



New m3Agribusiness Division

m3property is delighted to announce the formation of its specialist Agribusiness division. World demand for food and bio-fuels is growing while institutional involvement in the sector is increasing. With Australia's major property and investment institutions amongst our clients, the new agribusiness division is an ideal complement to our range of services.

The Agribusiness team is headed by **Danny Thomas** who is joined by **Tim McKinnon**. Danny and Tim have valued some of the largest dairy and pastoral holdings on the eastern seaboard, together with various other mixed farming, cropping, landmark/historical holdings, rural residential/lifestyle and horticultural properties throughout Australia.

More recently they have provided consultancy advice on opportunities within the sector, including Water Rights, Native Vegetation, Carbon Sequestration, Green Energy (Wind Farms), redevelopment/subdivision, portfolio mix and industry specific research.

m3property Agribusiness services include:

- Valuations for all purposes including litigation, pre-purchase, sale, taxation, first mortgage and financial reporting;
- Research;
- Due diligence for purchase/sale;
- Asset performance;
- Project feasibility;
- Management and divestment advice for insolvency/administration; and
- Asset structuring.

m3 Promotions & Appointments

Luana Kenny has been promoted to Associate Director, Residential Development.

Danny Thomas and **Tim McKinnon** make up our new Agribusiness team.

Tammy Suhan has transferred to Seniors Living (from Performance Strategy) where she is also joined by **Steven Davies**.

Sue Sharma has joined us as Human Resources Manager, based in the Melbourne office.

Hugh Killmister has joined Research and **Kimberley Jessup** has moved across from Research to the Melbourne Commercial group.

Mark Mazzarella is Assistant Valuer, Retail and **Tyson Maschler** has joined Performance Strategy.

Andrew Watson is joining the Brisbane office as a Property Analyst

m3 Farewells Michael Kealy



After eight years with m3property, Mick is returning to the bush – well Bendigo – which is still a lot closer to where he grew up in the Wimmera-Mallee.

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m3masters

On Tuesday 12 February, the 15th Annual **m3masters** was held at the Kingston Heath Golf Club. More than fifty eager golfers ventured around this magnificent course in ideal conditions. Some of them are captured in the images below.



Above: Waiting it out: Scott Travers (Stockland), Adrian O'Brien (Roads Corporation), Steve Ingram (Investa) and Brendan Harrison (**m3property**). Who was the slow group up ahead? Was the slow pace really the reason these guys won the not so coveted NAGA award?



Congratulations to the winning group: Simon Rubenstein (**m3property**), Dean Lander (Investa), Mark Frinsdorf (Valad) and Martin Reynolds (**m3property**). It just goes to show that you can't have too many **m3property** people in your team.

m3Dimensions

If you haven't caught up with them, the most recent **m3Dimensions** articles were:

- Seniors Sector Consolidation Continues (February 2008)
- m3capital: Lenders Changing Face (November 2007)
- Retail Synopsis (October 2007)
- Repricing Risk - Property Implications from the US Sub-Prime Fallout (August 2007)

m3Dimensions may be accessed from www.m3property.com.au via the publications link.

API Awards

The **m3property** property trust industry innovation award for 2007 was awarded to ING Real Estate Community Living. **m3property** also again presented the Young Achiever of the Year award. This year the winner is Stephen Thomas of CB Richard Ellis.

Recent Highlights

Acquisition/Litigation

m3property's Acquisition/Litigation team has been busy on a number of fronts, including the Craigieburn Bypass, the Eastlink project, multiple sites for the Monash-CityLink-Westgate upgrade, and the Greensborough shopping centre redevelopment.

Contact: Les Brown or Lynton Doyle on (03) 9605 1000

Asset Advisory

m3property recently undertook a major asset advisory project for our client – a major infrastructure operator. This project entailed profiling the relevant property sectors in the surrounding area, including competitor analysis. This work culminated in the preparation of detailed financial analysis, including identification of opportunities for various JV scenarios.

Contact: Dan Magree (03) 9605 1033

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Asset Advisory - Mercy Parkville Project

The Mercy Health and Aged Care development at the ex-Commonwealth Games athletes village in Parkville received planning approval just before Christmas. This project will see the development of a 140-bed aged care facility and 52 assisted living units (ALU's) in this inner Melbourne location. m3property has provided advice to Mercy in relation to this landmark project.

Contact: Warren McGregor (03) 9605 1075

Seniors Living - Consolidation Continues

2007 saw further consolidation in the Seniors Living industry with the sale of several large retirement village and aged care portfolios. The most recent transaction was the sale of the Zig Inge Group portfolio for an enterprise value of \$641 million to the Retirement Villages Group (RVG). Macquarie Capital Alliance Group held 49 per cent of the Zig Inge Group and its share of the equity proceeds was \$255 million. m3property acted as advisors to the vendors – Zig Inge Group/ Macquarie Capital Alliance Group – for this transaction.

Contact: Dan Magree (03) 9605 1033

Tracey Comley (02) 8234 8121

Retail - Where to for Retail Yields

The Australian retail market received a wake-up call prior to Christmas with the well documented troubles relating to the short-term debt structure of Listed Property Trusts, particularly Centro, Australia's second-largest shopping centre owner. The cost of capital has increased significantly as a result of last year's US sub-prime fall-out which is affecting debt financing of property in Australia, with many of our clients reporting increased lending margins. In addition to this, the RBA has again raised the official cash rate to combat rising domestic inflation.

