

FIGURES | WA RETAIL | Q1 2024

Rent growth continues as yields stabilise

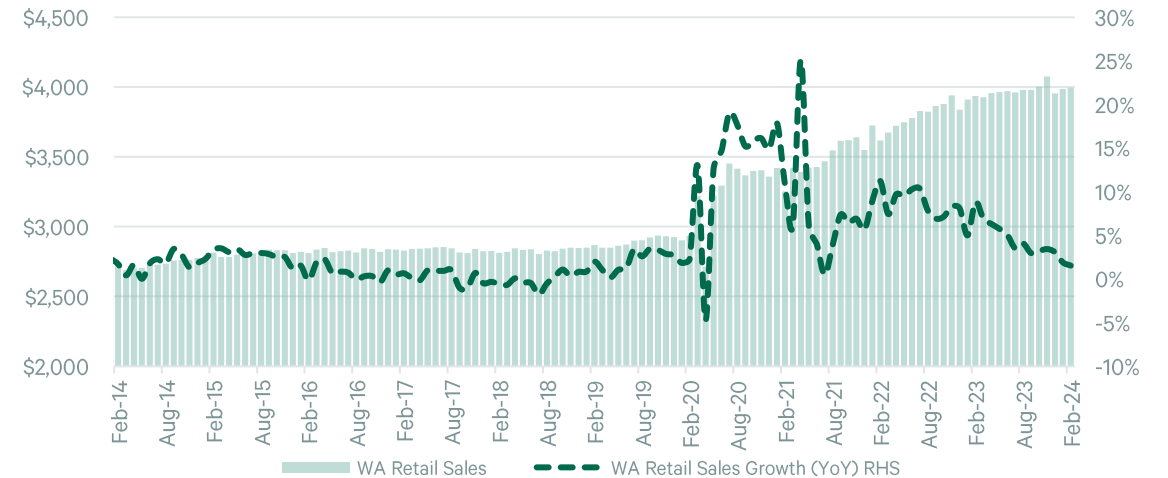
▲ 1.4%	▶ 0 sqm	▼ 25.2%	▶ 6.24%
WA annual population growth FY23-27 ¹	New retail supply 1Q24	CBD Vacancy rate (2H23)	Shopping centre midpoint yield

Note: Arrows indicate change from previous quarter.

Key Points

- WA's retail sales growth has remained relatively resilient, despite higher interest rates and rising cost of living continuing to pressure consumer spending. WA retail sales grew 1.6% y-o-y in February, aided by strong population growth driven by international and interstate migration.
- There were no new retail completions in 1Q24. Looking forward, there is c. 8,500 sqm of new retail stock scheduled to complete in 2024 with the extension of Kardinya Park Shopping Centre (c. 3,300 sqm) now expected to complete in 2025.
- Net face rents saw a roughly 1% q-o-q across the majority of retail categories. LFR continued to see the greatest rental growth in 1Q24, increasing 0.9% q-o-q and 7.1% y-o-y, while CBD Super Prime rents saw the first upward movement in several years.
- Retail yields stabilised in 1Q24 and remained unchanged q-o-q.
- After a flurry of retail transactions in 4Q23, there were no notable retail transaction volumes in the period.

FIGURE 1: WA Retail Sales & Year-on-Year Growth



+1.6%
Year-on-Year

+0.3%
Month-on-Month

Source: ABS, CBRE Research
¹ Deloitte Access Economics

Economic Overview

WA’s economic growth forecast to underperform the national average

In recent years, WA’s economic growth has outperformed the rest of the nation, driven in large part by strength in the mining sector. WA’s GSP grew by 3.5% in 2022-23, outpacing Australian GDP growth of 3.1%. While economic growth is forecast to slow in 2023-24, the WA State Budget update still forecasts GSP growth of 1.75%. WA’s state final demand was recently revised up to 4.5%, however, GSP growth was revised down due to the impact of hotter and dryer weather conditions on agricultural production. Regardless, WA’s near-term economic outlook remains attractive, but recent softening of commodity prices will provide some headwinds.

