Research & Forecast Report

Retail

First Half 2021

Accelerating success.

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Colliers Edge

National Overview

By Kate Gray
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Over the last year, the Australian retail sector has been buoyed by the effective management of the pandemic and a beneficiary of the largest stimulus package in Australian history. Households are spending their savings accumulated during the COVID-19 period, and retail trade is increasing. Furthermore, overseas travel is unlikely until 2022 and therefore a potential $60 billion per annum normally spent by Australians on overseas travel is likely to be spent domestically. Continued spending by Australians and further support from the Federal Government on job creation will continue to drive the recovery in the retail sector.

The retail sector has improved at a remarkable pace and well beyond any forecasts. Preliminary retail trade data for April 2021 shows 1.1% growth compared to March 2021 and 25.1% over the year. When looking at spending patterns of discretionary versus non-discretionary goods, the detailed results of March 2021 are tainted somewhat by the unique conditions created in March 2020. The onset of COVID-19 drove the panic buying of food and beverage items and a hiatus in non-discretionary spending due to the lockdown period and resultant store closures. Consequently, non-discretionary spending declined (YoY) in March 2021 by 14.5% whereas discretionary spending has increased by 24.4%. Now that more normalised spending patterns have emerged and if the economic recovery continues to gather pace, we expect to see a stabilisation of service-based consumption and a shift towards goods based consumption moving forward.

Many retailers are reporting significant improvements in sales and online retail penetration has settled at a much higher level than prior to the pandemic. With the improvement in demand for goods, supply chains continue to be an issue with some retail items unable to meet demand such as cars, apparel, building supplies and bikes. Although there is limited evidence at this stage, it is likely that some retailers are having to reassess their supply chains to make them more resilient for the future.

Retail shopping centres and CBD retail were the most impacted due to social distancing restrictions, however, most shopping centres are reporting that foot traffic is higher than pre-COVID levels and rent collections are almost on par with the levels recorded prior to the pandemic. This increased foot traffic is attributable to the fact that it is much quicker to attend a super regional centre in Australia due to their proximity to population bases, in comparison to locations overseas where major centres are located away from population bases.

This has been a stellar recovery for the retail sector. Payroll data is showing that employment in the retail sector is still 0.7% below the March 14 2020 benchmark, however, it was well above this benchmark in the lead up to Christmas.

The café and restaurant sector appears to be a beneficiary of increased spending. Current Retail Trade data has reported growth of 33% over the year to March. One of the key challenges for the food sector is hiring and retaining staff. This sector has relied on foreign workers and backpackers and with international borders closed, this source of labour is no longer available. Labour shortages may provide hurdles fore the expansion of this sector over the short term.

Through this Research and Forecasting Report we will look more in-depth at several issues which are topical within the retail and property industry.

The first is the future of CBD retail. With the slow return of office workers to some of the key CBDs and the doors closed on international tourism, what does this mean for CBD retail? We see that there are bright spots in this sector and with CBDs being the engine room for growth, we will see consumers drawn back the CBD as a result.

The rise of 'dark stores' for retailers to fulfil online orders has been a trend which has accelerated over the last 12 months due to the large jump in online market penetration. We are exploring what technology is being used and what this means for shopping centre landlords.

We also investigate what the future of retail centres will look like and some of the key trends already emerging. Also after a disruptive year for retail investment, we are seeing improved sentiment and deal flow in the sector.

