

ADELAIDE PROPERTY MARKET MONITOR

RETAIL

JULY 2007

“SPENDING UP BIG”

The Shopping Centre Council of Australia indicates that there is currently 17.8 million m² of shopping centre floor space throughout the Nation, of which 85% is occupied by retail uses.

NSW accounts for 33% of the total retail floor space while Tasmania, South Australia, Northern Territory and the ACT combined only contribute 12% of the total retail area.

As of the beginning of 2007, Australia had 1,102 shopping centres. This was made up of 759 supermarket centres, 268 discount department store based centres, 63 regional centres and 12 CBD based shopping centres.

In contradiction, the Property Council of Australia suggests there are 1,364 shopping centres and a substantial number of market and corner stores that are not included in the statistics.

The definition of a shopping centre varies between researchers often providing retail data that is conflicting in nature. This report relies heavily on information supplied by the ABS and the Shopping Centre Council of Australia.

Table1 Total Number of Shopping Centres per State and Territory



Source: Urbis/Shopping Centre Council

There are 48,400 specialty shops, including non-retail outlets such as banks and post offices. 28% are located in Regional centres, 39% in Sub-Regional centres, 30% in Supermarket centres and 3% in CBD's.

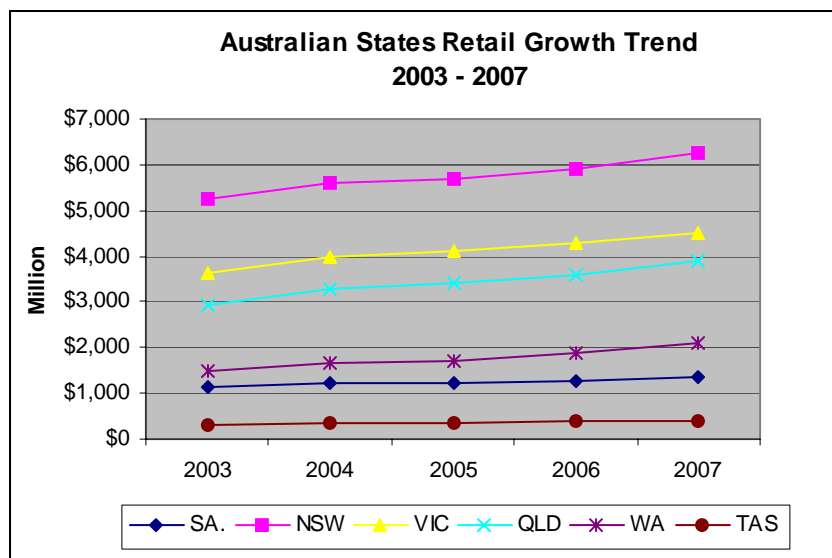
Total estimated turnover for Australia in 2006 was \$91 billion. The aggregated income share of Regional centres was 27%, Sub-Regional centres 39%, Supermarket centres 31% and CBD centres 2%. The retail component of the total turnover was approximately \$85 billion, 1.7% of the Gross Domestic Product (GDP 2006).

Since 1999 there has been 25% growth in the number of Sub-regional and Supermarket centres. Retail sales at shopping centres has grown \$33 billion, representing a 52% share of total retail sales growth in Australia over this period.

The May Federal Budget provided an extra \$15 per week for the average Australian family. Coupled with low inflation figures, steady interest rates and optimistic consumer sentiment, it is expected that retail spending will continue to show strong growth for the remainder of 2007.

Table 2 illustrates the Retail growth trends across the Nation between 2003 and 2007.

Table 2.



Source:ABS

Latest statistics indicate that approximately 1 million m² of retail building is currently under construction throughout Australia.

Despite the growth in retail spending, it is unlikely to stimulate rental growth across the retail sector with such a substantial amount of retail space entering the market.

This will vary between types of retailing and location. The largest percentage additions are in Victoria 11%, Western Australia 7% and NSW 6%. The majority of new construction was in Sub-Regional centres 31%.

