

FIGURES | MELBOURNE RETAIL | Q1 2024

# Rental growth normalises amidst growing competitive pressures

▼ 7.4%

Melbourne CBD Vacancy H2 23

▼ 1.9%

Victoria Retail Sales Y-o-Y Growth

▼ +25 bps

Regional Centre Y-o-Y Yield Change

▼ \$85m

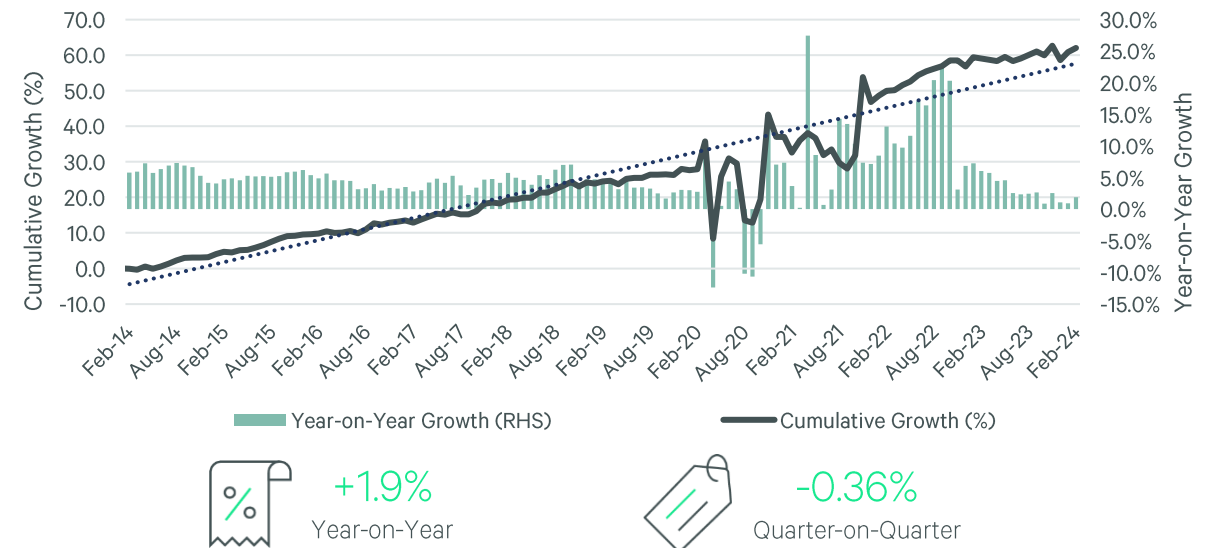
Q1 2024 Victoria Retail Asset Sales

Note: Arrows indicate change from previous quarter.

## Key Points

- Victorian retail turnover continues to show resilience. As of Q1 2024, turnover across the state has grown 1.9% year-on-year.
- CBRE’s migration related demand estimates indicate more than \$4.3bn in additional retail expenditure will be seen in Victoria per annum because of record-high migration nationally over the 2023-2025 financial years.
- Retail supply over 2024-2025 is expected to reach c.350,000sqm across CBD, Shopping Centre and LFR assets. Supply over this time is expected to remain in line with the 5-year historical average of c.160,000sqm.
- Melbourne CBD Vacancy in H2 2023 was recorded at 7.4%, a 330bps decrease from H1 2023.
- Melbourne Super Prime CBD face rents have begun to stabilise in Q1 2024, with slight growth recorded across shopping centre asset grades.
- Retail investment sales saw very little volume in Melbourne as of Q1 2024, with a recorded c.\$85m transacting.
- Yield expansion continued across all asset categories, ranging between 5 and 15bps.

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



Source: ABS, CBRE Research.

## Economic Overview

### GSP growth moderates with an increase in e-commerce activity driving growth.

Victoria experienced a 2.6% in GSP over the 2022-23 financial year, a moderate decline from the post-covid recovery where 6.3% growth was recorded over the 2021-2022 financial year. The transport, postal and warehousing industry contributed the most to the 2022-23 financial year growth. Increasing activity amongst e-commerce retailers is believed to be a key factor driving growth in this industry. Despite the moderation seen over this financial year, Victoria's 10-year GSP CAGR of 3.3% remains significantly above the national average of 2.2%.