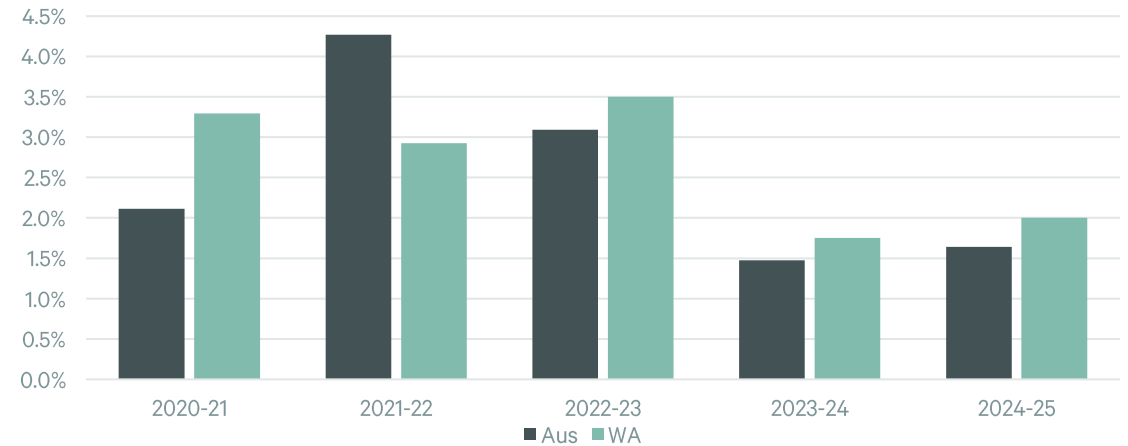
WA retail sales grows 1.6% y-o-y in February

WA’s retail sales growth remains resilient, increasing 1.6% y-o-y in February to \$4.0bn. Record population growth remains a key driver of retail sales growth, despite consumption headwinds. WA’s population grew by nearly 25,000 (3.2% year-on-year) in 3Q23. Population growth has primarily been driven by overseas migration, but interstate migration has been a significant contributor to population growth since late 2020. Another vital tailwind for the state’s retail sales is continued strength in the labour market. WA’s seasonally adjusted unemployment rate was 3.8% in February 2024, inline with the national unemployment rate of 3.8%.

Consumer sentiment rebounds in February

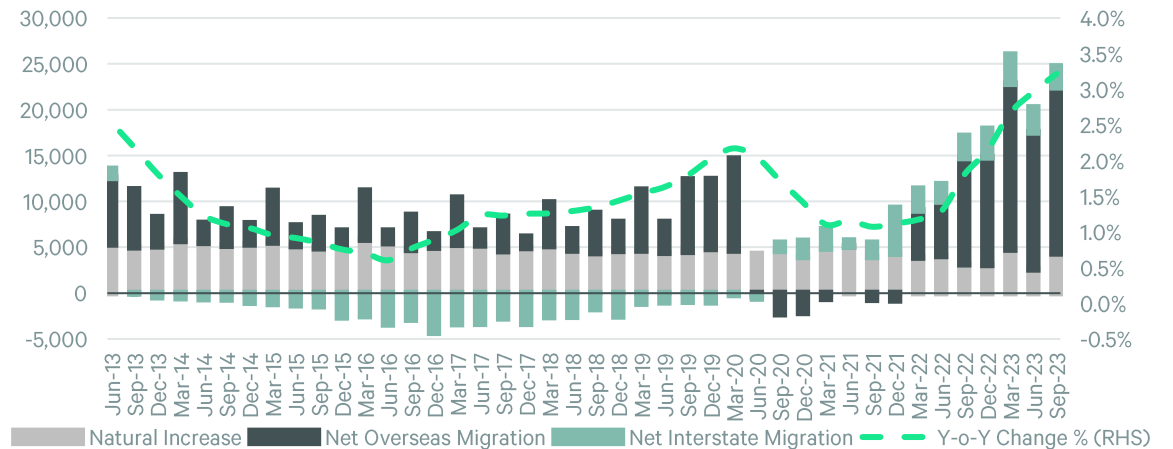
According to the Westpac-Melbourne Institute Consumer Sentiment Index, consumer sentiment dipped to 84.4 in March (after rebounding to 86 in February) and has remained below 100 since March 2022, highlighting the pressure households continue to face from higher interest rates and cost of living pressures. Inflation continues to trend down from the peak of 8.4% in December 2022, coming in at 3.4% in January 2023. Despite inflation gradually declining, it remains above the RBA’s target level resulting in the RBA’s decision to raise the official cash rate to 4.35% last November. Current market expectations are for rates to hold steady in 1H24 before potential rate cuts in the latter half of the year.