While intuitively we would anticipate an increase in yields, to date there has not been any clear evidence indicating how yields have been affected by the recent shake up of the market. Most transactions that have settled following the Christmas break were contracted prior to the recent shake

up. With a number of properties currently listed for public sale and many more being offered off-market, evidence as to the direction of yields will no doubt soon become clearer. It appears many market participants are now much more cautious and are waiting for clearer direction before proceeding with acquisitions, while others simply can not afford to purchase given their current cost of funding.

Contact: Shaun O'Sullivan (03) 9605 1082

Residential Development

m3property has been very active in the englobo residential subdivision and apartment developments sector across metropolitan Melbourne providing advice and assisting with valuation requirements.

The residential market remained strong throughout 2007 with a number of projects selling well including lot sales in Point Cook and apartments selling off the plan across three inner city projects in which m3property assisted with valuation requirements.

A number of notable sales occurred in 2007 and were well contended including:

- Austral Bricks, Scoresby – purchased by Mirvac for a reported circa \$100,000,000.
- GTV 9, Richmond – purchased by a consortium comprising R Corporation, Charter Hall & Crane Corp.
- 557-563 St Kilda Road, Melbourne, Royal Victorian Institute for the Blind – purchased by Stockland
- 333 Burwood Highway, Burwood – 6.6 hectare site currently occupied by Vision Australia
- Devine have purchased an englobo residential parcel in Brookfield, south of Melton for an analysed rate per hectare of approximately \$290,000.

Moving forward, the cost of funds is expected to rise during 2008 which is likely to impact on the residential development market particularly for projects situated in secondary locations.

Contact: Luana Kenny (03) 9605 1071

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Commercial Sydney - 2007 Ends in a Flurry

The Sydney CBD Office Market experienced continued strong investment demand in the final quarter of 2007 with a flurry of sales activity, heavily weighted towards 'B grade' properties. These transactions (several of which m3property had valuation involvement in) are summarised in the following table:

Address	Sale Date	Purchaser	Sale Price	NLA	\$/m ²	Passing Initial Yield	Analysed Market Yield	Analysed IRR
75 Elizabeth Street	Dec-07	Uniting Church Property Trust	~ \$63,000,000	6,138 m ²	\$10,264		Confidential	
280 George Street	Dec-07	Orchard Funds Management	\$49,200,000	5,173 m ²	\$9,511	4.9%	5.6%	8.3%
10 Barrack Street	Nov-07	BlackRock Investment Management	\$82,000,000	9,587 m ²	\$8,553	4.7%	5.0%	7.3%
210 George Street	Oct-07	GE Real Estate	\$40,500,000	4,970 m ²	\$8,149	n/a	n/a	n/a
130 Pitt Street	Oct-07	Investa Property Group	\$112,150,000	10,961 m ²	\$10,232	4.8%	5.2%	7.2%
52 Goulburn Street	Oct-07	Credit Suisse RE Fund	\$118,000,000*	23,162 m ²	\$10,189	5.2%	5.2%	7.5%
75-95 Harrington Street	Oct-07	Orchard Funds Management	\$54,500,000	7,954 m ²	\$6,852	3.9%	6.0%	7.4%

*50% Interest

In 2007 investors jostled to take positions to benefit from the widespread expectation of strong rental growth in the Sydney CBD prior to the next wave of significant supply additions commencing in 2010. Growth is expected to be particularly strong in the 'B' Grade market, typically rising from a significantly lower rental base than premium and 'A' grade buildings.

Significant rental increases have already been recorded during 2007, by as much as 20% in some buildings. Rental growth has been driven by both strong tenant demand, albeit at a more modest level in the latter half of 2007, and more particularly by limited new supply and high withdrawal activity, causing vacancy rates to fall to 3.7% as at January 2008.

There are some risks to the growth outlook brought about by the sub-prime fall out and tightening credit markets which may flow through to weaker tenant demand from the financial services sector in the near term. Notwithstanding this, we expect double digit effective rental growth to continue for the next two years.

There are increasing risks for investment demand also as we enter a more cautionary investment environment. We expect credit squeeze casualties to contribute to an increase in the volume of properties offered to the market in the first half of 2008, with a reversal of yield compression in some markets and the yield spread between prime and secondary class assets to widen with greater attention focused on primary real estate fundamentals.

Contact: Andrew Duguid (02) 8234 8101

Commercial Brisbane - Imbalances Evident

- The office market is in a state of imbalance, with demand outstripping existing supply in the majority of office precincts. This imbalance has been the catalyst for intense development interest with new supply being proposed providing the potential for an oversupply in the future if it all proceeds.
- The low vacancy level in the CBD and near city markets is such that firms with immediate space requirements, are having to pay a premium to secure premises and to consider suburban alternatives. Rents being achieved as pre-commitments in new buildings are at lower rentals than those being achieved in secondary buildings where there are vacancies.
- It is anticipated that there will be a correction as new supply enters the market and the supply/demand equation changes. The correction will be in the form of either increasing incentives or the rents coming back to a sustainable level.
- Investment demand has been extremely strong with new benchmark yields being achieved as new sales transpire.
- The tightening credit situation resulting from the sub-prime loan situation in the US and rising interest rates in Australia may impact on investment demand. It is difficult to predict what will emerge in the short term, however market analysts are generally concerned about the property yield compression which has occurred in recent years is maintainable.

Contact: Ross Perkins (07) 3620 7900

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