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Slow and steady recovery for Sydney Bulky Goods sector

Sydney, NSW (3 September 2010)

Nine new bulky goods projects will be completed across Sydney this year according to a new CB Richard Ellis report which highlights renewed developer confidence in the city's bulky goods market.

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

In Sydney, the stronger fundamentals have kickstarted over 80,000 square metres in new projects which are expected to come on line this year, including the opening of Home HQ, Artarmon (23,000 square metres) as well as the 5,000 square metre extension of Moore Park's Supa Centa.

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 bulky goods supply across the country in recent years.

"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.

While there has been a turnaround in Sydney, an estimated 70,000 square metres of bulky goods projects are still on the drawing board and the status of many of these projects will depend on market conditions moving forward according to CBRE Director Bulky Goods Retail, Alistair Palmer.

"Into 2010 and beyond, integral fundamentals to retail sales growth are population and the resulting housing growth and with solid tenant demand we expect continued developer confidence in the Sydney bulky goods sector," Mr Parry said.

Opportunities are also 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 Sydney, prime rents rose to an indicative \$400 a square metre over the first half of 2010 with prime incentives decreasing by 11.9% from 9.4 months to 7.2 months on a five year lease.

Over the same period, secondary rents decreased to \$183 a square metre – representing an 18% drop since the peak of the market in December 2007. Secondary incentives rose from 11.6 months to 12.4 months over the same period to be among the highest in the Pacific region.

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.

Sydney's new stock was the catalyst for the tightening in prime yields to average 9.08% as at June 2010 while secondary yields remain unchanged at 10.70% indicatively.

"Two A-REIT's became Sydney's most active Bulky Goods sellers in 2010 with the sale from the ING Retail Portfolio's sale of the Style Homemaker at Alexandria in Sydney for \$48 million on an initial yield of 10.07% and GPT's sale of the Homemaker City at Bankstown in Sydney for \$25.2 million representing an initial yield in excess of 11%," Mr Palmer said.

"Over the year to June 2010, the Bulky Goods market has been defined by institutional trusts as net sellers with cashed up private investors having acquired the majority of these bulky goods assets. 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."

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