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FOR IMMEDIATE RELEASE — 1 June 2009

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Investors turn their sights back to the industrial market after lacklustre 2008

Melbourne, VIC (1 June 2009)

While the outlook for the Australian industrial market remains bleak in the short term, investor activity has begun to increase from the lows experienced last year according to a new Pacific Region Industrial MarketView report from CB Richard Ellis.

In an uncertain economic environment, just \$1.3 billion in industrial investment sales over \$5 million were recorded across Australia in 2008.

CB Richard Ellis Regional Research Analyst Jaclyn Chavez said sales activity was likely to relatively remain low this year due to the difficulties in raising finance and continued economic uncertainty. However, there has been some movement in investment sales in the first quarter of 2009.

"Purchaser demand has increased in the first quarter of 2009 relative to the lows witnessed in the first quarter of 2008," Ms Chavez said.

"Lower funding costs and more realistic price expectations on the part of vendors are creating positive gearing opportunities for investors frustrated by low returns on alternative investments."

CBRE Regional Director, Industrial Investments, Greg Cohen said private investors were driving the market, predominantly investors who held existing industrial stock but many of whom had not bought assets for the past five to 10 years.

"The market has leveled with yields on prime stock now sitting at circa 8.25-8.5% providing the tenant is solid and there is a long weighted average lease expiry," Mr Cohen said.

"The sub \$5 million sector of the market is particularly active with all types of privates - individuals, super funds and syndicates - pursuing assets which offer lease terms of at least six years and yields which are in the range of 9% to 10%. Banks are funding acquisitions with these terms and this is fuelling activity at the lower end."

The CBRE MarketView report highlights that the average investment yield for Australian grade A industrial warehouses softened by 131 basis points to reach 8.54% as at March 2009.

In Sydney, industrial yields are estimated to have softened by 183 basis points in the 15 months to March 2009 to average 8.71%, with the yield range being 7.75% to 10.25%. CBRE estimates this has shaved 13.8% off capital values over the 12 months to March 2009.

In Brisbane, CBRE estimates yields have softened by between 100 and 200 basis points, with prime warehouse and distribution centre yields ranging between 8% and 9.5% as at March 2009, while secondary yields now range between 8.5% and 10%. The CBRE report highlights the predominant buyer interest in Brisbane being from owner occupiers and private investors, with five sales having been recorded in the first quarter of 2009 for a total of \$64 million

Similarly in Melbourne, yields are now averaging 8.82%, up from a historic low of 6.83% just over a year ago.

In Perth, prime yields average 8.33% as at March 2009, up 183 basis points in 12 months. Equity-based locate private investors are driving the Perth market according to CBRE, with the largest transaction year to date being the \$20.2 million sale of a factory at 17 Hazlehurst Street, Kewdale.

Private investors are also driving activity in Adelaide, with the largest deal this year involving ING Industrial Fund's \$10.55 million sale to a private investor of 6 Senna Road, Wingfield.

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