

ADELAIDE

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Adelaide CBD Prime Retailing



Key Points

- Recent ABS results suggest South Australia had experienced an increase in retail trade (2.4%) in March after decreasing (-2.4%) in February 2009 due to weaker consumer sentiment.
- According to the latest *Savills Quarter Times*, rents in Rundle Mall are currently reflecting approximately \$2,000/sqm, to as high as \$3,700/sqm for prime tenancies as at the March 2009.
- The Adelaide CBD Prime retailing market had a traditionally low vacancy of 1.6% as at April 2009, a slight increase from 0.8% in November 2008 according to a recent Savills survey.
- There are currently six new developments underway in the CBD Prime area, which upon completion will add approximately 5,000sqm of retail space to the market.
- Total Clothing and Softgoods have accounted for the highest proportion of tenancies in the CBD prime area, followed by cosmetics, jewellery and accessories.
- The most significant change in prime retail tenancy mix over the past six months has been an increase in the number of clothing outlets, as well as increased vacancy in adjoining retail arcades.

Introduction

The Australian retail market has experienced a slowdown followed by softening yields due to the uncertainty of the economy. Nevertheless, South Australia's (SA) economy has continued to grow despite the global credit crisis. Since March 2009, we have experienced an increase in consumer spending and a rise in net migration due to the strength of the defence and mining industries. This was observable as the largest population turnover was either within the capital city area of Adelaide or within the mining regions. According to the most recent ABS results, Roxby Downs had the largest population turnover, followed by Adelaide.

Tightening in the credit markets had also affected developer's ability to secure financing for investments and projects. South Australia of all states was listed as having the least amount of proposed retail supply equating to approximately \$315 million, of the total \$3 billion worth due for completion across Australia in the coming years.

The Adelaide CBD retail population is currently dominated by university students, local workforce and a growing residential population. According to the Adelaide City Council, almost 108,000 people currently work in the CBD, whilst approximately 26,455 people reside within central Adelaide. Unsurprisingly, the rising fuel costs and the increase in commute time to CBD areas has led the charge for inner city living, strengthening demand for central retail.

In addition, the Reserve Bank moved the official cash rate from 5.50% in May 2006 to 7.25% at March 2008. This reflected a shift of 175 basis points, and subsequently cut official interest rates by 400 basis points to an unprecedented rate of 3.25% at February 2009 to promote growth and shield the Australian economy from global downturn.

In a recent Savills study the following areas were surveyed with regard to retail tenancies and categorised as follows:

- **Adelaide CBD Core Retail**
Rundle Mall
- **Adelaide CBD Retail Arcades**
Regent Arcade, Adelaide Arcade

Recent Retail Developments

With the global economy slowing, there has been a downward shift in major development activity.

Currently, there are reported retail development proposals which have not begun construction as yet. The most notable of these is the redevelopment of the Harris Scarfe building at 81-91 Rundle Mall. The development will be known as 'Rundle Place,' contributing an estimated 24,000sqm of retail space over four levels, with an adjoining 25,000sqm office building. The redevelopment is proposed to begin construction in late 2009.

New retail space is to become available in the CBD, comprising Aurora on Pirie, Crowne Plaza Hotel, Conservatory on Hindmarsh, and a new East-end Rundle Mall cafeteria, most of which have been largely pre-committed. Three of the projects have been classified as mixed use buildings comprising office, residential and retail accommodation.

At 147 Pirie Street, the Aurora on Pirie development (formerly a 2-storey office building and car park) is located in the core CBD. The development consists of a 15-level commercial tower with 220sqm of retail facilities located on the ground floor. The project has been estimated to cost \$210 million, and is set to become a landmark in the Adelaide CBD due to state of the art facilities, including green initiatives and design features.

The Conservatory on Hindmarsh will introduce a new 19-story building comprising of retail, commercial, and residential facilities. Retail outlets will be located on ground floor totalling 430sqm, whilst the remaining levels will offer commercial offices and residential apartments. At an estimated cost of \$70 million, the building is anticipated to be completed by mid June 2009.

