LARGE FORMAT RETAIL CENTRE TRANSACTIONS IN AUSTRALIA

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Large Format shopping centres previously called "bulky goods" centres) continue to be desirable property investments assets. Record low interest rates and a significant weight of capital seeking high quality retail assets has resulted in yield compression throughout 2014 and the first half of 2015, although yields are still above cyclical lows.

"Consumer spending on household goods has increased 80% in the past 12 months"

2014 was the strongest period for retailers since years prior to the global financial crisis. The lift in spending has been driven by low interest rates, and is the underlying force behind the recent strong sales for retailers. The extent of rental income growth uplift has been limited and may not manifest in quantitative rental growth until the upswing of the cycle is reached. Much of the retail growth over the past 12 months has been driven by spending on household goods, which increased 80% over the year to March 2015, according to Colliers 2015 Retail Transactions report. According to the Large Format Retailers Association, this sector accounts for sales of $59.8 billion nationally, and 20% of total retail sales.

There has been an increase in non-traditional large format retailers expanding the pool of potential tenants. This sector has seen retailers such as pet stores, baby accessories, child care operators and gyms becoming increasingly more common additions to large format retail centres. This provides centre owners with the opportunity to expand and diversify their tenant mix beyond the pool of traditional national chains, fill vacancies and simultaneously reinvigorate their centre offering.

There is a significant amount of purpose built large format retail stock in the pipeline; with 297,912 sqm of NLA expected to be released throughout 2015. Large format retail developments accounted for the most new supply to enter the market in 2015, followed by neighbourhood shopping centres (132,462 sqm), Sub regional shopping centres (128,666 sqm), regional shopping centres (57,979 sqm) and CBD retail (56,522 sqm).

Demand for tenancies within established centres remains high, with tightening vacancies driving retailers to look at alternative tenancies outside established centres. A coresponding increase in demand in strip precinct locations and stand alone sites highlights the tightening vacancy rates in centres.

Large format retail centres have continued to transact well, despite sales activity plateauing in 2014, due to a lack of stock put on the market. There was almost $1 billion of sales recorded in 2013, split across 34 separate transactions, whilst 2014 saw just 18 transactions. The first half of 2015 has seen 9 transactions for large format retail centres with a value in excess of $10 million. The largest homemaker centre transaction recorded in 2015 was the sale of Waurn Ponds Plaza in Geelong. A private buyer purchased the 6,792 sqm centre on a yield of 8.5% in April 2015. Demand for these types of assets, with strong lease covenants to reputable tenants and a long weighted average lease expiry (WALE) has remained strong.

According to IPD Commercial Proeprty Digest, total returns for the large format retail sector increased 4.2% to 14.5% over the 12 months to December 2014. Thins brings returns in this sector to the highest levels seen since 2007.The supply of new home maker centres is predicted to be subdued in the latter half of 2015, with just 46,895 sqm of new stock coming on line. The limited supply outlook, combined with improved rental growth, provides scope for further yield compression in the latter half of 2015.