

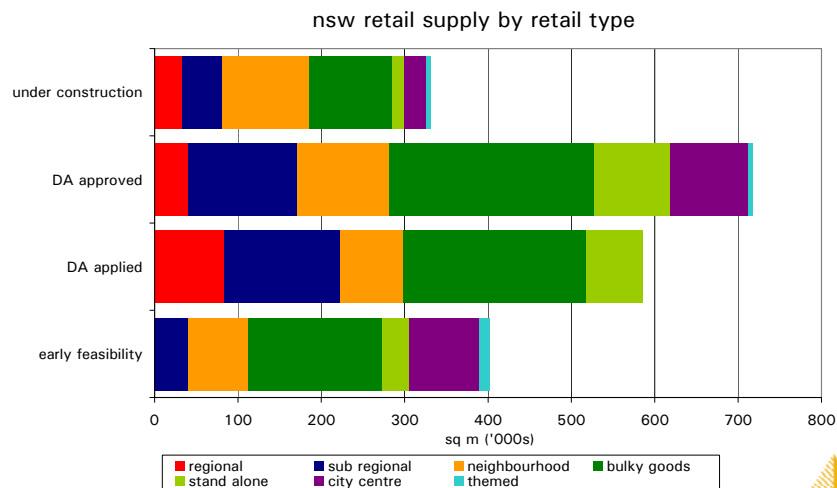


## NSW RETAIL MARKET OVERVIEW

- Over 2.00 million sq m of future retail space has been identified in the development pipeline, with majority of supply being Bulky Goods;
- Retail rents have improved in the past year, although recent interest rate rises may dampen future growth;
- Retail yields starting to stabilise despite rental growth and investment activity in the last 12 months.

## SUPPLY

Across New South Wales, LandMark White have identified 251 retail projects totalling more than 2.00 million sq m of retail space for potential development. The bulk of new supply is DA approved, which represents 35.26% of total supply and will likely be developed once tenants have been secured. Almost half of new supply is still in early planning stages, with 28.75% of supply with development applications submitted. Only 331,133 sq m (16.27%) of total supply is under construction with the majority of this new space spread across Neighbourhood and Bulky Goods centres.



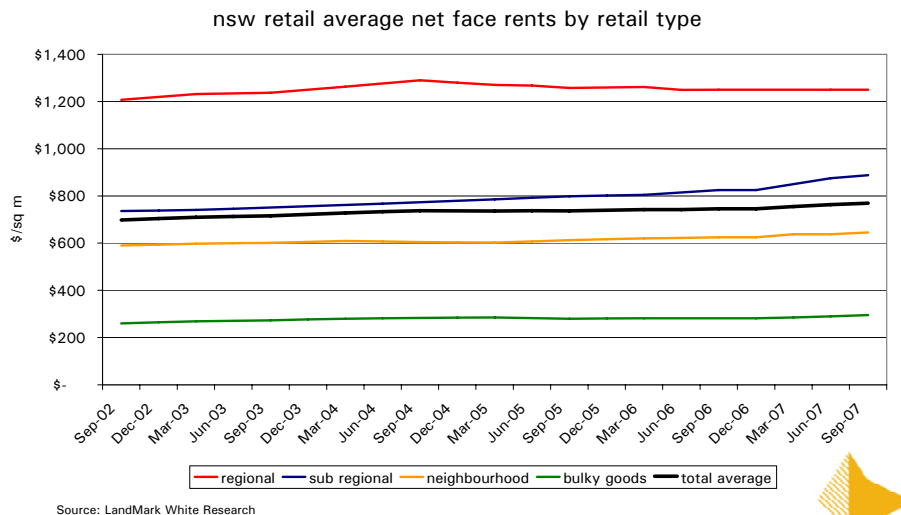
Source: LandMark White Research & Reed Construction Data  
\*as at November 2007

Bulky Good centres account for 35.67% of new retail space in New South Wales, and almost one third of supply under construction, with just over 100,000 sq m due to enter the market over the next 6 to 12 months. More than half of Bulky Goods supply is located in non-metro areas, activity is mainly concentrated in the Hunter and Illawarra regions taking advantage of projected increases to the residential population. Neighbourhood and Sub Regional centres are anticipated to provide 17.77% and 17.65% respectively of total supply. There is approximately

104,000 sq m of Neighbourhood under construction, with the bulk of Sub Regional space to come from the extension of existing Neighbourhood centres in both Sydney and regional areas. Given the size and scale of Regional centres development is largely limited to new residential releases areas or the expansion of existing centres, with only 7.69% of total supply to be in the form of a Major Regional or Regional centre.

