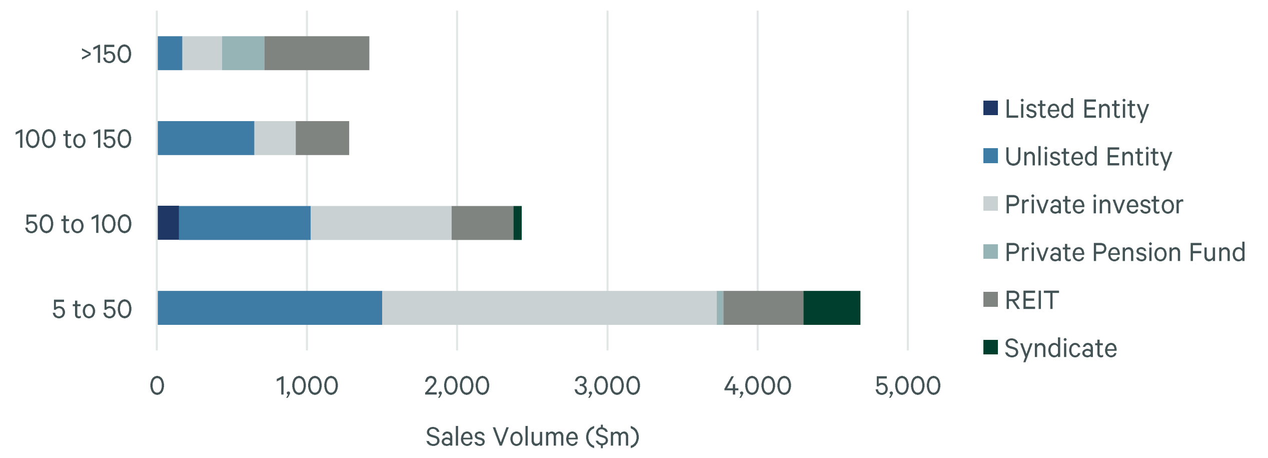
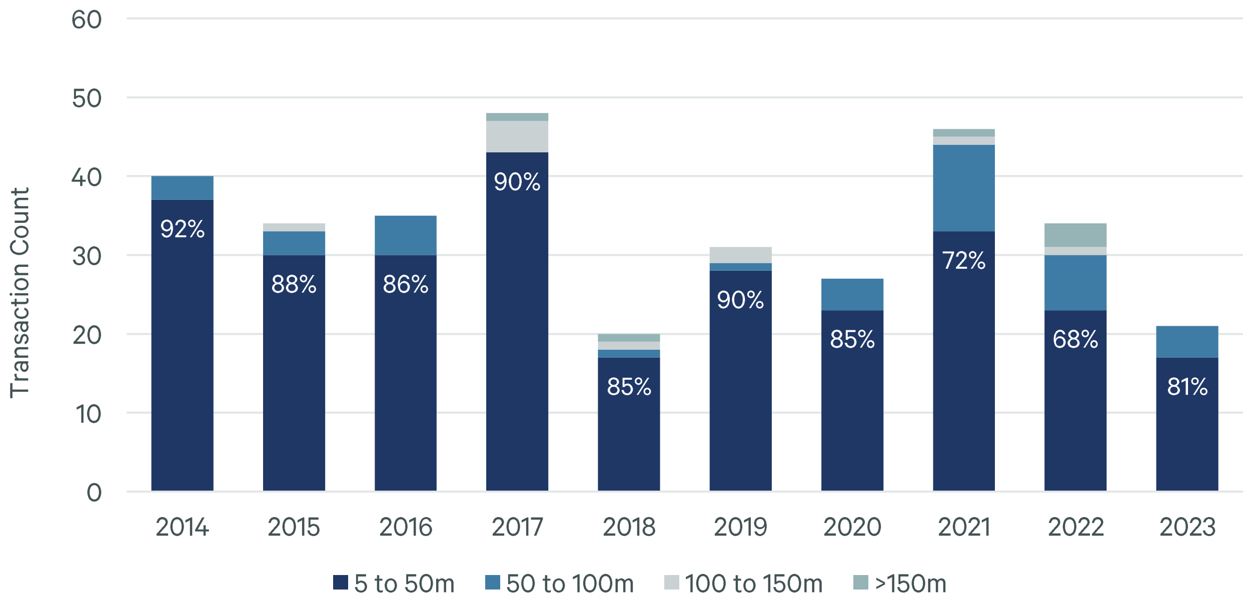


FIGURE 16: National Large Format Transaction Count by Sale Price Range (2014 – 2023)



