

10.9. New Lease on Council Property - Shop 4, 190-192 Military Road, Neutral Bay

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ENDORSED BY	Luke Harvey, Director Corporate Services
ATTACHMENTS	<ol style="list-style-type: none">1. Colliers Australian Retail Research Snapshot Q3 20242. Shop 4, 190-192 Military Road, Neutral Bay (CONFIDENTIAL)3. Colliers Advice for Shop 4 192 - 194 Military Road Neutral Bay (CONFIDENTIAL)
CSP LINK	<ol style="list-style-type: none">3. Our Innovative City3.1 Our commercial centres are prosperous and vibrant

PURPOSE:

The purpose of this report is to seek Council's endorsement to enter a proposed new lease for Shop 4, 190-192 Military Road, Neutral Bay on the terms and conditions contained in this report.

EXECUTIVE SUMMARY:

- Council has received a lease proposal for Shop 4, 190-192 Military Road, Neutral Bay which requires a rental incentive to be considered.
- 190-192 Military Road comprises four ground floor retail units, public WCs and the Neutral Bay Community Centre on Level 1, community hall and meeting room for hire on Level 2, and a vacant lower ground floor premises previously occupied by a not-for-profit, Mary's House. The four retail units are leased to provide income as part of Council's commercial property portfolio, and to diversify and spread the risk of Council's revenue streams.
- The confidential attachments include monetary information relating to property income, as well as leasing transactions. Should Council wish to discuss this report it is noted that the attached confidential document includes information that would, if disclosed, confer a commercial advantage on a competitor of the Council. Further, release of the information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.
- If Council wishes to discuss the report, the meeting should be closed to the public to do in accordance with Section 10A(2)(a) of the Local Government Act (LGA).

RECOMMENDATION:

1. THAT Council resolves to enter the proposed lease over Shop 4, 190-192 Military Road, Neutral Bay on the terms and conditions detailed in the confidential report.

2. THAT Council authorise the Chief Executive Officer (or their delegate) to sign all necessary legal documents in relation to this matter.

3. THAT Council resolves that the identified attachment to this report is to be treated as confidential in accordance with section 11(3) of the Local Government Act for the following reason under Section 10A (2) of the Local Government Act:

(d) commercial information of a confidential nature that would, if disclosed

(ii) confer a commercial advantage on a competitor of the Council. It is further noted that the release of this information would, on balance, be contrary to the public interest as it would affect Council's ability to obtain value for money services.

Background

Council has a significant portfolio of commercial properties, with a total replacement cost in the order of \$53.7m. The portfolio comprises office space, retail, food premises, and outdoor dining spaces.

Report

Council's Property Portfolio incorporates a diversified portfolio, consisting of office, retail, community centres, outdoor seating arrangements, and other assets. Council's Property Managing Agents, Colliers International, are responsible for the lease negotiations and management of Council's properties under lease.

With Council's current financial situation and the focus on the potential of commercial property as a source of revenue, all new leases will go to Council for approval, pending the creation of a commercial property policy.

Incentives such as rent-free periods, or rental abatements are common to commercial property, and are a long-standing feature of the market utilised to attract tenants. The commercial property policy will address financial incentives and will be developed to provide guidance and relevant delegations in relation to future property leasing transactions.

Under Council's adopted Governance Strategy, a review of commercial property will be undertaken to consider the steps to be taken for it to best align with Council's strategic direction.

Proposed Lease Transaction

Proposed Transaction	Subject Property & Lessee/ Tenant	Term	Permitted Use	Lettable Area
New Lease	Address: - Shop 4, 190-192 Military Road, Neutral Bay Lessee: Ciao Enterprise Pty Ltd	Period: 01/06/2025 – 31/05/2027 Term: 3 years Option: 1 x 3-year option	Retail – sandwich/ juice shop	24 sqm

Consultation requirements

Community engagement is not required.

Financial/Resource Implications

Council's property portfolio generates an annual income of \$6.35 million from leases of commercial property (retail and office), recreational facilities, community centres, public land, roads, private residential properties, and outdoor dining licences.

