Experience First

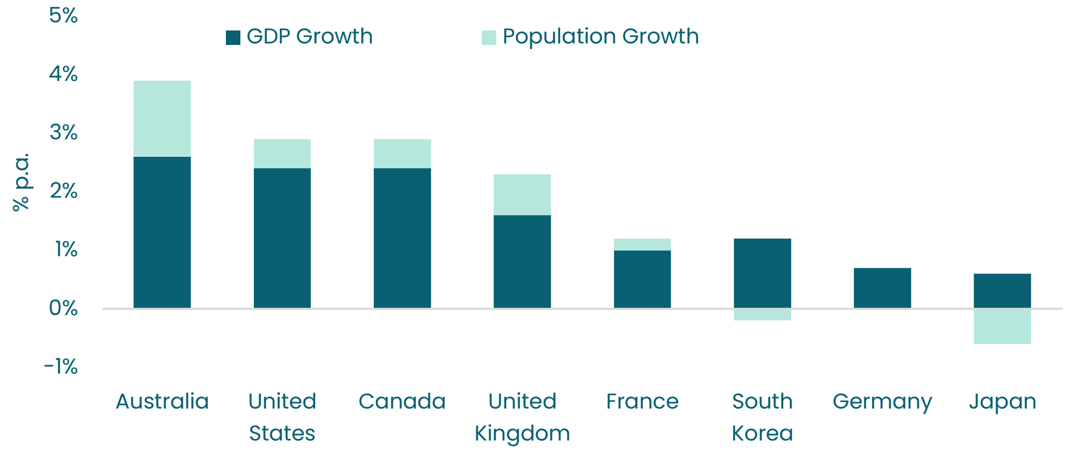
Retail Recharged:
A look through the investment lens

April 2025

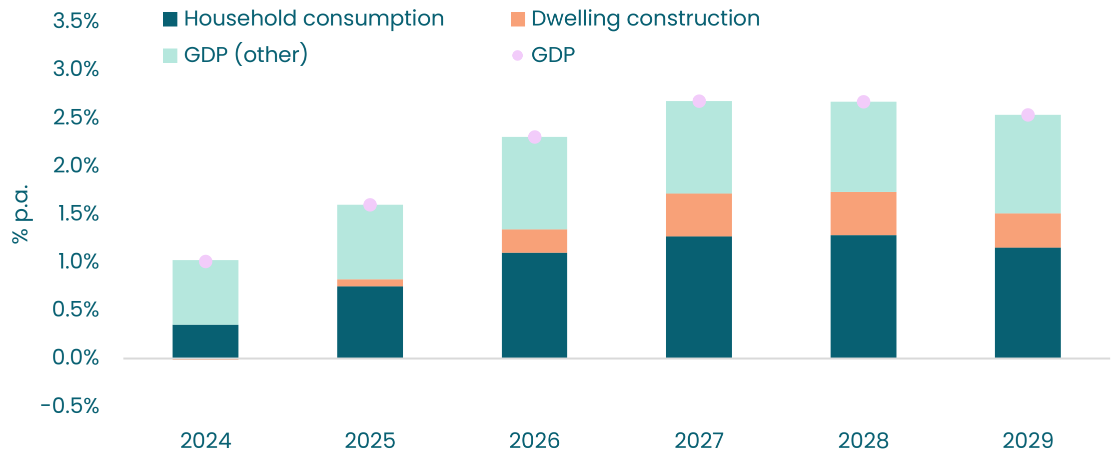
Australia's growth outlook

The retail investment proposition is underpinned by a relatively stable and conducive macro economic environment, with stabilising inflation, strong population growth, resilient labour market and the easing of monetary policy settings through 2025.

Annual GDP & population growth outlook, 2025 – 2034[1]



Australian GDP recovery from 2025, led by consumption & dwelling construction[2]



Source: (1) Capital Economics
(2) Deloitte Access Economics

Why retail – structural market advantages

Australian shopping centres have been resilient and are expected to continue to adapt and thrive

Strong population growth	Australia has the highest population growth of any major mature economy, underpinning spending growth in the medium to long term.
Limited supply	Tight planning regulation and high replacement costs are driving incremental investment into existing retail assets. Australia also benefits from a considerably lower retail stock per capita (~0.9sqm) than that of the US (~2.12sqm) and Canada (~1.51sqm)[1].
Favourable category exposure	Australian regional shopping centres are less reliant on department stores than those in the US, and unlike those in the US, supermarkets (grocery) are part of the anchor tenant mix, which helps to drive foot traffic.
Excess land optionality	Retail presents attractive income yields with growth delivered through stepped specialty rental increases from a diversified tenant base. There is also the potential to add value from land rich sites via mixed use schemes.
Online sales reliant on stores	Omni-channel is the preferred distribution channel for most retailers and more convenient for customers. Over 90% of retail sales growth is expected to be fulfilled in-store, or via click & collect, direct-to-boot or online sales fulfilled through retail stores[2].

Source: (1) Colliers Australia (2) Urbis

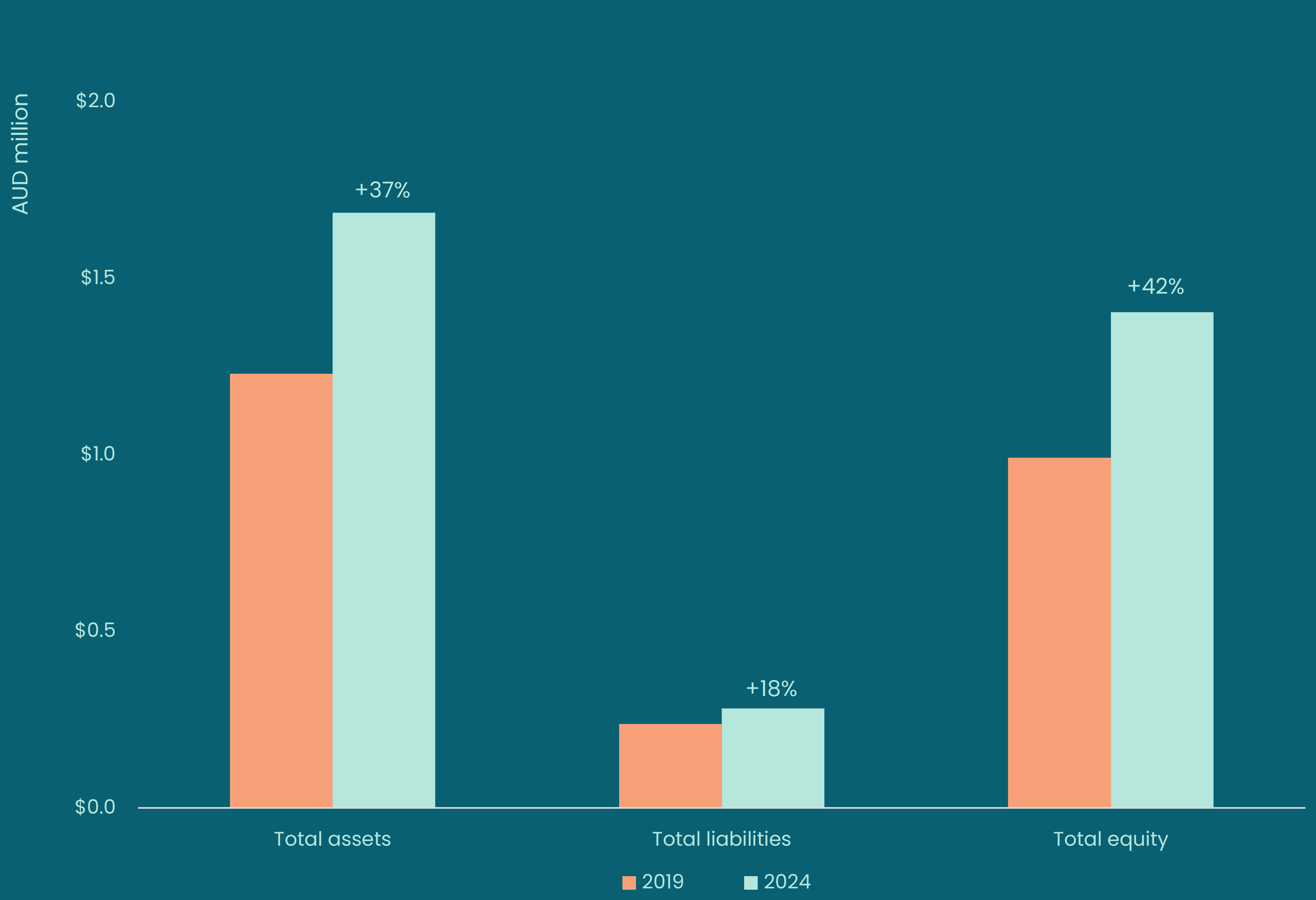
Consumer health: household balance sheet strength

Household balance sheets have improved significantly over the last five years given total equity growth of 42% (or 7% p.a.).

