April/May 2004 LandMark White Market Review

BenchMark

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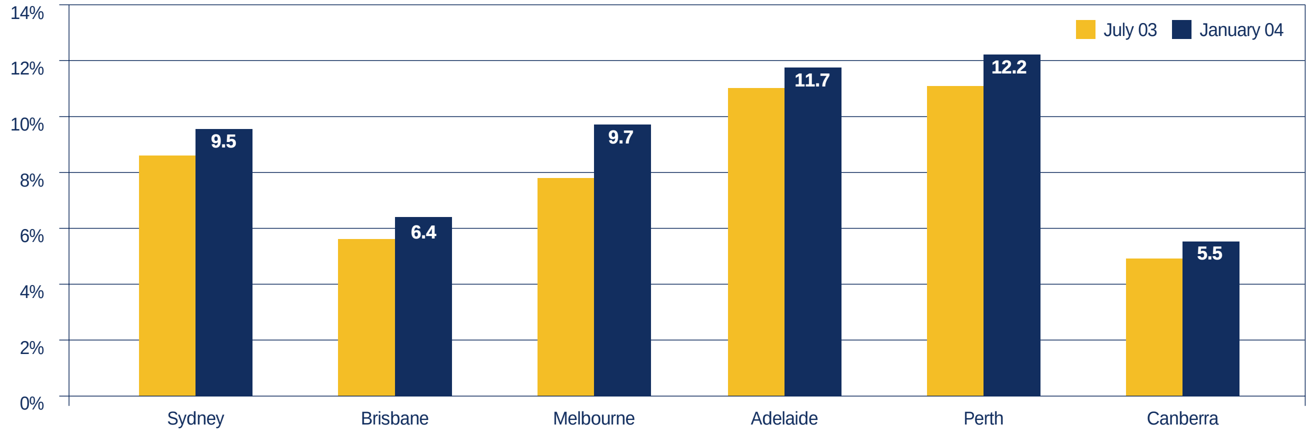
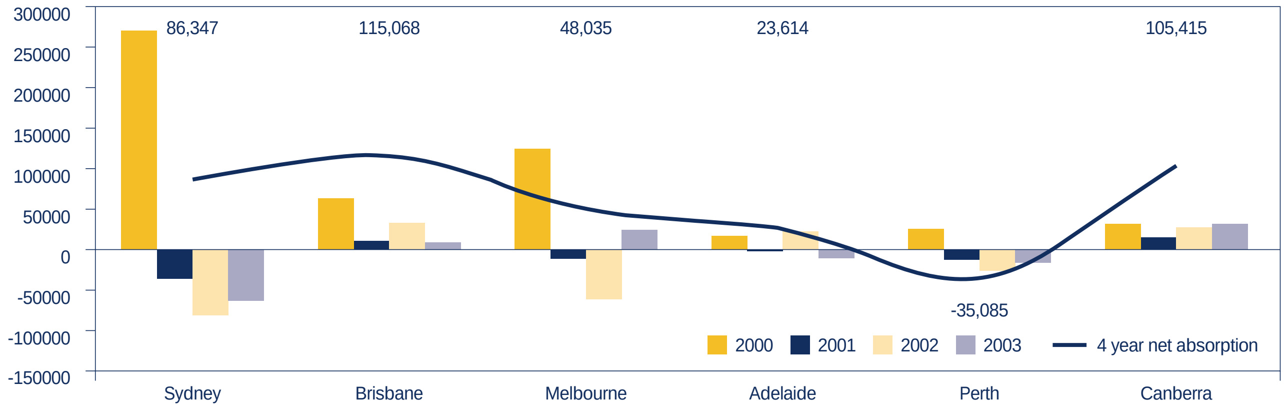
LandMark White

Independent
Valuation
Research
Property Advice

Graph 1 None of the major CBD markets saw vacancies decrease over the six months to January 2004

