

Commercial Property Market Northern Tasmania

March 2009

Esk Property are taking a very keen eye in monitoring the state of the Commercial Property market in Northern Tasmania.

Regional markets throughout Australia have made comments on when their particular markets started showing signs of a slowdown on the back of the Global financial Crisis that has hit us all. Many of these markets started reporting signs of the Commercial markets being impacted back in Mid 2007.

We believe the Commercial markets of Northern Tasmania started to show signs that we will not be totally immune to the Global occurrences around September 2008.

For the past 6 months we have been closely monitoring indicators that may give us clear understandings of what if any the Global situation has had on the regional market of Northern Tasmania.

We believe that sectors of our regional Commercial markets possess such qualities that will see many of them insulated from much of the negativity that surrounds many investment opportunities at present.

Those sectors of the market that feature the main "drivers of Investment performance" include those properties that are underpinned by:

- Strong Commercial locations
- Lease underpinned by strong Rental growth
- Secure income streams

Signs are starting to emerge that across asset quality, yields will follow a softening trend where income streams are under threat.

In contrast, yields on good quality properties with secure income streams should hold relatively firm.

"A Grade" Retail Sector:

There has been very little activity in this sector of the market due to very little stock offered in the marketplace. Many of these properties feature the strong fundamentals detailed above which has resulted in these property types remaining relatively "tightly held"

There have been indicators during the past 9 months of Yields ranging from 6.5%-8.0% for our better performing Retail properties. These are properties that have demonstrated secure income streams underpinned by rental growth.

The North West towns of Burnie, Devonport and Ulverstone have seen a number of smaller commercial properties selling at yields in the vicinity of 7-8%

Supermarket Sector:

The later part of the 2008 year has seen a large number of properties offered to the market subject to leases to major supermarket tenants. These offerings have been very prevalent throughout Australia, with Northern Tasmania also experiencing the offering of a number of these properties.

This has occurred as a result of many Listed Property trusts having these properties as part of their portfolio and has seen this as an opportunity to move them on.

Supermarkets offered in Northern Tasmania have been met with a good level of demand and sales have reflected strong initial yields. A Launceston supermarket sale in excess of \$6.5 million reflected an initial yield tighter than 8.0%.

Other Country town Supermarkets has sold at yields of between 7.8% - 8.5% at lower price ranges.

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Some properties tied up in the Centro Group have been offered for sale with some of their flagship properties in Northern Tasmania having been tested in the marketplace.

Industrial Sector:

This sector of the market that we believe may be starting to show some distinction in value between; those well credentialed industrial properties to those that don't tick every box of investors.

The markets are showing an increase in the supply of stocks particularly available for lease. This supply does clearly appear to be outweighing demand at this stage. It is expected that this will impact on the Yields expected for Industrial property due to the insecurity of rental income stream and rental growth.

Lessor's may be encouraged to start looking at ways to attract potential lessee's to properties to fill the level of vacancies starting to appear. Leasing Incentives have not been a large part of our markets in the past due to markets remaining relatively buoyant with vacancy rates remaining at sustainable levels.

Macro factors are emanating from the North West coastal towns in relation to Job securities and large business' downsizing workforces etc. It is expected that this will impact further on the Industrial markets.

Redevelopment Opportunities:

The North West coast towns have seen a strong number of sales of redevelopment sites, that gives some supports to levels of optimism for Commercial property in these regions.

The Cradle Coast Medical Centre in Ulverstone commenced construction in March 2009 and will provide medical rooms aswell as a division of the North West Regional Hospital.

The development will cost in excess of \$3 million and is predominantly fully leased

A large redevelopment site at Cooee is under Contract with current Due Dilligence being undertaken to develop a further medical facility.

A potential redevelopment site in Ulverstone has sold recently for a figure in excess of \$1.8 million, and is very well located for a diverse range of future uses.

Comments:

Many analysts are predicting that if we see a softening in Yields, then it will be over the short term period only and this will be dependent on the sector and the asset quality.

Movement in rates are expected to diverge across each sector, with the retail sector likely to see firmer rates compared to the office and industrial sector due to security of income stream.

Many Commercial properties in Northern Tasmania are well credentialed in meeting the required "drivers" to suggest they will continue to perform well in tougher times ahead.

Expert analysts are continuing to recommend a balanced investment portfolio of Stocks and property, and the signs are that Commercial Property is still well credentialed to satisfy required rates of return of investors.

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