

Retail property

Photo: Attila Csaszar

Quality retail piques investor interest



While storm clouds gather over office assets and land development comes off the boil, interest in retail property is building as investors look for somewhere secure to park their cash.

7-PAGE FEATURE

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ADREARY winter's day was not enough to stop investors packing a marquee in Bayswater last month, with more than 60 people turning up for the auction of a small retail property on Guildford Road.

The property sold for more than \$1 million over the reserve price, with seven genuine bidders emerging from the eager crowd that had gathered for the auction undertaken by CBRE.

Anecdotes like that are becoming common in Perth property circles, with retail properties across the city increasingly generating interest from investors.

The selling agent for the Bayswater property, CBRE's Ben Younger, said there was simply not enough quality investment stock available to keep up with demand.

"There are definitely people with money and they want to put it in quality investments," Mr Younger told *Business News*.

"In general terms, the retail sector is very strong, while the office and development markets aren't.

"People know they can get a good return and the three key factors are location, quality of tenant and length of tenure.

"That's what the market wants and they'll push the limits to get it."

Colliers International director of retail investment services Mark Werrett agreed that there was

a big pool of money in Western Australia chasing retail property.

Mr Werrett said the neighbourhood shopping centre market was particularly competitive, with every property Colliers had taken to market in the past two years generating more than 100 genuine inquiries.

"For the last four or five properties, that's resulted in 10 to 15 actual bids," Mr Werrett said.

"In my career I've never seen that sort of response.

"It just seems to me that there's a real big pool of money out there.

"With the outlook being that interest rates are going to stay down, retail is very attractive for investors."

Earlier this year, Primewest director John Bond told *Business News* that retail properties,

KEY TAKEAWAYS

- Demand growing for retail property assets.
- Investors want well-known tenants on long leases.
- Syndicators overrun with investment inquiries.
- Prominent names like Vikas Rambal and Tony Poli investing in retail property.
- Majors spending big on centre expansions.
- Expansions focus on eating, drinking, entertaining.

particularly key neighbourhood shopping centres, were considered an extremely secure investment.

One reason for this, Mr Bond said, was that an anchor tenant such as Coles or Woolworths generally contributed more than 50 per cent of a centre's income, and those supermarkets were typically on long leases.

"You're also not exposed to discretionary spending much," Mr Bond said.

"They typically don't have clothing stores in them these days; they've become more service centres."

He said Primewest, which is the second-largest WA-headquartered shopping centre owner by total square metres owned (see table page 13), set up a \$100 million shopping centre trust last year, a trust that was keenly sought after.

"What we like about those is we get a diversity of assets across

3.9% Average vacancy rate across Australian neighbourhood shopping centres

Source: JLL

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states and a diversity of different tenants," Mr Bond said.

"It's all about mitigating risk and providing security for investors."

Another property syndicator, APiL, recently launched a trust, with a minimum investment caveat of \$50,000, to acquire the Champion Drive Shopping Centre near Armadale.

APiL managing director Peter Hughes told *Business News* that, on the day of its launch, the trust was announced at 2:30pm and filled by the end of the day.

The centre was bought for \$13.5 million and achieved an initial yield of 8 per cent.

However, Mr Hughes said the strong demand from investors keen to get a slice of syndicates was actually causing issues for APiL.

"With smaller properties, under \$20 million, you're scaling back investment contributions and some people aren't even getting a look-in," he said.

"We've also got another problem; we've just sold a property in Sydney and we've got another \$40 million coming back to investors.

"Primewest have sold quite a bit of their portfolio, too, so both of us are in the same boat; we've got money everywhere and nowhere to put it."

Mr Hughes said the attractiveness of retail property for both APiL and the investors in its syndicates was the reliability of the income produced.

"We're out of the Perth office market and our focus is on retail because we get substantial tenants, long leases and although the yields aren't as high as we'd like, they're certainly very competitive in the financial markets," he said.

"Shopping centres aren't going to go away. We take a view that neighbourhood centres provide convenience, and most of our centres have a major tenant and mostly food-related or services tenants.

"You can't get a haircut off the internet and you can't get fed on

Place making has the potential to change shopping centres from being primarily commercial hubs into places where people also gather as part of their community

- Ross Robertson

the internet. You can get it delivered off the internet, but the internet won't feed you."

