Q4 2018

Retail Market Commentary

Australia

Adelaide

Executive Summary

- Annual retail turnover trade slowed to 2.6% in December 2018.
- There were two supply additions in 4Q18, totalling 7,900 sqm.
- Average rents continued to trend downwards in the sub-regional and neighbourhood subsectors in 4Q18
- Transaction volumes in 2018 remain low with two transactions recorded in 4Q18, totalling AUD 38.3 million.

Indicator	Regional	Sub-regional	Neighbourhood	CBD	Large Format	12 Mth Outlook
New Supply (Sqm, year-to-date)	3,500	-	2,127	-	4,439	▲
Under Construction (Sqm)	-	10,394	7,443	-	17,008	▲
Vacancy (%)	2.2%	3.4%	3.0%	9.3%	5.7%	▲
Rental Growth (Annual %)	0.2	-0.5	-1.4	0.2	0.3	◀▶
Yield Range	5.25-7.00%	6.00-7.75%	5.75-7.75%	5.50-6.75%	7.00-8.75%	◀▶

Economic Overview

The South Australian (SA) economy is growing in line with the national economy. As at September 2018, annualised SA state final demand (SFD) increased 2.7%. Australian GDP increased by 2.8% year-on-year over the same time period. SA SFD growth has fallen slightly from the robust 2017 levels which averaged 4.2% growth. Both private and public sector final demand weakened in 2018.

The SA unemployment rate increased to its highest point in over six months in December 2018, reaching 5.9%. Prior to December, the unemployment rate in SA was trending downwards, reaching 5.3% in November 2018. A higher participation rate and a trimming of public sector and health care jobs in 4Q18 were contributing factors to the increase in the unemployment rate.

After 53 consecutive monthly periods of annualised retail growth above 3.0% from June 2014 to October 2018, SA retail trade growth has slowed for consecutive months, decreasing to 2.6% in December 2018. Spending has become more conservative across all categories. Growth in SA's largest spending category, supermarket and grocery stores, remains strong at 4.3% and has remained above 4.0% growth since August 2018. Annualised household goods spending growth is also positive, reaching 4.2% in December 2018. Growth in this category has sat between 4.0%-5.0% over the course of 2018. Spending in restaurants and cafés remains very strong (9.5% in December 2018). However, growth has slowed from the most recent peak of 20.5% in January 2018.

The SA economy is emerging from an extended period of low business confidence and private business investment levels. Growing sectors like defence, technology, agribusiness, tourism and health are all key economic drivers which are expected to positively impact on the state over the medium term. However, low population growth, public sector department streamlining and a slowing residential construction sector are all downside risks to growth. SA real final demand is forecast to average 2.3% annual growth in 2019 before moderating to 2.0% per annum over the next five years to 2024.

South Australia – Key Indicators

	Period	Australia	SA
Economic Growth (y-y%)	Sep-18	2.77%	2.73%
CPI (year ended %)	Dec-18	1.80%	1.60%
Real Retail Turnover (y-y%)	Sep-18	2.97%	2.65%
Unemployment Rate (%)	Dec-18	5.00%	5.90%
Population (annual %)	Mar-18	1.59%	0.72%
Official Cash Rate (% p.a.)	Feb-19	1.50%	n/a

Source: ABS, RBA

Consumer Sentiment & Retail Turnover

After 53 consecutive monthly periods of annualised retail growth above 3.0% from June 2014 to October 2018, South Australian (SA) retail trade growth decreased to 2.6% in December 2018 as spending becomes more conservative across all categories.