The Crowne Plaza Hotel at 20 Hindmarsh Square will comprise two buildings, a 15-storey tower and a 16-storey tower, both consisting of hotel accommodation, and a total of five retail tenancies, along with restaurant, bar and lounge facilities.

Additionally, the East end of Rundle Mall has recently added a development for a new cafeteria which is currently under construction. The new café which is situated on the mall will provide a floor area of 182sqm, with 72sqm of enclosed dining and 35sqm of open dining.

It is of note that the lease for the Woolworths tenancy at 78-88 Rundle Mall expires at the end of 2009. Potentially, this would result in a much reduced supermarket tenancy only at basement level and the ground floor being subdivided into smaller retail tenancies.

Selected Adelaide CBD Retail Refurbishments & New Developments

| Project Address | Project Name | Due for Completion | Development Stage | Retail GLA (sqm) |
|------------------------|---------------------------|--------------------|-------------------|------------------|
| 131-147 Pirie St | Aurora on Pirie | 2009 | Construction | 220 |
| Rundle Mall Strip | Rundle Mall - Restaurant | 2009 | Construction | 182 |
| 78-88 Rundle Mall | Woolworth Rundle Mall | 2009 | DA Approved | n/a |
| 210-112 Hutt St | Hutt Street Shops | 2009 | DA Lodged | 600 |
| 20 Hindmarsh Square | Crowne Plaza Hotel | 2009 | Construction | n/a |
| 41-51 Hindmarsh Square | Conservatory on Hindmarsh | 2009 | Construction | 430 |
| 81-91 Rundle Mall | Harris Scarfe Building | 2010 | DA Lodged | 24,000 |

Source: Property Council of Australia/ Savills Research

Recent Trends

Rundle Mall is popular with national retailers and has been long recognised as the prime retail precinct in Adelaide City. At present, Rundle Mall is anchored by three major department stores – David Jones, Myer and Harris Scarfe.

With increasingly strong demand for prime tenancies fronting Rundle Mall, along with steady levels of supply, vacancy rates have remained very low at 1.8% in April 2009 when compared to 0.8% in November 2008. Additionally, Net Face rents have continued to show growth currently ranging between \$2,000 - \$3,700sqm.

Due to the current limited supply, there has been an emergence of new retail shops along surrounding streets such as Grenfell Street and Hindmarsh Square.

Additionally, the popular Central Market located in the midst of the CBD has effectively had an abundant pulling power for retail shopping for both regulars and visitors to Adelaide. Due to the recent demands of fresh foods and cafeterias, the Central Market has recently commenced trialling Wednesday opening hours which has seen much success as approximately 13,000 people were recorded entering the market on its first trial.

The first quarter of 2009 showcased various events such as the Tour Down Under, Adelaide City Fringe, and Clipsal 500 which had provided a real injection into the Adelaide economy.

Furthermore, the growing performance of retail space in the CBD is predicted to continue as extensions to city tramlines servicing North Terrace to Port Adelaide are expected to create convenient access to the CBD.

Adelaide CBD Prime Retailing

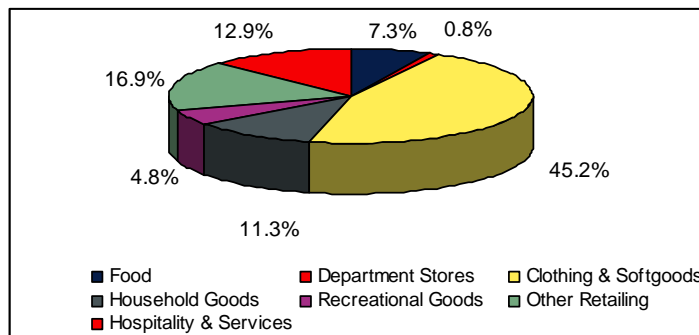
Adelaide CBD Retail Rundle Mall

Adelaide's Rundle Mall operates as the prime retailing precinct in Adelaide, allowing retail side walks (Gawler Place), Adelaide Arcade, Regent Arcade and numerous mini malls such as City Cross, Citi Centre and Rundle Plaza to benefit from the mall's pedestrian flow.