The growth in household equity is a strong outcome which boosted consumer confidence and contributed to the declining savings rate[1].

The value of housing assets has been a key contributor to household wealth in Australia over the last five years given the supply-demand mismatch in key urban areas and resultant price growth.

Average household balance sheet[1]



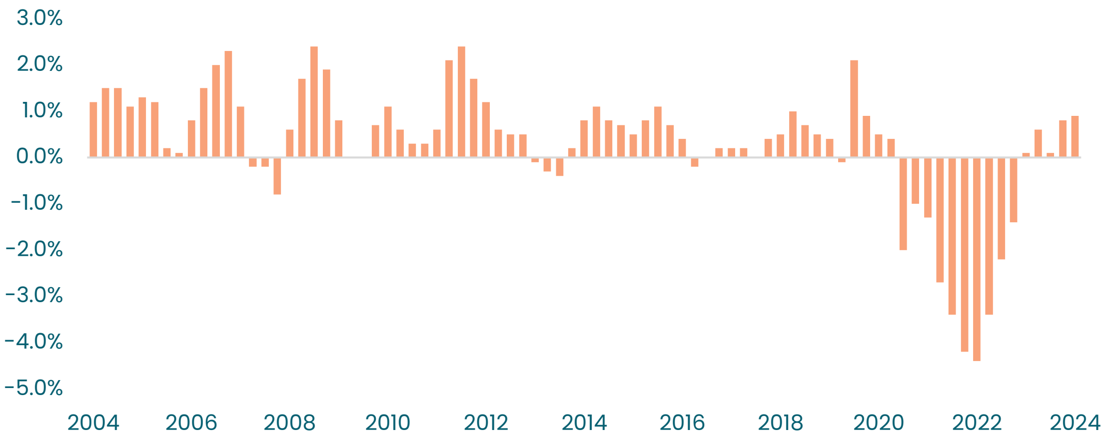
Source: (1) ABS, MST Marquee

Consumer health: household finances

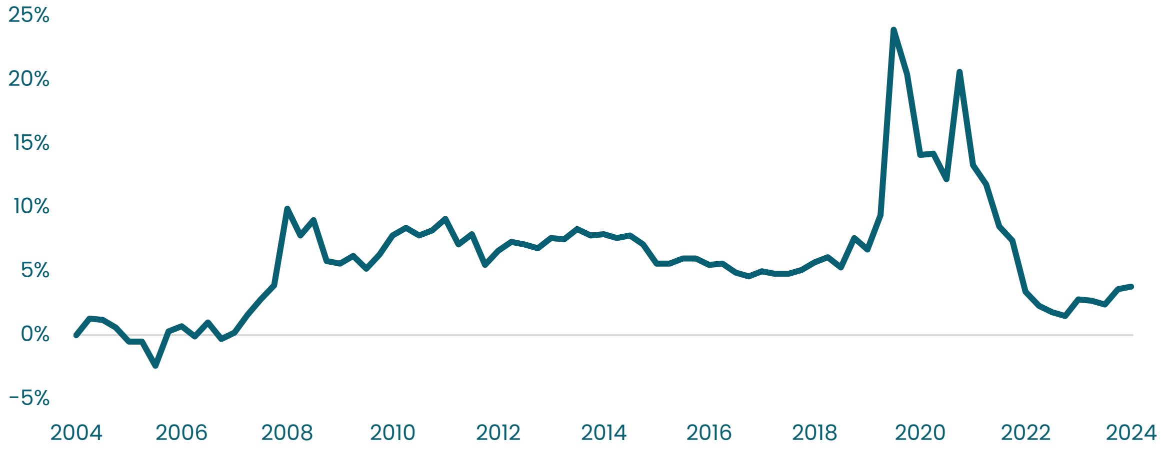
The key factors that are likely to alleviate household budget pressures in 2025 include a decline in inflation, continued flow-through of income tax cuts, positive real wage growth and a reduction in the official cash rate[1].

The strength of income through the pandemic helped boost household deposit levels resulting in higher levels of cash or excess balances in mortgage offset accounts. Overall, deposit growth has outstripped lending growth over the past five years.

Real wage growth (% p.a.)[2]



Household saving rate (%)[2]



0.9% p.a.

real wage growth at Dec-24

$284 billion

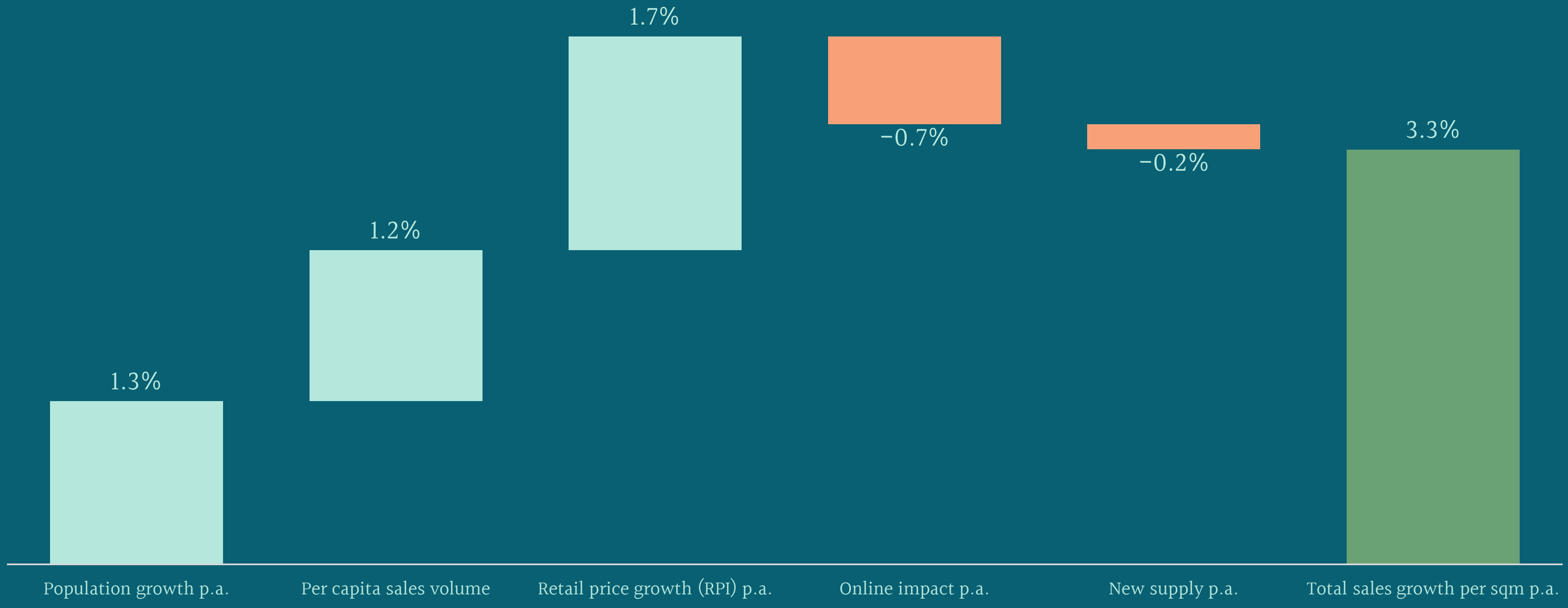
of excess savings from 2020-2022[3] are being drawn down

Source: (1) RBA Financial Stability Review
(2) ABS (3) MST Marquee

Retail spending outlook drivers

Australian retail sales are expected to grow by 3.3% p.a. per sqm over the next 10 years.