The Exchange, NSW
Leased on behalf of Lendlease

Australian Economic Indicators - May 2021

CASH RATE

APR-21	APR-20
0.10%	0.25%

INFLATION RATE

MAR-21	MAR-20
1.1%	2.2%

AUD TO USD EXCHANGE RATE

APR-21	APR-20
0.78	0.66%

GDP GROWTH

DEC-20	DEC-19
-1.12%	2.20%

UNEMPLOYMENT RATE

APR-21	APR-20
5.5%	6.4%

POPULATION GROWTH

SEP-20	SEP-19
0.87%	1.53%

RETAIL MAT GROWTH

MAR-21	MAR-20
2.2%	10.0%

CONSUMER SENTIMENT INDEX

APR-21	APR-20
118.8	75.6

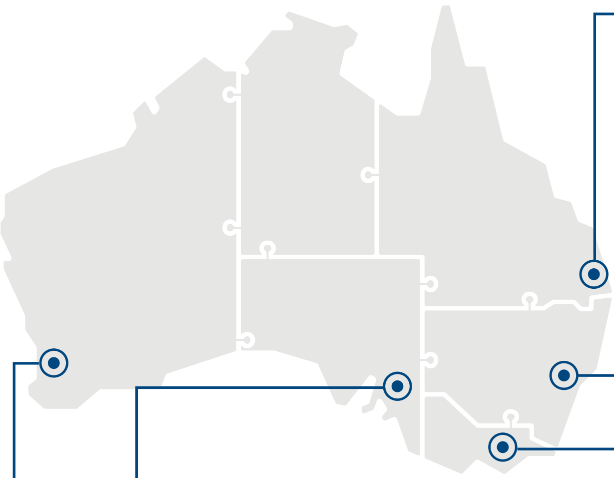
BUSINESS CONDITIONS INDEX

APR-21	APR-20
23.3	-33.7

CS Square, Caroline Springs, VIC
Sold on behalf of Lendlease managed Australian Prime Property Fund Retail

Queen Victoria Market, VIC
Leased on behalf of and in association with the City of Melbourne

CBD
Retail Snapshot



Brisbane

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$2,417	$4,292	5.00%	6.25%	20%

Sydney

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$2,750	$22,000	4.15%	5.50%	20%

Adelaide

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$1,800	$3,500	5.00%	6.25%	25%

Melbourne

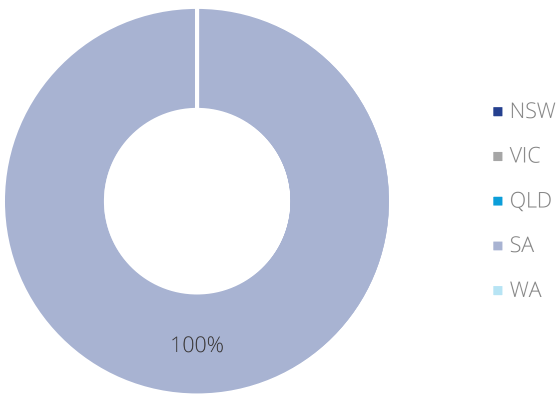
	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$3,510	$9,450	4.50%	5.75%	20%

Perth

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$1,825	$3,835	5.00%	6.00%	18%

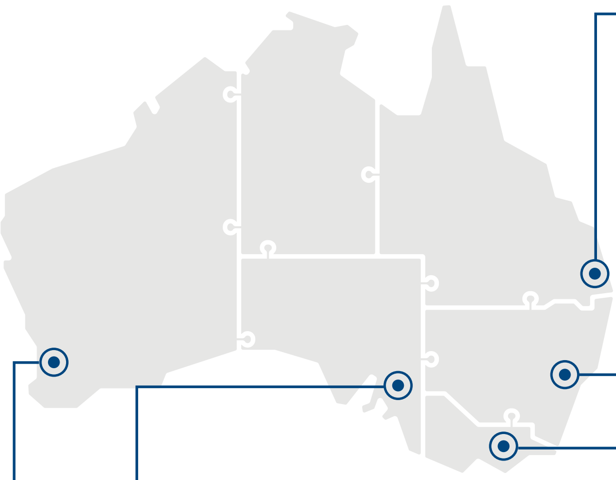
The Walk, VIC
Leased on behalf of Steadfast Capital

2021 YTD CBD Retail Investment Volumes by State



Source: Colliers Edge

Regional Shopping Centre
Retail Snapshot



Brisbane

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$1,203	$1,406	4.75%	6.25%	25%

Sydney

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$1,350	$1,818	4.35%	6.25%	22%

Adelaide

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$903	$1,615	5.50%	6.50%	22%

Melbourne

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$1,224	$1,522	4.35%	6.50%	23%