### Retail sale resilience continues to be seen across the state.

The March data release showed a modest increase in retail sales. Despite retail sales decreasing by -0.36% on a quarter-on-quarter basis, an increase was recorded by 1.1% on a year-on-year basis. Performance on a quarter-on-quarter basis in Victoria was the worst amongst major states. Consumer resilience to the impact of rising cost of living pressures continues to be demonstrated.

### Labour market remains tight, may limit tenant growth over 2024.

Victoria's unemployment rate remains at very low levels relative to historical conditions. The current unemployment rate of 3.9% is at some of its lowest levels since 2000. Whilst a strong labour market may aid consumer confidence and improve e-commerce and retailer spending, retail tenants looking to expand, requiring significant labour investment, may struggle to execute such strategies given the current labour market.

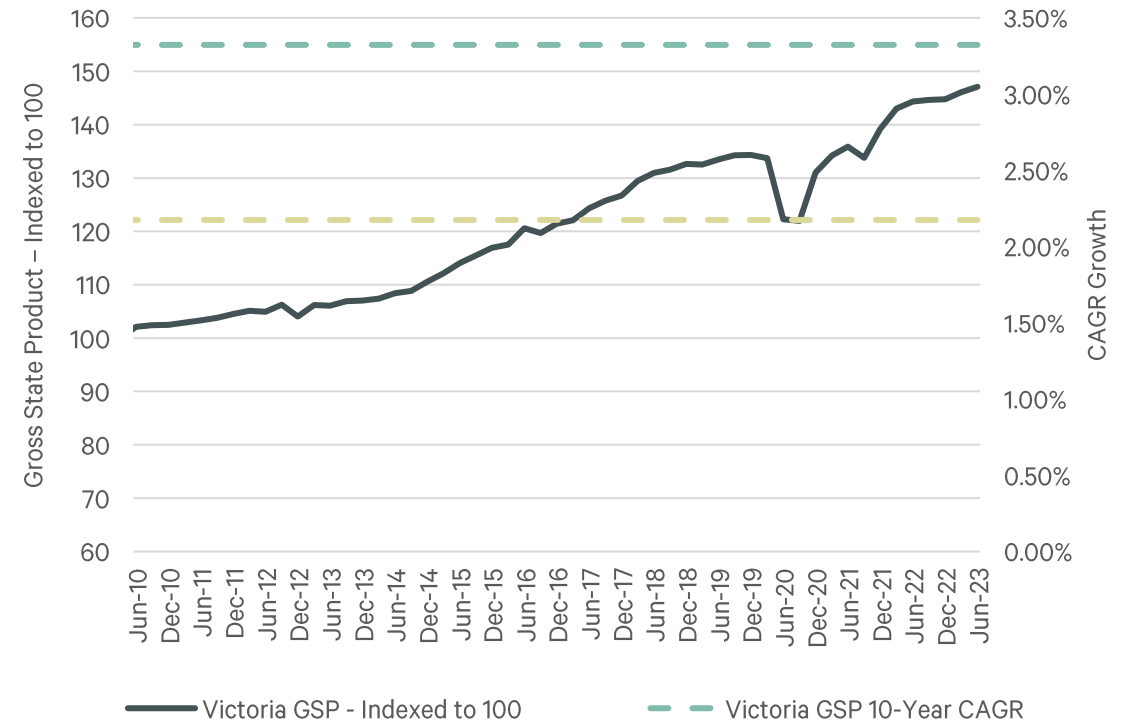
### Significant development pipeline aids accessibility of existing and future supply.

\$140bn in infrastructure developments are currently under construction, or committed to, in Victoria. Notable developments include the Suburban Rail Loop East and Melbourne Metro Rail project. Public and private commitments to infrastructure developments will support local employment conditions. Retail operators will seek to benefit from improved transport conditions in Victoria, as improved accessibility will aid continued retail expenditure growth.