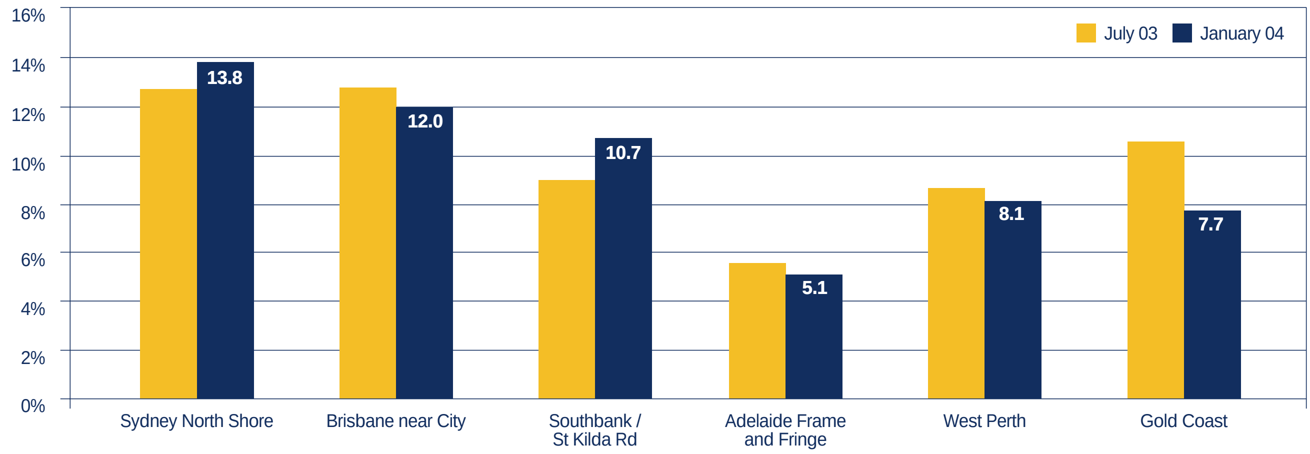


Graph 2 Net absorption levels over the past four years

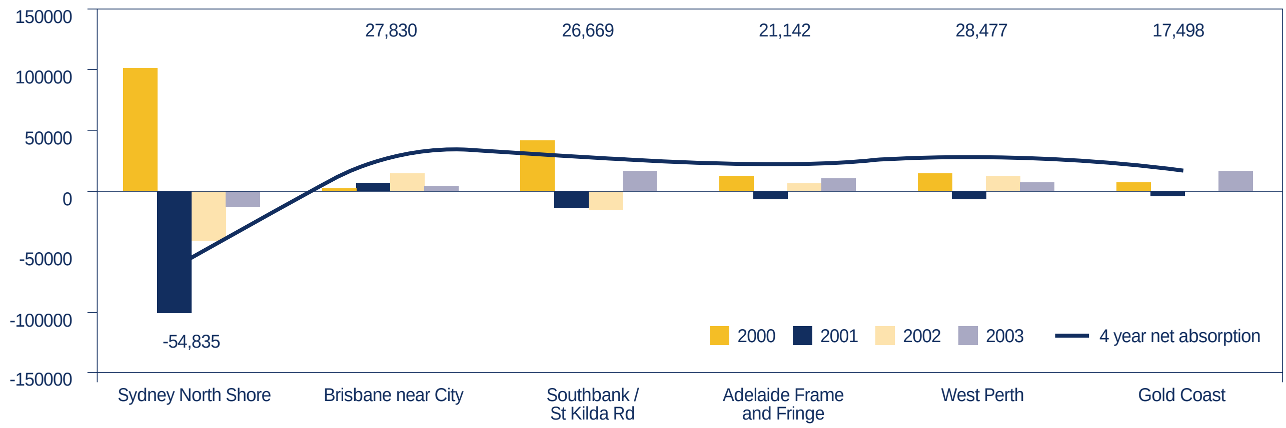


Source: PCA

Graph 3 Major non-CBD markets had mixed fortunes with their vacancy rates in the six months to January 2004



Graph 4 Net absorption levels over the past four years



Source: LandMark White Research

The interest rate rises of late 2003 are now having a moderate, but measurable impact on the economy with indications of slowing imports and new dwelling demand. The latest ABS dwelling approvals data shows that while the overall dwellings approved grew by 3.2% over February, there was a further fall in the detached housing approval of 3.1% to record a 10 month low. The higher overall figure was thanks to a stronger level of approvals for attached dwellings, a notoriously volatile indicator.

The other indicator that is under close scrutiny from the makers of monetary policy is the level of credit growth within Australia. Reserve Bank of Australia data for February shows that total credit growth has slowed to 0.7% (15.2% higher over the year), however the major component of this slowdown has been the business sector – rather than the hoped-for housing or personal credit sections. The housing sector showed a slight moderation in the speed of its growth to 1.6% for the month of February, however remains 23.5% up on annual terms. Personal credit growth remained impenetrable to cost of capital increases at 1.4% growth over the month or 15.1% up over the year.

General expectations are that the level of housing credit growth and dwelling approvals will moderate and then recover over the coming months, with a further cost of capital increase still factored in for this calendar year. However the timing of the initial interest rate cycles with the end of the price cycle for Sydney and Melbourne have encouraged a delay from the Reserve Bank to fully comprehend the ramifications of the existing interest rate movements before changing the target cash rate again.

Further complicating sentiment in regard to residential property is the prospect of increased attention to the sector from the Australian Tax Office. While the loss of negative gearing benefits simmers away as a possibility, more immediate attention is being given to the issue of the rates of depreciation for income producing property.

With stronger business growth filtering through into the office market sector, better times appear to be on the way for this market, predominantly within Sydney and Brisbane. While excess supply issues will continue to drag down the Melbourne market, and the non-CBD markets remain on the back-burner, better times are expected for the CBD markets of Sydney and Brisbane in the near term. In this issue of BenchMark we present an executive summary of our recently released forecasts for the office market sector with the full report available to our clients. We also take a closer look at the Green Square residential precinct of Sydney.

Brad Piltz CEO

national overview:

COVER: 110 PACIFIC HIGHWAY, ST LEONARDS, SYDNEY

ABOVE: WATERFRONT PLACE, BRISBANE

Sydney

After a number of large commercial sales in the Sydney CBD at the end of last year, the north shore has dominated recent activity, with a number of sizable transactions occurring across all market sectors, with development interests the focus of acquisitions.

ABC Site at Gore Hill Finally Sells

A private developer has acquired the ABC site at Gore Hill for $35 million. The former ABC television/production studio was recently vacated, but has been purchased on a 12 month extended settlement. The ABC had launched a tender process last year, which was abandoned when offers received fell short of their expectations, hampered by concerns about the future rezoning of the site. A number of large development companies were reported to have expressed interest in the site, but most of the initial offers were believed to be for less than $30 million.

The 4.556 ha site is currently zoned Special Uses (Television Station) and 4(a) Industrial. An application has been lodged to rezone the site to 4(c) Business Park, and is supported by a draft Local Environmental Plan and Development Control Plan. The existing buildings are set in an older style campus layout, currently developed with 21 buildings used for the production and broadcast of television programs, associated car parking and a helipad. Buildings range from cottages used as production offices, high clearance office/warehouses, to multi-level office buildings. The majority of improvements on the site were constructed circa 1950 to 1960, and have been subsequently upgraded over the decades since. Some of the existing improvements are suitable for adaptive re-use or refurbishment, with the majority industrial in nature. The site currently holds a GFA of approx 33,418m^2, but under the draft Local Environmental Plan the maximum floor space ratio (FSR) would be 1.5:1, allowing for approx 67,500m^2 of GFA.

New Medium Density Development in Gordon

Stockland has acquired a residential development site at Gordon on Sydney's upper north shore for $24 million. The site is located at 4-14 Merriwa Street & 3-11 McIntyre Street, and is approx 8,434m^2 in total. It is currently occupied by 10 detached residential dwellings, with a timber cottage fronting McIntyre Street that is a local heritage item. The properties were amalgamated by Samana Estates and Natcorp Properties, and are in close proximity to the Pacific Highway, Gordon railway station and the Gordon town centre.

The site will be developed in line with the approved Development Control Plan, of which NSW Planning is the consent authority. Stockland reports the site will contain approx 140 low-rise apartments, with an end value in excess of $110 million. Final development approval is anticipated during the second half of 2004, with the first of the two-stage project to be launched late in the year.

The site purchased by Stockland is one of six sites along the north shore railway line from Lindfield to Warrawee that were rezoned by Ku-ring-gai Council early last year for redevelopment, allowing for medium and high-density units. In May last year Mirvac purchased Site 5 at 1500-1502 Pacific Highway & 2-2a Marshall Avenue, Warrawee for $4.5 million. The 5,856m^2 site is expected to accommodate approx 50 apartments. Draft Local Environmental Plan 194 is expected to be gazetted in the next few months, and is anticipated to open up further multi-unit development opportunities along the north shore, with a number of sites believed to be currently under confidential negotiation.

JF Meridian Trust Disposal at Lane Cove

As part of a $60 million asset disposal program, the JF Meridian Trust has sold a property at 15 Orion Road, Lane Cove. The building was purchased by a private investor for a net sale price of $22.85 million, with settlement scheduled to occur in June 2004. The sale price is in line with book value, reflecting the most recent valuation of the property carried out in December 2003. The building is located in the Orion Park Industrial Estate about 10 km north-west of the Sydney CBD. It comprises a seven-storey office building, a two-level office annex, warehouse facilities and a multi-level car park accommodating 251 vehicles. The property has a site area of 7,078m^2 and a NLA of 10,007m^2, the purchase price reflects $2,283/m^2 of NLA. The major tenant is TVSN who occupy approx 4,489m^2 in the building, which has a current occupancy rate of 75%. The property was constructed in 1998, and purchased in the same year for approx $24.77 million. The recent sale price reflects the tough current leasing conditions in the Lane Cove area, and the fact that the property requires considerable capital expenditure.

