National
Jun 2009

MarketDynamics Bulletin

BROUGHT TO YOU BY ...
PROPERTYDYNAMICS
INDEPENDENT PROPERTY CONSULTANTS

WELCOME

MarketDynamics provides an overview of the Australian commercial & industrial property markets giving readers an understanding of where we are and in which direction we are heading. Our office is continuing to experience a high level of inquiries regarding the state of the market as tenants, organisations and investors look to review their business and property needs and strategies in response to the rapidly changing economic conditions. This bulletin is therefore aimed at such readers but only provides generic advice. If you would like more specific information on any property issue please contact one of our multi-skilled professionals on 1300 883 609.

In internal news, Property Dynamics welcomes a new director to the team. Terry Gowan, a former Circle & Argus Software director, joins the team to become a director in our Pitt Street, Sydney office. He comes with an extensive background in property-focused software and can assist with a variety of tasks including matching your property business needs to an appropriate IT system as well as creating and analysing financial

AUSTRALIAN ECONOMY

The Australian economy has continued to outperform other OECD countries with the economy expanding 0.4% in the March quarter. However, the good news ends about there. Terms of Trade (Exports vs Imports) fell 7.8% in the March quarter and is expected to fall approximately 20% during 2009. This equates to an expected national income drop of about 4%. As a result of this income loss companies are further lowering investment, cutting jobs and reducing debt. Consequently unemployment looks likely to continue to increase and is expected to peak at approximately 8 - 9% in 2010, although some commentators are suggesting a 7% peak.

In this environment a contraction of the Australian economy during 2009 remains likely with economists predicting a decline of -0.5% to -1.0%. A gradual recovery is tipped for 2010 with Economists predicting a 0.5% - 1.0% increase in the Australian GDP.

OFFICE MARKETS

Occupancy:
All Australian office markets have been affected by the global financial crisis. Tighter credit markets and weakened consumer demand have seen numerous companies contracting and failing. The result - increasing white collar unemployment, space consolidation / optimisation and significant amounts of unwanted office accommodation. This office space is ending up on the sub-leasing markets at cut price levels, more often than not with a nice fit-out included forcing competing landlords to reduce asking rentals and increase incentives to entice tenants.

As a result, across the board we are seeing rental levels decline and incentives increase while vacancy continues to climb. Fortunately the rapid decrease in supply pipelines in our cities will help appease the tough market conditions and prevent vacancy levels from reaching levels experienced in past downturns. We are also seeing enquiry rates increase which is one of the

CBD NET FACE RENTS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PREMIUM & A-GRADE	\$600—\$1000	\$300—\$500	\$500—\$700	\$300—\$350	\$300—\$400	\$550—\$800
B-GRADE	\$500—\$700	\$250—\$400	\$400—\$600	\$200—\$300	\$200—\$300	\$400—\$450
INCENTIVES	15%—25%	20%—25%	15%—20%	5%—10%	10%—15%	0%—10%

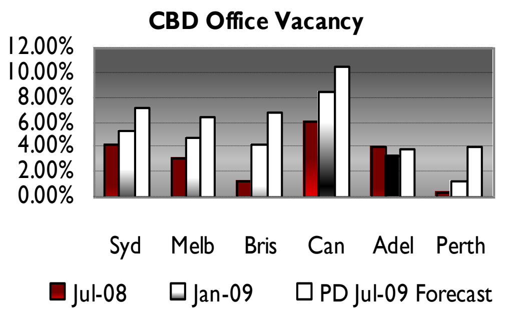
Source: Property Dynamics Note: Indicative only, A-Grade only in Canberra

Sales & Investment:
Recent market activity indicates that office property has seen the greater part of capital value abatement; however the road to recovery will take time. Banks are now generally requiring at least 50% equity for commercial property investment compared to only 30% 18 months ago. And with falling property prices, Loan to Value ratios are on the up creating nervousness among the Banks and a reluctance to lend to potential purchasers.

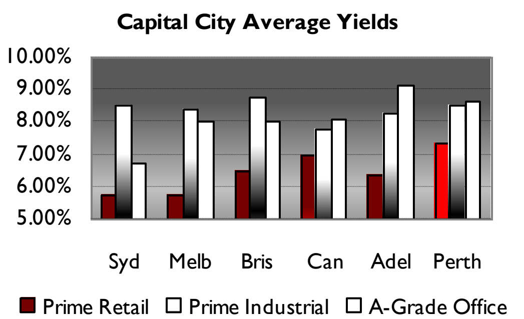
The GFC cloud still hovers over the Australian economy … what's to come?