Retail sales growth per sqm 2025 -2034 (10 yr outlook)[1]



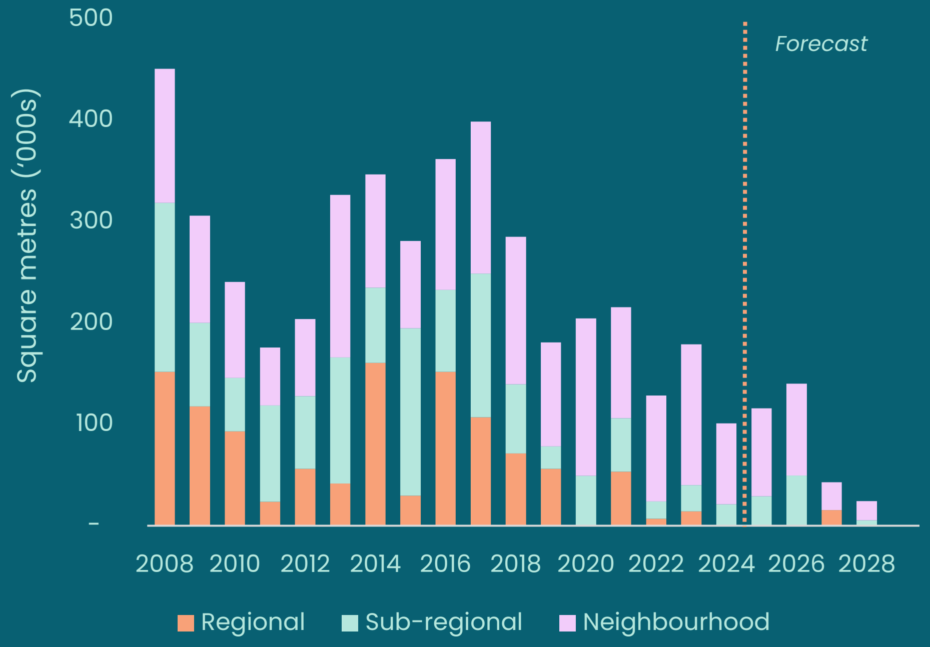
Population growth p.a.	Per capita sales volume	Retail price growth (RPI) p.a.	Online impact p.a.	New supply p.a.	Total sales growth per sqm p.a.
Australia has the highest population growth of any mature economy [2]	The assumption is for a gradual recovery over the medium to long term	Unexpected weakness in the Australian dollar and flow-through impacts on imported goods and consumer prices are expected to result in elevated retail inflation levels in the short to medium term	Assumes ecommerce growth of 8-9% p.a. reaching a penetration rate of 21% by 2034 from 13.9% in January 2025. It includes online sales expected to be fulfilled via physical stores [3]	New supply is expected to remain well below long term averages largely due to feasibility constraints [2]	Sales growth of 3.3% p.a. to drive income growth and total returns

Source: (1) GPT Research (2) JLL Research (3) NAB

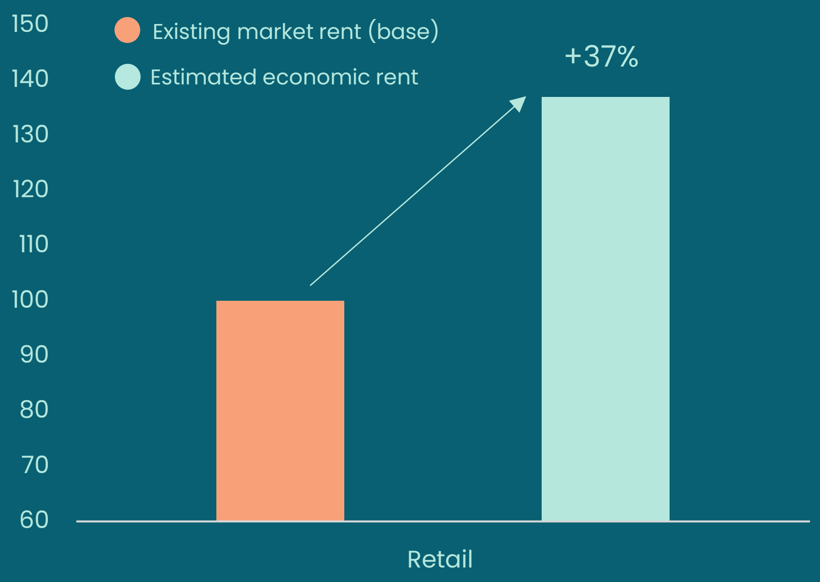
Supply shortfall to drive rental growth

Constrained supply under challenging feasibility metrics (particularly for regional and sub-regional centres) and the high benchmark for economic rents provides a runway for rental growth within existing assets.

Development pipeline [1]



Economic rent threshold index [3]



Underlying demand to drive a shortfall of 1.1 million sqm by 2030 (regional, sub-regional, neighbourhood)

- 0.9 sqm per capita has been built across the three core retail sub-sectors (20yr p.a. average)
- We estimate the future requirement will be 0.7 sqm accounting for online retail sales
- Population forecast to grow by 2.0 million people or 1.4% p.a.[2] leading to underlying demand requirement for +1.4 million sqm
- Development pipeline[1] of 323,000 sqm
- Shortfall to underlying demand of approximately 1.1 million sqm by 2030.

Feasibility challenges will constrain supply

- Economic rents required to commence new retail projects are approximately 37% above those for existing assets.
- Increases in construction costs, finance costs and exit capitalisation rates have contributed to the high economic rent threshold.
- The wide differential provides the basis for rental growth in existing assets.

Source: (1) JLL Research (2) Deloitte Access Economics (3) GPT Research

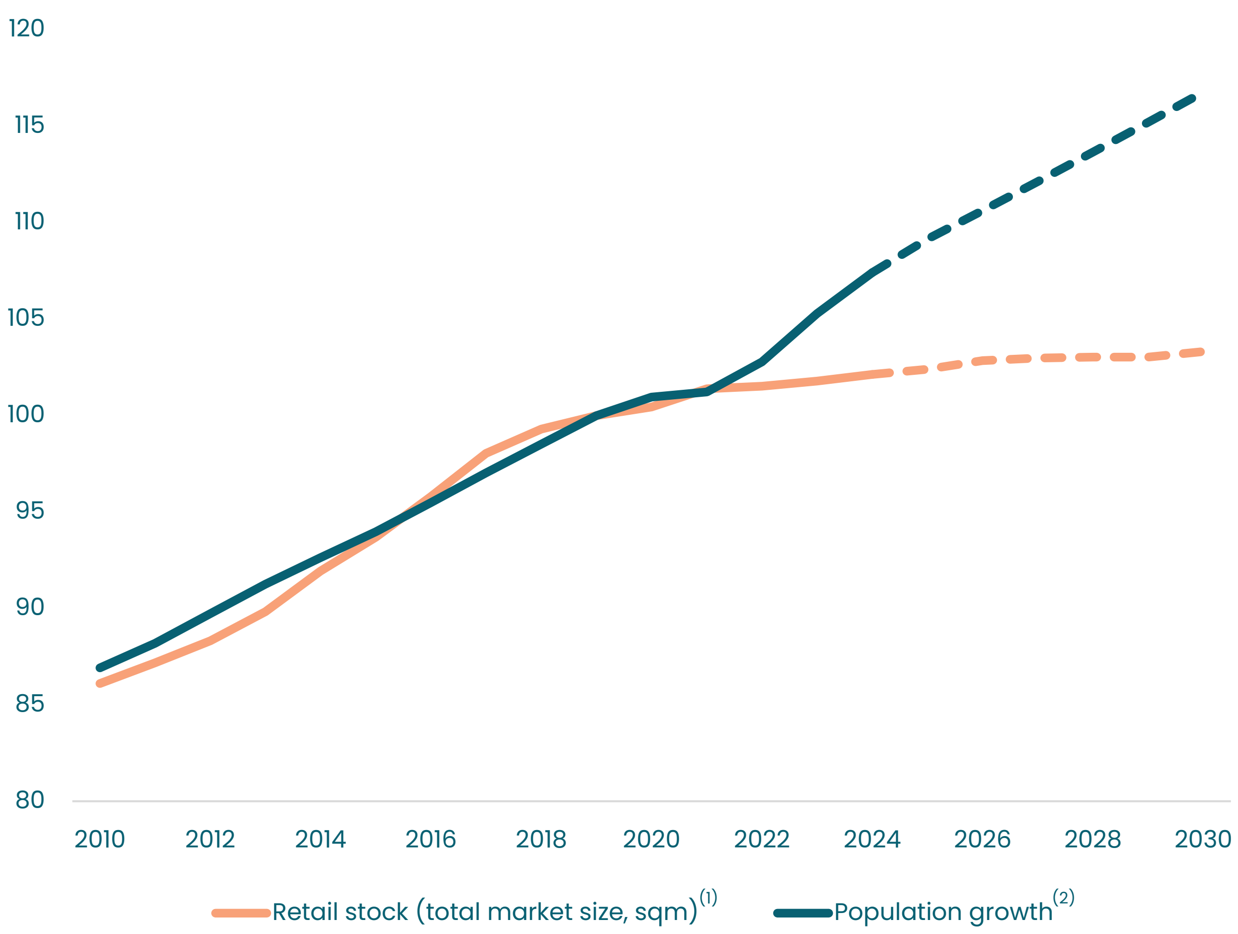
Notes: (1) Development pipeline refers to regional, sub-regional and neighbourhood sub-sectors – projects under construction and probability adjusted supply for pre-construction phases. (3) Based on Sydney examples (regional, sub-regional and neighbourhood).