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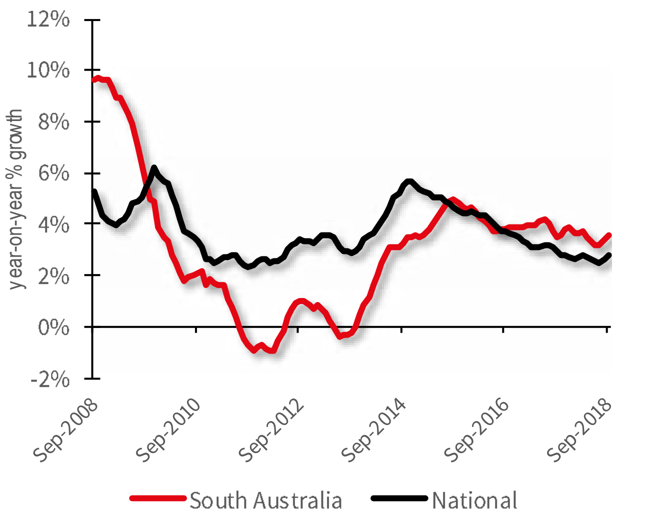
Consumer spending in the furniture and homewares, and the electrical goods categories trended up in December. However, this was offset by a fall in spending within the hardware and gardening category. Spending in restaurants and cafés remains very strong (9.5% in December 2018). However, growth has slowed from the most recent peak of 20.5% in January 2018.

Much as consumer spending is becoming more conservative, appetite for personal debt is also low. As at November 2018, annual total fixed loans growth in South Australia was -2.7%. However, the negative growth has been slowing in the second half of 2018. It must be noted that tighter lending criteria by financial institutions has played a role in the downward trend. Growth in personal lending for most categories has been negative. Only finance commitments for boats and caravans (18.2%), unsecured loans for owner-occupier housing (4.5%), and debt consolidation (22.8%), have been positive y-o-y to November 2018.

The Westpac Melbourne Institute Index of Consumer Sentiment mirrored the slowing consumer demand in SA. The index fell into pessimistic territory in January 2019, decreasing 4.7% to 99.6. This represented the largest month-on-month decline in sentiment in over three years.

Retail Turnover: South Australia vs. National



Source: ABS., JLL Research

Tenant Demand

Occupier demand remains challenging in South Australia with limited scope from most national chain retail operators to expand current footprints.

After a strong period of expansion and refurbishment activity in SA from supermarket retailers over the last two years, growth has begun to slow as new sites become scarcer. Aldi continues to work towards the target of 50 stores in South Australia. The German grocery retailer opened new supermarkets in Port Pirie, Kadina and Murray Bridge regionally in 4Q18, and is in various stages of development at Newton, Blackwood, Mawson Lakes, Port Adelaide, Norwood and Salisbury in the Adelaide Metropolitan area and in Mount Gambier and Whyalla regionally.

Competing supermarket operators Coles, Woolworths and Foodland continue to roll-out refurbishment programs on existing stores. Meanwhile, German large-format grocery retailer Kaufland has submitted plans to develop locations at Prospect, in Adelaide's inner west, Forestville, in the inner south, and Munno Para, in the northern suburbs. Nationally, Kaufland will potentially open between 7 to 10 stores by 2020 and up to 32 stores by 2023.

More broadly in the sector, same-store sales have slowed. Coles reported that same-store sales growth slowed to about 1.8% over the December quarter after growing 5.1% in the September quarter. Woolworths reported similar growth of same-store sales in its latest data (3Q18) as Australian supermarkets rose 1.8%, a significant slowdown from both the 3.1% growth posted in the June quarter. Metcash, which supplies the IGA network reported 3.3% same-store sales growth over the 12 months to October 31st. Costco continues to disrupt the traditional grocery retailers. The US large-format supermarket recently announced that Australian memberships had surpassed 225,000 people and that profits had more than doubled in the 12 month period to FY2018.

There is increasing pressure on profits in the fashion retail sector. As a result, some fashion operators are looking to exit the sub-regional sub-sector in South Australia and into CBD and Regional centre space. A number of national fashion retailers operating in the sub-regional sub-sector reported slowing sales recently. The PAS Group, which owns brands like Review and Black Pepper issued its second profit downgrade in just two months in January. Meanwhile, jewellery retailer Lovisa also reported recent weak sales data which has resulted in a 50% decrease in its share price over the last six months. Outdoor retailer Kathmandu also reported weak sales data with same-store sales in Australia decreasing 0.2% for the 22 weeks to December 30th.