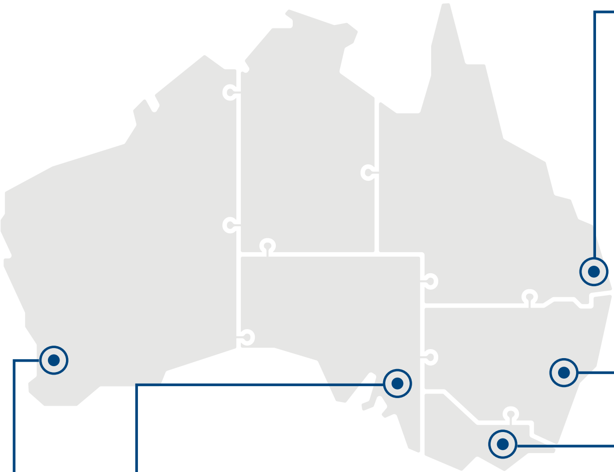
Perth

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$637	$1,159	5.45%	6.50%	20%

Westfield Doncaster, VIC
Valued on behalf of ISPT

Springlake Shopping Centre, VIC
Managed on behalf of Geopec P/L

Sub Regional Shopping Centre
Retail Snapshot



Brisbane

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$690	$1,200	6.25%	7.75%	25%

Sydney

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$800	$1,250	6.25%	7.75%	25%

Adelaide

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$490	$770	6.25%	8.50%	30%

Melbourne

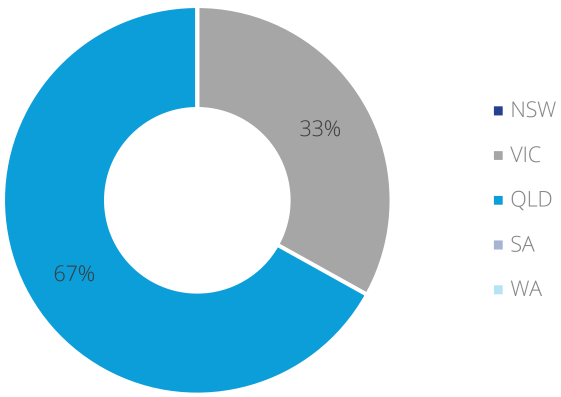
	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$800	$1,000	6.25%	7.75%	25%

Perth

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$510	$1,000	6.25%	8.00%	22%

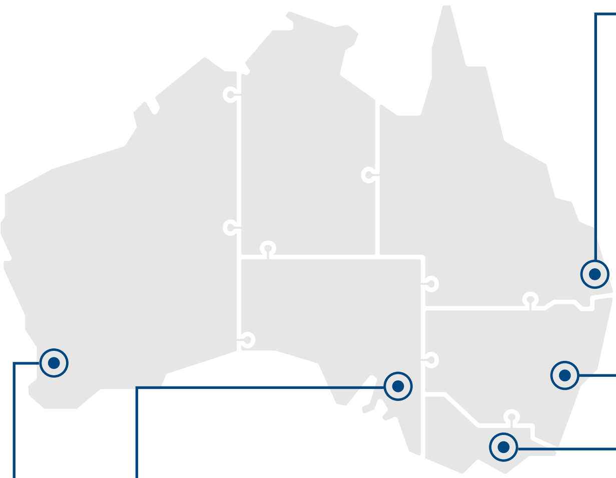
The Grove, SA
Leased on behalf of Challenger

2021 YTD Sub Regional Retail Investment Volumes by State



Source: Colliers Edge

Neighbourhood Shopping Centre
Retail Snapshot



Brisbane

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$551	$821	5.25%	7.25%	25%

Sydney

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$975	$1,075	5.00%	7.00%	19%

Adelaide

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$360	$670	6.00%	7.50%	30%

Melbourne

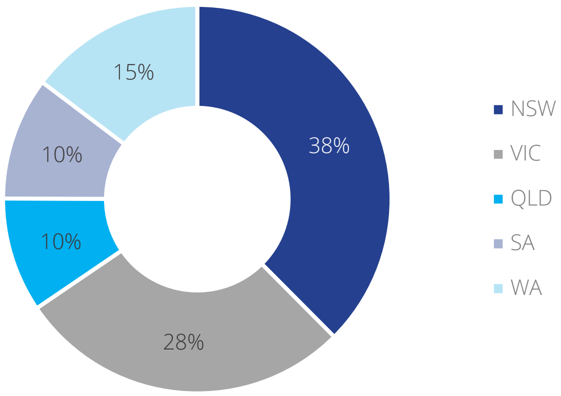
	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$560	$860	5.00%	7.00%	23%