Interest in St Leonards Commercial Market Continues

Following a number of transactions in the past few months, another office building in St Leonards has been snapped up. Bankminister Properties has purchased a partially vacant building at 110 Pacific Highway for $14.95 million. The property was acquired from Colonial First State Property's Direct Property Income Fund, and comprises a modern six level commercial office building constructed in 1991. It contains ground floor and three upper levels of office accommodation, and basement parking for 78 cars over two levels. The building provides a NLA of 3,431m^2 on a 1,797m^2 site, the sale price reflecting $4,357/m^2 of NLA, and an analysed market yield of 8.38%.

The property is currently 72% leased to four tenants, but some of this risk has been mitigated by Colonial, who have provided a $450,000 income support fund, which is payable in two installments. The building also has the potential to be strata-titled into office suites.

Despite its high vacancy rate (currently 15.9%), the Crows Nest/St Leonards area remains popular with investors. During the year to February 2004, sales activity on the north shore was dominated by the Crows Nest/St Leonards area, which recorded eight sales with a total value of just under $100 million.

Parramatta

Wonderland to Become Industrial Business Park

The Wonderland theme park on Wallgrove Road, Eastern Creek in Sydney's west has been closed down and sold, and is to be redeveloped as an industrial business park. The 58 ha amusement park was sold by Sunway City, who elected to close the park because it was no longer commercially viable. The site has been purchased in a joint venture between the ING Industrial Fund and the PacLib Group for $52.5 million, with $10 million to be paid at exchange, and the balance on settlement, which is scheduled to occur in January 2005. ING plan to develop an industrial business park on the site, expected to directly employ over 3,000 people, and create approx 9,000 jobs in total. A development application has not yet been lodged for the site and re-zoning for industrial will have to be achieved.

ICA Sells Kingsgrove Property to Owner-Occupier

An owner-occupier has acquired an office/warehouse facility in Kingsgrove from the ICA Development Fund No.2, which is operated by the ICA Property Group. Loumbos Pty Ltd purchased the property for $7.25 million, and will use it for a paper storage and recycling business. The 1.349 ha site is located at 68-72 Kingsgrove Road, and comprises an older style office/warehouse distribution building of approx 7,945m^2. The property provides an office content of approx 21%, and has ample on grade parking around the perimeter. The building was sold with vacant possession, but the sale price reflects an analysed market yield of 8.53%, and shows $911/m^2 of lettable area.

Macquarie Goodman Consolidates Ownership at Homebush

Under an option agreement, the Macquarie Goodman Industrial Trust will secure the remaining 50% interest in the Homebush Corporate Centre for $34 million. The trust initially purchased a 50% interest in March 2002 from the Uniting Church, who has remained the joint owner until now. The property is located at 1-15 Carter Street & Lot 23 Uhrig Road, Homebush and has a land area of approx 13.2 ha. There is around 50,000m^2 of existing improvement on the site, with 5,800m^2 currently under construction, and development potential for up to 200,000m^2. Current tenants include Sussan, Transfield, ACI, Delta Electrical, Capral Aluminium and Northline Freight, with a pre-commitment from the NSW Rural Fire Service.

Industrial Land Scarce

The Gold Coast industrial market continues to show all the signs of a steadily decreasing land supply. Upward pressure on englobo land values surrounding traditional industrial precincts has seen developers venture further a field for general industrial sites. The majority of these sites are proposed, or currently being developed, with smaller industrial units in the range of between 100m² and 300m². The local market appears to be able to sustain the current level of digestion for smaller industrial and service type units, with owners occupiers the most prevalent influence. Notwithstanding this, the investment segment of the market is providing keen competition on a price point basis with a flow of funds moving into the industrial unit market from traditional residential investments. This trend is forecast to continue into the medium term.

In terms of englobo industrial land, a 27.73 ha industrial development site in Gaven, which is bordered by M1 (Pacific Highway) and the Brisbane to Gold Coast Rail Link, settled this month for $11.2 million. The site, upon which the existing improvements are being demolished, is designated Industry 2 under the Gold Coast City Council Planning Scheme. The site had been previously earmarked for a theme park and has significant exposure with over a kilometre frontage to the M1. The sale analysed to a rate per hectare of $403,895. An industrial / mixed use estate is mooted for the site.

Low Yield Reflects Land Content

Commercial yields remain tight with significant competition of well located premises offering a sound tenant covenant. A recent example is the property at 32 – 34 Garden Street, Southport, which houses the well known national tenant, Beaurepairs, which has recently sold for $1.55 million representing a net yield of approximately 5.03%. The reported low yield demonstrates the high level of confidence in well tenanted, centrally located commercial properties in localities such as the Southport Central Business district. It should also be noted that the property has redevelopment potential of up to 40 stories if amalgamated with adjoining properties, however Beaurepairs hold a six year lease with six year option, which commenced in 2001, suggesting only long term development opportunities. Furthermore the property has a land area of 1,394m² which is somewhat larger than most of the surrounding land holdings and this is reflected in the yield.

Breakfree House Sold

The office forecast remains positive in line with the recent commercial vacancy rates at around 7.7% and increasing demand by local syndicates and investors. The sale of a nine storey building located at 64 Ferny Avenue, Surfers Paradise, known as Breakfree House has occurred recently for a reported sum of $7.75 million representing a rate per square metre of $2,672 and a net yield of between 8% and 9%. Breakfree exercised its option to purchase the building in October last year for $5.5 million also relocating to the building and taking naming rights. The building is located in what is considered to be a high profile position with a modern design and tenants including Breakfree, Gold Coast Visitors Bureau, Energy One, Optus, Knight Frank and Radio Metro.

Prestige Residential Market

The first release of the final Knightsbridge stage of the prestige waterfront development, Sovereign Islands was sold out by early March 2004. The 23 lots range in size from 700m² to 790m² and are under contract for prices between $1.702 million to $2.3 million, with an average price of $1.9 million. The second stage is to comprise 17 allotments with listed prices ranging from $1.85 million to $2.55 million. The values being achieved here are in line with those in more established prestige waterfront estates like Paradise Waters and Cronin Island.