The existing tenant is currently on holdover, with the new tenant wishing to continue the business on a new lease. This lease proposal will maintain the income generated by the property portfolio.

Legislation

The management of leases within Council's Property Portfolio is governed by the provisions of the Retail Leases Act 1994 and the Local Government Act 1993. These legislations set out the legal framework and requirements for handling retail leases and property management in Local Government, NSW.

The Colliers logo, featuring the word "Colliers" in white serif font on a blue rectangular background with a yellow and red horizontal stripe at the bottom.

Q3 2024 Key Findings



Australian retail fundamentals continue to show resilience, with the sector displaying robust occupancy levels, sustained spending growth for non-discretionary retail and an optimistic outlook for trading conditions in 2025. This is translating to renewed investor interest in the sector, particularly for retail assets that have unlocked site potential and future mixed-use schemes.



Retail sales data for July-2024 (latest available data) showed that spending increased +2.3% year on year. Total retail sales volumes have increased +1.7% for on a rolling MAT basis. Data shows that consumer spending is declining on a per capita basis, however population growth is attributing to total growth. Moving to Q4, the retail sector will face a significant November sales season (Black Friday/Cyber Monday) and December Christmas promotions to conclude the year.



Retail rental growth was sustained through Q3, with national average gross face rents growing +0.2% for CBD retail, +0.5% for Regional Centres, +0.7% for Neighbourhoods and +1.1% for Large Format Retail. Rental growth has been evident throughout 2024, which has been driven by rents rebasing during the pandemic and demand remaining robust.



Retail yields and values are nearing the end of the current cycle, with yield expansion across retail assets broadly limited to 5-7bps during the quarter. Retail values are expected to hold firm moving to the end of 2024, which is seeing liquidity return to the retail transaction market. Total investment into the retail market is +34% higher than volumes seen in 2023.

Australian Retail Snapshot

Q3 2024

Australian Retail Snapshot

Q3 2024 Key Findings

Attachment 10.9.1

Colliers

National Key Indicators



+2.3%

Year on year retail turnover July-24.



\$2.08bn

National retail sales volumes Q3 2024



5.92%*

National weighted average retail yield -
*Regional Shopping Centres



Sentiment

Consumer sentiment remains well below the long-term average since 1990 of 111.9 points. However, consumer sentiment has risen mildly to 84.62 points in September 2024, up from 79.74 for the same period in 2023.

Sentiment remains linked with uncertainty around the cost of living, however with Stage 3 tax cuts looming and a potential softening in interest rates there is potential for this to shift in the latter half of 2024.

Business sentiment in contrast, currently at 3.31 points, also remains well down on historical averages.



Retail Conditions

There is growing confidence from investors towards the Australian retail market, with strong underlying fundamentals shifting investment strategies back towards the sector.

Early indications from Stage 3 tax cuts show that households are saving any surplus funds and looking to build a savings buffer, which is expected to unlock retail spending in 2025 as and when interest rates ease.



Rent & Incentives

Rental growth was evident throughout the Australian retail sector in the third quarter of 2024, as continued resilience of consumer spending, albeit at moderating levels, is driving rental growth.

Australia has maintained average occupancy levels of 98%, which is increasing scarcity of prime sites available.



Investment /Yields

Retail yields are nearing the end of the current cycle, with minimal movement throughout the asset class in Q3. It is expected for yields to stabilise by the end of 2024, especially with the market perceiving an end to interest rate rises and potential cuts on the horizon in 2025.

Average yields softened +7bps for CBD Retail, +5bps for Regional Centres, +5bps for Neighbourhoods and +1bps for LFR during the quarter.

Australian Retail Snapshot

Economic Snapshot

Gross Domestic Product (GDP) data released to June 2024 showed that the economy continued to contract, with data reporting nominal growth of +0.2% over the quarter (0.97% for the year). This was the weakest annual growth rate recorded since the 1990's recession (outside the pandemic). The weak growth is the cost of getting inflation back to target, with the RBA squarely focused on reducing demand and bringing prices to target levels.