SOUTH AUSTRALIA

Retail turnover in South Australia increased by 6.5% over the past year. The two industry groups with the largest percentage growth were Household goods and Food, increasing 16.6% and 10.2% respectively.

The trend growth for most industry sectors has been modest for the past 14 months. Industries in decline for the same period were Recreational Goods and Hospitality Services. Table 3 demonstrates the percentage change in retail turnover by Industry type for the last year.

Table 3 Change in South Australian Retail Turnover by Sector



Source:ABS

CONSTRUCTION

South Australia is experiencing a positive growth period in Retail construction with many new projects and refurbishments taking place. Table 4 illustrates some of the Major centres currently undergoing development in metropolitan and regional areas.

Table 4 Major Centres Currently under Construction.

CENTRE	SUBURB	TYPE	NEW	EXT/REFURB	FINISH
North Adelaide Village	Nth Adelaide	N'Hood		6,964m ²	Apr 07
600 Main North Rd.	Smithfield	B'Goods	7,646m ²		Jun 07
Cnr Port Rd.	Woodville	B'Goods	14,000m ²		Jun 07
Lot 221 Dutton Drive	Mt. Barker	B'Goods	19,000m ²		Jul 07
Prospect Central	Prospect	N'Hood		2,500m ²	Aug 07
Lot 74 Renmark Ave	Renmark	N'Hood	11,870m ²		Oct 07
Mitcham Centre	Torrens Park	N'Hood		11,000m ²	Mar 08
Escada-Mawson Lakes	Mawson Lks	C'Centre	1,300m ²		Oct 08
Lots 5&6 Main Nth Rd.	Munno Para	Sub Reg		30,000m ²	Jul 09

Source:Savills

The impact of new Retail supply additions has a huge bearing on the lower end of the market. Major centre expansions force smaller surrounding retailers to make substantial improvements to remain competitive.

Retailers not prepared to refurbish their properties will ultimately experience increasing vacancies and decreasing rents.

The Bulky Goods sector represents 28% of all current retail construction Nationally. Over the last few years it has been the fastest growing retail category and is expected to continue. At present there is 848,153 m² of Bulky Goods retail floor space Australia wide.

MAJOR TRANSACTION ACTIVITY

Sales activity of South Australian metropolitan Retail centres has been buoyant during the early stages of 2007. Tables 5 and 6 provide an example of several smaller shopping centres that sold during the March quarter.

Table 5 Enclosed Centres

ADDRESS	DATE	PRICE	AREA	\$/sqm	YIELD
503 Goodwood Rd, Col Light Gdns	Feb 07	\$2.21M	608m ²	\$3,635	7.52%
1/198 North Tce, Adelaide	Jan 07	\$1.45M	544m ²	\$2,656	9.00%
750-752 Anzac Hwy, Glenelg	Feb 07	\$1.65M	487m ²	\$3,378	5.19%
38-42 Semaphore Rd, Semaphore	Jan 07	\$1.89M	394m ²	\$4,796	7.00%
190 Hutt St, Adelaide	Jan 07	\$1.38M	290m ²	\$4,759	4.19%

Table 6 Shops

ADDRESS	DATE	PRICE	AREA	\$/sqm	YIELD
34 Park Tce, Salisbury	Mar 07	\$1.81M	446m ²	\$4,058	6.90%

In 2006 the Shopping Centre Council of Australia indicated there was 119 retail centre sale transactions, totalling \$3.9 billion, across Australia.

In terms of sale numbers this was below 2005 where \$3.8 billion of sales activity was transacted from 122 dealings. Despite 2006 displaying a reduction in sales, it is still well above long run historic activity levels.

KEY MARKET INDICATORS

Tables 7 – 9 display a number of key market indicators for Adelaide shopping centres. The diversity of retail locations and types makes it very difficult to provide one succinct data table. Three categories have been formed, Enclosed Centres, Strip shops and Bulky Goods Centres to provide more accurate statistics.