Adelaide CBD Retail Mall Tenant Mix – April 2009

| Shopping Precinct | Food | Dept. Stores | Clothing & Soft Goods | Household Goods | Other | Recreational Goods | Hospitality & Services | Unclassified or Vacant |
|--------------------|------|--------------|-----------------------|-----------------|-------|--------------------|------------------------|------------------------|
| Rundle Mall Apr-09 | 9 | 3 | 56 | 14 | 21 | 6 | 16 | 2 |
| Rundle Mall Nov-08 | 9 | 3 | 57 | 14 | 20 | 6 | 16 | 1 |

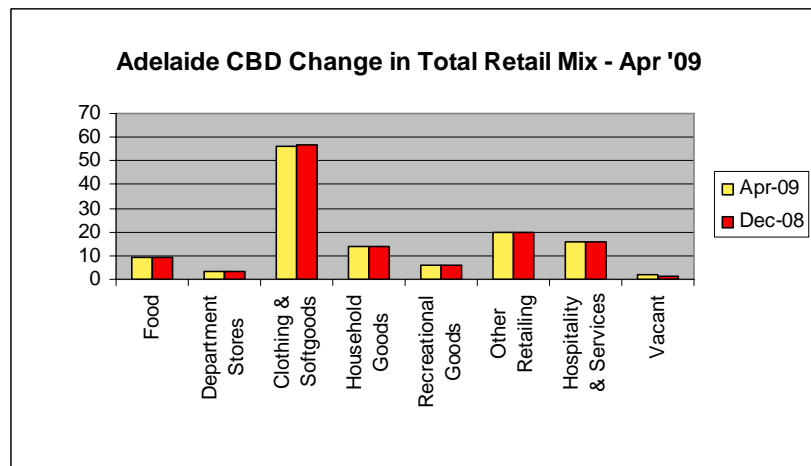
Source: Savills Research



Source: Savills Research

Shopfront clothing retailers (45.2%) and Total Other Retailing – accounting for cosmetics, jewellery and accessories (16.9%) dominated the retailing space in Adelaide's core retail precinct for the month ending April 2009. Vacancies in the core CBD Retail precinct remain very low. The most recent Savills Vacancy Survey revealed a Vacancy rate of 1.6%.

Adelaide CBD Retail Mall Number of Retail Tenancies and % of Mix – April 2009



Source: Savills Research

The CBD retail core recorded little change with regards to tenancy mix during the six month period since the last Survey in November 2008.

Adelaide CBD Prime Retailing

CBD Retail Arcades

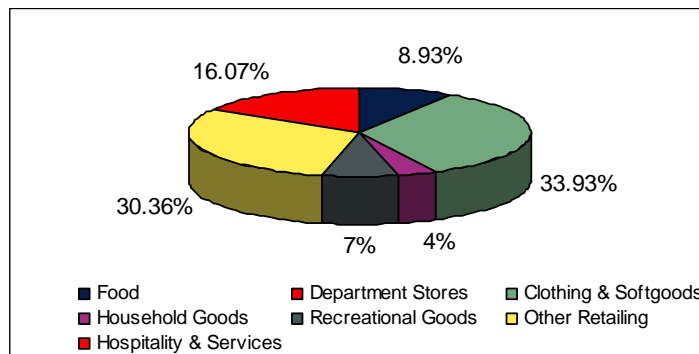
Adelaide CBD Retail Arcade Tenancy Mix by Number – April 2009

| Shopping Precinct | Food | Dept. Stores | Clothing & Soft Goods | Household Goods | Other | Recreational Goods | Hospitality & Services | Unclassified or Vacant |
|--------------------------|------|--------------|-----------------------|-----------------|-------|--------------------|------------------------|------------------------|
| CBD Retail Arcade Apr-09 | 5 | 0 | 19 | 2 | 17 | 4 | 9 | 6 |
| CBD Retail Arcade Nov-08 | 4 | 0 | 16 | 2 | 14 | 5 | 8 | 3 |

