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Slow and steady recovery for Victorian Bulky Goods sector

Melbourne, VIC (27 August 2010)

The Victorian bulky goods market is moving into a recovery phase, according to a new CB Richard Ellis report which forecasts that renewed developer confidence will drive a series of new homemaker projects in 2011.

CBRE's latest Pacific Bulky Goods MarketView report predicts a slow and protracted recovery for bulky goods markets across Australia, underpinned by population increases and low unemployment rates.

In Victoria, the recovery has also been boosted by low levels of new construction, with 99,000 square metres of projects deferred from completion in 2010.

CB Richard Ellis Senior Research Analyst, Florisa Anolin said that strict lending restrictions from the Australian banks and moderating retailer demand had resulted in a significant reduction in new supply – not just in Victoria but in bulky goods markets across the country.

"The reduction in new supply has become a consistent theme over the past two years with some 389,000 square metres of approved developments remaining in the pipeline, however many have pushed out their expected completion dates," Ms Anolin said.

In Melbourne, only one major project is forecast to be completed this year with the opening of a 30,000 square metre centre in Chadstone.

However, CBRE Senior Manager, Bulky Goods, Chris Parry said developer confidence was returning, underpinned by the state's population boom and historically low vacancy rates.

"This could potentially see up to a further 144,000 square metres of stock added to the market over the latter half of 2011 and 2012 involving the completion of the South East Mega Centre (50,000 square metres) as well as a 15,000 square metre centre in Dandenong," Mr Parry said.

Mr Parry said construction was now underway on the 71,000 square metre Harvey Norman and IKEA anchored centre.

"Leasing for the project has begun with overwhelming interest from both national and local retailers. The development will be the largest Homemaker Centre in Australia and is a prime indicator that the market is recovering"

A and a range of other projects are in the pipeline, including a 40,000 square metre centre in Mentone and a 36,000 square metre centre in Altona North.

"Into 2010 and beyond, integral fundamentals to retail sales growth are population and the resulting housing growth and with solid tenant demand this has renewed developer confidence in the Melbourne bulky goods sector," Mr Parry said.

Whilst supply challenges still lay ahead, CBRE Director Bulky Goods Retail, Alistair Palmer said opportunities were emerging in the market for stronger retailers to take over smaller or failing retailers.

"This has been seen with Super Cheap Auto Group's purchase of the Rays Outdoors brand to complement their already strong BC outdoors offer," Mr Palmer said.

"Other examples include Harvey Norman's recent acquisition of the brand and stock of Clive Peeters and the renewal of leases on some 30 sites. These are prime examples of the current market in which the stronger retailers are able to expand while the weaker retailers suffer."

Demand for quality Bulky Goods zoned sites is also increasing with Woolworths Hardware seeking to satisfy a 150 store requirement within the next five years as part of the brand's expansion.

Mr Palmer said limited new development in 2010 was likely to apply downward pressure on vacancy rates within existing centres which would prove positive for rental growth levels.

"While rental growth remained limited across all Bulky Goods markets over the year to June 2009, CBRE's quarterly rental surveys have yielded positive results in 2010 with rents in prime centres continuing to stabilise," Mr Palmer said.

In Melbourne, the city's population growth and low vacancy rates have once again allowed for steady rental results. Over the nine months to June 2010, net face rents rebounded, rising to an indicative rate of \$187 a square metre. Rent incentives have also eased.

In the investment market, a dual speed recovery has occurred over the six months to June 2010. While prime investment yields have tightened, secondary stock continued to be plagued by discounted capital values.

After an active 2009, during which \$115.8 million in bulky goods stock was traded in Victoria, only one major bulky goods sale was recorded in the state in the first half of 2010 – that being the \$11.5 million

sale of a smaller Super Cheap Auto and Fitness First anchored centre in Essendon. Mr Parry said "We received strong enquiry through the sales campaign predominately from high net worth private investors and this has continued to be the case on other smaller campaigns such as the Ringwood Homemaker Centre"

Transaction levels are expected to increase, driven predominantly by private investors.

"Private investors are attracted by the strong lease covenants and high yields offered by bulky goods centres and we expect the stabilisation in bulky goods yields to continue throughout 2010 and moving into 2011," Mr Parry said.

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