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CBD retail markets to weather the storm

Sydney, NSW (21 April 2009)

Australia's CBD retail markets are standing firm in the face of the global economic crisis with vacancy rates remaining low and rents continuing to rise according to new CB Richard Ellis research.

The Regional Retail MarketView report is the first to be produced by CBRE, ranking the capital cities in terms of rents and vacancy rates and outlining forecasts for the next three years.

CBRE Research Director Jennifer Beard said the research highlighted the resilience of the retail markets in Australia's capital cities. Net face rents for prime retail space continued to rise in the 12 months to March, increasing by 7.7% to average \$2,711 a square metre. At the same time, vacancy rates had remained at historically low levels - averaging just 2.1% across all the CBD retail markets.

Adelaide has led the charge, with a vacancy rate of just 0.4%, followed by Melbourne (1.9%), Perth (2.3%) and Sydney (1.4%), with Brisbane clocking up the highest vacancy rate - but still at just 4.5%.

CBRE Regional Director, Retail Group, Joshua Loudoun commented that while Brisbane had the highest vacancy rate of all cities, this could be attributed to the Broadway and Wintergarden shopping centres being positioned for redevelopment and holding a number of tenancies for short term leases.

Perth, with 39,000 square metres of new retail space currently under construction, faced the biggest challenge of all the capital cities going forward, Mr Loudoun said. .

Sydney, on the other hand, was well placed to weather the economic crisis, driven by the increase in demand generated from displaced Pitt Street Mall tenants still needing to relocate."

Overall, the report shows that Sydney has retained its mantle as Australia's most expensive retail destination, with super prime rents - for stores with mall street frontage - averaging \$6,350 a square metre net. Ms Beard said Melbourne ranked a close second, with Bourke Street rents ranging between \$5,400 a square metre and \$6,150 a square metre, followed by Brisbane (averaging \$5,000 a square metre), Perth (\$4,010 a square metre) and Adelaide (\$2,810 a square metre).

Mr Loudoun said the strong rental growth witnessed across the CBD markets had been driven by the continuation of historical low vacancy rates across all markets.

"We continue to see strong interest in all CBD markets, particularly from financial and telecommunications service providers and also those retailers who service everyday needs, including supermarkets, food and beverage, cosmetics and mid range fashion," Mr Loudoun said.

"Interestingly international luxury brand retailers have reported some of their best results in Australia and have been looking for both new market opportunities and to refurbish existing stores".

Mr Loudoun said much of the activity in the luxury brand market was being driven by retailers who had opened a series of stores in Sydney and Melbourne early this decade.

With those leases coming up for renewal, many of those brands were now in a position where they were relocating temporarily to refurbish their current stores or seeking to relocate into larger premises. This was recently seen in Melbourne with Louis Vuitton relocating while they refurbished their flagship on the corner of Russell and Collins Streets.

Sydney is well into this cycle with a number of brands positioning themselves to benefit from the upgrade of Castlereagh Street through the redevelopment of Westfield Sydney and also to secure positions alongside the new international market entrants this project will attract.

"In a recession commentators always highlight the spike in the sales of lipstick and a lowering of the hem line, but the indulgent feel good factor should not be forgotten," Mr Loudoun said.

"International chocolatiers continue to scour the country for new locations, with Lindt looking to open in Melbourne later this year and Guylian having just opened a café at The Rocks in Sydney."

On the rental front, Mr Loudoun said the report highlighted a different hierarchy when it came to super prime rents (which only applied to properties with mall frontage) and prime rents (for streets which feed into CBD shopping malls.)

While Sydney offered the most expensive super prime rents, the city ranked fourth when it came to prime rents, behind Brisbane, Perth and Melbourne.

Mr Loudoun said the prime rents in Brisbane and Perth of \$3,700 and \$2,970 per square metre respectively could be explained by the limited number of available tenancies off the main pedestrian malls and the total supply of CBD retail stock (with Brisbane accounting for just 15.2% and Perth accounting for 4.9% of the total CBD stock in Australia).

"Over the past five years the 'churn' of retail tenancies within the CBD core has been heavily hampered by the historically low vacancy rates, which in the small capital cities has forced late entrants to secure tenancies in and around the prime pedestrian malls and consequently has driven rapid rental growth in these markets," Mr Loudoun said.

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