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FOR IMMEDIATE RELEASE — August 27, 2010

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Challenges ahead for Sydney CBD retail market

Sydney, NSW (August 27, 2010)

Retail rents in the Sydney CBD continued to spike in the first half of 2010, despite a slow-down in retail trade, new research from CB Richard Ellis has shown.

However, that could be as good as it gets for the city retail market, given forecasts that rents will plateau in the face of rising interest rates and weakening consumer sentiment.

CBRE Global Research and Consulting Senior Analyst Florisa Anolin said the ongoing revitalisation of Pitt Street Mall and deals negotiated in the newly opened Mid City Centre had helped drive a 6.6% increase in Pitt Street Mall rents to an indicative level of \$8,060 per square metre.

Prime rents also recorded robust growth, rising by 5.7% over the same period to reach an indicative level of \$2,777 per square metre.

Even secondary retail precincts shared in the growth, with rents in this sector of the market increasing to \$1,640 a square metre.

However, with the exception of Pitt Street Mall rents are tipped to plateau in the short to medium term in what is likely to be a challenging period for the retail sector.

“Super Prime rents are likely to increase further after the much anticipated opening of Westfield Sydney, with this project and the new Mid City Centre having raised the calibre of the CBD retail offering by luring local and international chains in the city core,” Ms Anolin said.

“However, as tenants relocate to stage one of Westfield Sydney, CBD retail vacancy is likely to increase as temporary accommodation is sublet and retail competition increases. This should bring downward pressure on Prime and Secondary CBD rents in the next 12 months, as retail spending continues to stagnate.”

CBRE Retail Services Senior Manager Leif Olson said retailers had become increasingly cost sensitive given the current pressure on margins, which had been exacerbated by high occupancy costs and the rising cost of wages and utilities.

This combined with the CBD's underlying vacancy rate, which was now at its highest level in a decade, had resulted in landlords reintroducing incentives to secure new lease deals.

"A significant volume of back fill space is coming on to the market particularly in prime precincts," Mr Olson said

"This has led to tenant incentives currently averaging at 5-10%."

Examples of sub lease and assignment space include the George Street Portmans store in the Ivy complex, which the retailer is vacating following its commitment to a flagship store in the Mid City Centre. Mr Olson said the offering was expected to attract good interest, given the continued tenant demand for prime retail space.

"Fast Fashion and mid tier fashion brands are still active in the market as illustrated by the Valley Girl lease in the Glasshouse on the Mall complex and the recent leasing activity at World Square," Mr Olson said.

"The remix of World Square has established this complex as a stand alone retail precinct, with 40 new leases signed and 10 new fashion stores having opened in the past month – among them Cue, Nine West, Marcs, CK, Oxford General Pants and Glue."

Banks have been another active tenancy group, with the NAB recently committing to lease the former French Connection space at 130 Pitt Street.

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