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Bulky goods sector bears the brunt of weaker economic conditions

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The weaker economic climate has taken a toll on Australia's bulky goods market, which has been the hardest hit of any of the retail sectors according to a new report from CB Richard Ellis.

The CBRE Pacific Region Bulky Goods MarketView highlights that tenant demand slowed and investment yields softened by 143 basis points to 8.8% over the year to March 2009, as a result of the downturn in the housing sector and a resultant decrease in discretionary spending on bulky goods.

CBRE Regional Research Analyst Jaclyn Chavez said while there had been some improvement in retail spending as a result of the recent Federal Government handouts, consumer confidence remained fragile in light of forecast rises in unemployment.

"The outlook for the bulky goods market is most influenced by an anticipated recovery in housing markets, proposed reductions in developer contributions and the future position of interest rates," Ms Chavez said.

"This fragile short term outlook, along with weaker investor sentiment, is providing a challenging environment for investors in the bulky goods sector."

However there are some early signs of an improvement in market conditions according to the report, which shows that bulky goods rents have remained relatively resilient. Across the broader Pacific region, bulky goods net face rents fell only slightly during the 12 months to March, 2009 - easing by 0.3% to average \$255 a square metre. And in some markets there was considerable rental growth, with Adelaide recording a 9.4% jump over the period as a result of the construction of several landmark new projects, including Gepps X Homemaker Centre.

CBRE Regional Director, Retail Bulky Goods, Jeff Klopper said markets such as South East Queensland and Western Australia were coming off a high base in terms of rental growth, however there was still

considerable tenant demand for space in the six premier bulky goods precincts in both regions - those being Myaree, Osborne Park and Cannington in WA and Mt Gravatt, Loganholme and Windsor in South East Queensland.

Mr Klopper said Australia's population was continuing to grow a strong annual rate of 1.8% and this would continue to underpin increasing retail trade in bulky goods. WA experienced the strongest population growth of approximately 2.9% over the past year, with strong growth also experienced in Queensland and Victoria.

However, Mr Klopper said the market had become increasingly split - with certain market segments performing better than others. While upper end furniture and bedding had been the hardest hit by the current economic downturn, Mr Klopper said certain market segments had been performing strongly - key among them automotive parts and accessories, electrical/lighting, leisure/camping and hardware sectors along with retailers who target the first home owners market.

"Those sectors which have a DIY element or in the case of camping, where consumers are responding to the tougher economic climate by choosing cheaper travel options, are continuing to perform well and the market has certainly benefited from the recent government grants, which have increased bulky goods spending," Mr Klopper said.

"This had flowed through to increased retailer enquiry for new bulky goods opportunities in recent weeks."

On the investment front, the report highlights a pick up in buyer demand in the first half with \$57 million in sales negotiated to date, including the \$21.3 million sale of a Bunnings warehouse at Campbelltown in NSW.

Private investors are dominating the market, with CBRE forecasting that bulky goods yields across the region will range from 8.5%-9.6% in 2009 and 8.25%-9.25% in 2010.

On the development side, the report highlights that there is currently 4.9 million square metres of existing bulky goods space across the region, with a further 640,000 square metres of space due to be completed in 2009.

The 58,478 square metre Melbourne Convention Centre & Exhibition Precinct is the largest development due to be completed this year.

There are currently 20 bulky goods centres under construction across the region, with a further 37 projects having been DA approved.

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