Perth

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$370	$550	5.50%	7.00%	20%

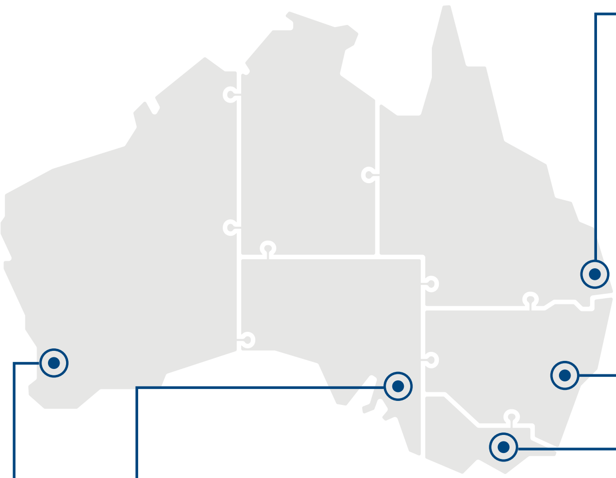
Elara Village, NSW
Leased on behalf of CVC Ltd

2021 YTD Neighbourhood Retail Investment Volumes by State



Source: Colliers Edge

Large Format Retail
Retail Snapshot



Brisbane

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$272	$360	6.00%	8.00%	17%

Sydney

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$230	$760	5.50%	7.00%	10%

Adelaide

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$180	$310	7.25%	8.25%	15%

Melbourne

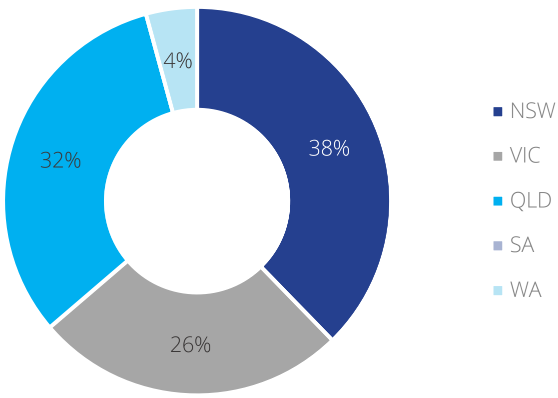
	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$200	$370	6.50%	7.50%	11%

Perth

	Gross Face Rent (A$/sqm p.a.)		Yield (%)		Incentive
	Low	High	Low	High	(%)
H1 2021 (Q1)	$190	$255	6.95%	7.85%	15%

HomeCo National Portfolio (8 Assets)
Valued on behalf of Home Consortium Limited and ANZ Banking Group

2021 YTD Large Format Retail Investment Volumes by State



Source: Colliers Edge

The Future of CBD Retail

By Kate Gray
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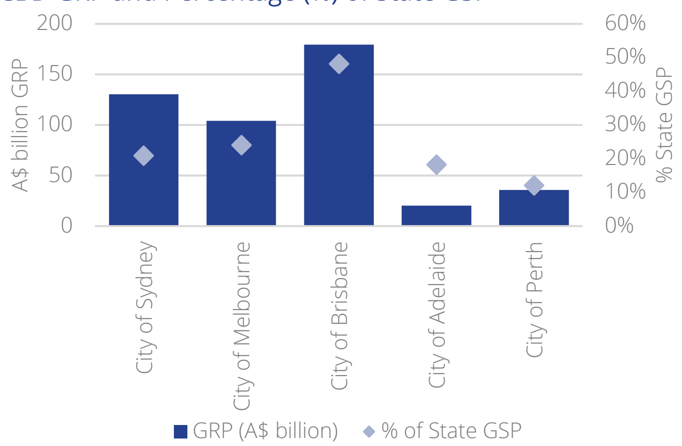
The last 12 months have been unsettling for many central business district (CBD) retailers, with further disruptions possible as evidenced with the recent Melbourne snap lockdown. Many have had to weather extended social distancing restrictions and a slow return of workers to the office in key CBD markets. This has also been compounded by the extended and likely prolonged closure of international borders to tourism. CBD retail continues to face these challenges, where most other sectors of retail have seen foot traffic and sales bounce back, with many experiencing better conditions than prior to the onset COVID-19. So, what does this mean for the future of retail in our CBDs over the medium term?