On the back of the record sale of 3551 Main Beach Parade (as reported in Feb/March BenchMark), two Main Beach beachfront units recently sold at record values. Unit 4/3513 Main Beach Parade sold at auction in February 2004 for $2.2 million. It comprises of an older style 162m² unit with direct beach views. The purchaser reportedly bought the property as a long term holding basing the purchase on a land value only. A neighbouring property villa 1/3515 Main Beach Parade, also sold in February for between $4.2 million and $4.5 million. It comprises one of two villas and is situated on the ground floor of the development which is approximately 9 years old. Both these sales demonstrate the continued demand for Gold Coast beachfront property.

Residential Land Market

Recent research has indicated that current demand for developed lots is slowing, although remaining high in comparison to historical levels. There is some concern with the possible future over supply of residential allotments, however this potential over supply has not stemmed the continued demand for englobo sites within South-East Queensland. Several large englobo sites have been purchased on long term settlements with conditions associated with the gaining of Council approvals, amalgamation with other lots and provision of infrastructure to the area. It remains evident that the short term outlook for residential property within South-East Queensland is generally good, primarily due to high inter-state migration figures.

One element that continues to cause uncertainty to developers is the introduction of new infrastructure charges. The increased charges, which became effective 27 January 2004, have reportedly increased headworks charges for new developments by up to $15,000 per lot. This will effectively increase the cost of land development and impact on development margins and possibly englobo land values.

Recent large englobo holdings purchased by large established developers include:

- The Ingles Group recently purchased a key broad acre holding at Coomera off Osaka based Hokojitsugyo for $21 million. The 75 ha site is accessed from Cunningham Drive and is located on the fringe of the proposed Coomera Town Centre. The site is expected to yield up to 740 allotments.
- Devine is also reported to be active in the market with the acquisition of seven properties worth $17 million. The 25 ha of land includes two properties at Finnegans Way in Coomera that have settled and two others that are currently under contract. The three remaining properties are located within Upper Coomera and are currently under contract. The seven holdings are expected to yield 340 home sites of between 450m² and 700m².
- It is also reported Devine has purchased a 150 ha site in Currumbin Valley for an undisclosed sum subject to gaining approvals for a house and apartment development. The site was purchased in 1990 by Japanese investors for $23.5 million.
- Sydney property company Marsim is paying $46 million for one of the Gold Coast's most prestigious development sites. The 10.15 ha holding, which fronts the Broadwater and the Coomera River, is planned for a $400 million dollar development. The site had previously been listed for sale at $US25 million.

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As the investor market for residential property cools, the investor sentiment in other sectors of the property market has remained firm. As development costs continue to spiral projects that are under consideration are facing lower development profits. While this has not yet been seen to impact on the value of development sites, further site purchases are becoming more difficult to justify. The office market appears to be gaining momentum with the strong investment demand now being joined by better leasing activity, while the retail market remains a favoured sector.

Premium Building Sold

AMP Life and Ronnin Property Trust have parted with one of their trophy Brisbane assets with the sale of Waterfront Place last month. The property was sold for $307 million to 50/50 joint owners Stockland Trust Group and Westpac. The 58,845m^2 premium grade building was sold with limited vacancy and an average gross passing rent of $402/m^2 (mix of face and effective rents within the building). The vendor supplied a rental guarantee of $3.5 million and a contribution to outstanding incentives of $4.6 million. The sale of the office tower alone was apportioned at $291 million which reflected a passing yield of 7.5% and an improved rate of $4,942/m^2 of NLA.

The sale also included the adjoining Eagle Street Pier complex which was purchased outright by Stockland. Largely considered as one of the last riverfront development sites within the Brisbane CBD the property has a low-rise retail complex, moorings and ferry terminal and parking for 275 vehicles. The retail GLAR is 6,809m^2 with the complex located on 4,306m^2 of land plus river lease. Under the previous owner the leases within the complex were expiring no later than mid-2007 to provide for the potential future development on the site. Suitable for either commercial or residential development the plans of the new owner are not yet known.

The former MMI building at 370 Queen Street, CBD was purchased for $10.95 million by the Quantum Group, a property syndicator. The 3,930m^2 6 level building's sale reflected a passing yield of 9.2% and an analysed market yield of 8.0%. Constructed in 1981 the building has on-site basement parking for 30 vehicles.

Milton Stirs to Life

While Milton has struggled to attract tenant activity over the past two years, investor demand for the Milton region has shown signs of improvement over the past few months. Opus Capital have purchased 303 Coronation Drive, Milton for $12.5 million for the Opus Property Trust No 16 from IOOF. The 15 level property constructed in 1976 and refurbished in 1991 will undergo a further cosmetic refurbishment ($1.3 million) and re-leasing campaign. The property encompasses four levels of above ground parking for 142 vehicles and 10 levels of upper floor office accommodation with a total NLA of 5,937m^2. Constructed prior to town planning changes the building has the benefit of additional height and a greater carparking ratio that is available to developments undertaken today. Currently approx 23% vacant, the sale of the property reflects an analysed market yield of 9.2%.

CBD Leasing Activity

Law firm, Blake Dawson Waldron, was forced to withdraw from its precommitment to lease 5,300 m^2 on levels 36,37,and 38 of the Riparian Plaza due to the delays in the construction of that building. The company has re-signed on their existing space within The Riverside Centre, 123 Eagle Street for 10 years. While confidential, the gross effective rent for the deal is understood to be higher than the deal struck within Riparian Plaza. As discussed within the office market forecast report (executive summary on page 8) the premium market within the Brisbane CBD is presently very tight. In further good news for the owners of the Riverside Centre, Deloittes have announced they will remain in their three floors within the building upon the expiry of their current lease.

Lees Marshall Warnick have been named as the final full floor tenant within the recently completed MacArthur Central tower. The 1,616m^2 lease is over level 14 of the building for an initial term of 6 years. The rental is undisclosed however is understood to represent a gross effective rental in the order of $270/m^2 inclusive of a fitout allowance. The property is now on the market with the developer understood to be seeking offers in the range of $120 million.

Bulky Goods Second Stage Purchase

General Property Trust has added Stage 2 of the Homemaker City, Fortitude Valley to its homemaker centre portfolio following their purchase of Stage 1 of the centre in 2001. Purchased as a site ($11.5 million) and development contract, the total acquisition of the centre is in the order of $49 million, reflecting an 8% yield on year 1 income. The construction is to add 16,000m^2 of accommodation to the Homemaker City development with a 2,000m^2 pre-commitment to Nick Scali in place. The developer/vendor, Property Solutions, will also provide a 12 month rental guarantee over the balance of the property. Stage 2 of Homemaker City is located opposite stage I, on the corner of Montpelier Road, Wickham Street and Breakfast Creek Road and completion of construction is anticipated late this year.

