

FIGURES | SYDNEY RETAIL | Q1 2024

# Rents record growth over the quarter

▼ 8.1%

Sydney CBD Vacancy Rate

▲ 1.6%

NSW Retail Sales 2024 YTD

▲ 1.5%

CBD Super Prime Y-o-Y Rent Change

▼ \$166m

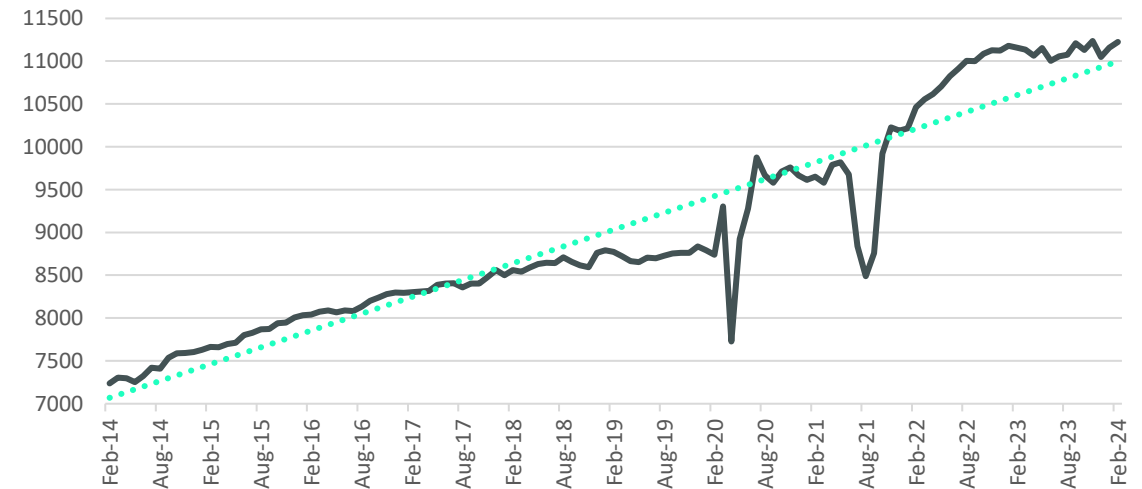
1Q24 Sydney Retail Investment Volume

Note: Arrows indicate change from previous quarter.

## Key Points

- New South Wales GSP increased 3.7% in 2022-23, following a rise of 2.6% in the previous year.
- NSW retail sales increased by 1.6% since the beginning of 2024 (as at Feb 24).
- NSW to absorb nearly one-third of Australia's migration intake over the next decade.
- Supply remains muted with no new floorspace added to the market over the quarter.
- Sydney CBD retail vacancy tightened over 2H23, now at 8.1%.
- Sydney average shopping centre net face rents recorded growth over the quarter. Average rental growth for Regional centres was 0.7% q-o-q.
- A total of AUD 166 million of investment sales has been recorded in 1Q24 across 3 transactions in Sydney (for sales > AUD 5 million).

FIGURE 1: NSW Total Retail Turnover, Seasonally Adjusted (Feb 14 - Feb 24)



0.6%  
Year-on-Year



0.6%  
Month-on-Month

Source: ABS as at Feb 2024, CBRE Research

## Economic Overview

### NSW Gross State Product (GSP) and household spend supports shopping centres and CBD retail.

NSW GSP rose 3.7% in 2022-23 (1.9% per capita), up from 2.6% (2.5% per capita) the previous year. As of February 2024, year-over-year household spending growth was led by clothing and footwear (2%), food (5.7%), transport (12.3%), and hotels, cafes, and restaurants (5.8%).<sup>1</sup> The food, clothing, and hospitality sectors' strength bodes well for tenant performance and rents in shopping centres and the CBD. This trend is anticipated to continue, bolstered by increased overseas migration and an expected interest rate reversal in the latter half of 2024.