Economic Indicators		
GDP March 09 (Quarterly Change)	Trend	-1.00%
	Season	4.00%
CPI to June 2009	Quarterly Change	0.50%
	Yearly Change	1.50%
RBA Cash Rate	Currently	3.00%
	February Level	3.25%
Current Unemployment Rate (June 2009)	Trend	5.80%
	Season	5.80%
May 2009 Unemployment Rate	Trend	5.70%
	Season	5.70%
Total Number of Dwelling Approvals (Seasonally Adj)	12 mnths to June 09	-14.20%
	May 09 - June 09	9.30%
Non Res Building Approvals Value Change (Seasonally Adj)	12 mnths to June 09	-6.96%
	May 09 - June 09	94.50%

Source: Australian Bureau of Statistics (ABS), Property Dynamics. The above statistics relate to all of Australia



Source: PCA, Property Dynamics



Source: Property Dynamics Note: Indicative Only

OFFICE MARKETS (CONT.)

Having already seen yields ease approx. 150 – 300 basis points we can expect a further softening of approx 50 – 75 points over the next few months. Until global credit issues improve sales and investment activity will remain subdued.

INDUSTRIAL MARKETS

Occupancy:

Weakening economic factors has generally seen demand for manufacturing and distribution facilities across Australia fall resulting in a decline in rental levels and larger incentives being offered. Despite a rapid reduction in supply levels industrial vacancy has climbed steadily due to failing businesses and consolidations.

We are likely to see this trend continue over the coming months with the exceptions being prime manufacturing space in Brisbane and Perth where shortages in supply will see rents remain steady and the Adelaide market where continued resource investment and defence spending is supporting demand.

SUBURBAN INDUSTRIAL NET FACE RENTS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME	$100—$150	$70—$120	$110—$150	$90—$140	$70—$130	$90—$130
SECONDARY	$80—$120	$45—$80	$80—$120	$60—$100	$45—$70	$65—$100
INCENTIVES	10%—15%	15%—20%	10%—15%	0—5%	15%—20%	5%—10%

Source: Property Dynamics: Note: Indicative only

Sales & Investment:

Owner occupiers have increased their share of industrial property market as competitive prices and favourable interest rates present attractive buying opportunities. Capital values nationally are likely to continue to fall over the next six months with yields expected to ease another 25—50 basis points.

RETAIL MARKETS

Occupancy:

National retail spending has increased 7% over the past 12 months supporting demand for prime CBD and shopping centre space with retailers continuing to regard a prime location as a key turnover driver. Secondary space is experiencing weakened demand due to ailing confidence regarding the economy. As a result incentives are on the rise and rentals are softening further. However overall retail hasn't performed as poorly as some expected thanks in part to the on flow effects of the government's stimulus package evident in the ABS's latest retail trade statistics (adjacent).

Sales & Investment:

Despite a steady increase in retail spending, investment activity in the sector has followed a similar path to that of commercial and industrial property with capital values falling, reflecting tight controls on finance availability.

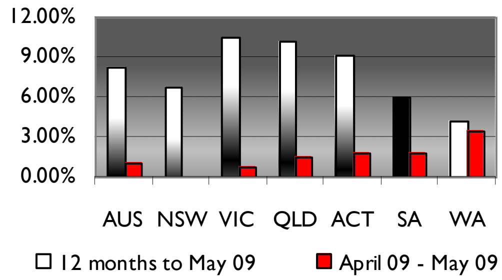
The neighbourhood shopping centre sub-market ($10mil to $50mil) continues to outperform the rest in terms of rental growth and investment activity as the retailer mix is generally less affected by lower discretionary spending and credit constraints associated with larger shopping centres is restricting investment activity. Over the next few months we will see more transactional activity as vendors expectations fall in line with buyers perception of value.

Office	Forecasts	
Vacancy	↑	Significant levels of sub-lease space now on markets
Rental Levels	↓	Rental growth in Adelaide stabilising
Rental Incentives	↑	On the rise in all cities but Adelaide
Yields	↑	Expected to ease another 25 - 50 basis points
Capital Values	↓	Secondary hit harder

Industrial	Forecasts	
Vacancy	↑	Adelaide bucking trend with stable vacancy
Rental Levels	↓	Stable in Sydney, growth in Adelaide
Rental Incentives	↑	Stable in Adelaide
Yields	↑	Another 25—50 basis points over the coming months
Capital Values	↓	Land values taking a hit

Retail	Forecasts	
Vacancy	↑	Secondary increasing, Adelaide stable
Rental Levels	↓ ⇔	Prime stable, secondary easing
Rental Incentives	↑	Generally increasing, Adelaide stable
Yields	↑	Another 25—50 basis points expected
Capital Values	↓	Secondary hit harder

Retail Trade Movement



Source: ABS, Property Dynamics. All data seasonally adjusted.

ADVISORY

VALUATIONS

PLEASE CONTACT US

1300 883 609

INFO@PROPERTYDYNAMICS.COM.AU

INFORMATION TECHNOLOGY

RESEARCH