Firstly, it is key to understand the importance of our CBDs as a contribution to both the total economy and jobs. The CBDs have always been the centre of economic activity and a driver of economic growth. Prosperity in our CBDs leads to further growth across our economy.

Our analysis shows that to June 2020 the CBD council regions accounted for $469.33 billion of economic output which is just over 25% of the total Australian GDP. These numbers are slightly skewed as the City of Brisbane covers most of the metro areas of Brisbane. The City of Sydney accounts for 20.8% of the New South Wales economy while the City of Melbourne accounts for 24% of the states Gross State Product. Excluding City of Brisbane, CBDs also employ over 1.79 million people. If the City of Brisbane is included, CBDs account for over three million jobs across Australia. This demonstrates the importance of CBDs to the Australian economy and to future growth. The income of people working in CBDs are also higher as there is a greater proportion of professional, scientific and technical services as well as finance and insurance jobs. Public administration is also an important employment sector to CBD markets.

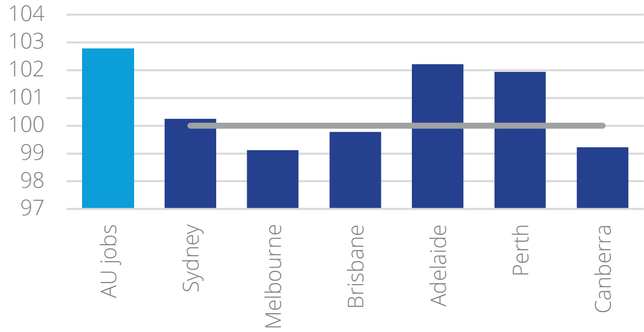
CBD GRP and Percentage (%) of State GSP



Source: ABS, GRP: Gross Regional Product

The return to the office in Sydney and Melbourne has been slower than in other capital cities. Many of the smaller capital cities such as Perth, Adelaide and Canberra are not far from their pre-COVID occupancy rates according to the Property Council of Australia Occupancy Survey. Similarly, payroll data has illustrated that jobs growth in Melbourne, Brisbane and Canberra CBDs has lagged the national average. Adelaide and Perth currently sit above pre-COVID levels.

Indexed Payroll Jobs



Source: ABS

Melbourne has been slower to return to the CBD due to more prolonged lockdowns. Sydney has been faster to return which is evident in payroll jobs and public transport usage, however, there is a clear trend of less days in the office with Tuesday to Thursday being busier than Mondays and Fridays. This highlights the challenges for retailers in CBDs and enforces that their peak trading times are in smaller windows.

There is a real divide in the performance across different CBD markets and categories of retail more broadly. Luxury and prime retail across most CBDs have seen limited vacancy and in some pockets in Sydney there has been rental growth and downward pressure on incentives. Across most CBDs, retailers that rely on commuter traffic and are in secondary locations and arcades have seen vacancy increase and rents fall. This reset was underway prior to COVID-19, however has since been accelerated.

CBD retail is usually tightly held by both tenants and landlords. As with most property classes we are seeing a flight to quality in CBD retail. Prime locations which are usually tightly held are being snapped up by retailers that have not been able to get a foothold in prime locations.

CBDs will remain the heart of economic growth for all our major capital cities. With significant new development pipelines in most CBDs, creating new experiences and amenity this will draw people back from the suburbs to where the action and bright lights are.

Diversifying Shopping Centres

By Adrianna Kazzi
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Prior to the pandemic, shopping centres were under pressure to adapt and evolve to a changing retail landscape. The impact of COVID-19 on consumer behaviours has fast tracked the requirement for landlords to explore new ways to evolve their centres and attract customers. Shopping centres will continue to provide benefits of shopping that has not yet been matched by online stores and services. The instant gratification that customers receive in stores, where they are able to physically see and try on clothing items, have a face to face interaction with a stylist, and instantly take their bag of shopping home, remains superior when it comes to their overall experience. Although the convenience of online shopping has increased over the past year, when analysing current consumer desires, there are several considerations that owners must explore in order to meet demand.