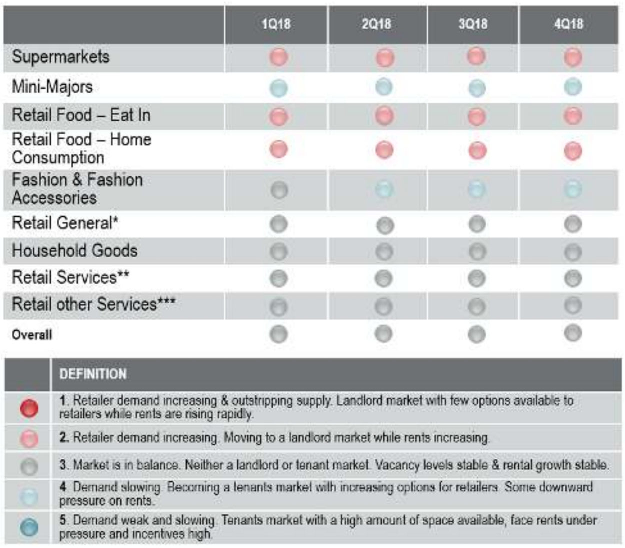
However, some fashion retailer sales data was more positive. Noni B, after the acquisition of the brands Millers, Katies, Crossroads, Autograph and Rivers from The Specialty Fashion Group, announced that total sales had grown by 140% in the six months to the end of December. Accent Group, the parent company of

The Athlete's Foot, Hype and Platypus, and rights-owner to shoe brands including Dr Martens, Vans, Timberland and Sketchers, reported same-store sales growth of 2.5% in the first 20 weeks of 2018.

Retailer demand in the fast food category is patchy. Dominos announced a downgrade in forecast profits in November with same-store sales slowing to 2.9% over the 17 weeks to October 28th, compared to 5.0% over the corresponding period last year. Meanwhile, Sumo Salad is reportedly looking to move away from the food-court retail market and push into the ready-made meal supermarket sector. More positively, two retail groups, Collins Food and Restaurant Brands, are planning to open more than 110 Taco Bell stores in Australia and New Zealand over the next five years.

In the other retailing category, toy retailer Toyworld opened its latest SA store at Gepps X Homemaker Centre in Gepps Cross. This is the retailer's ninth store in the state and the second in the Adelaide metropolitan area.

Retailer Demand – Adelaide



*Includes Bookstores/music/DVD's, Card/Gifts, Computers, discounters, florist, newsagency, tobacconist & video rental
** Beautician, alterations, dry cleaning, hair care, optical, photography, printing & travel
*** Bank, financial services, post office and medical.

Source: JLL Research

Supply

There were two supply additions recorded in 4Q18 which added 7,900 sqm to stock. This caps a year of very low supply where three completions totalling 10,100 sqm were recorded.

Over the quarter, the Scentre Group completed an extension at Westfield Tea Tree Plaza comprising an 11 restaurant casual dining precinct and a fully-refurbished 12 screen cinema complex that added 3,500 sqm to the regional centre. New restaurant operators taking space in the expansion include Rockpool Dining Group's The Bavarian beer-garden style pub, burger eatery Grill'd, and family restaurant TGI Fridays.

The second completion was a 4,439 sqm large format retail development at 96 Grand Junction Road, Kilburn. The project comprised a Reece Plumbing Supplies outlet, a Carl's Jr fast food restaurant and speculatively built large format retail space.

There are a further three projects currently under construction all expected to complete in the first half of 2019, totalling 34,800 sqm. The largest of these projects is the development of a new Bunnings warehouse on the former Toyoda Gosei and Bridgestone factory site on South Road, Edwardstown, which commenced in 1Q18 (17,008 sqm). Upon completion, it will be the 18th Bunnings Warehouse in South Australia.

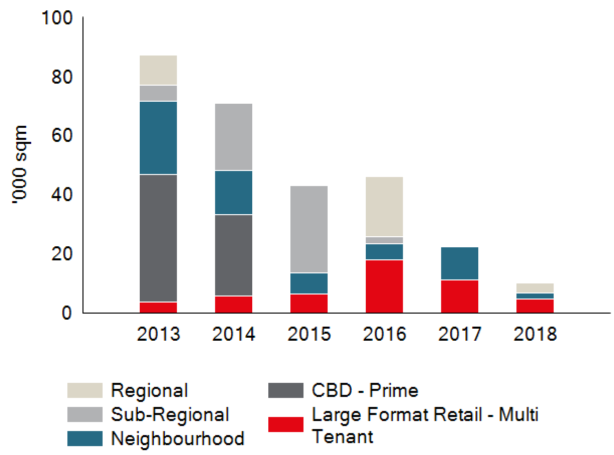
Precision Group is underway with an AUD 45.0 million refurbishment and extension of the Old Port Canal Shopping Centre (10,394 sqm) which will be re-branded as Port Adelaide Plaza upon completion. The refurbished centre will include approximately 60 specialities as well as commercial and hospitality space.

