

P R E S S R E L E A S E

CB Richard Ellis Pty Ltd
ABN 57 057 373 574

Level 26, 363 George Street
Sydney NSW 2000
DX 10262

T 61 2 9333 3333

F 61 2 9333 3330

www.cbre.com.au

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For further information:

Kathryn House

Communications Manager

61 2 9333 3585

61 402 465 440

Short term clouds but long term positives for Canberra's commercial property market

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While Canberra's commercial property sector has survived the global financial crisis relatively unscathed, the market must still overcome some significant short term hurdles according to a new CB Richard Ellis report.

The first impediment will be the next Federal Election, due in late 2010 or early 2011. The second will be the current budget deficit which could affect white collar employment in Canberra.

"An election normally causes a stall in demand for property from the Federal Government and creates a level of uncertainty with regard to future government commitments," said CBRE Global Research and Consulting analyst Luke Nixon.

"The second is the current budget deficit. Rising unemployment, decreased tax revenue and increased government spending under the guise of stimulating the economy have created a difficult situation for the next Federal Government. Cost cutting will be necessary to return the budget to surplus and this could significantly affect white collar employment in Canberra."

However, the overall fundamentals for the market remain strong according to the CBRE MarketView report, which highlights the counter cyclical nature of the ACT property sector.

"Canberra has produced some interesting and unexpected results through the global financial crisis, highlighting the point of difference that the market offers from its unique position as Australia's capital," Mr Nixon said.

Over the 12 months to September 2009, gross effective rents in Canberra City fell by just 5.3%, which was the second best performance of any CBD in Australia, following Adelaide.

CBRE Canberra Managing Director Nick McDonald Crowley said the investment market had also achieved some strong results, with a series of landmark transactions having been completed over the past 12 months.

"The investment market in Canberra has proven resilient through the financial crisis," Mr McDonald Crowley said.

"Industry House, which was purchased in May for \$123 million by the Roberts family, typifies the type of stock in demand at the moment. Long leases to government tenants have proven popular as investors look for certainty from income streams."

On the retail front, the CBRE report highlights that while capital values have been negatively impacted over the year, rental incomes for retail assets have been largely unaffected by the economic decline, with net face rents for most asset types remaining stable over the period.

The industrial market has meanwhile continued to perform steadily through the financial crisis. The average industrial yield in Canberra firmed marginally, by four basis points, during the September quarter driven by an increase in demand for small unit estates.

"The market, especially for "strata units" less than \$1 million, is dominated by owner occupiers and lower interest rates have counteracted any other financial concerns," Mr McDonald Crowley said.

"With industrial production likely to recover in line with the Australian economy over the short to medium term, positives are beginning to emerge for the market. With new subdivisions competing for tenants and the presence of large developers such as Walker Corporation in the market, there is an opportunity to increase the quality of stock and the size of Canberra's industrial market."

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