Table 7 Adelaide - Enclosed Centres

	REGIONAL LOW	HIGH	SUB-REG LOW	HIGH	N'HOOD LOW	HIGH
Major Tenant Rent/m ²	\$125	\$220	\$120	\$200	\$100	\$170
Specialty - Rent/m ²	\$600	\$1,200	\$450	\$600	\$175	\$500
Yield Market (%)	6.50%	7.50%	6.75%	7.75%	7.00%	8.00%
IRR (%)	9.00%	9.50%	9.00%	10.00%	9.00%	10.00%
O/goings Op (\$/sqm)	\$60	\$60	\$45	\$55	\$40	\$50
O/goings Stat (\$/sqm)	\$55	\$55	\$30	\$45	\$25	\$30
Outgoings total (\$/sqm)	\$115	\$115	\$75	\$100	\$65	\$80
Capital Values (\$/sqm)	\$3,000	\$5,000	\$1,800	\$3,000	\$1,500	\$2,500

Source:Savills

Table 8 Shops

	R'MALL LOW	HIGH	CBD LOW	HIGH	STRIPS LOW	HIGH
Net Rental (\$/sqm)	\$1,100	\$2,500	\$250	\$400	\$250	\$400
Yield Market (%)	6.00%	8.00%	5.05%	8.00%	7.00%	8.50%
O/goings Op (\$/sqm)	\$70	\$70	\$75	\$75	\$40	\$40
O/goings Stat (\$/sqm)	\$200	\$200	\$150	\$150	\$15	\$20
O/goings Total (\$/sqm)	\$270	\$270	\$225	\$225	\$55	\$60
Capital Values (\$/sqm)	\$3,000	\$10,000	\$2,500	\$7,500	\$1,800	\$3,500

Source:Savills

Table 9 Adelaide - Bulky Goods Centres

	BULKY GOODS LOW	HIGH
Tenant Net Rental (\$/sqm) > 600 sqm	\$100	\$200
Yield – Market (%)	7.00%	8.00%
IRR (%)	9.00%	10.00%
Outgoings Operating (\$/sqm)	\$40	\$50
Outgoings – Statutory (\$/sqm)	\$25	\$30
Outgoings – Total (\$/sqm)	\$65	\$80

Capital Values	\$1,500	\$2,500
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Source: Savills

RETAIL RENTAL PERFORMANCE

Table 10 demonstrates a number of various retail lease conditions in metropolitan Adelaide. Rental incomes vary more than any other commercial property sector, they are heavily dependant on location, demographics and competition within their trade area rather than broad market trends.

Table 10 Adelaide Metropolitan Retail Rents 2007

ADDRESS	TENANT	AREA m ²	RENT/m ²	BASIS	TERM
Nth East Rd. TTG	Bank SA	322	\$185	Net	5 Yrs
Reservoir Rd. Modbury	Real Estate	116	\$319	Gross	5 Yrs
Pelican Plaza. Modbury	Hearing Centre	127	\$219	Gross	3 Yrs
Pelican Plaza. Modbury	Doctors	64	\$194	Gross	5 Yrs
71 Smart Rd. Modbury	MWDS	124	\$115	Net	7 Yrs
78 Unley Rd. Unley	Hairdressers	165	\$146	Gross	5 Yrs
Nth East Rd. RidgeHaven	Real Estate	188	\$246	Gross	3 Yrs
67 Oaklands Rd. S/ton Pk	Uniforms	69	\$141	Gross	2 Yrs
474 Payneham Rd. Glynde	Dentures	128	\$154	Net	3 Yrs
475 Payneham Rd. Felixstow	Computers	68	\$206	Net	2 Yrs
475 Payneham Rd. Felixstow	Hairdressers	68	\$162	Net	2 Yrs

CONCLUSION

Of all the commercial property sectors retail remains popular with investors for two main reasons. Firstly, it is regarded as the optimum defensive property investment in times of economic uncertainty and secondly, retail demonstrates the strongest historical returns on capital of all the traditional property asset classes.

On a returns basis, the retail property sector has continued to out perform office and industrial property over the past 20 years. The most important benefit of retail property however, is its ability to journey through economic downturns without displaying the volatility of Industrial and Office markets.

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