Experience: the defence against the growth of e-commerce

Customers are heavily driven by experience and the need for connection and face to face interaction, something that an online experience can never replicate. With tenant diversification and a commitment to be sustainably and socially responsible, landlords will be able to differentiate and make their centres more attractive by becoming more than just a place to shop. Offering consumers leisure and entertainment within the complex, is a defensive measure against the growth of e-commerce, creating a place where people want to spend their down time. Centres that offer a mix of retailers, services, and experiences will continue to entice consumers and subsequently boost the willingness of retailers and leisure operators to trade and renew their leases. This new focus on entertainment is likely to redefine the role of the centre anchor.

Rising to the challenge of increasing consumer foot traffic and interaction, across Australia, centre landlords are delivering a diverse range of amenities and building their own catchments of which they can leverage off an established consumer base. By increasing their offering and adding additional services to centres, retail turnover is likely to increase. For instance, early this year, AMP Capital announced a partnership with Eagers Automotive to establish an AutoMall in their Indooroopilly Centre by the end of 2021. This would involve a one-stop destination for all things auto, with a car showroom that spans two levels and a car servicing facility, meaning customers can have the convenience of having their car examined while they shop. With Indooroopilly Shopping Centre providing stand-out and innovative amenities, consumers are likely to be attracted by the diverse offering.

Mixed-use developments

With the impact of COVID-19 resulting in an uptick in vacancy in some centres, landlords can benefit and backfill these empty shops with mixed use tenancies. This occurred in the Imperial Shopping Centre in Gosford, NSW, where vacant retail space was transformed into a new college campus. Similarly, larndlords may look to include flex space and commercial tenancies within their centres.

The shopping centre's surroundings is also imperative to the centre's performance and offering. Established international trends are now making their way onto Australian shores. More frequently, centres that are currently in planning or development have provisions in place to create an immediate catchment. These mixed-use offerings include residential communities, office locations, education precincts, medical hubs, or hotels as well as a retail offering. By taking advantage of the large parcels of land, established infrastructure, proximate transport hubs and extensive car parking available, owners can create a desirable town square.

This trend is becoming more prominent with local developers in Australia, as is evident in The Aviary, Toowong Town Centre, QLD. This $450 million development proposes 30 retail shops, an outdoor dining precinct, 150 residential apartments, an office tower, medical and childcare services, and a wellness centre.

The win-win of integrating mixed uses in shopping centres remains strong, even though the rent is often lower than traditional retail. The space is better off occupied than vacant, and it is bringing more people to the centre because of the more diverse offering. Further, the uses implemented are likely to entice consumers, generate foot traffic and sequentially increase rental levels for the remainder of the centre, ensuring the continued strength and mobility of shopping centres.

Infinity, NSW
Leased on behalf of Crown Group

Harnessing the Halo

By Adrianna Kazzi
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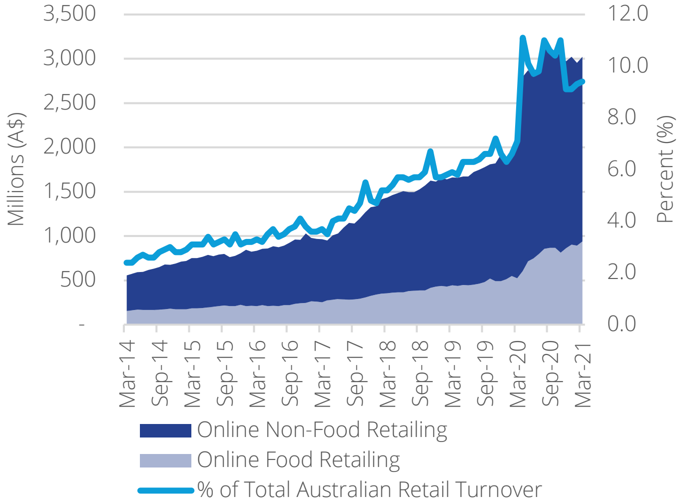
How COVID fast tracked online spending

The impacts of COVID-19 last year forced some retailers to close their doors and consumers to stay indoors, and encouraged consumers to turn to alternate mediums of shopping. According to Australia Post's eCommerce Industry report, 82% of all households in Australia made at least one online purchase in 2020, which was 1.3 million households more than the year prior. In 2019, it was forecast that 2020 would see online sales total 12% to 13% of the total retail spend in Australia. The changes in consumer behaviour driven by the effects of COVID-19 stimulated this figure to 16.3%.