Source: CBRE Research

06

Outlook

Forecasts & Outlook

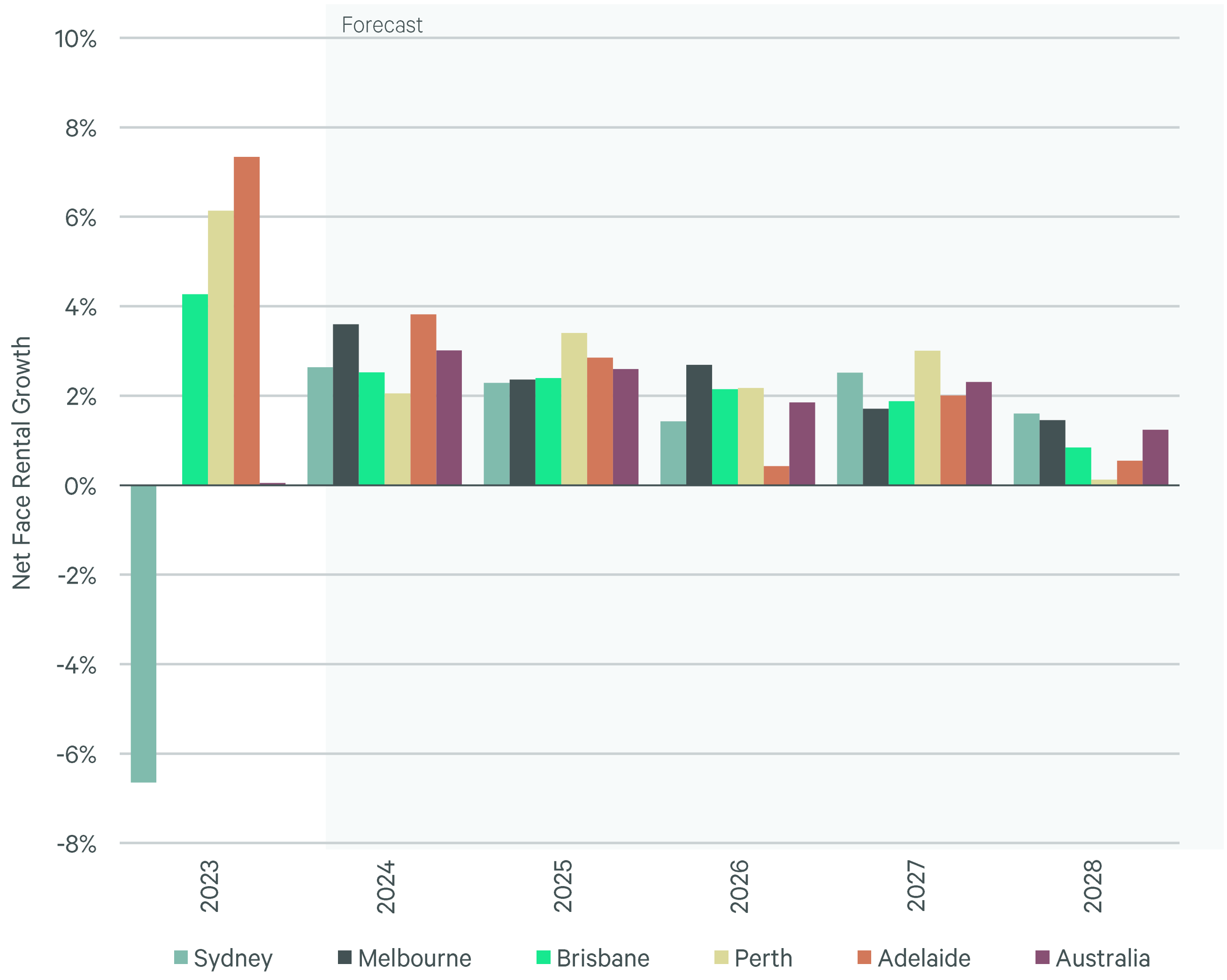
After a flat 2023 where national LFR rents grew just 0.1%, the market is projected to rebound in 2024 with a 3.0% increase. This will be led by Adelaide at 3.8% growth followed by Melbourne at 3.6% and Sydney rebounding to 2.6%. Brisbane and Perth are also forecasting healthy rental growth of 2.5% and 2.1% respectively in 2024.

Looking ahead from 2024-2028, LFR rental growth is expected to normalise in the 1.8%-2.6% range annually across major markets. New supply has dropped significantly, projected at an annual average of 90,000 sqm per year over 2023-2026 period versus 206,000 sqm over 2014-2022 (56% lower). This remains relatively constrained against the backdrop of continued robust population growth.

National Prime LFR rents are forecast to reach $338/sqm nationally by 2028, up from $304/sqm in 2023. Sydney and Melbourne are expected to maintain their position as the highest rent markets, reaching $650/sqm and $339/sqm respectively by 2028. However, Adelaide is projected to see the fastest rental growth after posting 7.3% growth in 2023.

The locational advantages and scarcity value of well-positioned LFR assets will continue supporting above-average rental uplifts, particularly in supply-constrained major metropolitan areas like Sydney and Melbourne..

Figure 17: Prime LFR Annual Net Face Rent Growth (Dec 23 - Dec 28F)



Source: CBRE Research

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