### Retail sales record positive start to 2024.

NSW retail sales have risen 1.6% since the beginning of 2024 (seasonally adjusted), following a relatively flat year with a 0.7% decline over CY2023. Across Australia, the clothing, footwear, and personal accessory category, along with department store retailing, recorded the strongest growth this year, reaching 6.9% and 4.2% respectively as of February 2024. Despite increasing interest rates and market uncertainty, retail sales in NSW have demonstrated resilience, maintaining stability despite these challenges.

### NSW forecast to be major beneficiary to record population growth.

Australia's population is forecast to grow 13% between 2024-2033, with NSW set to capture a significant share of this increase.<sup>2</sup> NSW's projected 10.7% population growth is expected to drive substantial housing and retail demand, with CBRE estimating \$4.7 billion in additional retail spending from annual net migration. Absorbing nearly one-third of Australia's migration intake, NSW is poised to reap economic benefits from its significant population expansion over the next decade.

The labour market in Australia remains strong, maintaining an unemployment rate of 3.8% in February 2024. The NSW unemployment rate increased to 3.6% (from 3.4% in December 2023), the lowest *nationally*.

1. According to ABS.

2. According to Deloitte Access Economics.

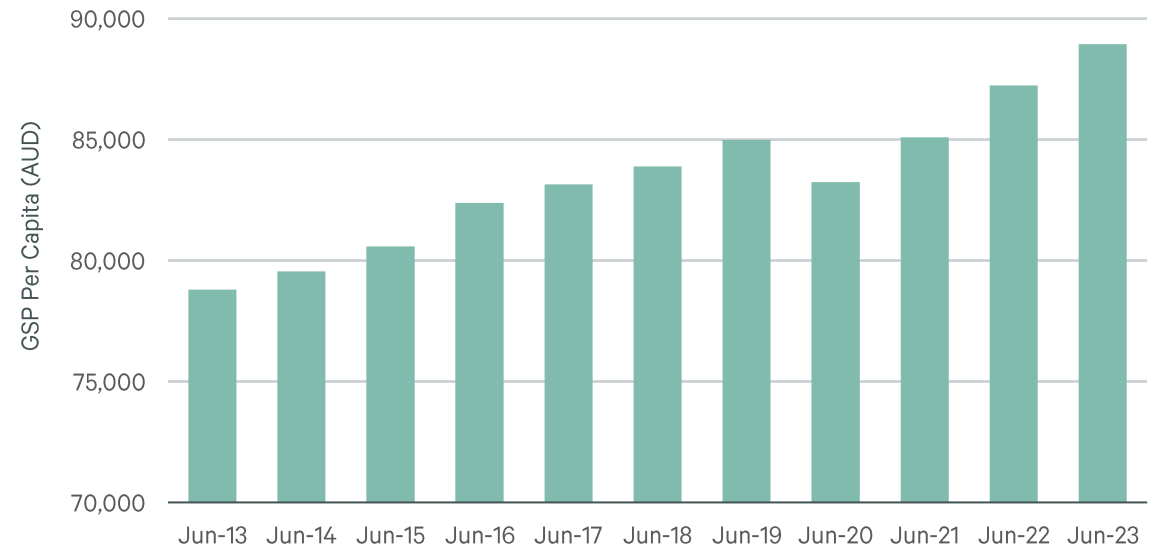
3. NSW Government, Sydney Metro.

### Major Sydney Metro opening in mid-2024 to boost CBD retail.

Sydney's CBD retail outlook is boosted by major transport infrastructure projects, notably the \$45 billion Sydney Metro development, set to dramatically cut travel times upon completion over the next decade. The Sydney Metro is expected to take passenger capacity from 26,000 to 40,000 people per hour for each line. The Sydney Metro City and Southwest line is scheduled to open operations in mid-2024, with Martin Place station serving as the super hub.<sup>3</sup>

CBRE analysis shows commutes between key suburbs and the CBD shrinking by up to 35 minutes. Improved accessibility and connectivity will unlock substantial retail spending and economic growth, especially within the CBD. The scale of investment highlights confidence in Sydney realising its economic potential. *Shorter commutes drive productivity and should enable an uplift in CBD retail trade as precinct mobility improves.*

FIGURE 2: NSW Gross State Product Per Capita (Jun 13 - Jun 23)



Source: ABS, CBRE Research.

