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Perth retail market poised to weather the storm

Perth WA (7 April 2009)

Softening trading conditions will limit any growth in retail rents this year in what is expected to be a period of adjustment for the WA retail market. However, a new CB Richard Ellis MarketView report tips that the state's retail sector is well placed to weather the storm, with high occupancy rates and continued demand from national retailers.

CBRE Senior Research Analyst Kelly Dyball said retail property had been the most stable and best performing property type in WA over the long term - and this was expected to remain the case, even in the face of weakening economic conditions.

"To date there has been no real indications of major retailer distress in Western Australia, with only a small amount of outlet turnover in retail stores evidenced over the 12 months to December 2008," Ms Dyball said.

"Occupancy is high and premises continue to be sought after by major national retailers, as trading conditions in WA continue to be more favourable than most other states. Several retailers have recently opened flagship stores in the Perth CBD, among them Mimco, Hardy Brothers, Metallicus, Alannah Hill, Veronika Maine and Wittner Shoes."

CBRE's MarketView report forecasts that positive retail turnover, population growth and a moderate supply pipeline will underpin the market and fuel continued demand for retail space, particularly in prime locations.

"Traditionally, new supply has been constrained through the State's strict planning guidelines as well as the relative attractiveness of other types of development, the combination of which has kept vacancy rates low," Ms Dyball said.

Approximately 37,000 sq m of new retail space is currently under construction in the Perth CBD, including Raine Square, the Wesley Quarter, enex100 and One40 William.

Mr Fred Clohessy, Associate Director of Retail Services said that just nine months ago, space in these developments was in very high demand. However, given the change in the global economic environment there was now some possibility of an oversupply once these developments are completed.

"Some retailers who would otherwise look to Perth to open new retail premises have been impacted by prevailing economic conditions either globally or in the Eastern States, which may prevent them from expanding in Western Australia at the current time, despite Western Australia's favourable economic outlook," Mr Clohessy said.

On the rental front, the report shows that positive growth was experienced across all the retail sectors in the 2008 calendar year. "While rental growth stalled in the second half of 2008, there is no evidence yet of any declines in rental levels. Having said that, if market conditions continue to decline it is likely that secondary locations will be the first impacted with increasing vacancies leading to negative rental growth," Ms Dyball said.

"Face rents have remained stable so far in 2009, however retailers are increasingly looking for cash incentives to fund or partially fund their fitouts, largely due to the increased difficulty and cost of obtaining capital," Mr Clohessy added.

A CBRE survey of Perth's retail strips shows that there has been minimal turnover of retailers over the 12 months to December 2008, both in the CBD and prime suburban locations. The vacancy rate as at December was just 2.3% in the CBD and 1.3% in the suburban locations surveyed.

High levels of pent up demand for retail space are expected to keep occupancy rates high in the majority of retail centres and precincts, although the CBRE report warns that vacancies could rise in lower grade retail locations over the coming months. Affordability issues stemming from exceptional rental growth over the past few years is expected to lead to a shift in the tenancy mix in prime retail areas, as opportunities open up for quality high end retailers to take up space in tightly held prime locations.

"Perth's suburban prime strips continue to be popular amongst fashion, food and beverage, and luxury retailers," Ms Dyball said. The prospects for certain sectors of the retail industry remain upbeat, particularly for food and beverage retailers, and enquiry from these types of retailers remains strong.

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