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Low vacancy rates and international demand boost Melbourne's retail market

Melbourne, VIC (24 February 2010)

International retailers have put Melbourne on the radar with interest from groups such as Gap, Abercrombie & Fitch and Zara helping to sustain retail rents in the CBD according to new forecasts from CB Richard Ellis.

Speaking at the firm's annual Market Outlook breakfast in Melbourne, CBRE Associate Director, Retail Investment Properties, Mark Wizel said a growing number of international retailers were looking to capitalise on their brand following in Melbourne particularly among the city's Asian student population and international visitors.

"We expect to see a further emergence of these international retailers in the next six to 12 months and this is helping to sustain rentals in the CBD," Mr Wizel said.

Low vacancy rates are also underpinning the city retail market, with the CBD retail vacancy rate presently hovering at around 1% - the lowest level on record according to CBRE Executive Director, Global Research and Consulting, Kevin Stanley.

Speaking at today's Outlook breakfast, Mr Stanley said vacancies also remained low along Melbourne's retail strips at circa 2.5% and in the city's bulky goods sector, where the vacancy was tracking at less than 1%.

"Occupancy rates remain tight and if there is an increase in retailer demand this will create tension in the market and the opportunity for rents to rise," Mr Stanley said.

Looking at the overall outlook for the retail sector, Mr Stanley said 2010 would be a year when the market was "pulled in two directions".

Three months of above average employment growth had been particularly encouraging, Mr Stanley said, with the market also expected to benefit from improved house prices, a stronger share market and the Australian dollar, which had translated to lower prices for merchandise.

On the downside, Mr Stanley said rising interest rates were forecast to dampen retail spending this year as household budgets became increasingly stretched.

However, retail spending in Victoria was expected to run well above the national average and retail development opportunities were emerging on the back of strong population growth forecasts.

With Melbourne's population tipped to swell by 786,000 people over the next decade, Mr Stanley said this could theoretically support 1.1 million square metres of new retail space – the equivalent of nine super regional malls or 110 neighbourhood shopping centres.

"There won't be the opportunity for this level of level of construction to occur given planning constraints, however what it will mean is that the whole market will get tighter and tighter over time," Mr Stanley concluded.

On the investment front, Mr Wizel said there was continued strong demand for Melbourne retail assets in the sub \$50 million price bracket and opportunistic buying opportunities in the \$50 million-plus market, which was expected to attract increased attention this year from syndicates and unlisted funds.

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