## Supply

### Supply remains muted with no new floorspace added over the quarter

The supply of new floorspace remains muted in the Sydney market with no new completions over quarter (excludes non-metro). Completions last quarter were significantly higher at c.29,000 sqm. The undersupply over 2023 and 1Q24 is likely due to developers delaying projects due to higher construction costs coupled with the lack of appetite for new shopping centre developments. Investors continue to opt for existing centre expansion rather than new developments as the cost of capital remains high.

Looking ahead, Neighbourhood centres are expected to account for the largest share of retail supply between 2024 and 2026 at around 42%, followed by Sub-Regional centres at c.22%, and Regional centres at c.13%.

Next quarter is forecast to see a significant uptick in new floorspace, with around 45,000 sqm expected to be added to the market – the highest quarterly contribution anticipated for the CY2024. Notable development projects expected for completion include Bay Central, Stage 4, Woollooware (18,000 sqm), and Bunnings Tempe (c.19,200 sqm).

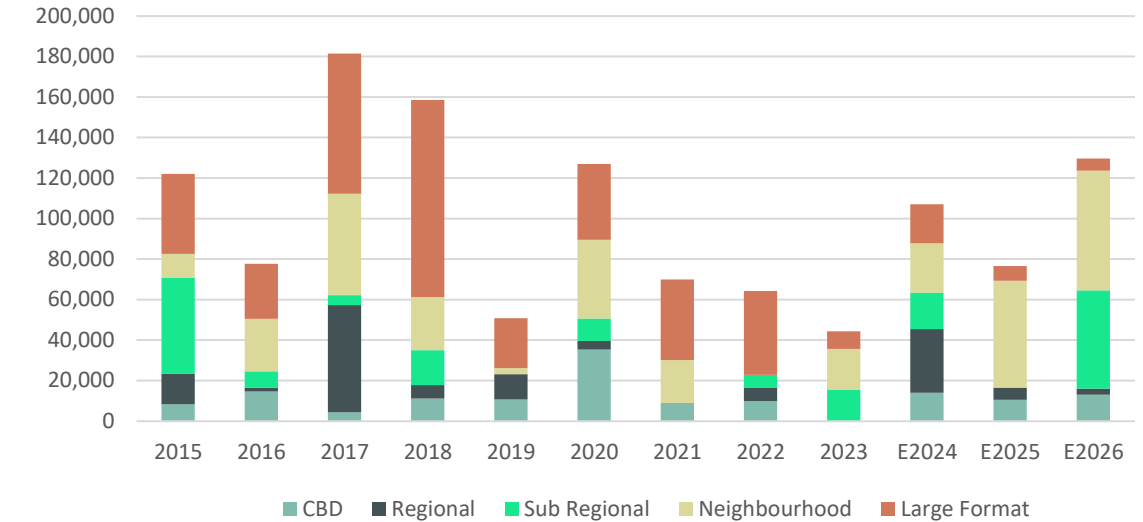
## Vacancy

### Sydney CBD vacancy contracts significantly over 2H23

Sydney CBD retail vacancy tightened significantly in 2H23, contracting by 275bps to 8.1% - the first half-yearly decrease since 1H22 and the largest on record since 1H21.