CBD Retail Powers On

The Brisbane's CBD retail component continues to perform strongly with tenant and investor demand strong. The reported sale of the retail component within the Festival Towers complex for $7.8 million over the 1,027m^2 space reflects $7,595/m^2 and is indicative of the premium paid for a strong pedestrian location. The Festival towers complex is in the early stages of construction and is located on the corner of Albert & Charlotte Streets. Another smaller strata retail sale was a ground floor unit at 160 Edward street which sold for $1.4 million over 194m^2 of retail space showing $7,216/m^2.

An older three level retail building at 65-69 Adelaide Street sold earlier this year for $4.7 million. The building has a GLAR of 1,536m^2 and reflected an analysed market yield of 7.4%. These sales reflect the increasing tightness of the Queen Street Mall region and the focus of investors is expanding into the alternative retail streets.

The leasing market is also active and Suncorp Limited has leased a new CBD flagship store in the Queen Adelaide Building following the expiration of their existing lease at 146 Queen Street. The new tenancy was created as part of a refurbishment and redesign of the Queen Street frontage and retail areas within the building. Suncorp have taken an area of 377m^2 for five years. Pillow Talk have also taken a lease over 960m^2 the basement area of the building, formerly a food court.

Residential Sites Still Sought

Despite the soaring construction costs eroding the profit from many residential developments and slowing the supply of future developments there are still purchasers active in the market for residential development sites. Increasingly the major sites are being purchased by entities with the balance sheet to hold these properties in the longer term should that be required.

Examples of recent major residential site purchases which fit this category are:

- 56 Edmondstone Street, Bowen Hills – long term unconditional contract to Sunland with settlement expected in January 2006. The 9,302m^2 site is under contract for $8 million with the developer's plans understood to entail a mixed use development with the majority of the site residential with a smaller commercial and home office component.
- 170 Oxlade Drive, New Farm – this is a riverfront site in New Farm which covers 1,677m^2. Purchased at auction by the Raptis Group for $6.4 million.
- Wadeville Street & Staplyton Road, Pallara – approx 20km to the south west of Brisbane and close to the established Forest Lake estate, Stockland have purchased a 93.2ha development site for $43.025 million. Contracted late 2003 the sale was recently announced and has an expected yield of 580 home sites. Stockland have negotiated approval for residential sub-division of the first three stages of the project Parkwood which is expected to be launched in late 2004.

Melbourne

Office

The sale of Melbourne's landmark Argus building, on the corner of Elizabeth and La Trobe Streets, will see new life emerge within the north west precinct. Purchased by La Trobe University the six level building, constructed in 1926, is intended for conversion with a $50 million Legal & business school campus planned. LaTrobe University purchased the property for $8 million ($800/m^2). Formerly occupied by The Argus Newspaper, the building is National Trust & Heritage listed. The 10,000m^2 (NLA) building had been the source of a number of planning approvals for apartment dwellings and multiple level roof top extensions since its purchase in 1984 by Spiros Stamoulis' Ryssal Three.

In the first Southbank office transaction for the year, the Bennelong Group purchased a nine level Southbank office building for $15.4 million, on a yield of 10%. Located at 55 Southbank Boulevard, the 12,170m^2 building comprises three levels of car parking, ground floor showroom and penthouse apartments, in addition to 6,990m^2 GLA of office space. The property last sold in 1995 for $10.555 million, reflecting an average annual capital growth of 5.1%.

Struggling with vacancies for the past twelve months, former Shell House (1 Spring Street) has secured a further sub-lease to the Victorian Government. The 8,000m^2 space will be occupied by the Department of Primary Industry, supplementing the 7,500m^2 leased by the Victorian Communities Department and taking government occupancy of the building to almost 70%. The new tenancy is reported to have been struck at $220/m^2, falling well short of the $300/m^2 Shell is contracted to pay on the building for a further 15 years. Now fully sub let, Shells shortfall rental on the premium grade building is estimated to be approximately $3 million per annum.

1 SPRING STREET, MELBOURNE

Industrial

Construction of the $47 million Toyota Technical Centre has commenced at Notting Hill Business Campus estate, Blackburn Road, Notting Hill on a 36,430m^2 site.

Pellicano Builders have commenced construction on a $47 million design and construction project for the Toyota Technical Centre Asia Pacific Australia. The new building is the subject of a land and building construction package following the purchase of the 36,430 m^2 site by TTC Australia from the Pellicano Group in October last year. This is the second and final development on Pellicano's 5.24 ha Notting Hill Business Campus estate in Blackburn Road, Notting Hill, which is situated immediately adjacent to Monash University and adjoins the head office of Pellicano Builders. The new automotive research and development facility represents a major expansion of specialised engineering capability for Toyota Motor Corporation Japan.

CBD Retail Active

Supplementary to January's sale of 55 Swanston Street (a 14 level office building purchased for $21 million), the building's three ground floor retail outlets have each been sold separately by new owner, private investor Mike Figg.

The three retail outlets changed hands for a total of $15.54 million. The smallest tenancy, Shop One, sold for $3.34 million, reflecting a staggering $40,241/m^2 for each of its 83m^2. With only two years remaining on a lease to Pelopi Pty Ltd (Jewellery retailer) the property transacted on a 5.75% yield. Shop 2, leased until 2012 to Aussie Map Souvenirs, achieved $4.2 million. The 125m^2 sold on a 6% yield. The largest of the three sales, Shop 3 , sold for $8 million, fully leased to China Boat for ten years. The 760m^2 foodcourt changed hands on a 7.55% yield, with the sale equating to $10,526/m^2.

In the first transaction for Melbourne's Bourke Street Mall in seven years, a retail property changed hands for $8.5 million. Competition for the seven level building drove the yield to a tight 4.82%. The retail outlet, located at 280-282 Bourke Street, is leased for ten years to Figgins Holdings, whose business Emporio Shoes occupies the building at annual net rental of $420,000.

Markets Attract Developers

The sale of Preston Market achieved $36.75 million for owner Sandhurst Trustees. The Murray Road icon, comprises 117 specialty retailers and three supermarkets, including a new Aldi supermarket with 10 year lease, due to expire in 2013. The sale reflects an initial yield of 8.8% for purchaser Salta Properties, however, the property was reportedly purchased in view of its substantial development potential. The 6,256m^2 (GLA) market is situated on a major site of 43,215m^2, within a recently designated "Principal Activity Centre" under the Melbourne 2030 plan, opening up further retail and residential opportunities.

In a strategic purchase, Gersh Investment Partners and Babcock & Brown entered a joint venture for the purchase of Pipeworks Fun Market at 400-430 Mahoneys Road Campbellfield. The 7.2 ha property sold to for $6.285 million, with the consortium likely to take advantage of the sites Business 2 zoning and further develop the large site, possibly to incorporate Bulky Goods or a Direct Factory Outlet.

Retail Development

Woolworths has purchased a 2.85 ha development site in Pakington Street, Geelong West for $9 million ($315/m^2). The group intends to develop a full line Safeway Supermarket on the site.