### Record high migration expected to add more than \$4bn in local retail expenditure annually.

Migration is expected to reach historic highs, contributing to strong economic growth nationally. With a forecasted 1,135,000 in net migration between the 2023-2025 financial years, the effects in the commercial real estate sector will be widespread. Locally, given historical migration trends, approximately 315,000 migrants are forecast to enter the state over the three-year period. For the retail sector, CBRE research estimates an approximate \$4.3bn in additional migration-related expenditure across Victoria.

FIGURE 2: Victoria Gross State Product - Indexed to 100 & 10-Year CAGR Comparison



Source: Deloitte Access Economics, CBRE Research

## Supply

### Expected supply over next 2 years remains in line with historical levels.

Melbourne is expected to see c.300,000sqm of retail supply to enter the market over 2024-2025. These levels remain on par with the 5-year annual average of c.160,000sqm per annum. Supply over the coming years remains modestly concentrated in Neighbourhood Centre and Large Format developments, accounting for over 56% of supply in the coming 2 years.

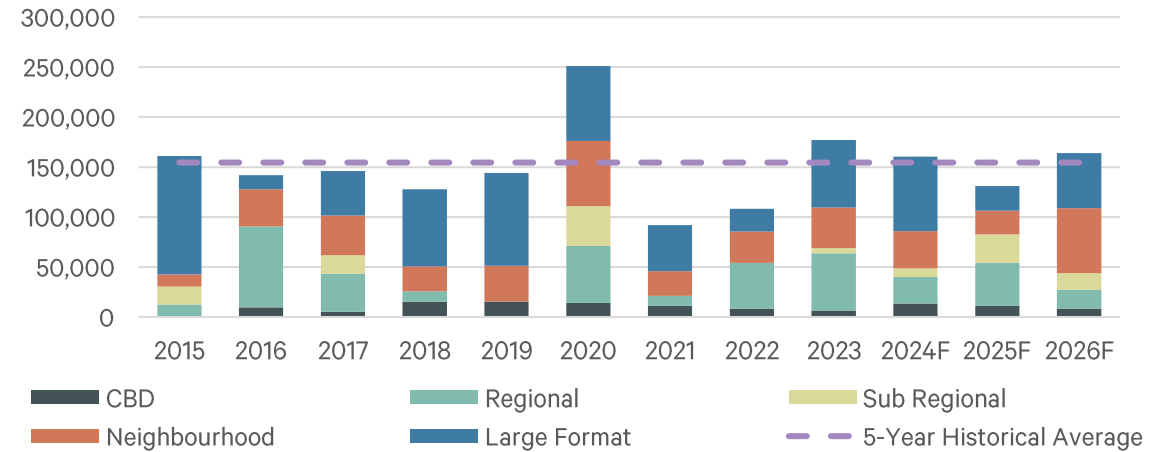
Despite close to 100,000sqm of Regional supply expected to be coming over the next 2 years, developments remain concentrated across a few projects. Given the competitive landscape across Melbourne, limited opportunities exist for new Regional centres in the current market. As a result, to remain competitive 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. To note, only 33% of the Large Format supply pipeline in Melbourne is currently under construction, with the remainder in DA approved developments.