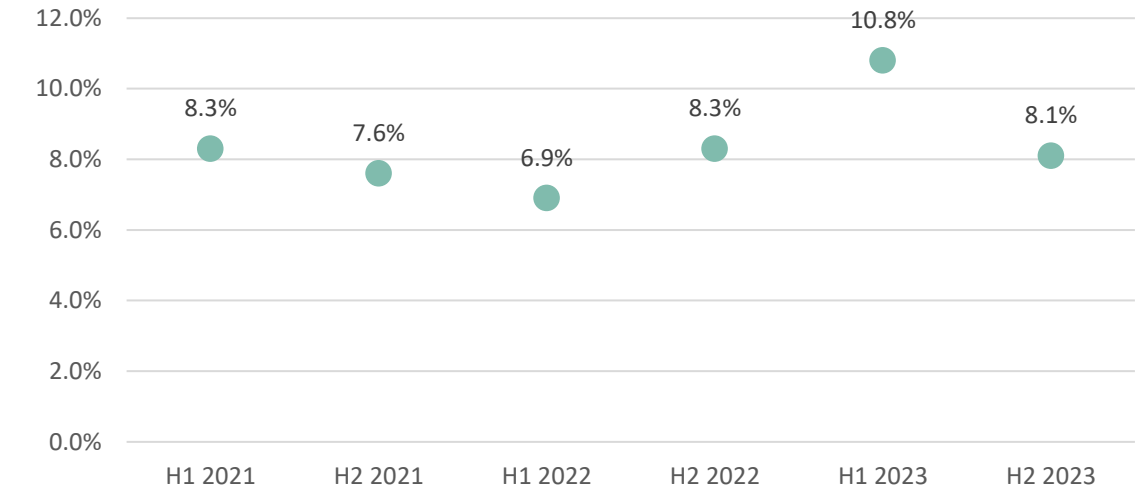
While strip retail vacancy softened slightly to 7.9%, the core CBD continued to attract global brands. Arcade retail vacancy declined to 8.1%, with notable improvements in The Galleries and The Strand Arcade. Centre retail saw the most substantial reduction, falling by 550bps to 8.1%, driven by strong performances from luxury brands and F&B outlets in major centres like Westfield and the MLC Centre. The overall contraction highlights the CBD retail market's resilience and ongoing demand for prime space.

FIGURE 3: NSW Retail Supply by Category



Source: CBRE Research.

FIGURE 4: Sydney CBD Vacancy by Half Year



Source: CBRE Research.

## Rental Performance

### Positive rental growth continues over the quarter

Sydney average Super Prime and Prime CBD net face rents remained stable over the quarter. However, on a y-o-y basis these Super Prime and Prime CBD assets recorded 1.5% and 2.5% growth y-o-y. Foot traffic and CBD retail trade continued to improve over 2H23 with CBD vacancy reducing significantly to 8.1% (-2.7% decline from 1H23). We expect this trend to continue throughout 2024 as the return to office improves and infrastructure that reduces travel time to Sydney’s CBD is completed.

Furthermore, shopping centres over 1Q24 showed growth across all grades. Regional, Sub-Regional and Neighbourhood centres all increased by 0.7%, 0.9% and 0.8% q-o-q, respectively. However, year-over-year, Regional centres experienced negative growth of -0.7%, following slower vacancy improvements relative to Sub-Regional and Neighbourhood centres which recorded growth of 1.5% and 0.1% y-o-y. Sydney shopping centres on average have seen an increase in MAT across all shopping centre grades, hence we expect rental growth to continue throughout 2024, especially once interest rate cuts commence.

Prime LFR rents remained stable over the quarter. In this extremely tight market leasing activity has been relatively mute with existing occupiers aiming to secure lease renewals and avoiding the risk of being unable to find new floorspace. Household goods spend showed signs of improvement since December 2023, growing 1.3% (as at Feb 2024). With national LFR vacancy currently sitting at c.2.5%, coupled with a limited new supply pipeline for the sector, LFR assets are well positioned to experience rental growth over the second half of 2024. LFR Prime growth was 1.5% y-o-y (as at 1Q24). We expect household goods spend to converge on its prior peak if interest rate cuts commence in 2H24, which will further support rent growth.

