

LandMark Byte

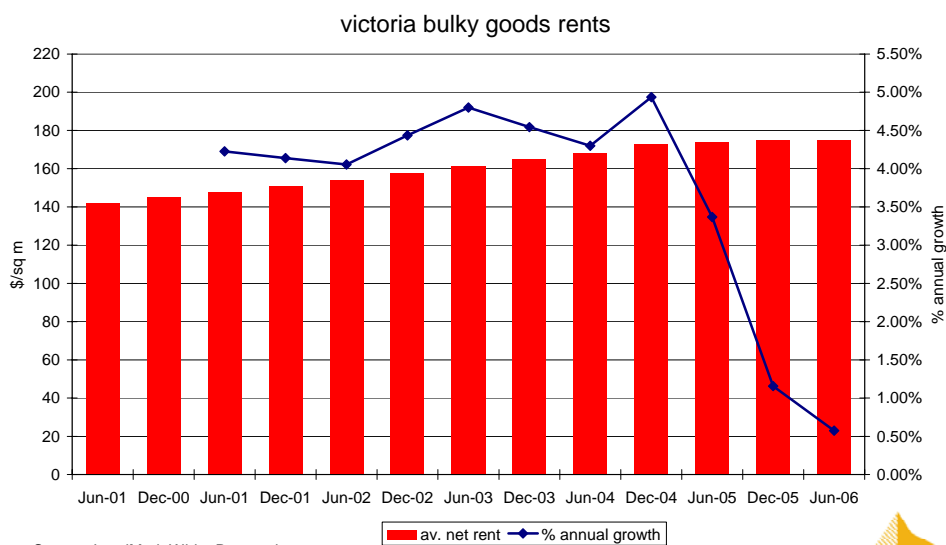
MELBOURNE BULKY GOODS – BOOM OR BUST?

- Rents still growing albeit at a much lesser rate;
- Investment levels still strong as yields continue to tighten;
- Future of this market questionable as discretionary spending falls.

The bulky goods retail market grew in popularity in line with the residential housing boom of 2001. From this time and over the subsequent five years, the bulky goods market grew in size with numerous homemaker centres opening across both the metropolitan and regional areas of Melbourne. These were catered to the home buyer, being a “one-stop-shop” for all furnishing, electrical and white goods needs.

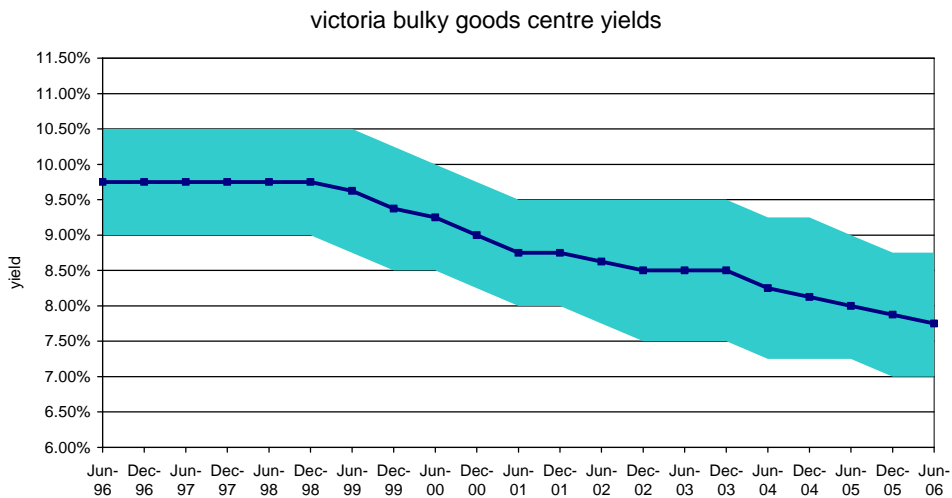
During these few years we witnessed close to 500,000 sq m of bulky goods supply enter the market along major arterial roads and defunct industrial sites throughout Victoria. More recently with the downturn of the residential market, fall in home renovation, increased interest rates and increased fuel costs has translated into a lowered level of discretionary spending effecting this segment of the market.