Fund Manager Snaps Up Alpine Resorts

The purchase of two of Victoria's most popular Ski Resorts, by fund manager MFS Group, will see Mt Hotham and Falls Creek change hands for a reported $75 million, The resorts were sold by the Australian Retirement Fund and Retail Employees Superannuation Fund (REST)

The recent voluntary administration of Mt Buffalo Ski Resort will see a further major alpine sale in the upcoming months.

Office Market Forecast Report
March 2004

In late March, LandMark White released its 5 year forecasts for the office markets of Sydney, Melbourne and Brisbane. The executive summary of the report appears below. To obtain the full written report please send a request to officerep@bris.landmarkwhite.com.au.

- The majority of Australian office markets have continued to face major challenges during the past 12 months with subdued tenant demand a feature of many markets. Signs are improving within the Sydney and Brisbane markets with greater tenant demand sentiment building, while Melbourne remains hampered by the level of mooted supply.
- The table right outlines the major forecast benchmarks produced by LandMark White.

Sydney

- Office markets across Sydney have been through another challenging year, with negative net absorption recorded across all markets for the third consecutive year, with the exception of Parramatta. There are a number of positive signs suggesting that the Sydney CBD office market will start to recover in 2004. These include a strengthening world economy, improvements in equity markets, stronger corporate profitability, improving business confidence and capital investment expenditure intentions.
- Vacancies within Sydney are anticipated to trend downwards mid year, with a fall in total vacancies to 7.9% anticipated by 2005, as the market recovers from last year's lows, and both the local and global economies pick up steam. Strong supply is anticipated to come on line in 2005 and 2006, resulting in a peak in both total market and prime market vacancies, with forecast rates of 9.1% and 11.0% respectively. Although approx 45% of space to be supplied in both 2005 and 2006 is pre-committed, absorption levels will be hampered by backfill space flooding the market and the slower office employment growth conditions anticipated in this period.
- Rental growth is forecast to be moderate over the five year forecast period, peaking in 2005 with growth of 6% anticipated on the back of limited supply, increasing business investment and relatively buoyant white collar employment conditions. (see graph A) Recent pre-commitment activity has been encouraging, providing a positive outlook for new supply to be absorbed prior to or soon after completion. However, some concerns remain for the existing assets, which are likely to suffer as a result of departing tenants.

Melbourne

- Within Melbourne, the city is coping with the first round of major supply additions with 169,121m^2 of space entering the market during 2003. Supply additions are set to exceed 363,000m^2 during the upcoming three years, representing a 10.7% increase to the stock base. However, this figure could conceivably push out to beyond 496,000m^2 if all current mooted projects proceed to construction.
- Vacancy rates are poised to reach 12% within twelve months, peaking at over 13% by early 2006 (see graph B). In the interim, continued increasing vacancy rates will provide little support for rental growth, with negative rental growth anticipated for much of the troubled Premium and A Grade sectors.
- These high vacancy rates undermine rental growth as owners unable to secure tenants, or at best, securing tenants through increased levels of incentives at discounted rents. The problem is accentuated by the limited tenant base prepared to commit to premium or A grade tenancies,and the subsequent limited opportunities for leasing backfill space.
- The Southbank precinct, set to experience record stock levels by 2005, will need to secure further pre-commitment to avoid a blow out in vacancy levels. On completion, Freshwater Place alone will account for 53,000m^2 of new stock, however at this stage has secured only 50% pre-commitment by Price Waterhouse Coopers. Based on current estimated pre-commitments of 26,000m^2, vacancy rates for the precinct could realistically escalate 13.4% by 2005
- This downward pressure is expected to continue over the medium term, pushed further by incentives eroding face rents. Average net rents in the St Kilda Rd precinct are currently around \$180/m^2, with A grade rents ranging \$220/m^2 to \$265/m^2 whilst the Southbank market is averaging \$200/m^2.

Brisbane

- The Brisbane CBD market is currently experiencing a short, sharp improvement in the tenant demand conditions fuelled by a lack of premium stock and growth from medium tier professional firms. Largely thanks to the delays of projects which were initially slated to enter the Brisbane CBD market late in 2003 (MacArthur Central, 15 Charlotte Street and initially Riparian) the vacancy levels recorded in the PCA Jan 04 figures was far lower at 6.4% than it may have otherwise been.
- This tighter basic market condition has coincided with an increase in tenant demand to produce a minor squeeze in the market with premium net effective rents up almost 10% since January 2004. While the premium market is not expected to see much further growth this year the uplift already in evidence should flow through the prime (combination of A grade and premium) market to record 4.4% growth over the 2004 calendar year (See graph C).
- There is currently a divergence in rental deals being negotiated across the Brisbane CBD and much of this is a factor of the motivations of the owners. There are the income driven owners and developers positioning a building for sale - these owners are proactive and prepared to meet the market to obtain or retain tenants for their building with the view that a fully leased building has more merit than achieving growth in negotiated rents (this has been a factor which has kept the market rents down over recent years). On the other hand there are the value driven owners who are willing to wait and take opportunities as they arise - in an essentially tight market for prime contiguous space these owners see opportunity to achieve rental growth.
- As the new supply enters the market during 2004 there will be challenges, particularly within the space vacated by tenants moving to the new buildings, which will see a return to minimal rental growth during 2005. The vacancy rate for the whole Brisbane CBD is forecast by LandMark White to increase from the January 2004 rate of 6.4% up to 7.9% in January 2005.
- The investment market within the Brisbane CBD remains very strong and a further slight tightening of the prime yields, coupled with the rental growth anticipated this year should result in a capital value uplift of prime buildings of 6.02% for 2004. This follows last year's minimal capital growth of 1.2%.
- The Brisbane Near City market remains somewhat of a challenge with slight evidence of an increase in tenant enquiry, coupled with some higher rentals achieved in new South Brisbane projects seen as a good sign by the market. Net absorption is expected to recover in the near city market over the next 12 months and begin to cut into the vacancy rate with the current rate of 12% expected to fall to approx 10% in 12 months time. With the increases in site costs and construction costs impacting upon the market - further near city office construction will be less competitive than it has been over the past two years. This should refocus tenants to existing buildings and more focus on refurbished, rather than new accommodation is anticipated. The near city recorded rental growth of 2.3% over the 2003 calendar year - however the next two years are not expected to register further measurable rental increases with growth rates of 0.1% and 0.8% respectively.