The security of retail property has also drawn major investment from cashed-up players historically absent from the sector.

In the past 12 months, Perdan Industries founder Vikas Rambal has made two major shopping centre purchases - the Northam Boulevard, which was bought for \$14 million, and the under-construction Port Coogee Shopping Centre, which Mr Rambal is understood to have purchased from Frasers Property Group, formerly Australand, for an undisclosed sum.

Iron ore entrepreneur Tony Poli is another who has dipped his toe in retail property, with his newly established Aigle Royal Developments buying a vacant site earmarked for a neighbourhood shopping centre in Wattle Grove for \$2.6 million in February.

Aigle Royal is also understood to be close to finalising a deal to buy another development site in Singleton, for around \$8.2 million, where a Woolworths supermarket and associated shopping centre is expected to be built.



STANDOUT: Ross Robertson says a point of difference is crucial for a shopping centre's success.
Photo: Attila Csaszar

BUSINESSNEWSiQ

Major centre expansions

	Additional sqm	Value (\$m)
Garden City Booragoon	47,779	750
Karrinyup Shopping Centre	53,000	600
Westfield Innaloo	62,750	450
Westfield Whitford City	27,000	*450
Galleria Shopping Centre	20,000	420
Cockburn Gateway Shopping City	40,000	300
Mandurah Forum	20,000	350
Westfield Carousel	47,108	235
Midland Gate	18,000	150
TOTAL	335,637	3,705

*estimated

Another Perth-based player who beefed up his retail portfolio in the past 12 months was Armadale Central owner Gerard O'Brien.

Mr O'Brien is understood to have bought the Woolstores Shopping Centre in Fremantle in

December last year for \$40 million, following that up with the \$13.6 million purchase of the Millstream Shopping Centre in South Perth in April.

Those purchases placed Mr O'Brien in the top five locally

based shopping centre owners in the state.

Major backing

But it's not just the locals backing the prospects of retail property in Western Australia.

All of the major institutional owners, plus Perth-based Perron Group, are advancing plans for massive expansions of the city's regional shopping centres.

AMP Capital has outlined plans to spend \$1.35 billion adding 47,000 and 53,000 square metres to its Garden City Booragoon and Karrinyup Shopping Centre, respectively.

Scentre Group is also planning to redevelop its Westfield Innaloo, Westfield Whitford City and Westfield Carousel shopping centres, with those expansions plans collectively worth \$1.12 billion and totalling more than 136,000sqm of extra space.

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23 Dining or fast food options at Cockburn Gateway Shopping City

Retail suits investors

Continued from page 11

Federation Centres has plans to add 20,000sqm to Mandurah Forum at a cost of \$350 million, while it also expects to expand Galleria Shopping Centre in Morley, which it co-owns with Perron Group, by 20,000sqm, for a \$450 million spend.

Perron Group, WA's biggest local shopping centre owner, is planning a \$300 million expansion of Cockburn Gateway Shopping City; but that redevelopment hinges on a \$290 million road project to alleviate traffic congestion around the already crowded centre.

As reported by *Business News* earlier this month, the federal government has committed to funding the Armadale Road portion of the Community Connect South project. However, the crucial link for Cockburn Gateway, a new bridge over Kwinana Freeway, has not received a commitment.

Nevertheless, Perron Group chief executive Ross Robertson said there was significant demand for more retail space in Perth.

"Defined caps on the size of centres, together with no seven-day trading, has certainly resulted in WA retail expansion lagging the nation," Mr Robertson told *Business News*.

"With both of these limitations removed we believe there is sufficient latent demand within the Perth retail market, however, there will be more competition in the future as centres fight for market share."

A shared aspect of all the redevelopment plans at the city's major malls are the creation of entertainment precincts, providing consumers with the option to eat, drink and play at shopping centres, rather than just shop.

Mr Robertson said that was particularly evident at Cockburn

Gateway, where the centre experienced significant trade outside of normal retail hours, due to a popular strip of restaurants on the outside of the centre.

"Creating a point of difference is critical in attracting and retaining customers," he said.

"Designing shopping centres around town squares, gymnasiums, medical uses or entertainment facilities helps turn them into a destination in themselves.

"Place making has the potential to change shopping centres from being primarily commercial hubs into places where people also gather as part of their community."

The chief executive of WA's third-largest local shopping centre owner, Hawaiian's Russell Gibbs, said his company had also steered away from the traditional shopping centre format in favour of establishing them as community hubs.