Online Sales

Although 2020 saw a significant spike in online sales during the height of social distancing restrictions, after restrictions were relaxed, there was an easing of online sales. While online sales continue to trend higher than pre-pandemic levels, it is also evident that consumers have remained eager to return in store to make purchases. In March 2021, 9.4% of total Australian retail turnover was credited to online sales – of which the majority was to non-food retailers. This trends well above the pre-pandemic five-year average of 4.7%.

Online Sales (% of total retail sales)

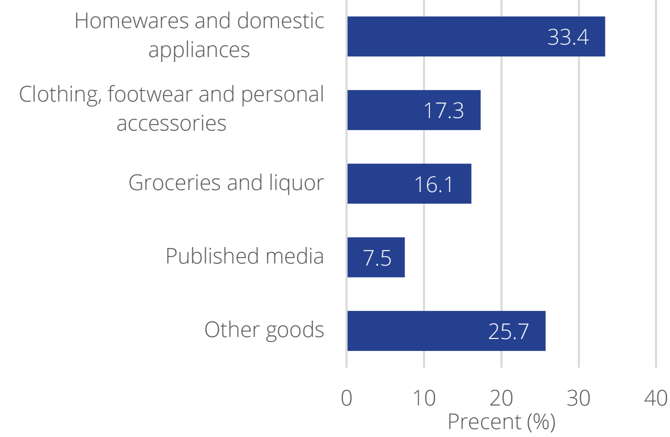


Source: ABS

Although online retail has remained above pre-pandemic levels, a recent study by the International Council of Shopping Centres (ICSC) found that there is an interdependent relationship between online sales and brick and mortar sales called the Halo Effect. This held the notion that when online apparel shoppers chose to pick up their purchase in store, additional spending was more than likely to occur. This is further confirmed by the ABS Retail Trade data that shows stronger growth in multichannel retailers which accounted for 6.4% of total sales compared to 3.0% of total retail sales made by purely online retailers.

According to IbisWorld data, it is expected that the online shopping industry will generate revenue of $34.5 billion in 2021. By sector, these are likely to be Homewares and Appliances (33.4%), Apparel (17.3%), and Groceries and Liquor (16.1%).

Online Sales by Sector (2021 forecast)



Source: IbisWorld

Woolworths Wadalba, NSW
Sold on behalf of Woolworths

Dark Stores

With the rapid rise in online retail demand for food retailers, there is an increasing demand for dark stores, especially among the supermarket category. Pre-pandemic, there was an establishment of Click and Collect models and online orders and deliveries in stores around the country, led by Woolworths Group. With the impacts of COVID-19 placing upward pressure on online sales and demand, the establishment of dark stores will become an essential part of ensuring improved effeciencies in packing capabilities to fulfil a higher capacity of orders.

In April this year, Woolworths announced their intention and submitted plans to construct a 22,000 sqm online fulfilment centre in Auburn, NSW which would comlplement their existing dark store network on completion. It was recorded that from July to December 2020, e-commerce sales at Woolworths increased by 92% and account for 8% of the supermarkets total retail sales. Similar moves are expected to trend in the coming months and year where retailers can increase their capacity, productivity and revenue.

Impact on Shopping Centres

The use of dark stores has significant positives for retailers. Online grocery retailing can be an expensive model with significant investment in the online platform, people, or technology to pick orders and delivery infrastructure. It also absorbs costs which the customer was undertaking with limited increases in margins. Even with delivery fees, the margins on online food retailing are very slim.

Part of being able to recoup the costs in the online platform is the use of dark stores where rents are likely to be lower on a per square metre basis and in most cases do not attract turnover rent. In some dark stores advanced picking system investments can improve the output, accuracy, and turnaround times of online orders, however there is a large up-front investment for this technology. The use of dark stores can impact the overall rent profile for the existing store network where turnover rent is part of the lease. For instance, prior to dark stores, there would have been a specified department in stores that supported the collection and distribution of orders.