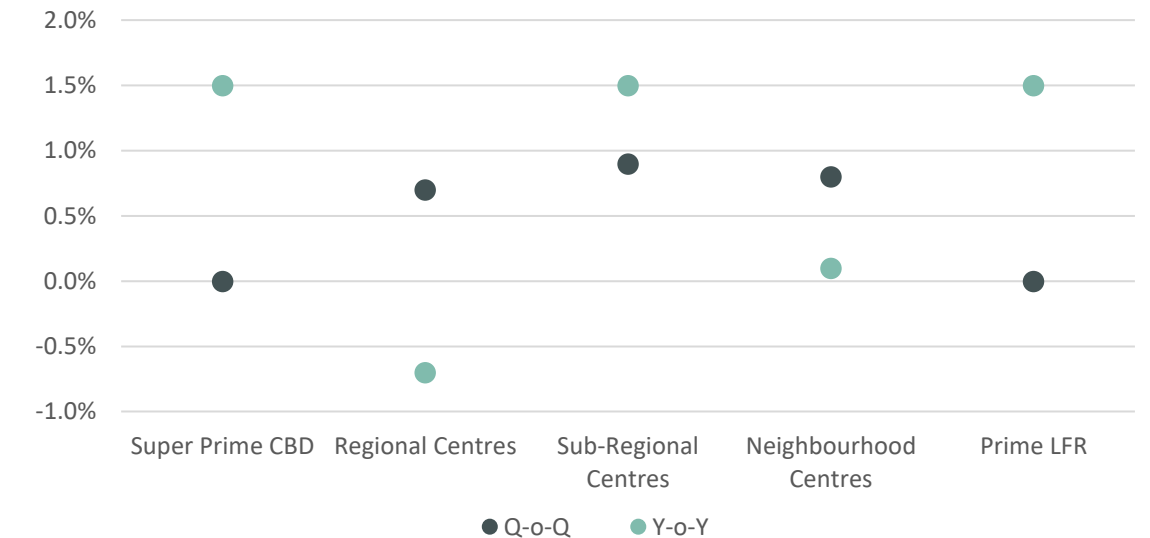
Incentives remained stable across all retail asset types over the quarter, except for CBD Super Prime and Prime assets which both decreased by 2%. The reduction in CBD vacancy over 2H23 has alleviated some pressure on CBD asset owners, allowing them to bring down incentives whilst holding rents.

FIGURE 5: NSW 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	1Q24	Q-o-Q Change	Y-o-y Change	1Q24	Q-o-Q Change	Y-o-y Change
<b>CBD Super Prime</b>	<b>10,944</b>	0.0%	1.5%	<b>9,303</b>	2.4%	7.8%	<b>15.0%</b>	-200bps	-500bps
<b>Regional</b>	<b>1,777</b>	0.7%	-0.7%	<b>1,511</b>	0.7%	-0.7%	<b>15.0%</b>	Stable	Stable
<b>Sub-Regional</b>	<b>1,131</b>	0.9%	1.5%	<b>1,007</b>	0.9%	1.5%	<b>11.0%</b>	Stable	Stable
<b>Neighbourhood</b>	<b>1,137</b>	0.8%	0.1%	<b>995</b>	0.8%	0.1%	<b>12.5%</b>	Stable	Stable
<b>LFR</b>	<b>586</b>	0.0%	1.5%	<b>533</b>	0.0%	2.8%	<b>9.0%</b>	Stable	-112bps

Source: CBRE Research

FIGURE 6: Net Face Rent Growth y-o-y, by Retail Property Type (Mar 23 - Mar 24)