Limited new supply and strong population growth to underpin performance

The divergence between population and total retail stock is expected to widen in the next five years, fueling Australian retail sales per sqm to grow at 3.3% p.a. by 2030, compared with 2.5% p.a. over the decade to 2024.

Source: (1) JLL Research (2) Deloitte Access Economics (3) GPT Research
Notes (1): Retail stock refers to regional & sub-regional sub-sub-sectors. Development pipeline refers to projects under construction and probability adjusted supply for pre-construction phases.

Retail stock vs population growth index (2019=100)



5 yr outlook

7.3%

Population growth

vs

0.9%

Retail stock growth

2.5% p.a.

Sales growth p/sqm 10 yrs to 2024[3]

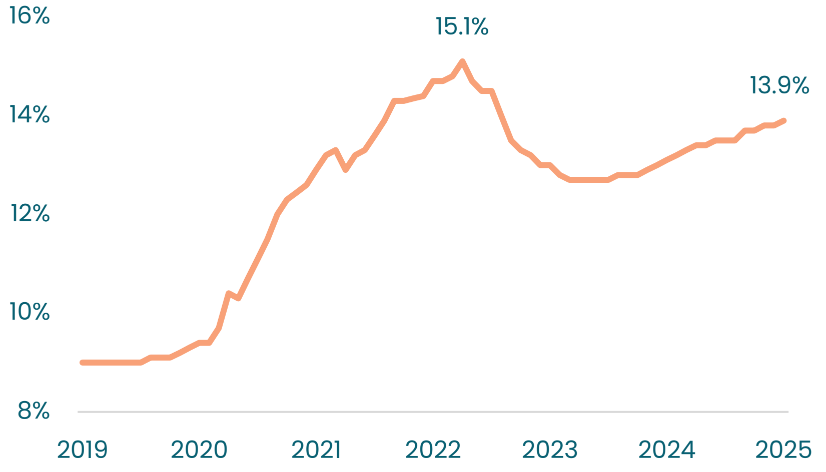
3.3% p.a.

Expected sales growth p/sqm by 2030[3]

Retailers are capturing a bigger share of the online market

The role of physical retail in the fulfilment of online purchases is significant and anticipated to grow.

Ecommerce penetration rate (rolling annual share)[1]

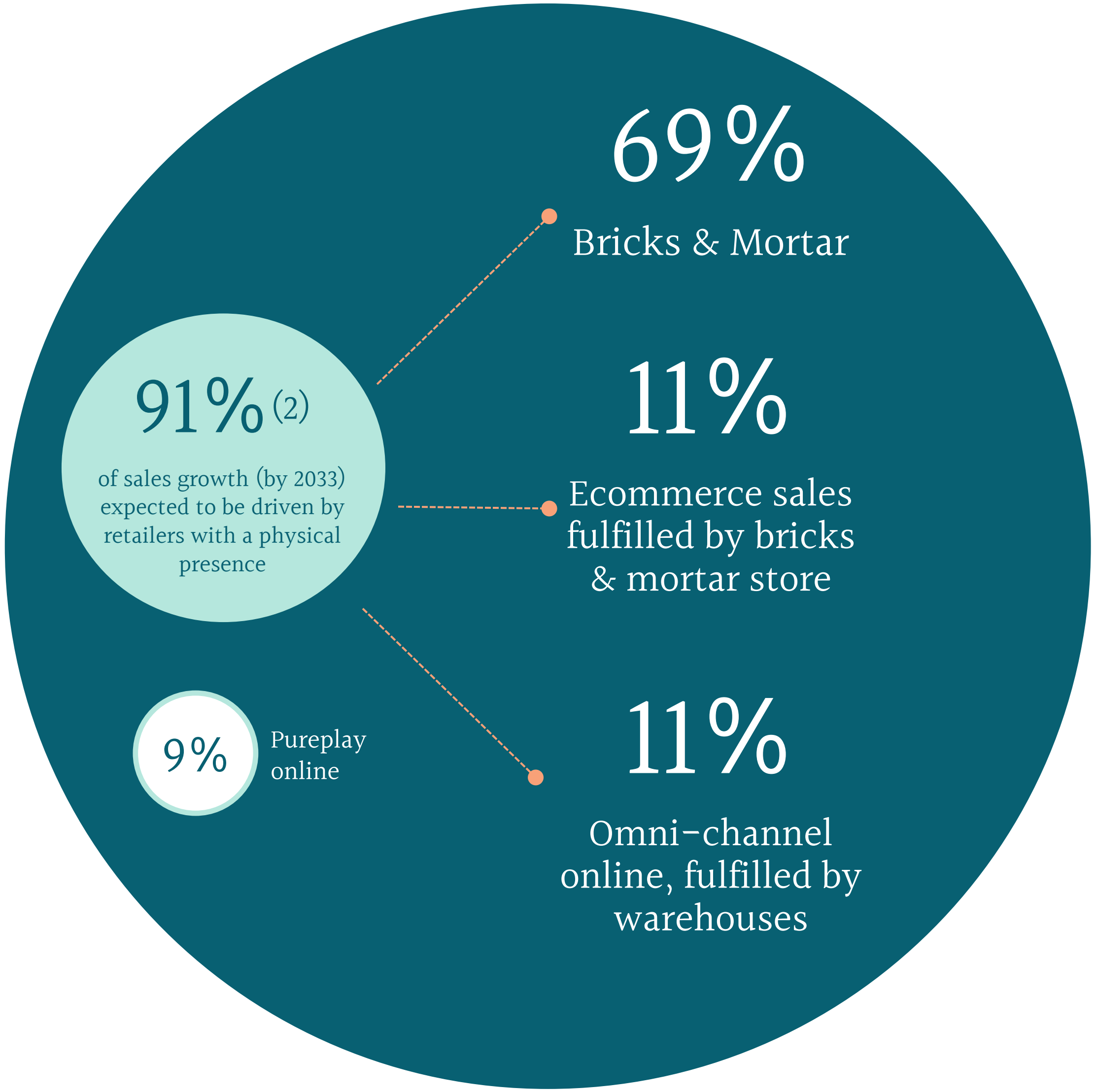


Ecommerce penetration rates in Australia are below the pandemic peak of 15.1%.

Ecommerce was traditionally viewed as a leakage to traditional bricks and mortar retail and despite a reacceleration of online sales growth, retailers are increasingly adopting omni-channel business models where the role of physical retail in the fulfilment of online purchases is significant and anticipated to grow.

Online sales in Australia lag those of comparable international markets.

Predominately due to the vast geographic size and relatively low population density which impact fulfilment costs and speed, ecommerce lagged other international comparable markets in 2024 (USA 16.1%, UK ~27.1% and China 26.8%)[3].



