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Development boom forecast for bulky goods retail market

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A development boom has been forecast for the bulky goods retail sector, with more than 1 million square metres of space to be constructed across Australia and New Zealand in the next two years.

In a new MarketView report, CB Richard Ellis Research cites strong population growth and the continued strength in the housing market as key factors underpinning developer confidence in the bulky goods sector.

Almost 455,000 square metre of new stock was added to the bulky goods market in 2006. A further pick-up is expected between 2007 and 2009 as 1.093 million square metres of space comes on stream.

However, while the fundamentals for the market remain sound, some warning bells have been rung by CB Richard Ellis Regional Director Retail Bulky Goods, Jeff Klopper.

Mr Klopper said the viability of new projects was being impacted by rapid increases in land values and construction costs, which had outstripped the growth in bulky goods rentals.

While net face rentals have surged by as much as 14.4 per cent in Perth, 11 per cent in Wellington, 4.6 per cent in Sydney and 3.9 per cent in Brisbane in the past 12 months, CBRE Research analyst Michael Olsen said the increases had been more than outweighed by rising land costs, particularly in areas such as Perth where land values had soared by more than 40 per cent in the first half of 2007.

“It’s starting to get particularly challenging, especially in Sydney and Melbourne, ” Mr Klopper said.

“Developers are going to have to be far more creative. In markets like Sydney, developers will have to look at buying existing properties where they can use as much of the existing building structure as possible to keep costs down,” Mr Klopper continued.

The MarketView report also raises the possibility of an oversupply of bulky goods space in some major centres.

Across metropolitan Melbourne, some 131,400sqm of bulky goods space was added to the market during 2006. Another 108,000sqm is currently under construction and there has been continued scepticism about the market's ability to absorb this level of new supply.

Mr Klopper said the supply boom would impact on smaller, existing centres that were within the catchment area of new homemaker developments such as the 45,000sqm Frankston Power Centre being developed by Spotlight and the 40,000sqm Mentone Centre being developed by Pivot Group, Harvey Norman, Charter Hall and the Pivot Group.

"There is certainly a trend towards tenants moving out of smaller bulky goods centres into larger homemaker precincts," Mr Klopper said.

"Harvey Norman is anchoring both Melbourne projects and has proven to be the number one draw card in Australia for new homemaker projects. Developers have been able to achieve significantly higher rents – premiums of up to 10 per cent – by having Harvey Norman as an anchor," Mr Klopper continued.

Supply issues aside, the MarketView highlights that bulky goods vacancy rates remain low throughout Australia and New Zealand. However, the outlook for rental growth is varied.

While strong rental growth in new developments should lift overall rent growth in Sydney, the wave of new supply in Melbourne will keep a lid on rental growth in that market.

In Adelaide, rents have increased due to new supply and a recovering housing market, while the resource boom has helped underpin significant rental increases in Queensland and Western Australia.

"Overall strong market fundamentals in South East Queensland and Western Australia should see tenant demand remain strong and ensure continued upward pressure on rentals," Mr Olsen said.

"Growth is, however, likely to ease to a more moderate rate, particularly in Western Australia, which is coming off two years of high double digit growth," Mr Olsen continued.

On the investment front, the MarketView report has identified continued demand for quality bulky goods property, particularly from institutional investors who have increasingly targeted the market in the past two years.

"Yield pressure is expected to remain firm on bulky goods retail centres as investment demand continues to grow," Mr Olsen said.

"However, given the current low yields being achieved it is unlikely that yields will compress at the same rate as in the past few years," Mr Olsen continued.

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