FIGURE 2: WA GSP Growth vs National GDP Growth



Source: Deloitte Access Economics, CBRE Research, WA State Budget Papers

FIGURE 3: WA Sources of Population Growth



Source: ABS, CBRE Research

Supply

Limited New Supply Scheduled Over the Next Few Years

No new retail stock was completed in 1Q24, after just c. 33,000 sqm of new stock was completed in 2023, the most notable being the redevelopment of Busselton Central Shopping Centre which added c.10,000 sqm of new retail space.

Looking forward, with the expected completion of the Kardinya park Shopping Centre Redevelopment (c. 3,300 sqm) now scheduled for 2025, only c. 8,500 sqm of retail space is scheduled to complete in 2024. New retail supply for 2024 and 2025 remains well below the 10-year historical average of c.95,000 sqm. Most of the upcoming supply is in either LFR or Neighborhood Centre-developments. The combination of financing costs and rising construction costs at a time when retail sales growth is decelerating has led to the limited near-term supply pipeline.

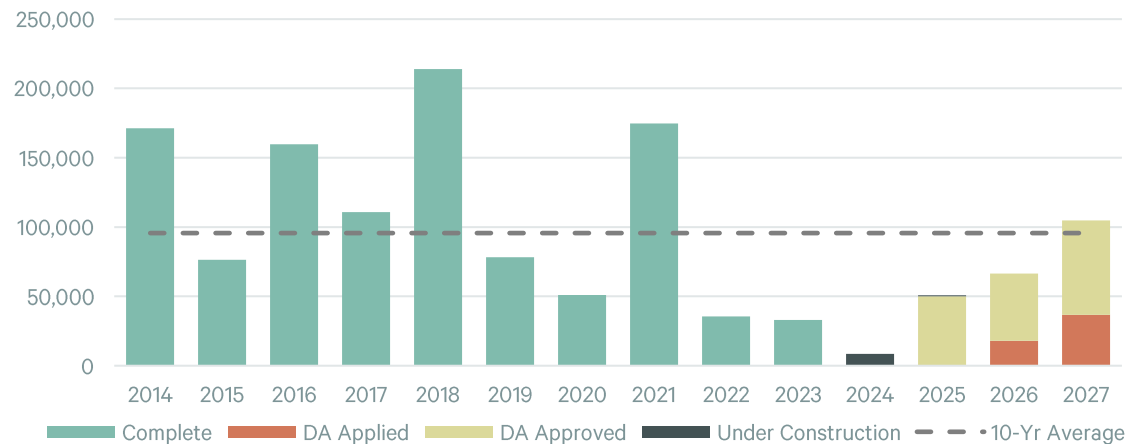
Vacancy

CBD Vacancy Rates Improve Marginally, Driven by Core CBD Strips

Overall retail vacancy in Perth’s CBD saw a marginal decline of 12bps to 25.2% in 2H23, the lowest CBD vacancy rate recorded over the past two years. Retail vacancy in Perth’s CBD has gradually trended downward since a recent peak of 26.5% in 1H22. The vacancy improvement was driven solely by continued improvements in core retail strips, which more than compensated for higher vacancy in Perth’s retail arcades and centres.

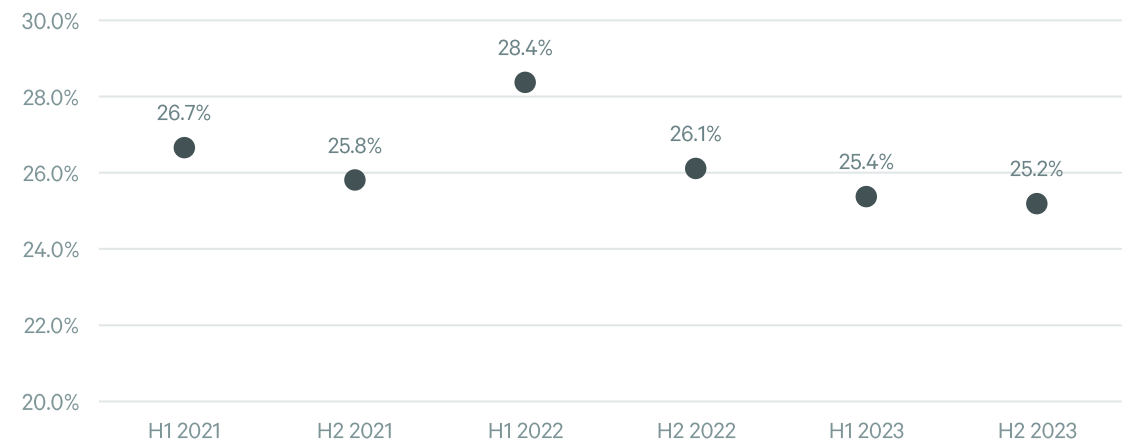
Perth CBD strip retail vacancy fell 118bps half-on-half to 24.2%, driven by continued strength in Perth’s core retail strips (Murray Street Mall, Hay Street Mall and William Street). After an extended period of relatively higher vacancy and rental correction, Hay Street Mall stabilised in 2H23 and is showing signs of gradual improvement, while the precinct to the West of Murray Street Mall continues to develop into a luxury brand destination.