Source: (1) NAB (2) Urbis (3) US Census Bureau, UK Office for National Statistics, National Bureau of Statistics of China

Why now – passing the inflection point

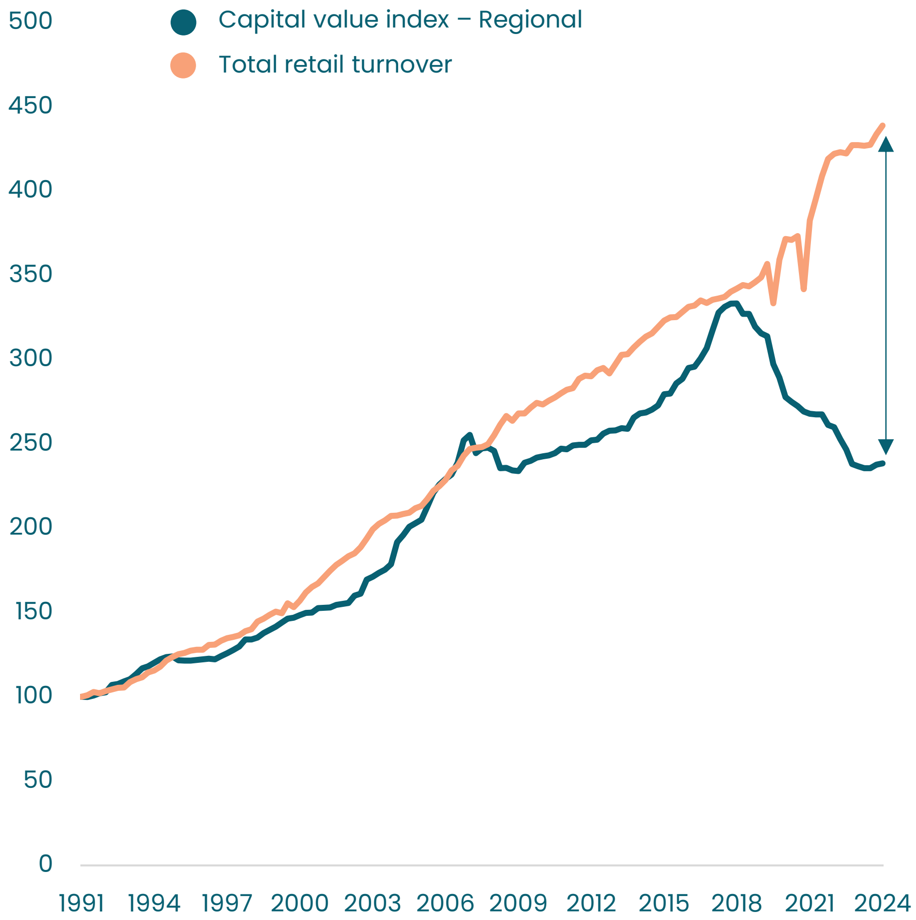
1	Fundamentals improved significantly	Sales growth accelerated, rents have re-based and vacancy rates are low
2	Valuations stabilised in 2024	Regional shopping centre values troughed in 2H24[1]
3	Capital rotation back into retail	Institutional investors have re-engaged with the sector after an extended hiatus
4	Risks appropriately considered	Divergence between valuation assumptions and actual operating fundamentals
5	Positioned for income-led returns	Income growth will be a key driver for returns

Source: (1) JLL Research

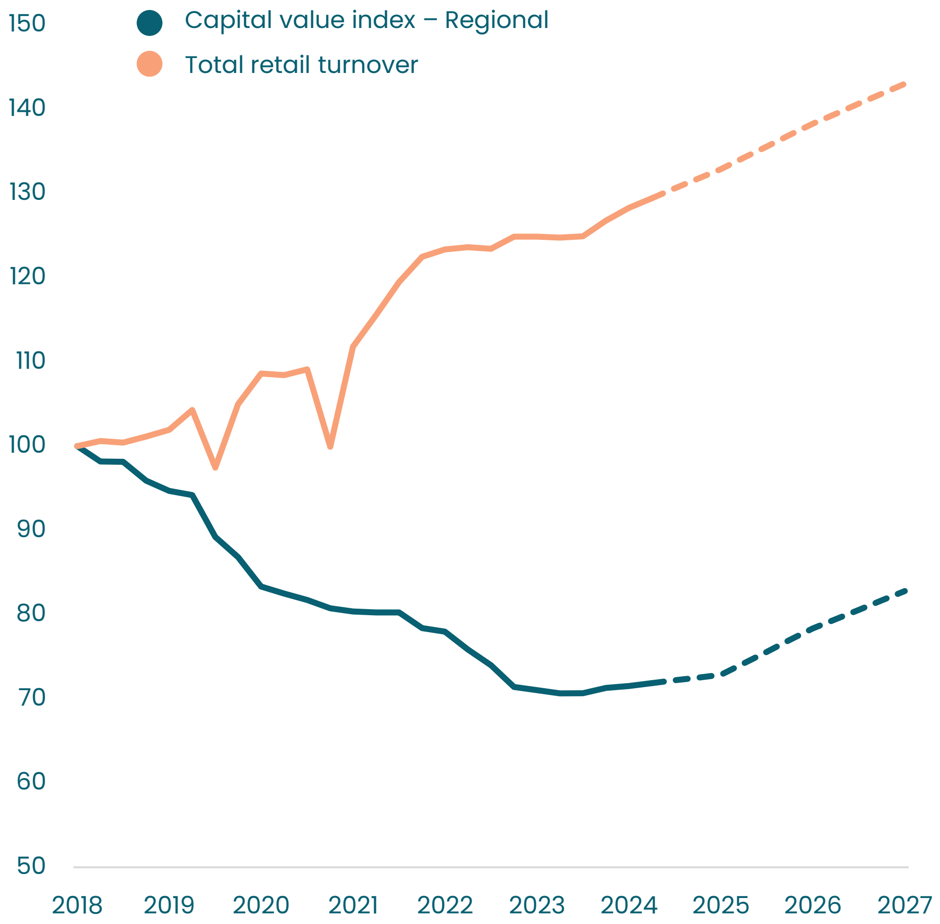
Passing the price trough, resilient fundamentals

A divergence between strong underlying fundamentals and a correction in valuations has generated renewed interest in the retail sector. Regional centre capital values have adjusted by −27% from their peak in 2018, while physical retail spending has grown by 27%.

Index of retail turnover[1] and capital values[2]
– historical context



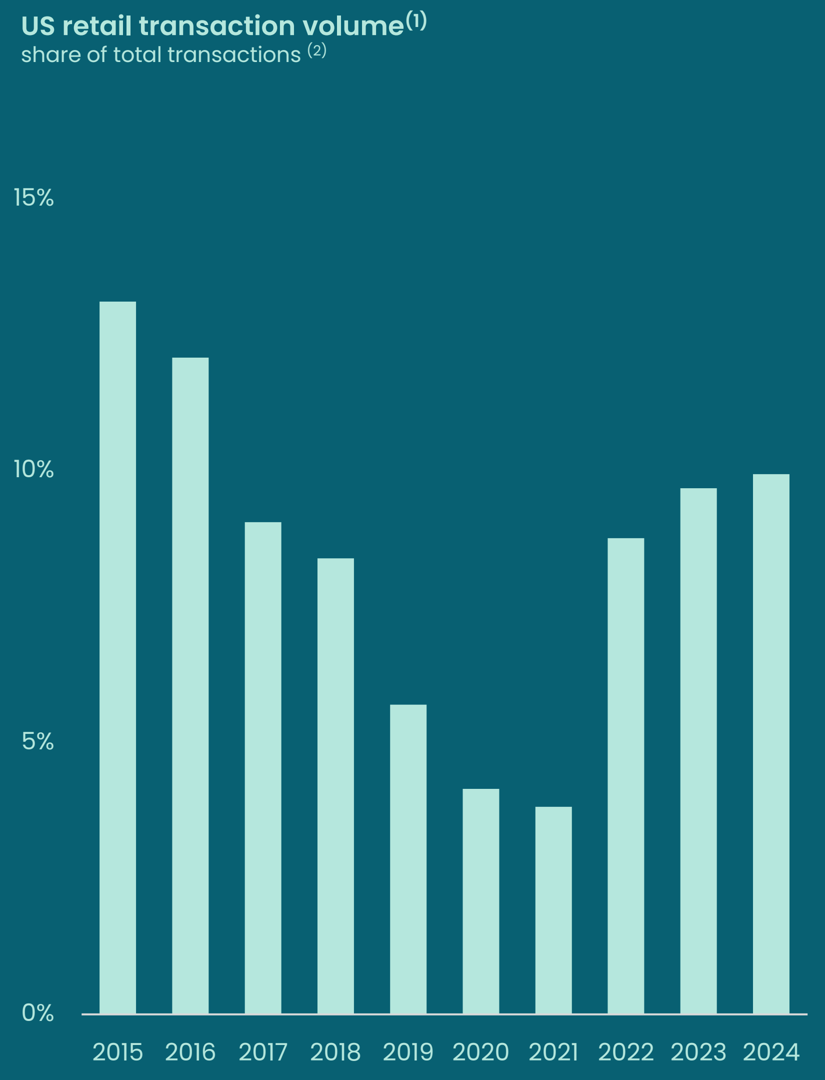
Index of retail turnover[1] and capital values[2]
– recent divergence and forecast

