



McINTYRE • ROBERTSON • SCARBOROUGH

# update

NOVEMBER 2010

## Where is our Market Heading?

2010 has been, and we believe will continue to be, a year of mixed signals from the commercial property market.

From a general South Australian economic perspective, a cross section of MRS clients and colleagues reveals a wide divergence of opinions with respect to where business confidence is currently, and where it is headed.

We have certainly found a substantial deterioration of confidence in the past few months, compared to the first half of the year. So whilst general economic indicators such as unemployment, retail spending and inflation have not moved substantially in a negative direction, the overall level of confidence seems to have.

We mentioned "divergence of opinions" because during the same period many of our clients have thrived and, despite some uncertainty, have simply "grasped the nettle", gotten on with the job strongly and are producing outstanding results irrespective of any negative sentiment.

From an MRS business perspective, we continue to see numerous new opportunities coming into our office and we are experiencing continued growth in our core areas of Advisory & Consultancy and Asset Management as a result of these opportunities.

### Mixed Signals

Despite strong fundamentals in the office market, low unemployment rates and steady white collar employment, commercial investment sales are being transacted at yields 1% to 2% above pre Global Financial Crisis levels.



1 King William Street  
Sold for \$38.61m  
9.60% initial yield



45 Grenfell Street  
Sold for \$29m  
10.75% initial yield

Buyers are generally thin in the market for assets above \$10 million, with continuing concerns regarding the availability of finance and a belief that distressed assets may be brought to market sooner rather than later, placing renewed upward pressure on yields.

Low vacancy rates, with little new supply in the pipeline, do not appear to be encouraging transactions at this stage, whilst leasing activity remains muted with agents reporting patchy enquiry levels and limited new commitments.

Sales of retail assets have been a standout during 2010 however, with the Makris Group having recently transacted Northgate Village and The Avenues at \$18.675 million and circa \$23 million respectively, representing yields of approximately 7.20% and 7.30%.



Both these results are considered strong and demonstrate a clear desire from private investors to secure neighbourhood shopping centres as a result of their strong defensive characteristics and relatively stable income streams.

Makris Group are now marketing the Northern Markets Shopping Centre at Gawler with expectations for a similarly strong result.

Across the full market spectrum, yields for retail assets have held much firmer than either the commercial or industrial sectors.

The industrial market has experienced, arguably, the most difficult conditions of all markets in 2010.

There have been virtually no larger (greater than \$3.0 million) investment sales this year, and whilst activity below this level, on both a vacant possession and investment sale basis, has been solid the overall volume of transactions is less than in 2009.

Design and Construct activity has also been well down on previous years and land sales have been scarce.

MRS acted for Hills Industries subsidiary, Orrcon Steel, to secure new accommodation of approximately 9,000m<sup>2</sup> at 123-131 Bedford



Street, Gillman in one of the larger design and construct deals of the year.

Overall however, despite relatively strong fundamentals, the commercial property market has been relatively directionless throughout the year. This is similar to the share market which has experienced gains, then retreats, through the year and is currently at about the point at which it commenced the year.

Perhaps the commencement of 2011 will bring firmer signs on future market direction. No doubt the availability of finance will continue to be an issue, as will any move by lenders to bring loan default properties to market.

COMMERCIAL PROPERTY SPECIALISTS

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## Mount Gambier Woolworths Upgrade

A major upgrading of the Woolworths Mount Gambier Shopping Centre is due for completion in mid November 2010.

As Asset and Property Managers for the Centre, MRS are overseeing the development utilising the services of local companies Chapman Herbert Architects and builder Dycer Construction.

MRS Director, Paul Scarborough, has been involved in the Centre for 20 years having originally sold the Centre to the Melbourne based Kaufman family, and managed on their behalf ever since.

Originally built in 1980, the Centre comprises a 4,500 square metre Woolworths supermarket and five speciality shops with extensive carpark facilities.

Woolworths are the strongest performing supermarket in Mount Gambier, seeking to maintain this position they undertook a \$5.0 million internal refurbishment last year incorporating new fixtures, fittings and plant, including self scanning checkouts.

