



'Smaller is beautiful' as WA neighbourhood centres draw tenants and capital

JLL Retail Report highlights tightening vacancies and yields, and strong investor demand

PERTH, 10 March 2016 – Investors and retailers are increasingly adopting the small is beautiful approach according to JLL's latest Perth Retail Market Commentary.

The firm's latest report highlights declining vacancies, tightening yields, and a stand-out transaction volume over the last 12 months.

There are two substantial drivers in the neighbourhood centre market according to JLL Research Analyst, Sophie Fletcher.

"German supermarket and variety store operator, Aldi, has aggressively moved into WA, driving demand for space and new supply. In addition, the development and construction of numerous new housing estates along Perth's north-south coastal axis which now spans more than 100 kilometres, is driving demand for convenience retail.

"Aldi plans to open 22 stores, with construction already under way at 14 locations including Mundaring, Butler, Kwinana, Rockingham, Southern River, Mandurah and Joondalup.

"Furthermore, the fact that neighbourhood shopping centres are convenient and primarily focused on essential rather than discretionary purchases which in the current subdued state economic conditions, makes them a defensive asset class for investment.

"While vacancy rates increased to 1.6 per cent and 3.8 per cent respectively for regional and sub-regional centres, neighbourhood vacancies decreased from 4.6 per cent in June 2015 to 3.3 per cent in December 2015. Nationally, the average neighbourhood vacancy rate increased to 4.8 per cent in December 2015, up from 4.5 per cent in June 2015," said Ms Fletcher.

"A further fundamental factor is the relative undersupply of retail space per capita in WA.

"Over the last 10 years, for every additional person added to the WA population approximately 1.2sqm of retail space has been constructed, according to JLL Research. This is lower than the national average of 1.8sqm per capita over the same period of time," says Ms Fletcher.

JLL Associate Director Retail Property and Asset Management WA, Alex Martin noted that tenant demand throughout 2015 had been stronger in the 'Retail Services' category, in particular the neighbourhood 'Hair and Beauty Services' area.

"Retail turnover has shown recent signs of a recovery in WA, and leasing conditions for tenants remain favourable with attractive terms on offer. Prospective tenants are using this opportunity to explore their options in the market and secure new premises.

'Smaller is beautiful' as WA neighbourhood centres draw tenants and capital

"These opportunities have not gone unnoticed by developers and investors with JLL's report revealing a strong supply pipeline for neighbourhood shopping centres in Perth," said Mr Martin.

Five new neighbourhood centres totalling 31,500sqm were under construction by December 2015, additional to which a further 17,000sqm across six centres in the metropolitan area have planning approval. Neighbourhood centres are defined by JLL as comprising at least 2,000sqm of lettable space and incorporating one or more supermarkets along with specialty stores.

"Among these is Stockland's Harrisdale Shopping Centre (12,000sqm) comprising Woolworths and Aldi supermarkets and 30 specialty stores, along with the 4,600sqm Port Coogee Village incorporating a Woolworths, BWS and 13 retail tenancies, and the 4,800sqm Caversham Village Shopping Centre to be anchored by a 3,590sqm Coles along with 12 specialty stores," says Ms Fletcher.

"Added to these is Currambine Central which is undergoing a \$20million expansion while four new neighbourhood centres have gained development approval including Aveley Neighbourhood Centre (5,100sqm) and Ashby Village Shopping Centre (2,600sqm)."

JLL Director Sales and Investments WA, Sean Flynn, says that solid demand for neighbourhood centres was also reflected in both yields and transaction volumes.

"As the study notes, neighbourhood yields have compressed by 25 basis points at the upper end and 50 basis points at the lower end, and now range between 6.5 per cent and 8.5 per cent.

"While further tightening was seen in the December quarter, there remains a broad spread between the upper and lower ends of the range. The yield range is 200 basis points compared with the 10-year average of 137 basis points.

"It's no surprise that investors have been very active in the retail market over the last couple of years with well performing centres being strongly pursued by both private and institutional buyers.

"Indicative of this is the fact that we recorded a 159 per cent increase in total sales volumes on 2014 to just over \$670million in 2015. As notable as this is, a standout finding was the fact that eight of the 14 retail property transactions recorded last year were neighbourhood centres.

"The weight of capital underpinned by supply and demand principles indicates the likelihood of a further sharpening of neighbourhood yields this year, while the limited number of opportunities to acquire assets is likely to accelerate the yield compression cycle," said Mr Flynn.

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Notes to Editors:

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