The **labour market** continues to remain extremely tight, with an additional 47,500 jobs created in August, well above market expectations of 25,000. This has kept the unemployment rate flat at 4.2%, with participation levels remaining at record highs. The strength of the jobs market will undoubtedly encourage the RBA to remain on their current trajectory.

Population growth continues to surge, increasing by 2.3% in the 12 months to March 2024. The population of Australia grew by an additional 615,000 people in the 12 months, with Australia's population now reaching over 27 million people.

Inflation continues to maintain a downward course, with the latest inflation rate to Sep-24 showing prices increased +2.80%, down from 3.8% in the June. Although inflation appears to have peaked, it remains high across services-based inflation which reported a slight uplift over the quarter from 4.5% to 4.6%, whereas overall inflation was driven by a significant decrease to Goods inflation which decreased from 3.2% to 1.4%. Risks to the upside remain globally for services-based inflation which has proven to be sticky, and geopolitical risks that remain inherent to oil prices and maintaining supply chains.

Consumer sentiment has continued to remain at low levels at 84.63 index points in Sep-24. However, with the Australian economy continued to stabilise, and the market now seeing the potential for rate cuts in 2025, sentiment is expected to improve over the next 12 months.



0.97%

GDP Growth
YoY to Jun-24



2.8%

Inflation Rate
YoY to Sep-24



4.35%

Cash Rate
As at Sep-24



2.3%

Population Growth
YoY to Mar-24



4.2%

Unemployment Rate
As at Aug-24



+3.3pt

Business Conditions
As at Aug-24

Neighbourhood Shopping Centres

Q3 2024 Retail Snapshot



Overall Trends

Neighbourhood Centres continue to see resilient performance due to a high disposition towards non-discretionary based retail.

Investment levels have been limited through the current cycle, as the increased cost of capital has seen average yields soften +78bps since June-22.

However, with yields and values nearing close to realignment, liquidity is returning to the Neighbourhood Centre market, with transaction volumes currently +86% higher than the same period in 2023; with Institutional investors being more active in 2024.



Rents & Incentives

Average gross face rents grew +0.7% during the quarter and are tracking +1.2% on a year-on-year basis.

Rental growth was supported by strong growth in the quarter of +1.0% in Perth, +0.9% in Melbourne and +0.7% in Adelaide.

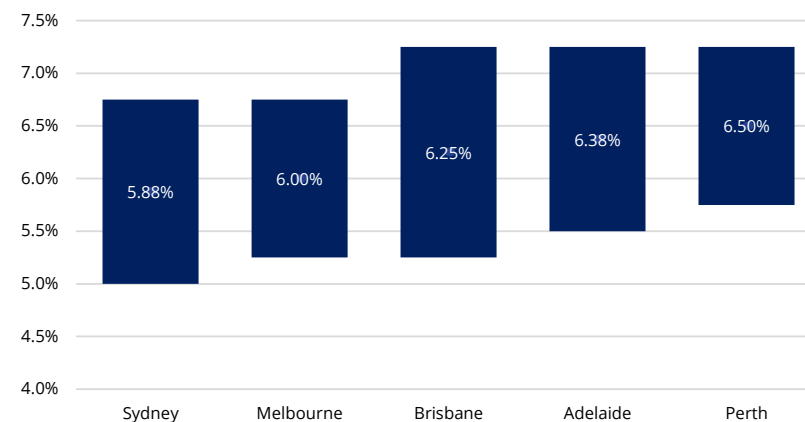


Investment/ Yields

Neighbourhood yields have softened +5 basis points through the quarter, with a national average yield of 6.20%.

As the cost of capital looks to have peaked, and rate cuts on the horizon in 2025, Neighbourhood yields are expected to broadly hold firm for the remainder of 2024.