Another significant project is the Saints Road Shopping Centre, a new 7,443 sqm neighbourhood centre on the corner of Saints Road and Main North Road, Salisbury Plain. The centre will be anchored by a new Foodland supermarket with an additional 21 specialty tenancies and a stand-alone McDonald's restaurant.

Beyond 2019, there are 10 projects totalling 87,100 sqm with DA approval or with plans submitted. This includes a major expansion project for Scentre Group, which submitted plans this quarter for a 16,896 sqm extension of Westfield Marion. The proposed project will include a parallel mall extension to incorporate a new major and mini-major retail occupier as well as connectivity to a new lifestyle and dining precinct.

Other projects with enough scale to change the current retail landscape in Adelaide include German retailer Kaufland, which has submitted plans to councils for locations in Forestville, Prospect and Munno Para. If approved, the total retail space developed will be 26,600 sqm.

Completions by Category - Adelaide Retail



As at 4Q18
Source: JLL Research

Vacancy

Occupancy levels improved moderately in most sub-sectors in Adelaide in 2H18. However, the improved vacancy levels recorded over the last six months is largely attributed to a re-evaluation of asking rents from landlords and attractive incentives offered, and not an improvement in retailer demand.

In the CBD, vacancy increased from 8.3% to 9.4% in 2H18. While demand has been generally positive for space along Rundle Mall, vacancy within some enclosed centres situated within the precinct remains high. Vacancy was elevated somewhat in 2H18 by the re-introduction of vacant retail space developed as part of the AUD 40.0 million refurbishment of Rundle Mall Plaza which incorporated Adelaide's first H&M store.

Regional vacancy decreased in 2H18, from 2.5% to 2.2%. Regional enclosed centres are increasingly becoming the only viable retail location for fashion and other discretionary retail operators in South Australia.

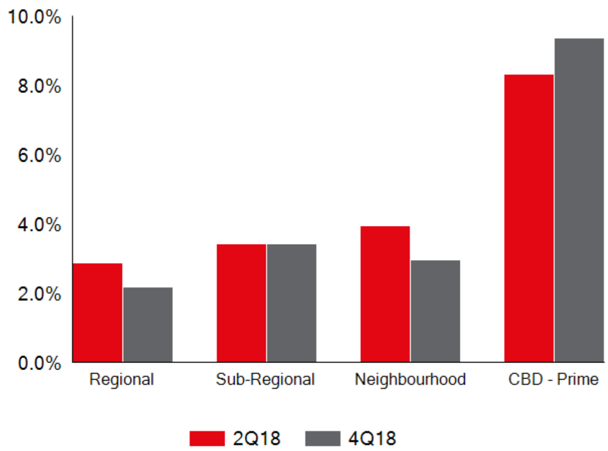
Vacancy in the neighbourhood sub-sector also decreased over the six months to December 2018. Landlords have been more willing to meet the market in terms of asking rents and incentives to secure tenants. This reduction in vacancy has also been supported by moderate demand growth from non-retail services, which are absorbing some backfill space vacated by discretionary retailers over the past 18 months. Neighbourhood vacancy reduced from 4.0% to 3.0%.

Vacancy in sub-regional centres was unchanged at 3.4% in 2H18. Demand from national fashion retailers remains weak. However, demand from food operators and non-retail services has improved in some of Adelaide's better performing sub-regional centres.

Large format retailing demand has been generally stable. Vacancy decreased from 6.5% to 5.7% in 2H18.

It must be noted that with the closure of retailers Napoleon Perdis, Roger David, Ed Harry and Laura Ashley in 2H18, vacancy risk has increased within the CBD, regional and sub-regional sub-sectors in 2019.