He said that strategy had been in place at Hawaiian since 2010.

"With the number of redevelopments taking place across Perth there is no question the current market is competitive, which means that there has been a power shift," Mr Gibbs said.

"We are in a time that the shopper is now holding more and more power over decision making and the direction the retail world is moving in.

"That's why we operate as we do; we know that when you work with our community, with your shopper, and listen to what they are saying, that it gives us the knowledge of how to deliver success to our retailers and in turn ourselves."

Lease Equity managing director Jim Tsagalis said the other key element of the major shopping

centres' expansions was a race to sign up big box international fashion retailers such as Zara, Topshop, and H&M.

Zara has already set up shop at Booragoon Garden City, while the recent opening of H&M at Lakeside Joondalup Shopping City caused much fanfare in the northern suburbs.

"With the development of these shopping centres, they will be anchored in a less traditional way for Australian shopping centres," Mr Tsagalis said.

"Historically, they were a discount department store, a supermarket, then at the regional level, a department store.

"That narrative has changed ..

if one could procure three or four of the international big box fashion retailers, you could potentially get a greater per square metre turnover and therefore a greater attraction than you would from a department store.

"The interesting part of it will be, whoever gets it done first may possibly be the winner."

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WESTERN AUSTRALIA

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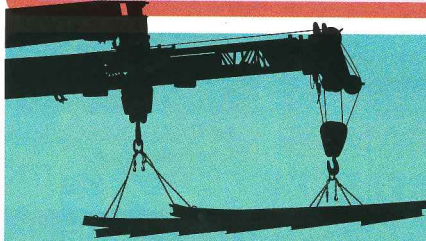
Shopping centres
on the BNIQ list

2,317,294

Total square metres of lettable space
in WA shopping centres

945,421

Total square metres of lettable space
owned by WA-headquartered companies



\$3.7bn

Collective value of major mall expansions

9

Regional shopping centres
planning expansions

335,637

Extra square
metres planned

SALE

\$354.8 million

Value of 11 shopping centre sales in 2014-15

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WA'S BIGGEST LOCAL # SHOPPING CENTRE OWNERS

BUSINESSNEWSiQ	CENTRES	GLA (SQM)
	Cockburn Gateway Shopping City	47,535
	Mirrabooka Square Shopping Centre	42,000
	Belmont Forum	41,900
	Centro Galleria (50%)	36,657
	TOTAL 168,092	
	Primewest Busselton Home Depot	24,123
	Primewest Melville	20,300
	Bunbury Centrepoint	16,827
	Cottesloe Central	12,506
	Southern River Shopping Centre & Showrooms	12,209
	Broome Boulevard	11,623
	Primewest Northlands	8,258
	Gosnells Central Shopping Complex	7,411
	Primewest Gwelup	5,143
	Erskine Central Shopping Centre	4,583
Primewest Cannington	3,814	
TOTAL 126,797		
	Claremont Quarter	30,185
	Carillon City	18,121
	Forrestfield Forum & Marketplace	13,450
	Noranda Shopping Village	11,737
	Bassendean Shopping Village	10,010
	Melville Plaza	8,342
	The Mezz	6,670
	The Park Centre	10,500
Duncraig Shopping Centre	3,353	
TOTAL 112,368		
	The Shops at Ellenbrook	32,254
	Livingston Marketplace	15,574
TOTAL 47,828		
	Armadale Central	28,500
	Woolstores Shopping Centre	8,300
	Atwell Arcade	2,403
	Millstream Shopping Centre	1,682
TOTAL 40,885		
	Alexander Heights Shopping Centre	10,978
	Parks Centre	10,500
	Springs Shopping Centre	7,835
	Lakes Shopping Centre	4,750
	Cale House Midland	4,079
	2nd Avenue Plaza	1,965
TOTAL 40,107		
	Floreat Forum Shopping Centre	19,000
	West Leederville Shopping Centre	5,422
	Kinross Central Shopping Centre	5,500
	Champion Drive Shopping Centre	4,700
	Carine Glades Shopping Centre	3,053
TOTAL 37,675		
	Joondalup Gate	30,110
TOTAL 30,110		
	Kingsway City Shopping Centre	24,200
TOTAL 24,200		
	Stargate Shopping Centre Port Kennedy	5,400
	Stargate Shopping Centre Kelmscott	5,000
	Stargate Shopping Centre Spearwood	4,800
	Stargate Shopping Centre Leda	2,800
	Stargate Shopping Centre Atwell	2,600
	Stargate Shopping Centre Charthouse	2,100
TOTAL 22,700		

*Owner headquartered in WA *ICWA properties up for sale

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57% Respondents to a JLL shopping centres survey who expect a positive impact on turnover from tenancy changes in the next 12 months.