Neighbourhood Shopping Centres Average Yields



Source: Colliers Research

Neighbourhood Shopping Centre Indicators

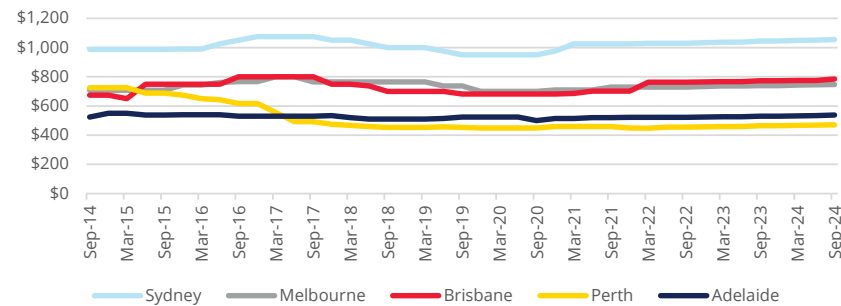
Submarket	Average Gross Face Rents (\$/sqm p.a.)		Average Incentives	Average Yields	
	Low	High	Average	Low	High
Neighbourhood					
Sydney	\$995	\$1,115	15.00%	5.00%	6.75%
Melbourne	\$620	\$883	15.00%	5.25%	6.75%
Brisbane	\$662	\$898	21.00%	5.25%	7.25%
Perth	\$378	\$568	20.00%	5.75%	7.25%
Adelaide	\$387	\$687	20.00%	5.50%	7.25%

Source: Colliers Research

Neighbourhood Shopping Centres

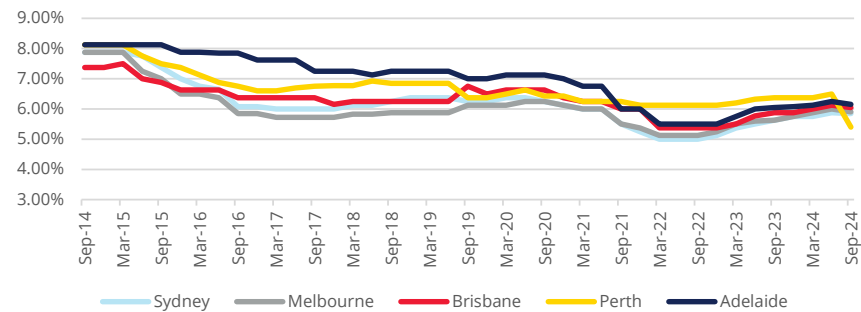
Q3 2024 Retail Snapshot

Average Gross Face Rents by Market (\$ psm p.a.)



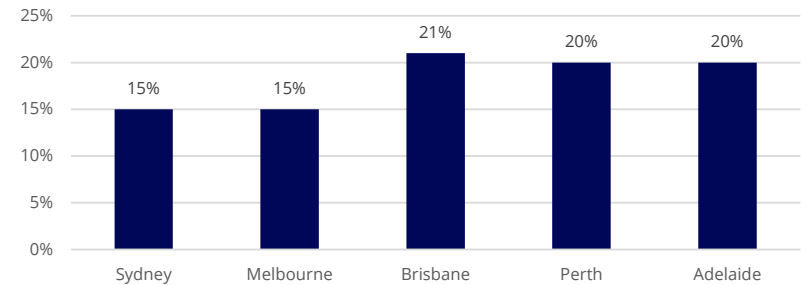
Source: Colliers Research

Average Yields by Market



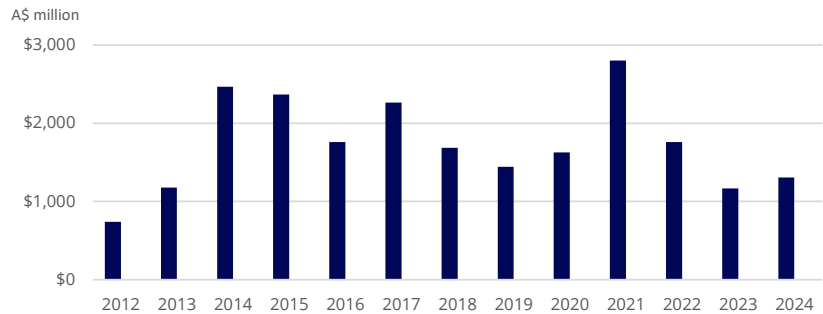
Source: Colliers Research

Average Incentives



Source: Colliers Research

Sales Volumes (AUD)



Source: Colliers Research