

SYDNEY CBD RETAIL VACANCIES STABLE: SAVILLS

The vacancy rate in Sydney's CBD retail precinct has risen by just over 1% during the past six months and is forecast to remain stable in the short-term, according to new research from Savills.

Savills' *Sydney CBD Prime Retailing* report shows a vacancy rate of 4.9% in May 2009, up from 3.8% six months earlier.

The new research report surveyed 1,102 tenancies in April across the Sydney CBD's four main retail precincts – CBD Core, Rocks/Circular Quay; King Street Wharf; and World Square.

The vacancy rates for the individual precincts saw the biggest increase at King Street Wharf, following the completion of the 1 Shelley Street project and subsequent retail.

The CBD Core vacancy rate was 4.3% at May 2009, up from 3.5% six months earlier; the Rocks/Circular Quay was 5.5%, up from 3.3%; King Street Wharf was 12%, up from 9.6%; and World Square was 3.4%, up from 2.9%.

The CBD Core precinct, which includes Pitt Street and a large section of George Street, accounted for the lion's share of CBD retail, providing 746 of the tenancies surveyed.

Belinda Nowland, Savills Divisional Director Research NSW, said the Sydney CBD is one of the single largest retailing precincts in Australia and is currently undergoing major changes, focussed on the Westfield Centrepoint redevelopment and the demolished Mid City Centre project.

She said while global economic conditions have affected new developments, Savills research has identified 82,891 sq m of CBD retail stock currently under construction, predominately in the Pitt Street Mall area.

"Despite the current economic climate, the retail projects already under construction in the Sydney CBD continue to work towards current completion dates," Ms Nowland said.

"Subsequently, the demand for retail space during the construction period is likely to remain strong as retailers seek to maintain market share and take up short term leases in other locations. Vacancy levels are expected to remain low in the short term."

According to the Savills *Sydney CBD Prime Retailing* report, rental levels for CBD tenancies have also remained static over the past six months.

Rents are currently between \$750 per sq m and \$5,000 per sq m gross for CBD tenancies outside Pitt Street Mall and from \$5,000 per sq m to \$10,000 per sq m gross within the Pitt Street Mall, with the biggest premiums paid for street front areas.

Ms Nowland said spending in Sydney's CBD retail market has been adversely affected by redundancies in the city's white collar employment sector, particularly the financial services industry, over the past six months.

She said retail trade has also been impacted by falling tourist numbers, overall reduced consumer confidence and falling profit margins for most retailers as a result of a depreciated Australian dollar.

"Rental growth in Sydney's CBD retailing precinct is expected to be flat to negative over the short term," Ms Nowland said.

"Currently we are seeing landlords using larger incentives, such as free shop fit-out or rent free period, rather than decrease face rents."

The Savills survey shows that the 'hospitality and services' category represents the largest number of tenancies in the CBD precinct, accounting for 27% of surveyed stores. Overall, the use of CBD retail space for hospitality purposes has increased in Sydney during the past 10 years, according to the Savills report.

Clothing and soft goods retailers accounted for 18% of tenancies and space for more clothing stores continues to be in strong demand from prospective tenants across the CBD precinct, the report said.

There were only two retail sales recorded in the Sydney CBD in the second half of 2008, with none over \$2 million reported in first quarter of 2009.

The Savills research indicates that rental yields have softened slightly in Sydney's CBD, with non-prime CBD retail areas currently reflecting market yields between 5.5% and 8.5%, and prime retail areas reflecting yields between 5.5% and 6%. Retail capital values currently range between \$5,000 per sq m and \$35,000 per sq m.

For further information, please contact:

Belinda Nowland
Divisional Director Research
Savills NSW
Tel: 0400 394 585