Source: CBRE Research

## Investment

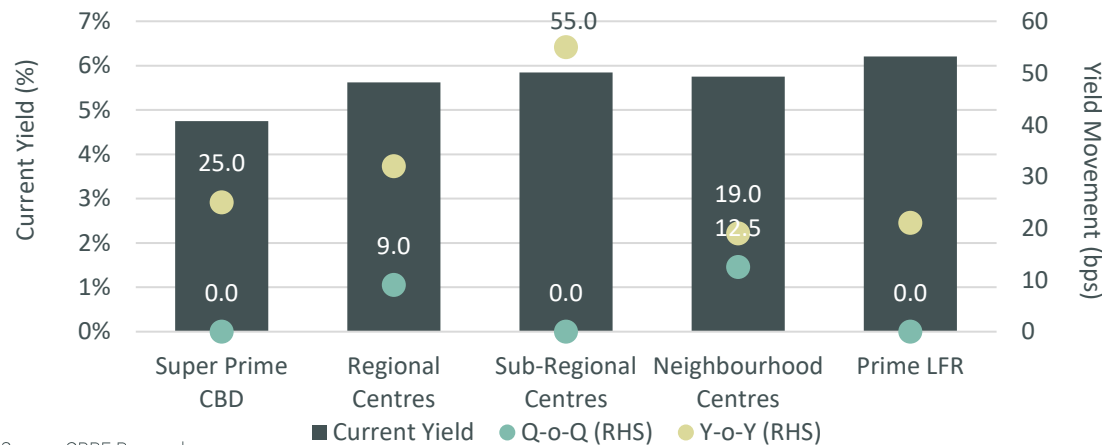
### Sydney retail investment volumes were subdued over the quarter

A total of AUD 166 million of investment sales has been recorded in 1Q24 across 3 transactions (for sales > AUD 5 million). The two largest transactions were Kellyville Grove and Leppington Village purchased for a combined AUD 153.1 million by the HomeCo Daily Needs REIT.

Sydney's position as Australia's most populous city makes it a magnet for retail investors, underpinning strong consumer spending and retailer demand. However, rising interest rates and market uncertainty have dampened transaction activity for larger retail assets, contributing significantly to the muted \$166 million sales volume recorded in Q1 2024 (excluding Strip and Standalone). Despite this, the two largest deals were Neighbourhood centres, highlighting ongoing investor appetite for well-located retail offerings at more accessible price points.