FIGURE 4: WA Retail Supply Pipeline by Category



Source: Cordells, CBRE Research

FIGURE 5: Perth CBD Vacancy by Period



Source: CBRE Research

Rental Performance

Retail Rent Growth Continues as Retail Sales Remain Resilient

Net face rents ticked up roughly 1% q-o-q across the majority of retail categories in 1Q24 as retail sales remain resilient, despite higher interest rates and cost of living. CBD Super Prime net face rents increased 0.8% q-o-q and y-o-y to \$2,755 sqm/mth. CBD Super Prime rents have stabilised following a six-year correction, driven primarily by the emergence of international anchors and continued relocation of luxury brands on the West End of Murray Street Mall. Perth’s nation leading return to office has also been a key contributor to the recovery in CBD retail.

Net face rents across all shopping centre formats (Regional, Sub-regional and Neighbourhood) increased c. 1% q-o-q and roughly 1-2% with regional centres seeing the most y-o-y growth. The tailwinds from strong employment and continued migration inflows have mostly offset the impact of higher interest rates and cost of living. LFR rent growth continued, with net face rents increasing 0.9% q-o-q and 7.1% y-o-y to \$227 sqm/mth. The LFR category has been an outperformer since the COVID pandemic, spurred by the defensive nature of the category and improving tenant mix by LFR operators/developers.

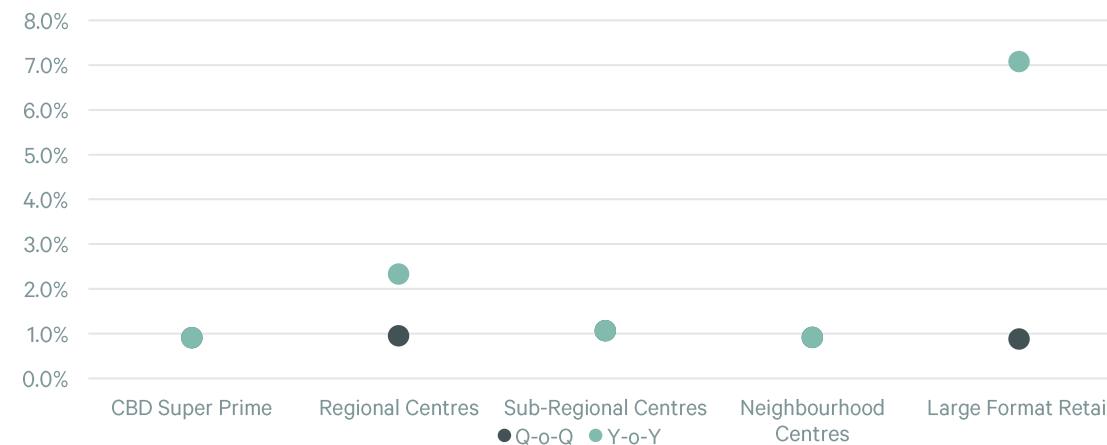
CBD Super Prime continued to improve, with incentives falling 250bps q-o-q in 1Q24, driven primarily by strength in the Murray Street Mall. Incentives across all other retail categories remained unchanged q-o-q in the period, as the tailwinds from a strong mining sector and continued migration inflows are offset by higher interest rates and cost of living.