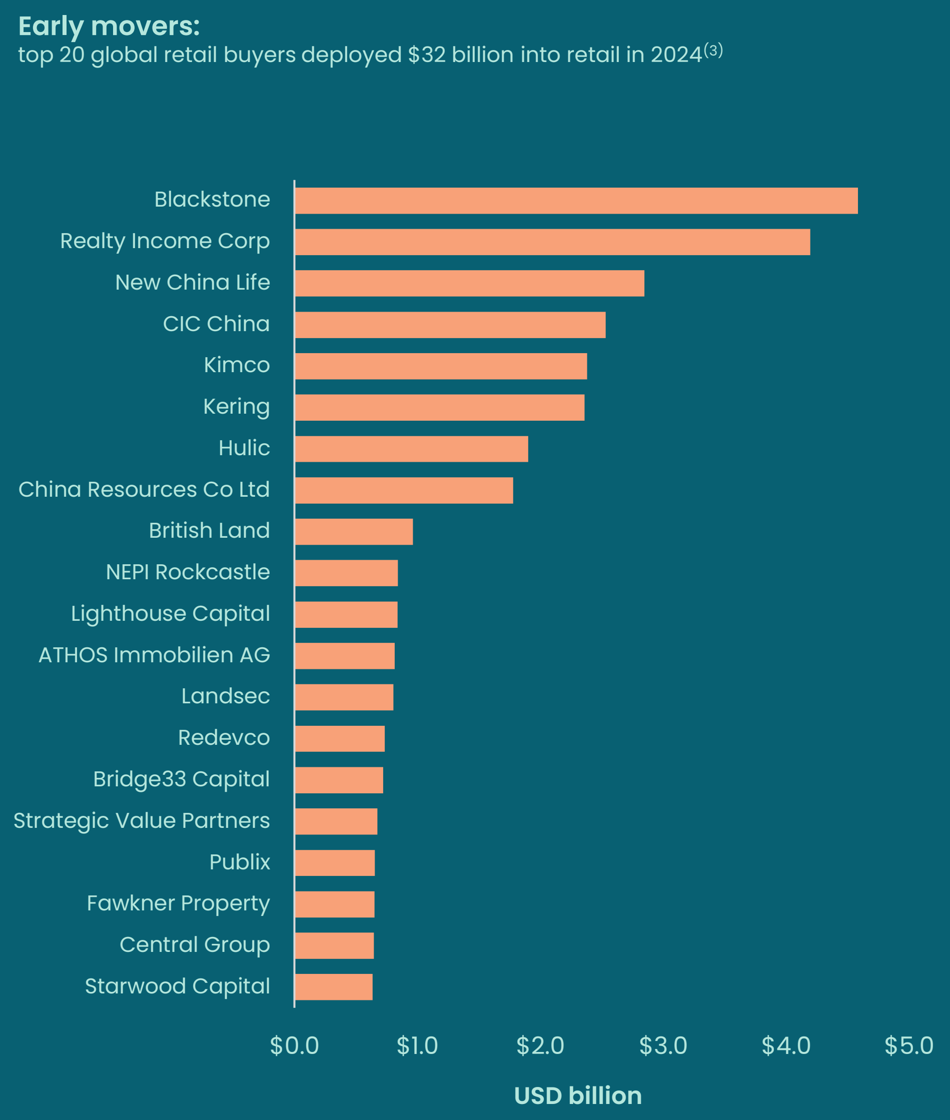


Source: (1) ABS (2) JLL Research, GPT Research
Notes (1): Excludes online sales turnover from 2013.

Global narrative for retail has changed

Major global players are pivoting back into retail with a range of strategies being pursued across the risk spectrum, reflecting renewed conviction in the outlook and the relative value opportunity.



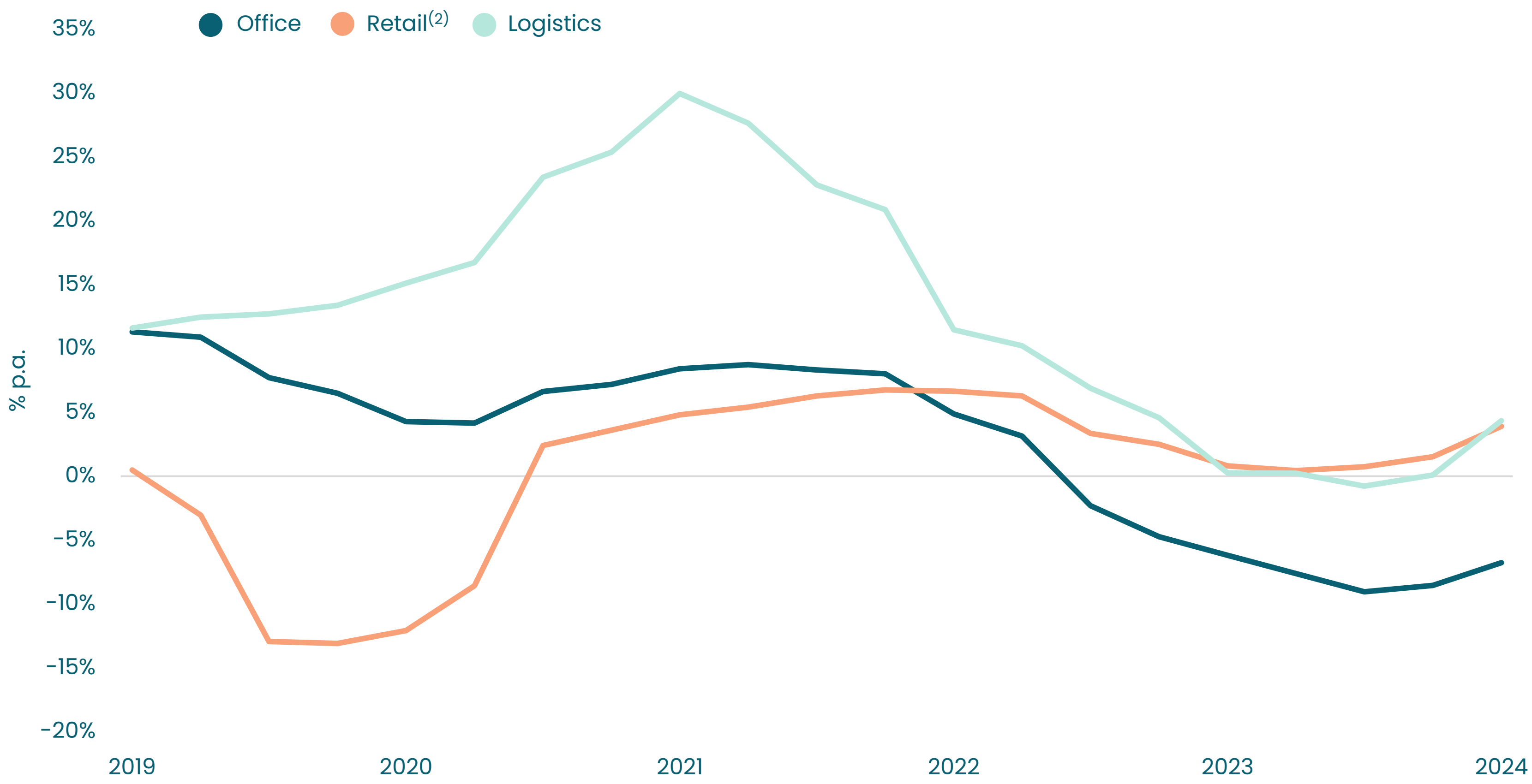


Source: (1) Green Street (3) JLL
Notes (2): Deals > USD 25 million – includes multi-family

Why regional shopping centres – durable income-driven returns

The retail total return outlook is underpinned by relatively high income return and strong NOI growth, supported by sustainable occupancy costs and a solid sales growth outlook.

