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FOR IMMEDIATE RELEASE — 12 February 2010

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Stronger forecasts boost Sydney's bulky goods sector

Sydney, NSW (12 February 2010)

Record population growth and a latent undersupply of housing in NSW are forecast to underpin significantly improved conditions in Sydney's bulky goods market according to new forecasts from CB Richard Ellis.

In a new Sydney Metropolitan Retail MarketView report, CBRE Senior Research Analyst Florisa Anolin said the strong fundamentals underpinning the sector were expected to result in a better year for the battered asset class following an improvement in economic conditions.

"While growth in retail expenditure is likely to moderate in 2010 following the withdrawal of the government stimulus package and a rise in interest rates, the return of consumer confidence, job security and strong employment growth will play a large role in keeping the sector in positive territory in 2010 and beyond," Ms Anolin said.

"As the new year unfolds, investment yields for Sydney metropolitan bulky goods centres are likely to stabilise with prime rents likely to grow by 2.8% in 2010 before rising by 6.1% in 2011."

CBRE's national Director of Bulky Goods Alistair Palmer said the stronger forecasts followed a tough period for the sector, with landlords having come under significant pressure last year to negotiate more generous lease terms and larger incentives.

The MarketView report highlights that total net face rents across Sydney last year fell by an average of \$15 a square metre to an indicative rate of \$283 a square metre. Premiums paid for prime centre space also dropped, by 2.6% to an indicative rate of \$374 a square metre. Secondary space sustained the largest falls in face rents, with a 9.7% decrease to \$191 a square metre.

However, CBRE is forecasting a shift back to positive territory in 2010 with rents poised to increase in line with an improved economic outlook.

"NSW bulky goods retailers have been cushioned by low interest rates the high Australian dollar and the stimulus packages deployed in 2009 and this has maintained good tenant demand and kept a lid on vacancy rates," Mr Palmer said.

"Discount bulky goods businesses in particular have flourished during this period, taking up opportunities for market expansion while negotiating advantageous lease terms."

While interest rate increases remain a potential issue for the sector, population growth and the forecast NSW housing recovery will provide a boost for the market with the Housing Industry Association estimating that some 32,000 new dwellings will be built in NSW in 2010 and a further 35,000 in 2011.

A lack of new supply has been the other boon for the NSW bulky goods sector, preventing any blow out in vacancy rates. Going forward, there is a limited pipeline of new developments coming through which will further fuel demand for existing centres, both prime and secondary.

One of the few new projects due for completion this year is Charter Hall's Home HQ development at Artarmon, which is due to open next month.

"To date we have secured a first class tenancy mix in Home HQ on the back of solid demand and very limited supply in the trade area," Mr Palmer said.

"Retailers secured to Home HQ are really seeking to provide a far superior offer to the consumer in the trade area and Home HQ will deliver this in terms of a "one stop shop" for convenient shopping, very easy access and plentiful car parking."

CBRE's MarketView report shows that the total overall vacancy rate in the Sydney bulky goods market reduced from 6.7% to 6.3% in the year to October 2009, while the prime vacancy rate fell to just 3.9%. The secondary vacancy rose slightly to 11.3% although this is still a vast improvement on the 21.6% vacancy achieved in 2006.

On the investment front, the CBRE MarketView report highlights that bulky goods investment yields are yet to stabilise although there are signs that the softening trend is beginning to slow. As at December 2009, indicative yields stood at 9.2% for prime centres and at 10.7% for secondary properties.

"In 2010 we have witnessed a substantial pick up in investor interest from both privates and institutional owners keen to take advantage of the higher yields that bulky goods is providing," Mr Palmer said.

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