Vacancy Rates - Adelaide Retail



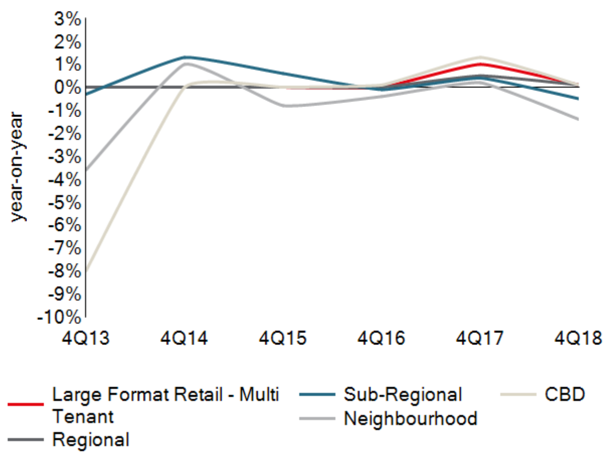
As at 4Q18
Source: JLL Research

Rents

Average rents continued to trend downwards in the sub-regional and neighbourhood sub-sectors in 4Q18. Landlords are now reducing asking rents to fill vacant space that has lingered in both sub-sectors for the last 12-18 months. Average sub-regional rents decreased by 0.7% in 4Q18 to AUD 773 per sqm p.a. Average neighbourhood rents decreased by 0.6% to AUD 621 per sqm p.a.

Average rents in other sub-sectors have been relatively stable over the last 12 months. There has been 0.2% annual growth in both the Regional and CBD sub-sectors. Average large format retail rents have increased by 0.3% over the same time period.

Rents - Adelaide Retail



As at 4Q18
Source: JLL Research

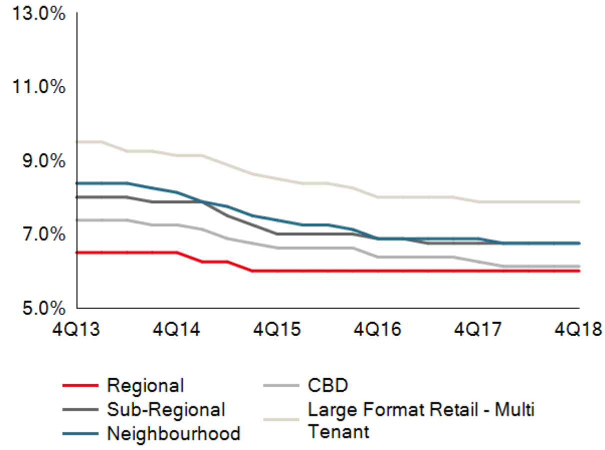
Investment Market

There were two transactions recorded in 4Q18, totalling AUD 38.3 million. This capped a comparatively soft year for retail sales in South Australia with 2018 annual transaction volumes reaching AUD 111.4 million, a 49% decrease on 2017 transaction totals. However, this is symptomatic of a tightly held market with a predominantly private investor ownership base, and not a lack of investor demand.

The largest transaction in the quarter was the AUD 24.5 million purchase of the Gawler Park Homemaker Centre. Sydney-based investor Revelop purchased the large-format retail centre from private investors Impact Group on an equivalent yield of 11.6%. This is Revelop's second South Australian retail asset after purchasing the sub-regional Renmark Square from Charter Hall in 2017.

The second major transaction recorded in 4Q18 was the sale of Elizabeth Vale Central, a neighbourhood centre in Adelaide's northern suburbs. The centre, which is situated adjacent to the Lyell McEwin Hospital, was purchased for AUD 13.8 million and is expected to be a future development site for medical usage.

Yields - Adelaide Retail



As at 4Q18
Source: JLL Research

Yields across all subsectors were stable in 4Q18 and remain unchanged throughout 2018. Over the past 12 months, average midpoint yields in the CBD and neighbourhood subsectors tightened by 13 basis points (bps).

Investor demand for Adelaide retail assets remains positive. However, transaction volumes have been dampened by a limited amount of stock to market. The removal of all stamp duty on commercial asset transactions, enacted by the South Australian government, has further supported investor appetite. Demand from private investors and syndicators is expected to be opportunistic, focussing on the neighbourhood and sub-regional sub-sectors. Larger domestic and offshore funds are expected to target high profile CBD assets and well-leased large format retail centres.

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