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How the markets fared over 2008 – and what's in store over 2009

The latest *Savills Research Quarter Times Report* shows just how far yields and capital values have fallen across the country from the height of the market late 2007 to the sobering beginnings of 2009.

Yields softened by an average of 65 basis points across the office, retail and property sectors as a whole.

Capital values, however, only fell by approximately 5 percent overall. Capital values were cushioned by rental growth in the first half of 2008, particularly in the office and industrial sectors in the resource fuelled states.

Belinda Nowland, Research Director believes that in early 2008 the property market was somewhat sheltered from the full effect of the global crises. "Certainly in 2009 we should see a more realistic view of the market, as sales begin to filter through and rental deals dry up."

Paul McLean, CEO of Savills Australia believes that 2009 will be as challenging as 2008, but is a little more optimistic that there will be more transactions this year.

"The market will have better direction than '08, with some certainty around interest rates, and yields becoming clearer as the year moves ahead, and more transactions are completed.

"Retail is the sector where I think we'll see most activity, and private investors will continue to be the dominant buyers. "

Retail

Retail property fared the best over 2008, with yields recording only a 57 basis points softening on average.

Retail property, particularly in the \$100m and below range remains popular with private investors who have been somewhat pushed to the sidelines in previous years as institutions dominated the market.

Simon Muirhead, Divisional Director of Capital Transactions believes the next 12 months will see an increase in sales activity with a further softening of yields likely.

"Sellers looking to improve balance sheet positions will need to reduce pricing expectations as opportunistic buyers have a considerable number of assets from which to choose" he said.

Office

Office market yields on average fared the worst over the past 12 months (softening by 78 basis points nationally). Secondary grade office property in Perth and West Perth were the worst affected (averaging a 175 basis point fall), followed by secondary stock in Sydney CBD.

Paul Craig, Managing Director, Savills WA acknowledges that market yields have been affected in Secondary Perth CBD and West Perth stock, but sees private investors now using this to their advantage.

"With the change in economic conditions and slowdown of the resource boom there is a 'greater risk' in getting to the previously suggested market rents.

"However, the privates have identified this part of the cycle as an opportunity to regain a presence in this sector of the market.

"These markets are currently being aided by further reductions in the cash rate, and will be further aided with further expected reductions in 2009. Particularly as the Perth CBD Secondary and West Perth stock sits at many of the private's price point." Craig says.

The softening of passing initial yields (in comparison to equated yields quoted) has been a lot more moderate.

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Savills is a global publicly-listed property solutions company providing services in sales, leasing, valuations, project management, corporate real estate, marketing and all aspects of commercial and retail property management.

"When you compare the "new" cash rate to the initial yield, the return has increased significantly. The IRR's and the initial yields are not as impacted as much as the market yields which were during the boom based on more aggressive market rents." Craig says.

Craig also notes that the significant slow down in new office supply, as a result of a lack of available capital and high building costs, coupled with significant additional absorption of stock under construction has created positive sentiment on the associated "risk premium" in respect to oversupply in the Perth market.

Industrial

The Industrial market in Perth fared much better than others in 2008, with increasing land values. However rents in Brisbane and Perth markets both increased by approximately 8 percent.

Paul Day, Research Director QLD believes land values are declining in Brisbane as the momentum on Design & Construct purchases swings across to leasing existing premises in the face of restricted credit and waning business confidence.

As a result however leasing transactions have increased, as has rents.

Day says "I think leasing is holding up reasonably well as firms move from owning to leasing.

"Land at the Port (talking 4,000sqm allotments) can now be secure for shy of \$400/sqm - perhaps around \$385/sqm. The same land would have achieved \$450/sqm 12 to 18 months ago.

"Other industrial locations in Brisbane are around \$250/sqm down from \$285 just over a year ago."

Graham Norris, Divisional Director of Industrial QLD believes the outlook is good in the medium term.

"Land prices and cost of construction were getting away from being viable, now they are coming back to more realistic levels.

"The reductions in the price of land and the reducing cost of construction (steel prices have peaked and now are falling, concrete is being quoted cheaper than 12 months ago and "subbies" are pricing their services lower as they compete for shrinking number of projects) will change this.

"All we need now is easier finance" he notes.

The New South Wales industrial market tells a completely different story as the already brittle economy weathers another beating from the global economic storm.

According to *Savills Quarter Times*, prime industrial yields in NSW softened by 125 basis points in 2008.

Ends

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