Source: Savills Research

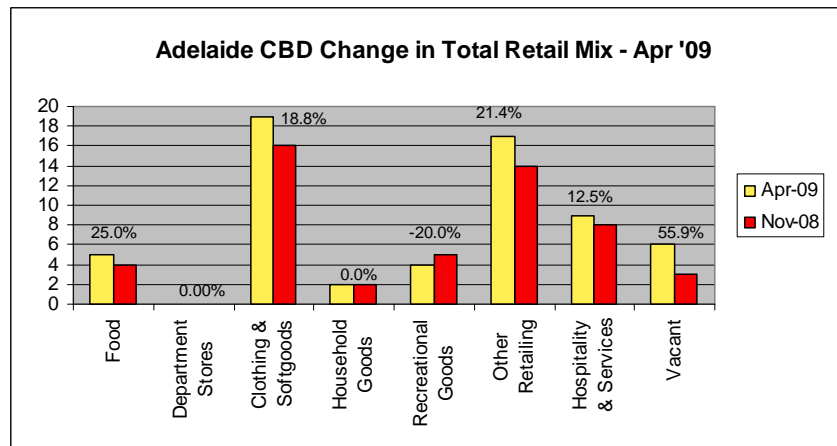
Total Clothing and Soft-goods (33.9%) and Total Other Retailing – accounting for cosmetics, jewellery and accessories (30.4%) dominated the retailing space in Adelaide’s retail arcades.

Adelaide CBD Retail Arcade Tenant Mix – April 2009



Source: Savills Research

Adelaide CBD Retail Arcade Number of Retail Tenancies and % of Mix – April 2009



Source: Savills Research

Whilst indicative rents in prime mall areas have increased, adjoining areas such as Adelaide and Regent Arcades have remained steady as verified by greater vacancy rates (10.2%) in April 2009.

Adelaide CBD Prime Retailing

Key Market Indicators – April 2009

| | Rundle Mall | | Other CBD | | Shopping Strips | |
|---------------------------------------|-------------|-------|-----------|-------|-----------------|-------|
| | Low | High | Low | High | Low | High |
| Net Rental (\$/sqm) | 2,000 | 3,700 | 250 | 800 | 250 | 600 |
| Yield - Market (%) | 5.00 | 7.50 | 6.00 | 8.00 | 6.00 | 8.50 |
| Outgoings Operating (\$/sqm) | 80 | 100 | 70 | 90 | 40 | 50 |
| Outgoings - Statutory (\$/sqm) | 200 | 220 | 150 | 170 | 15 | 25 |
| Outgoings - Total (\$/sqm) | 270 | 300 | 220 | 260 | 55 | 75 |
| Capital Values (\$/sqm) | 3,600 | 9,000 | 2,250 | 6,750 | 1,600 | 3,600 |