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

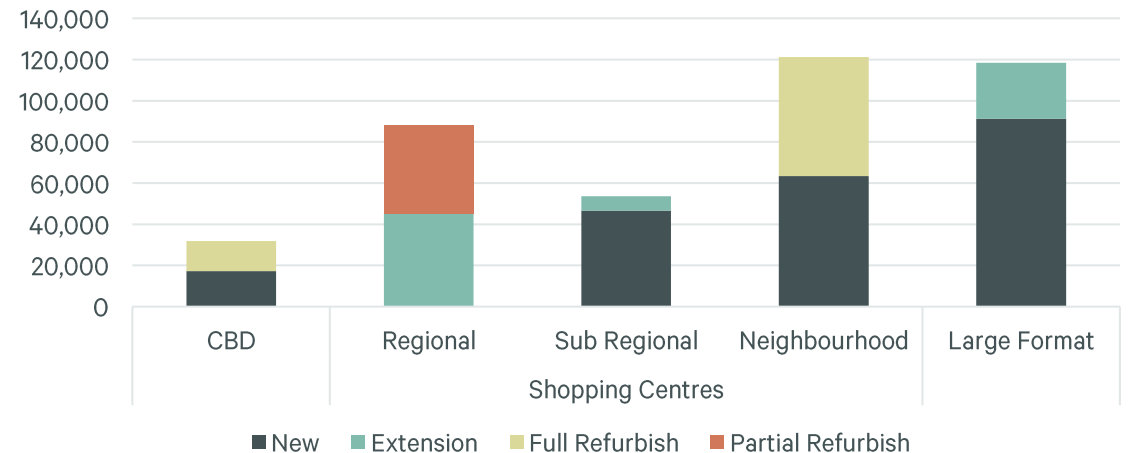
Supply in CBD assets is limited, with just over 35,000sqm expected over 2024-2026. Major developments include 'The Walk', 299 Bourke and Mecca's Flagship Bourke street store. As of Q1 2024, CBRE Research expects delays in the completion of all developments previously noted, with both Mecca's development 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\*



Note: Following a change in CBRE Research's retail supply methodology, revisions were made to historical and future reported supply. Source: CBRE Research

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



Note: Following a change in CBRE Research's retail supply methodology, revisions were made to historical and future reported supply. Source: CBRE Research

## Vacancy

### Melbourne’s CBD shows early sign of resurgence as vacancy drops to lowest level seen in 3-years.

Melbourne’s CBD saw vacancy levels decline by 330bps in H2 2023, 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 amidst growing confidence in Melbourne’s resurgence amongst retail tenants.

Notably, this confidence has also begun to be demonstrated by landlords across Melbourne. 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 H2 2023. However, year-on-year improvements were only seen across Centres and Strips. 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 2.6%, compared to 13.2% seen across non-core centre assets. Similar bifurcation was viewed within Melbourne’s strips. Core strip locations saw a vacancy of 4.8% contrasted by 11.5% in non-core strips. Tenants are showing clear preference for key locations across Melbourne’s CBD.