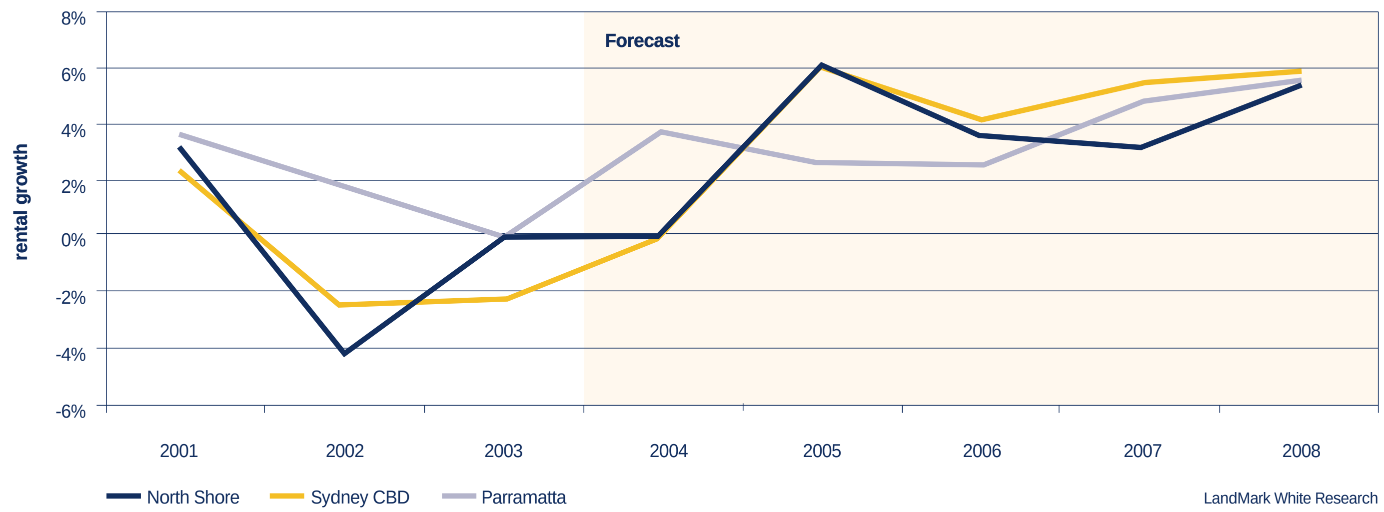
Melbourne CBD
suffocating supply - effective rents falling/flat next two years

Brisbane CBD
temporary tightness - landlords in charge for now

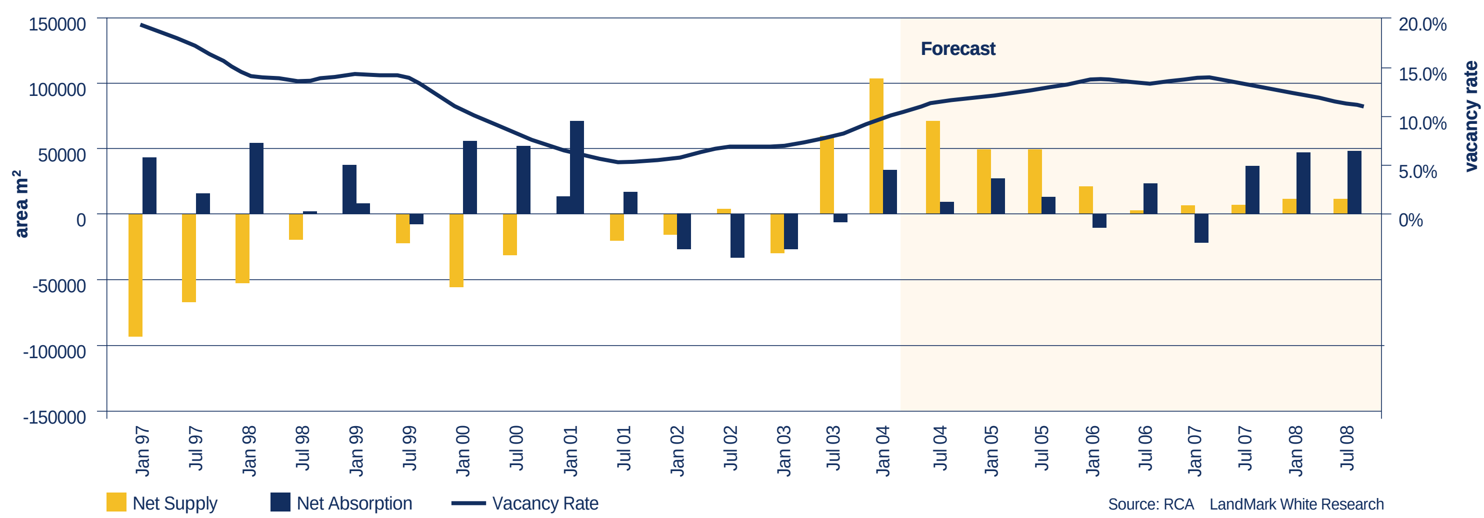
Sydney CBD
confidence coming - rental growth to peak in 2005

market	total vacancy	prime net effective rental growth	prime net median yield	prime capita value growth
Sydney CBD				
January 2004	9.5%	-2.2%	7.0%	-2.2%
Yr 1	8.7%	Nil	7.0%	Nil
Yr 5 *p.a av	6.9%	4.4%	7.2%	3.8%
Melbourne CBD				
January 2004	9.7%	-14.7%	8.0%	1.7%
Yr 1	11.9%	-5.5%	8.25%	2.9%
Yr 5 *p.a av	10.7%	Nil	7.8%	2.7%
Brisbane CBD				
January 2004	6.4%	1.2%	8.0%	1.2%
Yr 1	7.6%	4.4%	7.9%	6.0%
Yr 5 *p.a av	7.9%	3.1%	7.9%	3.5%
North Shore				
January 2004		Nil	8.0%	Nil
Yr 1		Nil	8.0%	Nil
Yr 5 *p.a av		3.7%	8.0%	3.7%
Parramatta				
January 2004	5.8%	Nil	8.5%	Nil
Yr 1	6.2%	3.8%	8.75%	0.8%
Yr 5 *p.a av	7.1%	4.7%	8.95%	2.7%
Brisbane near city				
January 2004	12%	2.3%	8.5%	4.1%
Yr 1	10.1%	0.1%	8.4%	1.6%
Yr 5 *p.a av	8.4%	1.9%	8.6%	1.0%