Total returns – by sector[1]



Source: (1) MSCI
Notes: (2) Retail is super-regional.

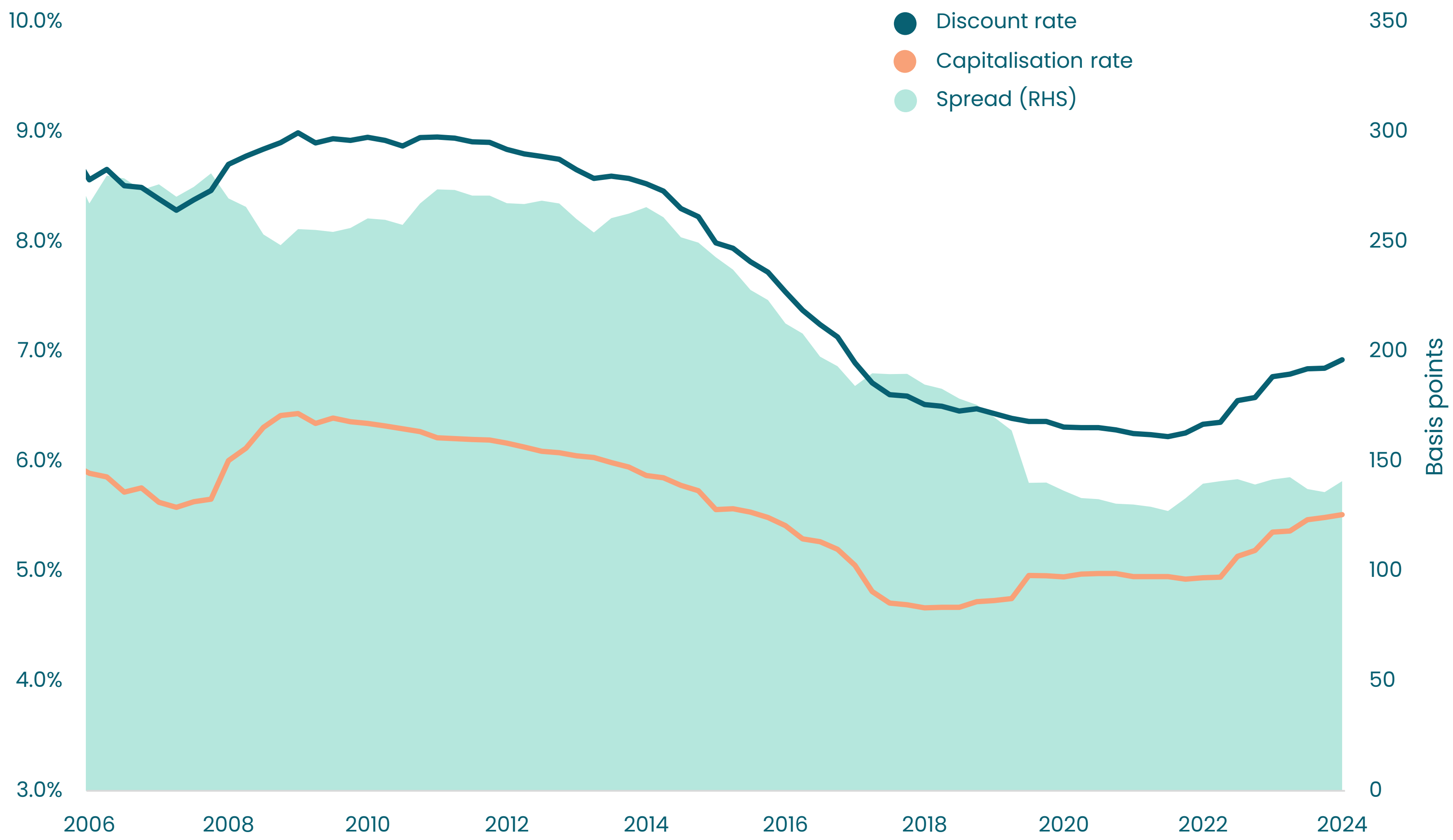
Embedded value in existing assets

What do the current valuation metrics tell us about risk?

- The narrowing spread between discount rates and capitalisation rates over the last decade reflects structural adjustments in leasing and capital expenditure assumptions built into book valuations.
- Market conditions (retail sales and leasing) have improved notably, and actual results are now outperforming valuer assumptions, suggesting potential upside to returns.
- The key leasing metrics outperforming valuer assumptions include; re-leasing spreads, rental growth, incentives, downtime and vacancy rates.

Source: (1) MSCI

Capitalisation rate vs discount rate spread – super-regional shopping centres[1]

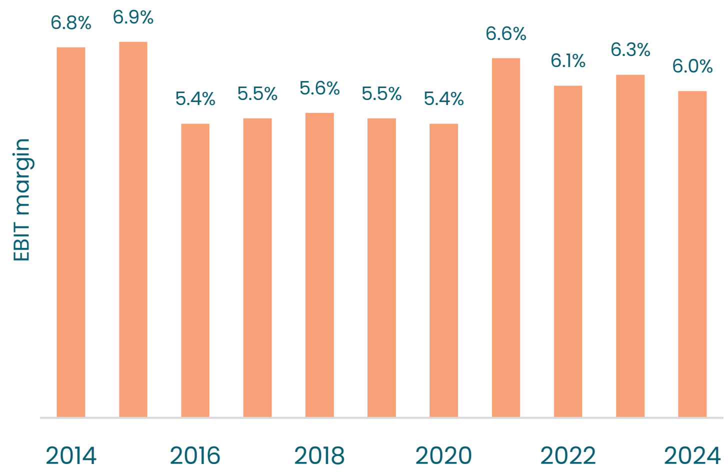


Retailer capacity to pay rent has improved on all fronts

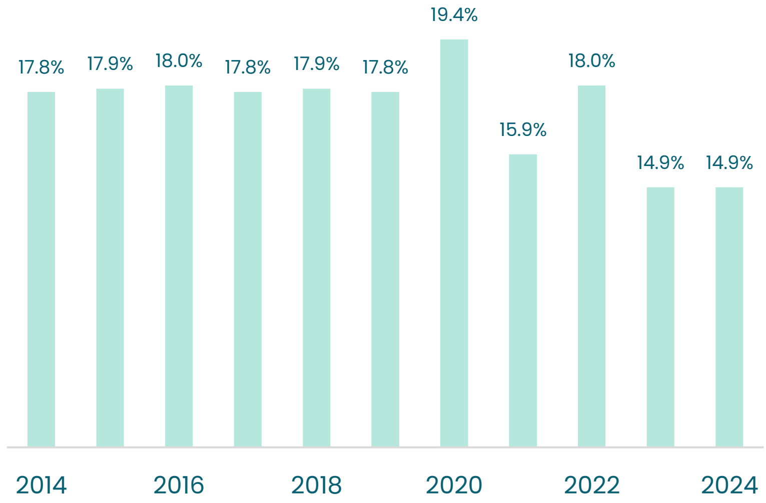
Healthy retailer profit margins, combined with low occupancy cost ratios and low vacancy are expected to drive rental growth

- 3.3% specialty rental growth CAGR at stable occupancy cost ratios, given retail sales growth (per sqm) of 3.3% p.a.
- 5.4% CAGR can be achieved if occupancy cost ratios rise to 16.5% - albeit still comfortably below the pre-pandemic level (17.8%). High quality assets will be well positioned to capture the growth upside.