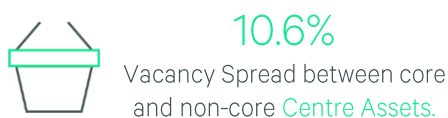


FIGURE 5: Victoria Retail Vacancy by Category

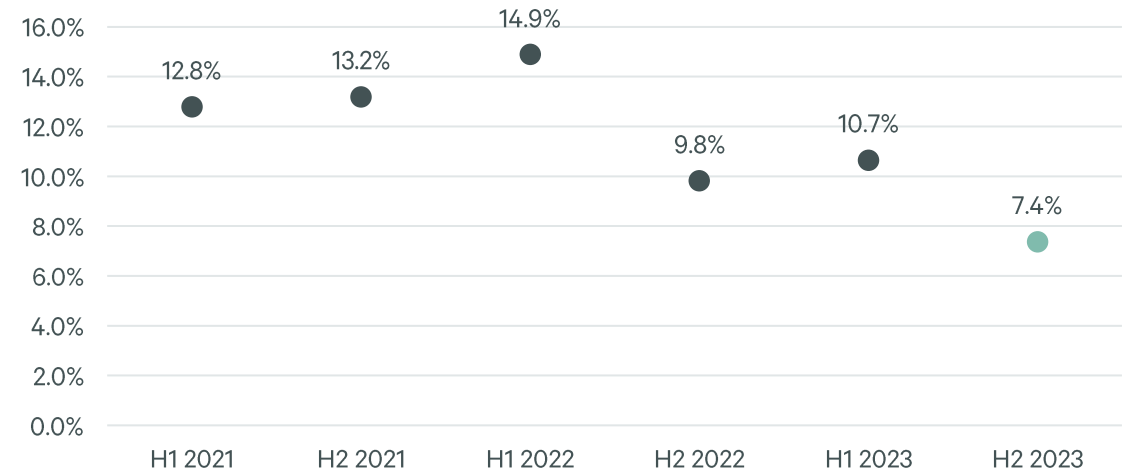
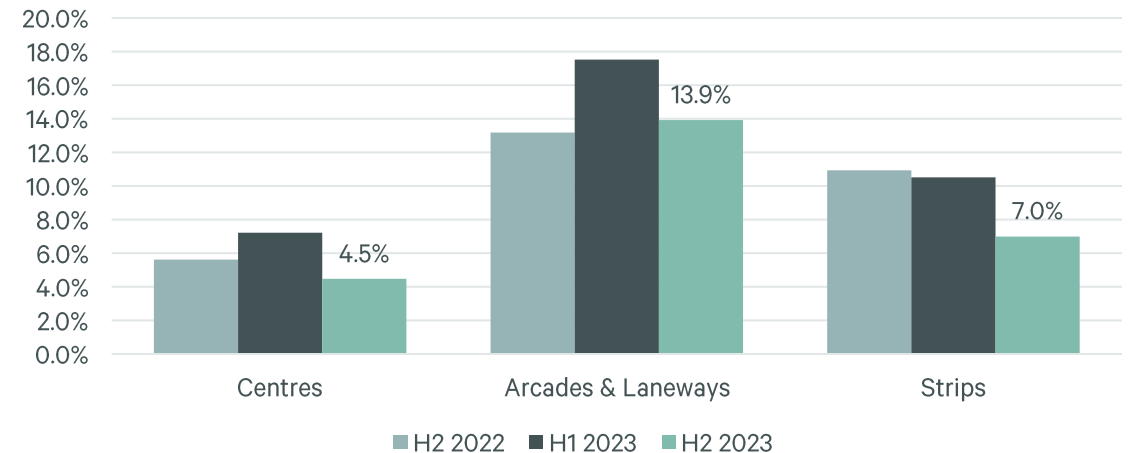


FIGURE 6: Melbourne CBD Vacancy by Period



Source: CBRE Research

## Rental Performance

### Signs of rental stability begin to emerge in Melbourne’s CBD.

Rental growth across Melbourne’s asset classes saw subdued growth in Q1 2024. On a q-o-q basis, rents in Super Prime CBD assets and Neighbourhood centres saw stability, compared to mild 1.0% growth in Regional and Sub-regional centres.

Super Prime rents in Melbourne’s CBD have begun to stabilise following continued rental declines over the last few years. Retailers in this sub-market have begun to benefit from increasing levels of office visitation and tourism levels. Despite this, the increased uncertainty brought on by delays in Mecca’s development is anticipated to continue to dampen rental growth in CBD assets.

### Market dynamics shifting for shopping centre assets towards tenant favourability.

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.

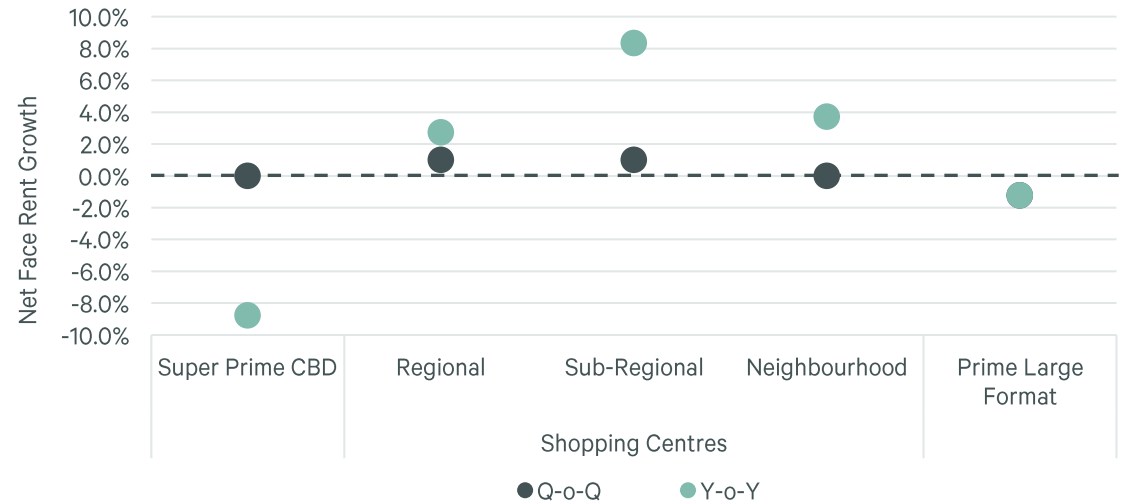
Despite this, key performing centres across all shopping centre grades continue to be less impacted by this driven by resilient visitation levels and elevated demand levels. Whilst CBRE Research has observed minimal rental growth this quarter, expectations are larger shifts may emerge over 2024 as market dynamics continue to evolve and more deal evidence emerges.