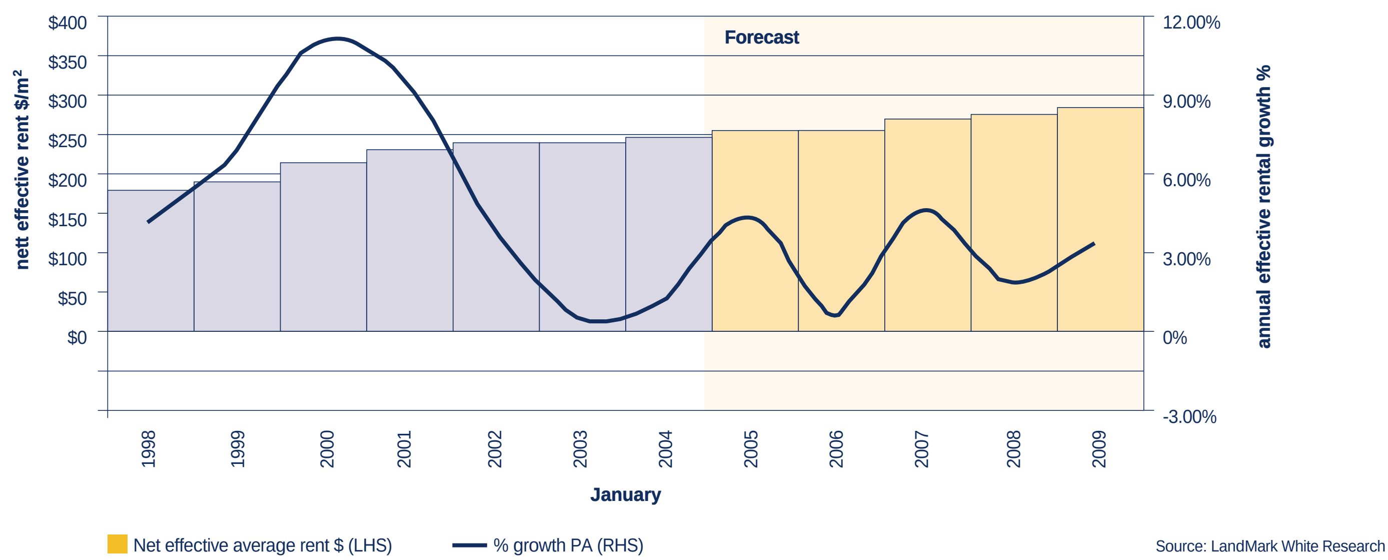
Graph A Sydney region prime net effective rental growth



Graph B Melbourne CBD - Supply and Demand



Graph C Brisbane CBD average net effective prime rents



Green Square Overview

What is Green Square?
The South Sydney Growth Centre (otherwise known as Green Square) comprises an area of 487 ha designated by the NSW State Government for redevelopment and future growth. The State Government has committed $2 billion for regenerating the greater Green Square area - a sum equivalent to about 80% of its expenditure for the 2000 Olympics infrastructure. The centre encompasses parts of Alexandria, Waterloo, Zetland and Rosebery. The area generally is currently undergoing substantial change, with industrial land uses being replaced by residential, commercial and other activities. Major infrastructure and development projects in the vicinity reflect this transformation, including the extension of the Eastern Distributor, the southern railway line and the Australian Technology Park at Everleigh.

The Green Square town centre will comprises 14 ha of land within the Green Square precinct, and is proposed as a major new urban centre. The Green Square town centre site is located approx 4.5 kilometres south of the Sydney CBD, next to the existing residential areas of Zetland and Beaconsfield. Two major arterial traffic routes, Botany Road and Bourke Street, border the site. Other major routes around the site include O'Riordan Street, Joynton Avenue and Elizabeth Street.

Land use mix
The distribution of land uses throughout the Green Square town centre has been designed to improve and maximise the use of the existing and future public transport systems, and to provide a high level of urban amenity for future residents and workers. The Green Square town centre will be a significant new place for employment, with approx 7,500 - 8,000 workers expected to be located in this area. The proposed land use mix and open space areas within Green Square are outlined in the table below.

floor space use	gross floor area
commercial	148,840m^2
retail	16,785m^2
residential	283,607m^2
total	449,232m^2
open space use	area
public plaza (town square)	10,594m^2
private open space	32,150m^2
public open space	25,293m^2
total	80,214m^2
net parking number	5,392

The pattern of land use for the Green Square town centre is based on the following principles:

Residential uses: are to be located in buildings defining the Civic and Neighbourhood Plazas, at the interfaces to existing residential areas and generally as proximity to the station decreases. Residential uses are located along lower order east - west roads, which have good northern orientation, and toward the eastern part of the town centre across to the hospital site.

Employment uses: will be located in close proximity to the Green Square railway station site and along the major traffic corridors of Bourke, Botany and O'Riordan Streets.

Retail uses: are to be concentrated at the lower levels of buildings defining the town square, and below the town square. Active frontages are proposed adjacent to the town square and along the east west Boulevard.

Mixed use development (employment and residential): will be located within larger development parcels, along the major arterial roads and on sites along the east west Boulevard including the Daimler Chrysler site and parts of the Police Services site.

Cultural uses (including film, music, visual arts, design theatre, artist studios etc): are encouraged to locate around the town square area together with pubs, clubs, restaurants, cinemas and retail outlets. Provision for outdoor markets will also be made in the final design of the town square.

Victoria Park
The Landcom Victoria Park site (the former Navy Depot) at Zetland is Sydney's largest urban renewal project. The 24.5 ha site is borded by the new Eastern Distributor, O'Dea Avenue to the north and Joynton Avenue to the west. The Masterplan for Victoria Park has been partially implemented, and on completion (at the end of 2008) will include a mixed-use precinct of 2,500 dwellings (with approx 4,500 residents), 115,000m^2 of commercial floor space, as well as 46,000m^2 of public open space. Victoria Park is being developed over five stages:

The first stage of Victoria Park was a joint venture between Landcom and Austcorp called Centric. The development comprised 62, two and three bedroom apartments, terraces and penthouses;

Stages 2 & 3 comprises buildings being developed by Waltcorp, they include: Eco (141), Nova (119), Airia (129 units), Nest (95 units), ESP (221 units), and Form (225 units);

Stage 4 is the most recent residential stage in Victoria Park to be developed, and was recently sold to Austcorp (see below for details);

Stage 5 comprises the ARC development (63 units) which is being developed by Austcorp;

Stage 6 is the commercial precinct: Cardy & Co is currently designing an integrated commercial development to border the entire length of the site facing the Eastern Distributor. Acting as an acoustic and visual barrier to the Eastern Distributor, the development will protect the residential zones of Victoria Park. The precinct will accommodate contemporary showrooms, lifestyle retail, village retail, fitness facilities, professional suites, and commercial offices.

Landcom recently sold lot 202 (located in the north-west) of Victoria Park to developer Austcorp Group for approx $15 million. Austcorp plans to build a $100 million mixed-use residential/retail development on the site, to be called Prominence. The project will provide 200 units in a series of four buildings, up to eight storeys high, with completion expected in late 2005.

By the end of 2008 the Green Square town centre project will see an area that now contains a number of council depots, a closed hospital and disjointed commercial developments, turned into a residential, retail and commercial community, expected house 4,500 people and employ over 7,500 people.

CIVIC PLAZA

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