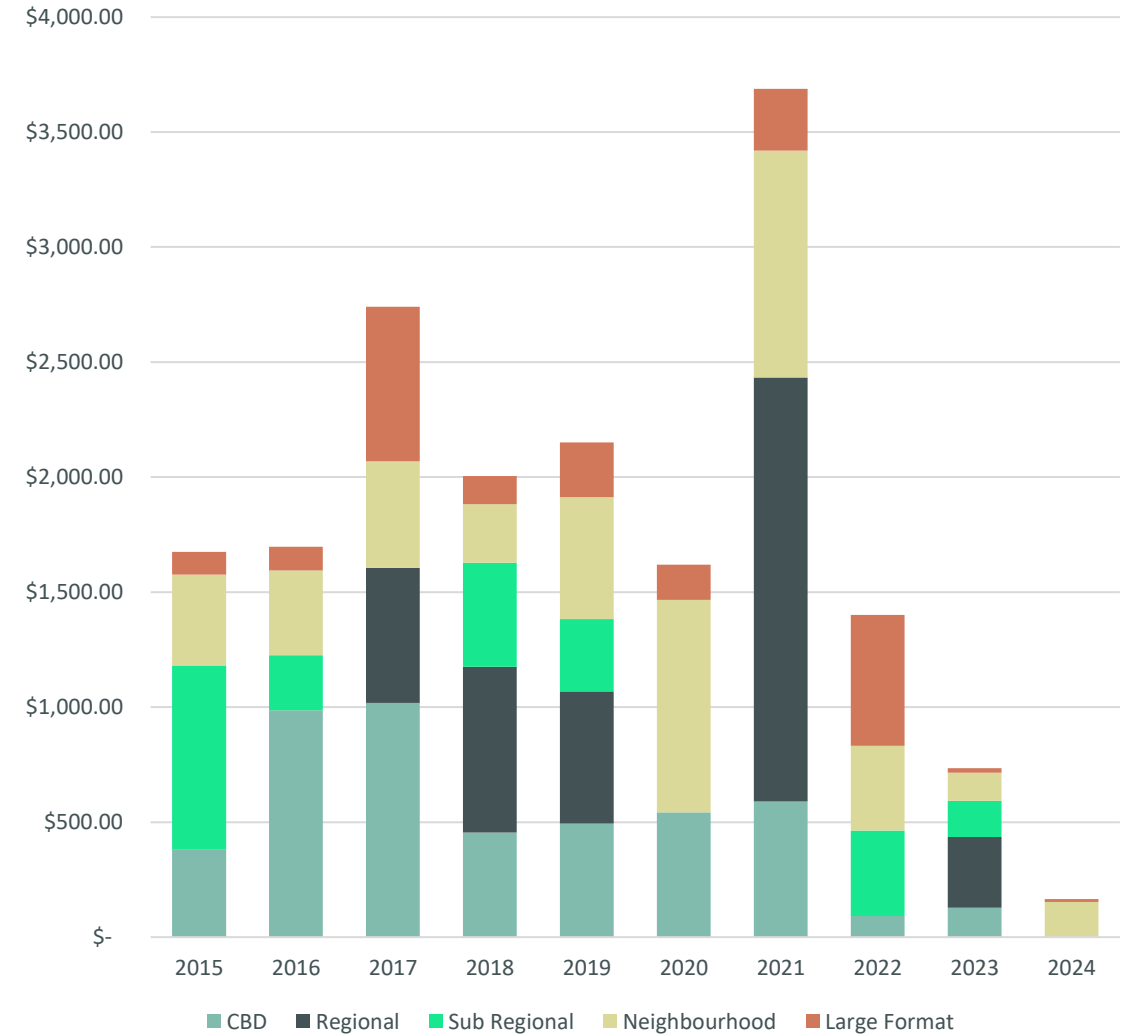
Yields have remained relatively stable over 1Q24 for all retail asset types except for Regional and Neighbourhood centres which expanded by 9bps and 13bps, to 5.62% and 5.75% respectively. Further expansion in yields of up to 25 to 50 basis points is anticipated between now and the end of 2024.

FIGURE 7: NSW Retail Yields by Category



Source: CBRE Research

FIGURE 8: NSW Retail Investment Sales by Category (greater than AUD 5 million)



To Note: Excludes non-metro, Strip and Stand Alone sales.  
Source: CBRE Research

## Research Contacts

**Darcy Badgery**

Senior Research Analyst  
 +61 428 746 118  
 darcy.badgery@cbre.com

**Amita Mehra**

Head of Retail Research  
 +61 400 355 667  
 amita.mehra@cbre.com

**Sameer Chopra**

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



© Copyright 2024. All rights reserved. This report has been prepared in good faith, based on CBRE's current anecdotal and evidence based views of the commercial real estate market. Although CBRE believes its views reflect market conditions on the date of this presentation, they are subject to significant uncertainties and contingencies, many of which are beyond CBRE's control. In addition, many of CBRE's views are opinion and/or projections based on CBRE's subjective analyses of current market circumstances. Other firms may have different opinions, projections and analyses, and actual market conditions in the future may cause CBRE's current views to later be incorrect. CBRE has no obligation to update its views herein if its opinions, projections, analyses or market circumstances later change.

Nothing in this report should be construed as an indicator of the future performance of CBRE's securities or of the performance of any other company's securities. You should not purchase or sell securities—of CBRE or any other company—based on the views herein. CBRE disclaims all liability for securities purchased or sold based on information herein, and by viewing this report, you waive all claims against CBRE as well as against CBRE's affiliates, officers, directors, employees, agents, advisers and representatives arising out of the accuracy, completeness, adequacy or your use of the information herein.