FIGURE 7: Victoria Key Leasing Rates by Retail Asset Category

Asset Type	NFR (AUD/sqm)			NER (AUD/sqm)			Incentives (%)		
	1Q24	Q-o-Q Change	Y-o-y Change	4Q23	Q-o-Q Change	Y-o-y Change	4Q23	Q-o-Q Change	Y-o-y Change
<b>CBD Super Prime</b>	<b>6,500</b>	Stable	-8.8%	<b>5,200</b>	Stable	-8.8%	<b>20.0%</b>	Stable	Stable
<b>Regional</b>	<b>1,484</b>	1.0%	2.7%	<b>1,366</b>	1.0%	2.7%	<b>8.0%</b>	Stable	Stable
<b>Sub-Regional</b>	<b>886</b>	1.0%	8.3%	<b>795</b>	1.0%	9.0%	<b>10.3%</b>	Stable	-51bps
<b>Neighbourhood</b>	<b>711</b>	Stable	3.7%	<b>651</b>	0.7%	3.7%	<b>8.3%</b>	Stable	Stable
<b>Prime Large Format</b>	<b>296</b>	-1.2%	-1.2%	<b>254</b>	-2.6%	-0.9%	<b>14.2%</b>	+118bps	-31.5bps

Source: CBRE Research

FIGURE 8: Net Face Rent Growth by Retail Asset Category



Source: CBRE Research

## Investment Market

### Subdued deal volumes to begin 2024.

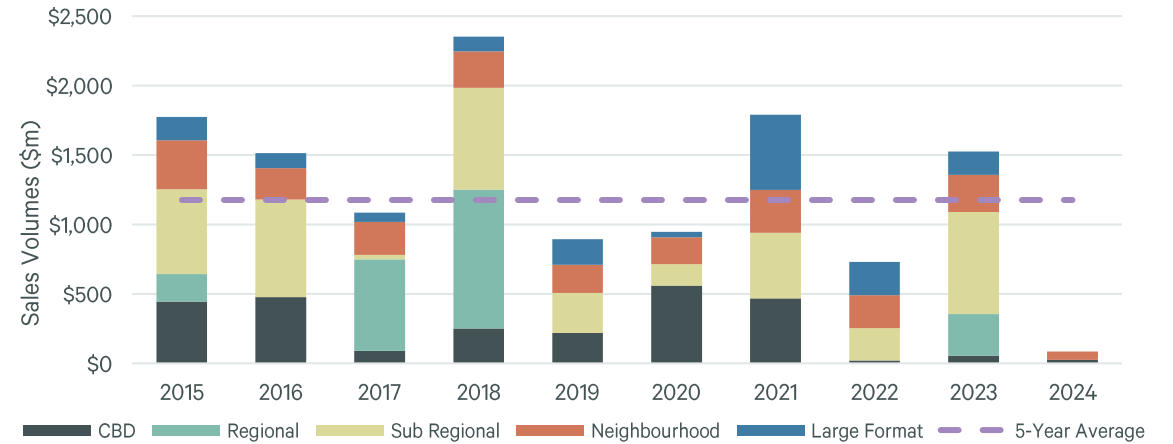
Investment activity has been limited in Q1 2024 with c.\$85m recorded across Neighbourhood and CBD assets. This is a significant reduction from the c.\$775m recorded in Q1 2023. Subdued deal volumes over the quarter is believed to be a product of timing, rather than limited interest in the sector.