FIGURE 6: Retail Rents and Incentives by Category

Asset Type	Net Face Rent (AUD/sqm)			Incentives (%)			Net Effective Rent (AUD/sqm)		
	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	2,755	+0.9%	+0.9%	27.5%	-250bps	-750bps	1,997	+4.5%	+12.6%
Regional SC	1,315	+1.0%	+2.3%	25.0%	Stable	Stable	986	+1.0%	2.3%
Sub-Regional SC	708	+1.1%	+1.1%	25.0%	Stable	Stable	531	+1.1%	+1.1%
Neighbourhood SC	655	+0.9%	+0.9%	22.0%	Stable	Stable	511	+0.9%	+0.9%
Large Format Retail	227	0.9%	7.1%	15.0%	Stable	Stable	193	0.9%	7.1%

Source: CBRE Research

FIGURE 7: Net Face Rent Growth y-o-y, by Category



Source: CGRE Research

Investment

Slow Start with No Retail Transactions in 1Q24

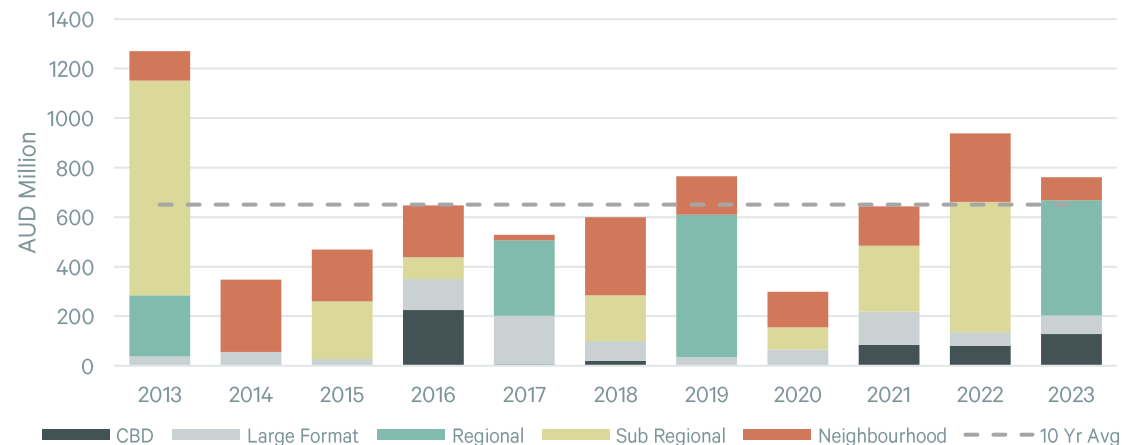
There were no new retail transactions in 1Q24 as many potential buyers and vendors wait for greater clarity on potential interest rate movements. The retail investment market was active in 2023, with c.\$940 million of investment volume, considerably above the 10-year historical average of c.\$650 million. 2H23 saw several larger transactions including PAG & Fawcner acquiring Midland Gate Shopping Centre (c. 68,600 sqm) from Vicinity Centres for \$465 million in 3Q23.

Yields

Retail Yields Continue to Soften by at Slowing Pace

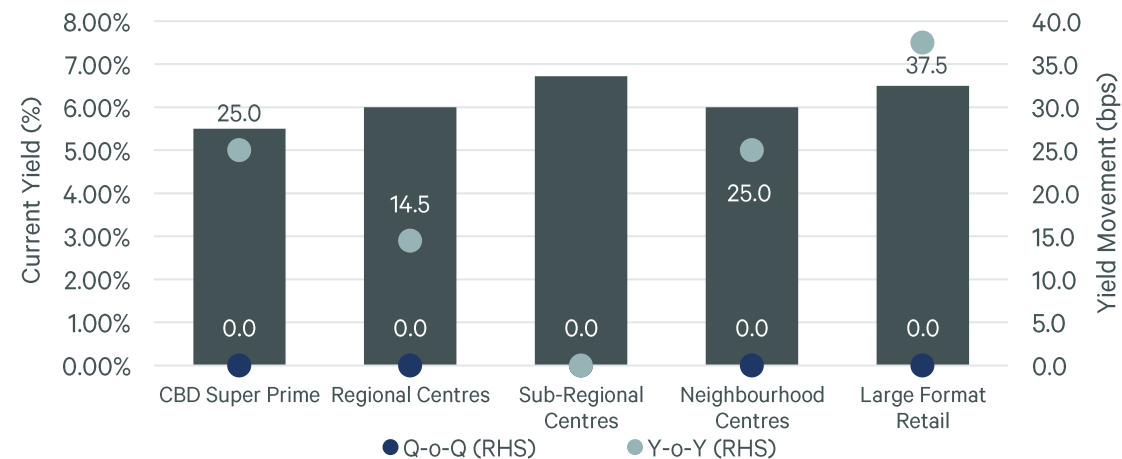
Retail yields have softened considerably from the lows in mid-2022 but have stabilised in 1Q24. Regional centre yields remained unchanged q-o-q at 6.00% (+15bps y-o-y) with yields at sub-regional and neighbourhood centres also unchanged q-o-q. Large Format Retail yields held steady at 6.50% (+38 bps y-o-y) as did average yields for CBD Super Prime retail at 5.50% (+25bps y-o-y).