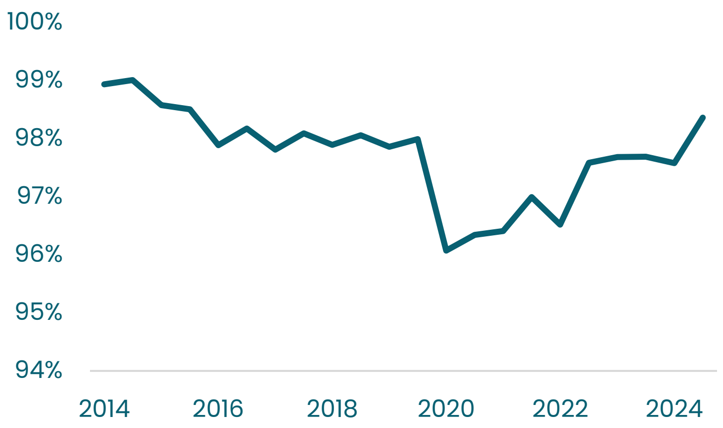
Retailer profit margins (financial year)(1)



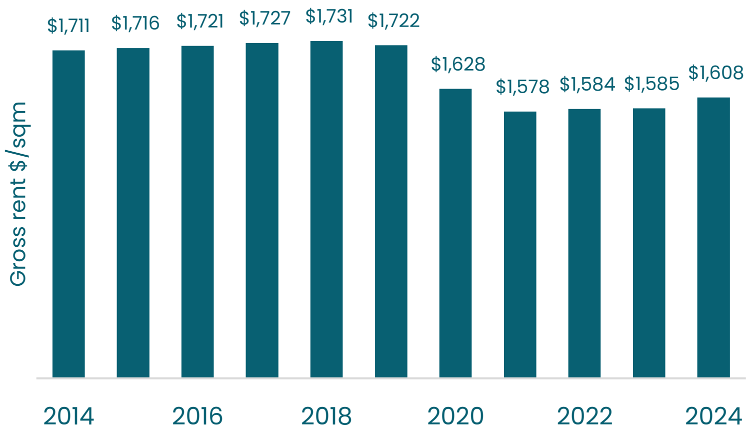
Specialty occupancy cost ratios (2) – Regional Centres



Occupancy rate(3) – Regional Centres



Gross specialty rents (3) – Regional Centres



Source: (1) MST Marquee (2) Urbis (3) JLL Research (adjusted for major tenant floorspace)
Notes: (1) Represents 42% of all ABS retail sales across the industry. EBIT margins are presented on a pre-AASB 16 basis.

Retailer expansion ambitions are clear

Dominant regional shopping centres remain the most preferred option for physical store expansion amongst retailers, and there is a recognition from retailers that space availability is becoming increasingly limited, particularly for prime positions.

Over the next 5 years, how do you expect your physical store presence to change in the following centre types?

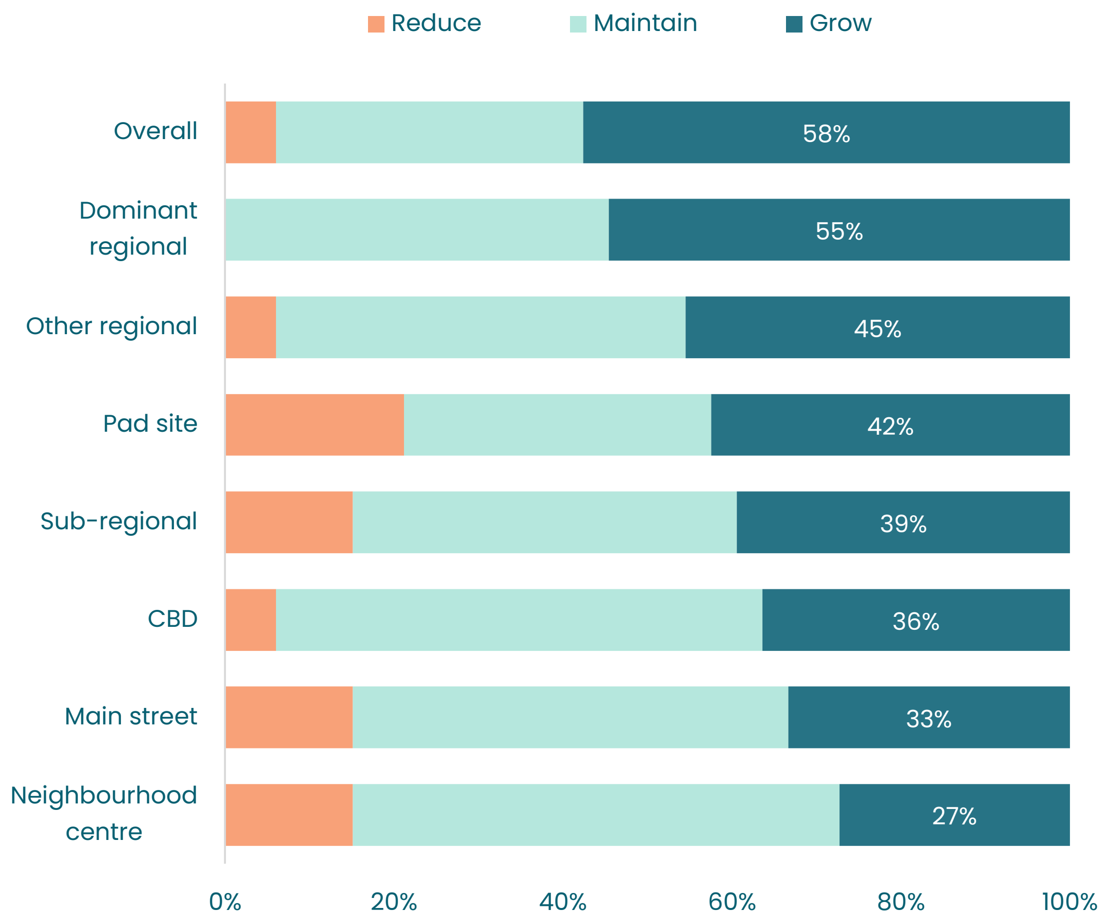
Retailer expansion

- No surveyed retailers anticipated reducing their footprint within dominant regionals, with 55% expecting to increase their footprint.
- 'Main street' and 'Neighbourhood centres' were the least popular expansion options.
- The popularity of dominant regionals, coupled with limited existing supply and a historically low supply outlook, will support rents in these assets going forward.

Rationalisation within categories

- A rationalisation of store networks and retailers occurred in the lead up to 2020, with a spike in voluntary administrations and store closures.
- The business closures resulted in fewer, but stronger, businesses within certain segments of the retail market.
- The rate of retail business and store closures has been very low since 2021, which is reflected in high occupancy rates.

Retailer expansion intentions (GPT 2024 survey covering over 100 retail brands)



Source: GPT

Outlook for retail

2025 is forecast to be a year of economic recovery, and the retail sector is in a strong starting position to deliver attractive risk-adjusted returns given the rebasing of key metrics and demonstrated resilience.

The key drivers for the next phase of the cycle will be tight market conditions, competition for space in the right locations, low supply, combined with high starting yields and sustainable income growth.

Five key outlook factors

Macro backdrop	Geopolitical risks remain elevated globally. While Australia's direct impact is unclear, the base case economic outlook is for a steady recovery over the medium term, led by household consumption and dwelling construction.
Health of the consumer	Households have been drawing down on excess saving accumulated since 2020. Household budget pressures are easing, and household balance sheets are in good shape overall to support retail sales growth.
Retail fundamentals	Leasing conditions are likely to become more competitive in our view given high occupancy, very limited new supply and a recovery in retail sales growth from a high base established since 2020.
Global retail narrative	As more core and core-plus capital continues to re-enter the retail sector globally, we expect to see high quality retail assets keenly contested.
Income-driven returns	Retail is well positioned to deliver solid total returns over the next five to 10 years given the rebasing of rents and capital values from 2018 to 2024. The disconnect between strong positive retail sales growth and a decline in book valuations over that period creates a cyclical opportunity in a sector that is quickly becoming back in favour.

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