In the long term, the establishment of dark stores is likely to divert orders from store fronts which would have generated direct turnover from their collections. With online sales increasingly diverted to dark stores and turnover clauses being managed this is likely to impact the rental stream for retail landlords.

Retail Investment is back on the radar

By Kate Gray
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With the improvement in spending in the retail sector, there has also been an improvement in demand for retail assets. Sales volumes to the end of April 2021 totalled $1.7 billion which is 35% above the sales volumes for the first half of 2020. Investment activity has been driven by more investment in large format and neighbourhood centres.

A feature of last year was the absence of any regional centre sales and only five subregional sales. When looking to historic sales between 2007 and 2019 for trends, there are usually two to three regional centres to transact each year. Throughout this time there were periods that saw major portfolios trade, which boosted overall sales volumes. This has significantly impacted the sales volumes during 2020. For sub regional sales between 2007 and 2019 an average of 16 sales occurred yearly whereas there were five sales last year and there have been five sales over the year to April 2021.

Neighbourhood centres have been in strong demand with many retail investors looking to boost their 'daily needs' portfolios. In the decade to end of 2019 there were an average of 52 neighbourhood sales to trade yearly, compared to 38 for all of 2020 and 14 so far in 2021. There is significant weight of capital chasing these assets and this is driving up competition and for some assets seeing yields tighten.

Institutional investors have become more active in 2021 and account for just over 50% of the transactions to the end of April. This is compared to 43% of total transactions. Private investors have remained reasonably consistent in 2020 and 2021 at around 42% but this is higher than in 2019 which was just under 37%.

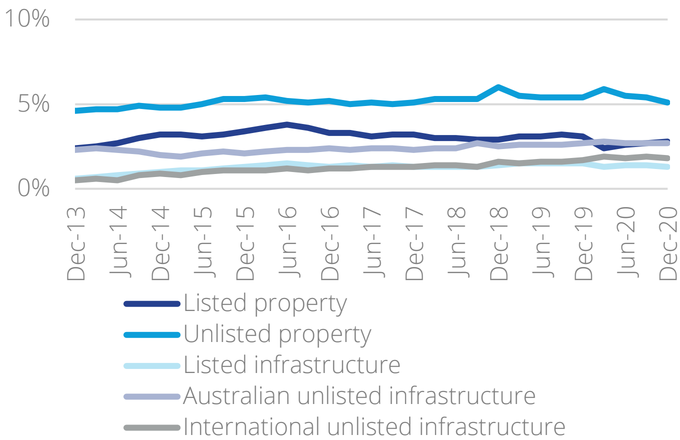
With rental streams returning to more normal patterns and vacancy increasing only marginally, many of the risks that were facing the sector in 2020 have become less of a feature in 2021. The unprecedented bounce back in consumption has underpinned this confidence and made investors more confident in the outlook for retail. The expected and sustained recovery in goods retailing which has underpinned the profitability of many goods retailers have meant that some retailers are reassessing their store closures that were flagged prior to COVID-19.

With a surge in both business and consumer confidence and as more certainty is returning to the retail sector, more capital is looking to be placed in the sector. The largest institutional investors are super funds which invest in a range asset types including property. Our analysis of the APRA super statistics shows that over the last five years there was an additional $38 billion allocated to the property sector with $29.9 billion being allocated to indirect investment.

What is interesting to note is that the allocation across the property sector has remained largely unchanged between 8.2% and 8.9%. This did change last year and impacted the listed sector more due to the liquid nature of the listed sector as super funds needed to convert some assets to cash to pay for the early superannuation withdrawals (around $36 billion). Over the last five years, the investment has grown in the unlisted sector which we have seen across most of property including the retail sector.

At this stage it is difficult to determine the impact the pandemic has had on large retail assets such as regional shopping centres and CBD retail as there is an absence of evidence. A good guide however has been the asset values and a cap rate analysis of the listed sector. What we have found was cap rates for regional centres have softened 15bps, CBD 31bps and sub regional 12bps. On the other hand, neighbourhood centres have tightened 8bps and reflects a clear investor preference for this subsector. We expect with better conditions across the sector that there will be a stabilisation of yields over the next 12 months and an improvement in activity volumes.

Super industry asset allocation



Source: APRA

Watergardens Homeplace, Taylors Lake, VIC
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