As bulky goods retailing is closely aligned to residential housing, the top market growth was witnessed in late 2004, being the peak of the Melbourne residential boom. Rents across bulky goods centres have continued to grow, albeit not at the levels during the peak of late 2003, early 2004.



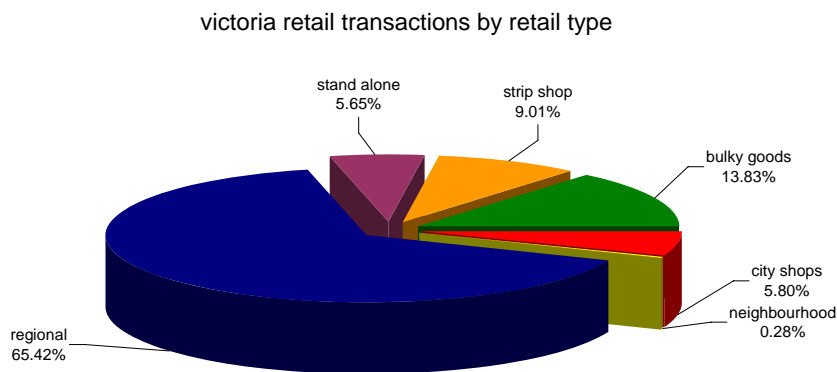
Average net face rents currently are recorded at \$175/sq m, this representing a small increase of 0.57% the last twelve months, far from the 4.00% plus annual growth recorded during the height of bulky goods phenomenon. It is likely rents will continue at this level or further compression is possible until the recovery of the greater residential market. With stock continuing to be added to the market, such as Homemaker Hub, Essendon (32,495 sq m) and the 42,250 sq m Harvey Normal Bulky Goods centre in Springvale, this will also further limit rental growth in the short to medium term.

Despite these waning rental growth levels for the bulky goods market, investment into this sector of retail remains strong. With limited available investment product, there is a growing 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.



Source: LandMark White Research

At current, yields range between 7.00% and 8.50%, with some prime stock achieving yields below this range. 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 7.75%, this low yield is likely to see some further compress given the weight of funds in the market.



Total turnover \$949.56 million in 89 transactions

Source: LandMark White Research
*2005/06 financial year

Over the 2005/2006 financial year, there was close to \$950 million of turnover recorded across the retail market. Of this, 13.83% (the second largest portion) is due to bulky goods transactions including Warrnambool Homemaker Centre which sold for \$42.48 million and Homemaker City Moorabbin for \$36.60 million. The results for this period have been skewed due to the large regional centre sale of Highpoint City Shopping Centre for a reported sale price of \$621.20 million.

OUTLOOK

The future for the bulky goods market is unclear given the forecast fall in retail spending due to the obvious lack of discretionary spending levels given uncertainty surrounding interest rates and petrol prices. At current these factors have not resulted in a fall in the rentals achievable however have dampened rental growth. Looking ahead it is doubtful that strong levels of rental growth will return given these factors and the current slow down in the residential market.

Despite this, investment activity has remained strong and yields have witnessed further tightening. Looking forward there is little chance yields will see much more compression, however given the interest by institutional investors, there may be some (yet limited) tightening. There may also be greater opportunistic investors entering the market at the higher end of the yield range for secondary type stock for future redevelopment, keeping sales turnover levels high.

Do you have an idea for LandMark Byte?? If so email research@lmw.net.au

If you wish to unsubscribe to LandMark Byte, please return email with the words "unsubscribe" in the subject header. If you wish to be added to our distribution list please send full contact details to research@lmw.net.au.

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, please feel free to contact our Melbourne Director, Rex Stafford rex.stafford@lmw.net.au or Tom Cashman, tom.cashman@lmw.net.au if you should have any valuation requirements.

If you have any queries regarding this LandMark Byte or any other research publication, contact Vanessa Rader, National Research Director, vanessa.rader@lmw.net.au.

The information in this document is provided in good faith and has been derived from sources deemed to be accurate. It is general information only and should not be considered as a comprehensive statement on any matter and should not be relied upon as such. Neither LandMark White nor any persons involved in the preparation of this report accepts any form of liability for its contents. All forecasts and estimates made are based on one set of assumptions, which may change.

LandMark White Brisbane Sydney Melbourne Gold Coast Parramatta Sunshine Coast Wollongong