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Asia Pacific leads the global property recovery

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Capital values and rents are forecast to rise across all sectors of the Australian commercial property market in the year ahead according to new CB Richard Ellis forecasts which show the Asia Pacific region is leading the world in terms of the economic and property market recovery.

Speaking at today's annual Market Outlook breakfast in Sydney, CBRE's Executive Director, Global Research and Consulting for Europe the Middle East and Africa, Nick Axford said the global property market recovery was expected to be slow and bumpy.

Using the analogy of a patient in a hospital, Dr Axford said the market was out of intensive care but still in the recovery ward, with Europe being the real laggard in regard to the global economic recovery.

In Europe the expectations for employment and GDP – which are the primary drivers of rental growth – were for a slow return to trend levels, with at least a three year wait until employment returned to the levels evidenced at the peak of the market.

In contrast, CBRE's Executive Director of Research for the Pacific Region, Kevin Stanley said the employment base in Australia had already recovered from the downturn with rates of growth now returning to trend. This will support rental growth in the major capital city markets in the year ahead.

"The one thing that stands out is the growth phase in employment, with Australia at least a year ahead of the rest of the world," Mr Stanley said.

However, there are similarities in the investment market conditions in Australia and Europe with investors in both regions still largely focused on prime investment assets or what Dr Axford described as the "bond end" of the property market – in essence quality buildings, with long leases and strong tenant covenants.

In Europe, Dr Axford said the yield spread between prime and secondary assets remained wide and with a low availability of prime stock, capital values were beginning to rise in markets such as London and Paris.

"Prime property looks attractive relative to other assets and in historic terms appears to be attractively priced," Dr Axford said.

However, there remains very little investor demand for secondary market exposure outside of the UK and France.

Turning to Australia, Mr Stanley said asset values had bottomed after a bumpy 12 to 18 months. In the office market, a leasing recovery was underway and CBRE's latest forecast was for the total vacancy to peak mid this year at 8.9% before gradually falling in the short to medium term.

Backed by stronger than expected employment growth, Mr Stanley said CBRE had brought forward its forecasts for rental growth by 12 months, with the spike in rents now expected to occur next year as opposed to 2012.

A CBRE review of the number of office leases being signed each quarter highlighted the rebound in tenant demand.

Historically, Mr Stanley said 200,000 square metres of leases were signed on average each year in the Sydney CBD. While the quantum of leases signed had dropped dramatically last year, Mr Stanley said activity had picked up significantly and was already averaging around 150,000 square metres.

With limited new stock coming on stream in the next two years, CBRE's forecast is for rental growth to average 6.7% from 2010 to 2012.

On the investment front, Mr Stanley said values had now stabilised and there was strong buy side interest, particularly from offshore investors, with \$1.5 billion in major office deals currently in due diligence through CBRE.

An analysis of the number of bidders on recent transactions highlighted the depth in the market, with up to eight bidders on some assets sold or under offer in the past six to nine months

"The income growth promise in Australia is the big motivator and while the market will continue to be dominated in the short term by equity investors we expect to see a gradual return of bank lending, with a very cautious letting off of the screws by the banks in the next few years," Mr Stanley said.

CBRE is forecasting capital values in the Sydney CBD to grow by an average of 10% per annum between 2010 and 2012.

In the industrial sector, Mr Stanley said demand for new space was returning underpinned by significant pre-commitment activity and record container movements through Port Botany.

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For Sydney grade A warehouse space, CBRE is forecasting net rent growth averaging 2.7% from 2010 to 2012 – back to the CPI style of growth typically seen in the industrial sector. In regard to capital values, the outlook is for 5.8% growth this year, followed by a 6.5% rise in 2011 and 9.5% growth in 2012.

Turning to the retail sector, Mr Stanley said retailer demand remained resilient despite low consumer confidence and flat spending. A stronger improvement in values is expected in 2011 rather than 2010.

#### About CB Richard Ellis

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