Growing market pressures majors

The traditionally dominant players in Australian retail are being forced to reinvent themselves in the face of increased competition – from each other, and a host of international raiders.

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COMPETITION for the consumer dollar is heating up on two fronts, with Coles and Woolworths amplifying their long-running battle for supermarket supremacy, while department stores Myer and David Jones face pressure from a rapidly evolving fashion market.

The Coles versus Woolworths stoush has been a constant in Australian retail for decades; two giant chains constantly evolving their offerings to be top-of-mind for grocery buyers.

Outside of that direct fight, however, retailers have also clamoured to be near Coles and Woolworths, with the high volumes of foot traffic the supermarkets bring considered beneficial for a whole range of retail tenants.

Colliers International director of retail investment services Mark Werrett said research by the commercial agency across its portfolio of managed centres showed average rents for tenants in Woolworths-anchored malls was \$624 per square metre, compared with \$586/sqm for Coles-anchored centres.

But the average occupancy of those centres was slightly tipped

in Coles' favour – with 98 per cent of shops in Coles-anchored centres leased, compared with 95 per cent in centres anchored by a Woolworths supermarket.

"What that indicates to me is Woolworths was seen as the dominant supermarkets player, and when we were leasing shops in these centres, shops preferred to go into a Woolworths-anchored centre rather than a Coles-anchored centre or an IGA-anchored centre," Mr Werrett said.

"That will change over a number of years; we're actually seeing Coles' turnover increasing across our portfolio and Coles are now putting a huge commitment across Australia into upgrades, revamps and new store openings."

The third-placed supermarket in that equation is IGA, which achieved average rents of \$453/sqm and average occupancy of 94 per cent.

“I don't think it (Aldi stores) will affect Coles and Woolworths too much – they'll be keen to have an Aldi close by rather than (be) closer to their competition—Mark Werrett

2015 shopping centre sales

BUSINESSNEWSIQ

Centre (\$m)	Sale price (%)	Initial yield	Vendor	Purchaser
Currumbine Central	74	6.47	White and Partners	Federation Centres
Stirlings Shopping Centre	42	n/a	Undisclosed	Federation Centres
Forrestfield Forum & Marketplace	41.2	6.86	First United Developments	Hawaiian
Woolstores Shopping Centre	40	6.47	EG Funds Management	Gerard O'Brien
Kalamunda Shopping Centre	30	n/a	Undisclosed	Federation Centres
Harvest Lakes Shopping Centre	28.6	6.65	Woolworths	Rafici Group
Carine Glades Shopping Centre	24.2	8.22	Carine Glades Shopping Centre Pty Ltd	APIL
Margaret River Shopping Centre	18	9.3	SCA Property Group	Sirona Capital
Northam Boulevard	14.05	n/a	Undisclosed	Perdaman Holdings
Millstream Shopping Centre	13.6	5.5	Caprice Holdings Pty Ltd	Gerard O'Brien
Champion Drive Shopping Centre	13.5	8	CFQ Pty Ltd	APIL
Vale Town Centre	12.7	7.22	Stockland/Fouever Pty Ltd	Private Investor
TOTAL	351.85			

However, recent research by Roy Morgan showed that IGA customers were the most loyal, with 30 per cent of grocery buyers exclusively shopping at IGA stores.

IGA national retail council chair Ben Ryan said the research came on the back of IGA's national price match initiative, with the network of independent retailers matching the majors on hundreds of grocery staples.

But the dynamic is expected to change significantly next year, with German giant Aldi set to open the first tranche of

a planned 70 stores in Western Australia.

Mr Werrett said IGA would likely feel the pinch more than the majors. "There are a lot of IGAs that aren't trading well and are on the market for sale," Mr Werrett told *Business News*.

"Where they are in direct competition or in an area that's going to be affected by an Aldi, some of those will suffer.