Deal volumes over 2024 are likely to increase to levels on par, or close to the 5-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.

### Yield expansion continues with more pricing certainty emerging.

All asset categories recorded yield expansion in Q1 2024 to varying degrees. Super Prime CBD saw the most expansion at 15bps over the quarter, with average movements between 7-5bps across Shopping Centre and LFR assets. Following aggressive yield expansion across the last 12-18 months, yields are expected to see limited expansion over 2024. Investors, both domestic and foreign are still showing significant interest in Melbourne’s retail sector, underpinning demand at current pricing levels.

FIGURE 9: Victoria Retail Sales by Asset Category



Source: CBRE Research

FIGURE 10: Victoria Retail Yields by Category



Source: CBRE Research

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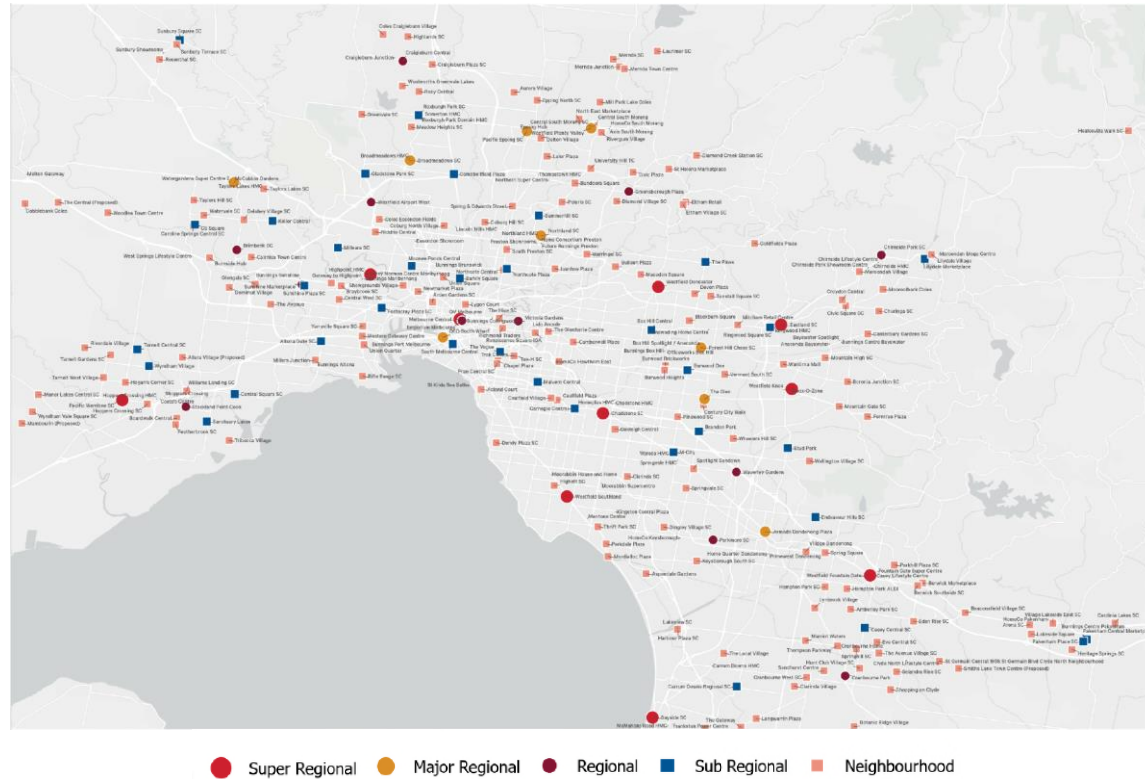
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