

LandMark Byte

QUEENSLAND BULKY GOODS – STATE OF THE MARKET

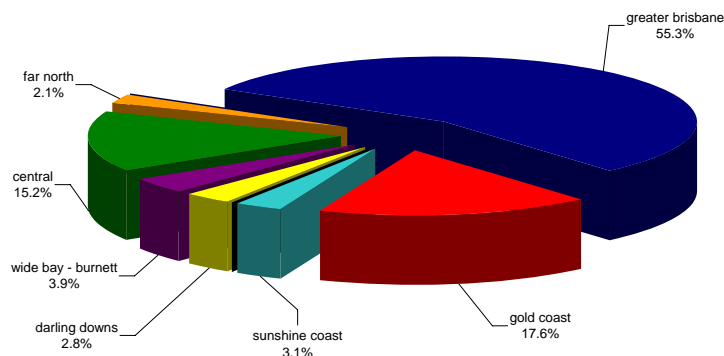
- Despite a fall in retail spending for household goods and a softening residential market, bulky goods development has continued strongly;
- Institutional investors have turned to the bulky goods sector as a favourable investment alternative, resulting in further tightening of yields.

The bulky goods sector in Queensland continues to expand with new supply being readily absorbed by tenants and investors. Growth in bulky goods rentals has outpaced traditional retail rents and strong investor demand has tightened yields considerably. A feature of this market has been the number of retail superstores with major new developments taking place in Springwood (Logan), Kawana (Sunshine Coast) and in Townsville.

Despite a fall in retail spending for household goods and a softening residential market, bulky goods development has continued strongly. LandMark White has been monitoring new retail supply in 2006; during this year approximately 200,000 sq m is under construction as part of 36 projects to be completed by 2007.

In Greater Brisbane there is currently over \$120 million worth of projects under construction, the most significant being the Ikea Retail Warehouse (28,000 sq m) in Logan and the Homemaker Centre attached to the Wynnum Plaza Shopping Centre, both of which are expected to be completed in 2007. Other projects outside Greater Brisbane include Airlie Central in the Whitsundays and the Domain Central development in Townsville. Looking ahead new bulky goods supply is likely to continue particularly in growing residential areas which will benefit from the additional retail infrastructure.

queensland bulky goods supply by region
2006 commencements by value



total value: \$222.61 mill. in 36 projects

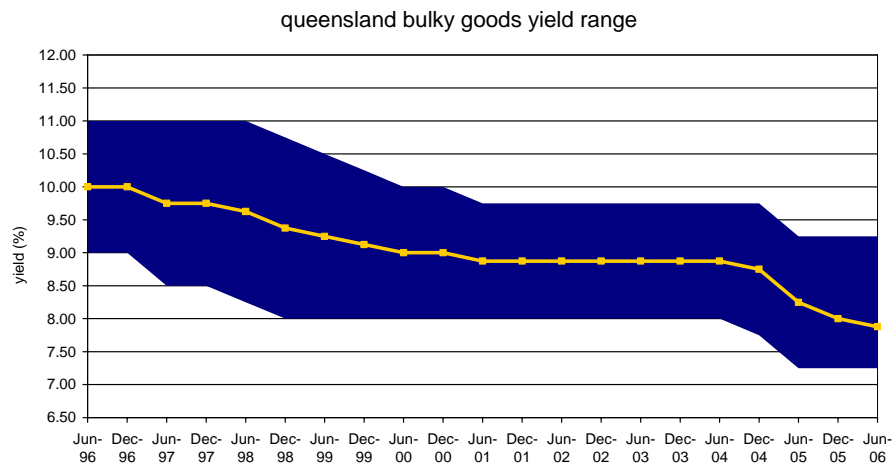


While rental growth is anticipated to slow as a result of the housing market slowdown, rising interest rates and increases to petrol price, the bulky goods sector is nevertheless expected to see modest rental growth. With the extent of the housing market downturn varying considerably across the state, there are still several areas still enjoying growth in both value and retail turnover.

Although tenant demand for the additional bulky goods space coming onto the market may be fragile as household expenditure falls, the increased focus on lifestyle retailing and the lower rental cost in the bulky goods sector is expected to keep rental growing at a fairly stable rate.

Despite these rental conditions in the bulky goods market, investment into this sector of retail remains strong. With limited available stock, there is a clear separation between prime and secondary bulky goods stock, hence the large range of yields achievable. More recently institutional investors have turned to the bulky goods sector as a favourable investment alternative, resulting in further tightening of yields.

Currently, average yields range between 7.25% and 9.25%, with some prime stock achieving yields below and at the lower end of this range. They include the Springwood Megacentre, anticipated to have an end value of circa \$92 million, which was purchased by Mirvac on a yield of 7.25%. On the Sunshine Coast, the Valad Group pre-purchased the proposed 33,000 sq m Home Central Kawana, with an estimated end value of circa \$87 million on a yield of 7.37%. Older showroom type bulky goods space not well located on main arterial roads is a good example of centres at the upper yield range. The indicative yield for bulky goods product is currently at 7.88%.

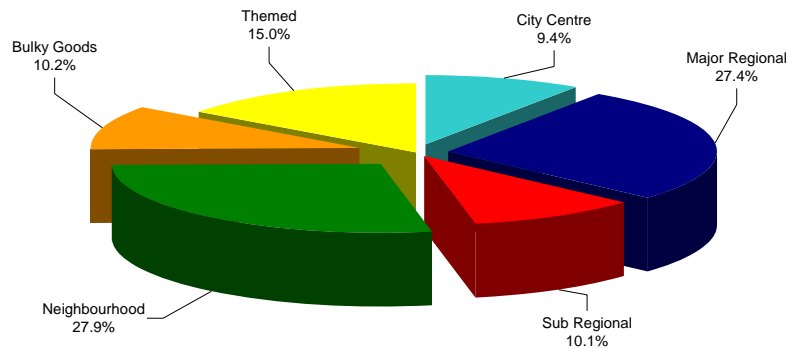


Source: LandMark White Research



In the year to June 2006, retail sales greater than \$5 million in Queensland totalled \$1.276 billion. The most recent transactions of note include the Browns Plains Homemaker Centre in southern Brisbane reportedly for \$45 million and Centro Home, Gladstone for \$28.3 million with a reported yield of 7.50%. It is currently a development site with approval for 21,000 sq m of space anchored by Bunnings with a completion date of mid 2007. Over this period, bulky goods centre sales represented only 10% of total value of retail properties sold. This can be attributed to the lack of quality bulky goods retail stock available to the market, as only nine centres were purchased over these 12 months.

2005/2006 queensland retail transactions
by retail type



total turnover \$1.276 billion in 43 transactions

Source: LandMark White Research



OUTLOOK

Looking ahead, a robust level of supply of new bulky good centres is likely to continue, despite a fall in retail spending for household goods and the softening residential market. Much of this can be attributed to population growth and the long term confidence of this market.

Rents are likely to remain stable however there is scope for some limited growth, (albeit off a low base) this will be due to the current environment of lowered discretionary spending due to the rise of interest rates and increased fuel costs.

The indicative yield for bulky goods product is currently at 7.88%. It is somewhat doubtful whether there will be any further tightening in yields given rising interest rates and notwithstanding the weight of money seeking this form of investment.

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