FIGURE 8: Retail Transactions by Category and Year



Source: RCA, CBRE Research

FIGURE 9: WA Retail Yield by Category



Source: CBRE Research

Contact - Research

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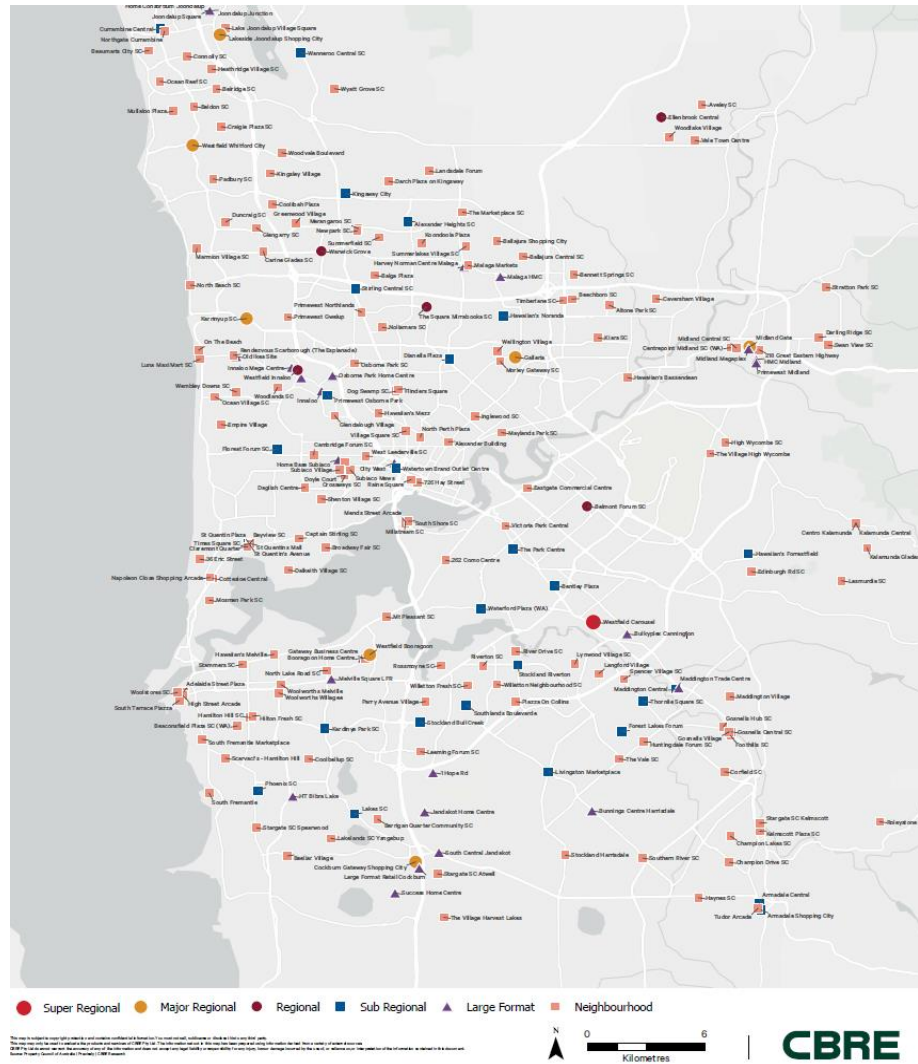
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