## RENTS

The total average net face rent across New South Wales rose by 3.20% over the past 12 months to \$769/sq m, growth trending well above the historical five year average of 1.96% per annum. Retail growth has been limited over the last two to three years as retail trade had softened, however in the year to September 2007 according to the ABS all retail industries recorded an increase of 5.40% on average and this result has helped lift rental rates across most retail types. Rental levels vary according to size and retail type, the most expensive being Regional centres at \$1,250/sq m on average, which showed no growth during the year and has eased slightly from the peak in late 2004 at \$1,290/sq m. Sub Regional centres average net face rents have displayed the highest growth during this 12 month period at 7.58% to \$888/sq m, due to affordability in comparison to Regional centres. Neighbourhood centres are currently achieving rents ranging from \$490/sq m to \$800/sq m with an average of \$645/sq m, this has resulted in annual increase of 3.20%.



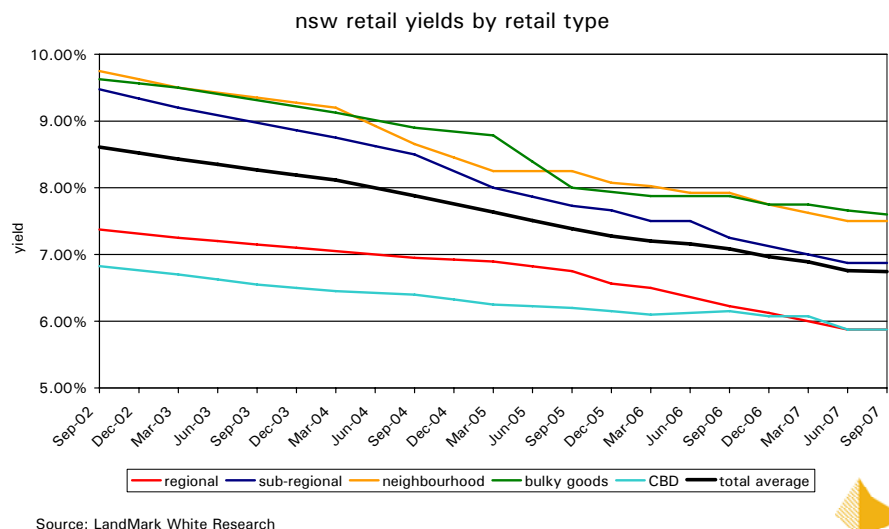
Rents across Bulky Goods centres tightened after the peak of the market in late 2003, early 2004, however over the last 12 months rents have shown good improvement. Average net face rents have increased by 4.61% to \$295/sq m during the year. The level of supply anticipated for Bulky Goods centres coupled with a weak residential market may dampen future rental growth.

Retail rental rates will likely continue at this level although growth may ease over the next 6 to 12 months, unless the residential market strengthens, this is unlikely given the rise in inflation and a recent interest rate rise in November, with a possible rate rise again early 2008. Combined with increase fuel costs and lowering consumer sentiment, consumers are likely to further tighten discretionary which will impact the broader retail market. Access Economics forecast retail turnover growth to average only 2.43% per annum over the next five years, down 70 basis points from the historic average of 3.13% per annum over the same period.

## YIELDS

Across New South Wales average yields for retail centres have stabilised over the last six months after compression to record lows, the total average yield reached 6.75% in September 2007. Regional centres and prime CBD stores remain the most attractive investment with both recording an average yield of 5.88%, down more than 25 basis points from last year. Average

yields for Sub Regional centres range between 6.00% and 7.50%, with an average of 6.88%. While the average yield for Neighbourhood centres reduced 43 basis points to 7.50% during the year, with prime Bulky Goods centres remaining the highest at 7.60%.



Retail turnover in New South Wales totalled \$2.182 billion from 29 transactions during year to September 2007. Institutional investors dominated the market, accounting for 53.27% of transactions, followed by Foreign Investors with 32.89% of turnover. Regional centres were the most favoured retail asset with 45.79% of turnover, while limited prime stock in the CBD represented only 2.96%. Sub Regional centres purchased totalled \$660.50 million (30.28%) while Bulky Goods centres reached \$243.22 million.

Despite the weight of funds in the marketplace, there is little scope for further yield consolidation for higher end retail, given yields are already at historic lows and closely approaching government bond yields or in some cases falling below this. However, convenience based retailing (such as Neighbourhood centres) are likely to be less influenced by the recent interest rate rises and weak residential market and may see some further compression.

Part of our focus at LandMark White has been client service and we are committed to provide a quick response to your valuation and advisory needs, if you require any further information on the NSW retail market or have any valuation queries please contact our Managing State Director Tyrone Hodge, [tyrone.hodge@lmw.net.au](mailto:tyrone.hodge@lmw.net.au).

## For tailored commentary or advice, contact LandMark White research.

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