"Of course there are some very good IGA operators that are professional retailers and have got the capital to reinvest and operate, and they're doing a good job.

"But I don't think it will affect Coles and Woolworths too much – they'll be keen to have an Aldi close by rather than (be) closer to their competition."

Fashion fireworks

Another market being affected by international influences is fashion, particularly at the big department store end of town.

Lease Equity managing director said the arrival of large-scale fashion retailers Zara, Topshop, and H&M was forcing Myer and David Jones to reassess their offering, particularly in the Perth CBD.

Mr Tsagalis said landlords were particularly keen to sign up one of the new international fashion firms, largely because of the amount of space they occupied.

"The significant difference with these international guys is they will take a combination of ground, basement, first and maybe second floor, which opens up the spectrum to make deals more viable than what they once were," Mr Tsagalis told *Business News*.

"The fact that you can run it over two or maybe three levels averages the return to the landlord more positively, because the upper or lower levels typically will attract a higher rent than otherwise would have been possible."

Mr Tsagalis said ISPT's \$100 million redevelopment of Forrest Chase would be a game-changer for the city, with a big international tenancy likely to create more buzz than a redeveloped Myer.

"The Forrest Chase redevelopment will be world class – it will be at the level of Westfield Sydney and the Myer Emporium in Melbourne," he said.

"That in itself is a piece of infrastructure that will attract retailers and customers, in what is probably the best retailing precinct in the city.

"Forrest Chase will have the capacity to introduce some international brands and that will be a catalyst for other tenants."

Mr Tsagalis said the dynamic was similar at shopping centres across the city, which were seeking to grow on the back of new retailers rather than department stores.

"The department store is currently a little less relevant," he said. "But I think Myer and DJs change the way they are retailing a little bit because their relevance has been questioned.

"To maintain their market share they will need to grow as well, and they'll need to reinvent themselves."

However, Mr Tsagalis said the international retailers hadn't had it all their own way since arriving in WA.

"They have come into one of the most competitive retail environments in the world," he said.

"The consumer has said, 'if you're on point with what you're doing, we will shop with you, but if you're not, we won't'.

"There's a few of them in Australia that haven't hit the levels they'd expected."



CHANGES: Mark Werrett says there are interesting dynamics emerging in the supermarket wars. Photo: Attila Csaszar

For more on this issue, type into your browser. bit.ly/wooliesColes

SHOPPING CENTRES

GET THE FULL LIST ONLINE businessnews.com.au/List/shopping_centres



Top 20* WA shopping centres

Ocean Keys Shopping Centre
AMP Capital
37,889
120

Joondalup Gate
Joondalup Gate Pty Ltd
30,110
47

Lakeside Joondalup Shopping City

Lendlease
98,928
330

The Shops At Ellenbrook
Insurance Commission of WA
32,363
78

Westfield Whitford City

Scentre Group
77,787
305

Mirrabooka Square Shopping Centre

Perron Group
42,961
106

Midland Gate Shopping Centre

Novion (Federation Centres)
56,373
180

Karrinyup Shopping Centre

AMP Capital
59,715
180

Westfield Innaloo

Scentre Group
47,780
175

Galleria Shopping Centre

Federation Centres (50%) and Perron Group (50%)
73,414
194

Claremont Quarter

Hawaiian
30,185
127

Forrest Chase

ISPT
41,300
38

Belmont Forum Shopping Centre

Perron Group
41,900
126

Westfield Carousel

Scentre Group
82,874
295

Garden City Booragoon

AMP Capital
72,221
208

Cockburn Gateway Shopping City

Perron Group
47,535
156

Armadale Shopping City

Lendlease
31,046
100

Kwinana Marketplace

SCA Property Retail Trust
30,794
67^a

Rockingham Shopping Centre

Federation Centres (50%) Private investor (50%)
61,833
205

Mandurah Forum

Federation Centres (50%) ISPT (50%)
40,335
122

Data displayed
Owner
Gross Lettable Area (GLA) in m²
No. of Speciality Shops

More data online
Senior Executive
Notable clients
Developer
Architect

To view an online map with more information, type into your browser.
bit.ly/Shopping_Centres

153 SHOPPING CENTRES IN BNiQ
*RANKED BY GROSS LETTABLE AREA (GLA) IN SQUARE METRES
businessnews.com.au/List/shopping_centres