

# Perth housing revival fuels big-box centres

## Retail

Larry Schlesinger

A housing revival has helped fuel a mini-boom in large-format retail development in Perth, with \$125 million worth of projects under way or approved.

While many retail landlords struggled to retain tenants in the current environment, let alone secure precommitments on new projects, three new projects by listed players Primewest, Axiom and local developer Major Holdings have all secured strong tenant profiles.

In the north-eastern suburb of Ellenbrook, Primewest commenced construction in June of a 7216sq m large-format centre due to be completed in April with an end value of \$28.5 million.

The centre is more than 60 per cent precommitted with BP, Petbarn and Autobarn some of the retailers who will anchor it.

The project on the Great Eastern Highway is the first stage in a development that includes a neighbourhood centre anchored by Woolworths.

Primewest executive chairman John Bond said things were going "quite well" in Western Australia.

"We're quite positive about the large-format retail sector," he said.

"The latest stimulus on the housing front is going to have a big impact for



Major Holdings will complete an 11,000sq m large-format centre in Belmont worth \$42 million by October.

us. Housing block sales are up enormously and there's always a follow-through to the bulky goods [or large format] sector, so it's quite exciting," he said.

Mr Bond said the WA market had started to pick up pre-COVID-19 after five reasonably tough years.

"COVID put a dent in it but not a huge one," he said.

"People who had disposable income were going to spend it on holidays, but are now directing that income for other purposes, which is why you have seen

an uptick in bulky goods and other sectors."

In Belmont, east of the Perth CBD, Major Holdings is on track to complete an 11,000sq m large-format centre with an end value of \$42 million by October.

The development at 225 Great Eastern Highway will be anchored by The Good Guys, Officeworks, Petbarn, Adairs and Beacon Lighting.

"This is a great result as construction continued on during the COVID-19 crisis due to it being an essential service," said Jeff Klopper of Vend Property,

which is leasing all three new developments.

"The centre is over 70 per cent pre-committed and there has been an increase in inquiry over the past six weeks as retailers enjoy unprecedented times due to the stimulus provided by the federal and state governments.

"Also, due to restrictions on the east coast, Western Australia seems to be the shining light for retailers."

In the outer northern suburb of Butler, Axiom returned to Perth after a 15-year gap with an 18,000sq m centre.

The \$55 million project was approved in late May and the leasing campaign has begun.

"Major anchor retailers have already committed with an estimated completion date of May 2022," Mr Klopper said. "This is on the back of Spotlight, Anaconda, Chemist Warehouse and Rebel, to name a few, already positioning themselves in the newly formed Butler precinct. I am as busy as I was during the last boom in 2007-8."

"A lot of national retail brands are very active here."

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## Large-format malls suit last-mile logistics: JLL

### Online sales

Larry Schlesinger

As more people shop online and expect delivery of goods within a few hours, large-format retail properties close to major cities could have a higher and better use as last-mile logistics facilities, a research paper by JLL shows.

While LFR property has fared well compared to other retail property assets in the pandemic, JLL said owners could potentially generate higher returns and extract better value by converting them to industrial use or incorporating logistics facilities on undeveloped portions or in place of car parks.

In Melbourne and Sydney, the average size of a large-format site is more than three hectares. However, only about half of this is typically occupied by a shopping centre, with customer parking accounting for a large share.

Rather than expanding retail floor space, JLL said there could be better industrial and logistics conversion opportunities based on the physical and locational characteristics of many LFR sites. These included not just the large, undeveloped areas but also the similar physical structure of large-format malls to industrial units.

In addition, many LFR assets are closer to densely populated areas than traditional industrial precincts, which can cater for the increasing demand for last-mile fulfilment facilities.

Modelling the hypothetical conversion of an existing LFR asset in Sydney to logistics use, JLL said rents would rise from \$31 million to \$35 million if 65 per cent of the site was used and floor space increased by more than 10,000 square metres.

The capital value would rise from \$45 million to \$70 million and the yield tighten from 7 per cent to 5 per cent.

"Major retail landlords are already evolving their strategy to maximise asset values via the integration of

### Change of use

Converting retail site to logistics\*

	Before - LFR	After - Industrial
Site coverage ratio	38%	65%
Land area (sq m)	35,000	35,000
GLA (sq m)	12,250	22,750
Net rent/sq m	\$255	\$156
Rent/ha	\$3.13m	\$3.54m
Yield	7.0%	5.0%
Capital value	\$44.70m	\$70.20m

\* Hypothetical SOURCE: JLL

alternative uses, which has included hotels, office and residential development in shopping centres," Stuart Taylor, senior director of retail investments at JLL, said. "We believe the integration of logistics uses in certain LFR assets is a logical next step."

JLL's paper, *Extracting Value from Retail*, included several overseas examples where retail has been repurposed for industrial use, including an abandoned mall in America now converted into an Amazon fulfilment centre.

In London, logistics giant Prologis recently acquired a retail park with plans to convert it into an e-commerce fulfilment centre.

In Australia, there are signs that a similar trend may soon kick off.

Last year, commercial landlord Dexus bought a homemaker centre in western Sydney for \$65 million as a future conversion opportunity.

"It's a fantastic location. It's been bought with a great holding income and our intention is to convert it over time to industrial," Darren Steinberg, chief executive of Dexus, told *The Australian Financial Review*.

Another large-format mall acquisition, City West Plaza in Melbourne, bought by developer Cadence and fund manager Assembly for \$40 million, has potential as a logistics conversion play, JLL said.