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Some relief on the horizon for Sydney bulky goods market

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A much anticipated recovery in the NSW housing market and proposed planning reforms will provide some welcome relief for Sydney's bulky goods sector this year according to new forecasts from CB Richard Ellis.

Of all the retail sectors, the bulky goods market - which is largely focused on highly discretionary spend items - has been hardest hit by the recent downturn in retail trade and the slow recovery in the NSW housing market.

However, while conditions are expected to remain challenging this year, CBRE's new Retail MarketView report concludes that changes to the First Home Buyers Grant, interest rate cuts and recent Federal Government handouts will provide some relief for the sector. This can be seen in the performance of the JB HiFi business which recently released a record profit and has directly benefited from the Rudd Government's stimulus package.

Planning reforms - among them the proposal for **a rapid rezoning process to enable urban renewal around key centres** - are also expected to provide some impetus for the bulky goods market.

But conditions will vary considerably between prime and secondary homemaker centres according to CBRE Research Analyst Florisa Anolin.

The increasing divide between investment returns and rentals for prime and secondary bulky goods centres became more pronounced during 2008," Ms Anolin said.

"After a decade of significant yield compression, prime investment yields shifted upwards to 8.2%, while secondary centres climbed by a far greater extent to an indicative level of 10% - representative of the reliability of the income stream from the investment. At the same time, while prime rents continued to

rise, by a modest 4.4%, average net face rents in the secondary market gave way to downward pressures, falling by 3.1% during the 12 month period."

CBRE Senior Associate Director, Retail Services, Alistair Palmer said the increasing disparity between the prime and secondary centres was likely to continue throughout 2009.

"The global financial crisis has impacted this two tier market and this is being reflected in a widening differential in investment yields and vacancies for prime and secondary centres, which may lead to further reductions in secondary rents" Mr Palmer said.

Overall, the report shows that the total vacancy across the Sydney bulky goods market has eased considerably from the double digit highs reached in 2006.

"The overall tightening in the vacancy rate has been driven by an increase in retail demand from a diverse group of small to medium sized retailers intent on increasing market share," Mr Palmer said.

As at October 2008, vacancy in prime centres fell by 280 basis points to stand at 4.3%. Over the same period, vacancy in secondary centres remained in double digits at 11.1%, however this represents a 270 basis point drop from the vacancy rate 12 months prior.

Mr Palmer said a slow down in new construction had contributed to the vacancy rate drop. In 2009, CBRE is forecasting that 66,000 square metres of bulky goods space will be completed, which includes Home HQ Northshore at Artarmon (22,600sqm) and Greenway Supa Centre at Wetherill Park (23,000sqm).

On the rental front, the report highlights that the State's weaker housing sector, ailing consumer sentiment and increasing retail competition had a significant bearing on rental growth during 2008.

Prime net face rents continued to rise to \$395 a square metre, however lease incentives also rose to stand at 10.7% - or 6.4 months for a five year lease, to compensate for the declining market conditions.

Over the same period, secondary net face rents fell to \$216 a square metre while secondary incentives climbed to 17.3% - or 10.4 months on a five year lease - again highlighting the disparity between prime and secondary centres, Mr Palmer said.

"With 2008 now well behind us, in 2009 we have found vendors and landlords being more receptive to meeting the market, in terms of either sale or lease, however access to finance still remains a challenge for the industry," Mr Palmer said.

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