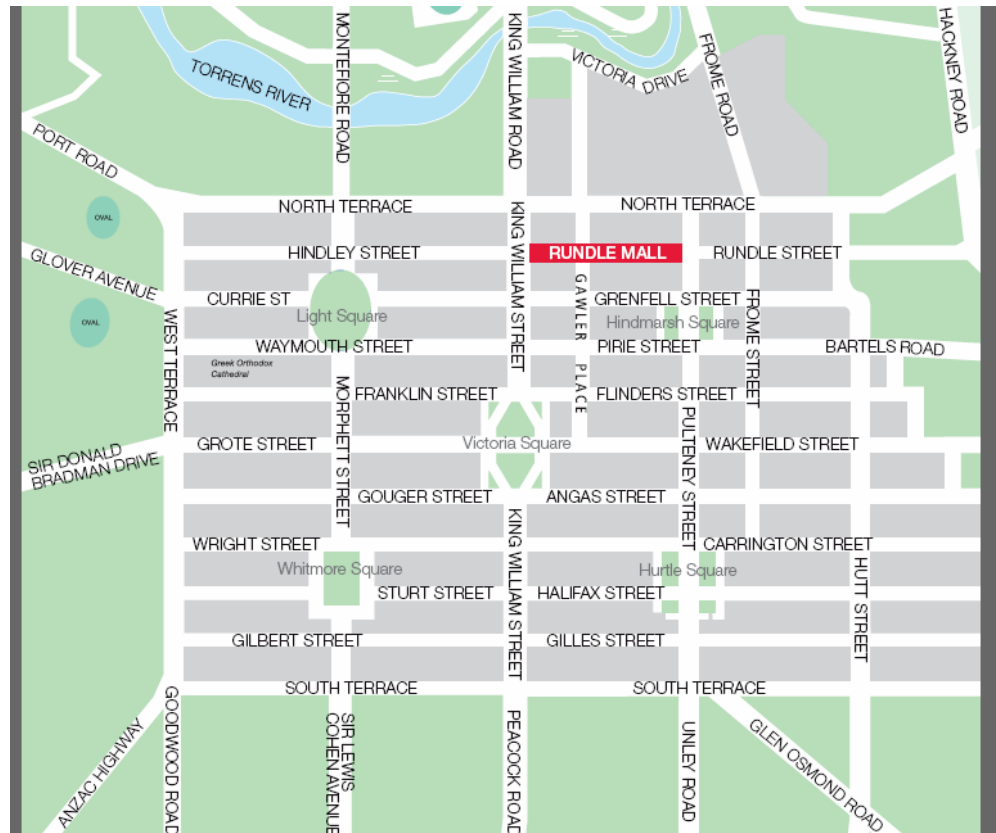
Source: Savills Research

Retail Turnover (Australia)

South Australian retail spending had in fact performed far above expectations for the March ending quarter as ABS figures revealed growth of 2.4 per cent, up from -2.4 per cent in February 2009.

With earlier evidence of weaker consumer sentiment and uncertainty of employment levels, it had been indicated that disposable household income had caused an evident slump in retail sales. Correspondingly, a result of decreased interest rates and government stimulus handouts during March 2009 had brought a positive improvement for South Australia's retail trade.

With this in mind, Adelaide's retail vacancy rates have remained extremely tight demonstrating the strong demand for retail space in the State's premier shopping strip.



Category Definitions

- **Food** – Supermarkets, grocery stores, take-away food, fresh meat, fish and poultry, fruit, vegetables, liquor, bread and cake retailing.
- **Department stores** – Full line department stores, discount department stores.
- **Clothing and soft goods** – Clothing, footwear, fabric and other soft goods
- **Household goods** – Furniture, floor covering, hardware, house wares, and appliances and recorded music.
- **Recreational goods** – Newspapers, books, stationery, sport and camping equipment, toys and games, photographic equipment.
- **Other** – Pharmaceuticals, cosmetics, toiletries, antiques, used goods, garden supplies, flowers, watches and jewellery.
- **Hospitality and Services** – Pubs, taverns, bars, clubs, cafes, restaurants, video hire outlets, hairdressing and beauty salons.
- **Unclassified** – Financial services, repairs, dry cleaners, gambling outlets, photo processors, travel agents, post office, printers, petrol outlets, solicitors, accountants, medical centres, veterinarians, real estate agents.

The Savills Adelaide Prime Retailing survey was taken as at 28 April 2009. Inoperable and vacant tenancies were recorded as at this date only.

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