This internal refurbishment is now being complimented by external upgrading with the Kaufman family providing a new facade, enhanced parking including disabled parking, taxi stand areas and improved pedestrian access to the supermarket entrance.

In addition to the new facade, there will be a full refurbishment of the public toilets including the addition of baby change table facilities.

Erection of the facade has occurred in a staged sequence which, together with careful management of the carpark and construction site areas, has allowed continued access to the supermarket and speciality shops with a minimum of disruption to customers and shop trading.

Most importantly from an Asset Management perspective, the Woolworths Centre will now be ideally positioned to compete strongly with a new retail centre proposed for construction in the outer north area of Mount Gambier in 2011/2012.



## MRS Staff Profile – Michael Rouvray



Michael commenced working with MRS in July 2006 when the firm was located at No. 1 Richmond Road. He didn't move too far, as he was working with the Department of Environment and Heritage in the main building at No. 1 at the time.

Michael is an integral member of the Advisory and Consultancy team and is currently working with various clients including HLB Mann Judd, Flinders Ports, Fyfe Alliance and ACH Group on a wide range of assignments.

Away from the office Michael spends much of his spare time looking after daughter Cammie (6 years old) and son Archie (4 years old).

Never too far from the sporting pages, Michael is a long suffering Glenelg supporter, enjoys heading to the Adelaide Oval and watches Australia whenever and wherever a Test Match is being played.

A great organiser, Michael is responsible for the half yearly MRS Friday night "Pub Crawl", as well as being a key contributor, and participant, in all our social events.

## Gerard Corporation

# GERARD GERARD

CORPORATION LIGHTING

The MRS association with Gerard Corporation commenced in 2007 when we provided development management and disposal advice on a residential sub-division project on the Gold Coast in Queensland.

Since then we have had the opportunity to assist with numerous projects including the divestment of the former Clipsal site at Bowden.

Gerard Corporation is an outstanding South Australian company with diverse interests including lighting, logistics, agriculture, retail and hospitality.

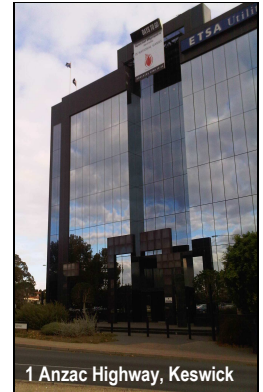
Employing over 1,300 people Australia wide, earlier this year they floated Gerard Lighting Limited on the ASX. Various companies including Pierlite, Sylvania, Moonlighting and Crompton Lighting are contained under the Gerard Lighting banner, which is estimated to have an approximate 25% market share of lighting products in Australia.

For more information go to [www.gerardlighting.com.au](http://www.gerardlighting.com.au).



## ETSA Utilities

MRS has recently completed a review of the major property assets held by ETSA Utilities which operates the power distribution network that stretches across SA. To support this network, ETSA also undertakes maintenance services from a number of facilities, all of which were the subject of a major condition audit by MRS in conjunction with Rider Levett Bucknall.



## Adelaide Digital Hearing Solutions

MRS has a long-standing client relationship with Adelaide Digital Hearing Solutions (ADHS), a hearing care practice dedicated to providing personal, professional hearing service to those with hearing impairments. With over 70 permanent and visiting sites throughout metropolitan and country SA, NSW and NT, MRS assists with lease negotiations, lease renewals and rental reviews throughout ADHS' owned and tenanted portfolio.



## CFM Secures RDNS for No. 1 Richmond Road, Keswick



The recent completion of Worldpark:01 at 33 Richmond Road, Keswick was both good and bad news for MRS client Century Funds Management (CFM), owners of the No. 1 Richmond Road office building.

Safework SA, a longstanding tenant within the MRS managed No. 1, had agreed to relocate to Worldpark leaving CFM with a potential two floor (3,400m<sup>2</sup>) vacancy in the building.

CFM had appointed Knight Frank and CB Richard Ellis to seek tenants for the forthcoming vacancy.

The Royal District Nursing Society (RDNS) had come to the market seeking accommodation to amalgamate operations from a number of existing suburban sites into one new location.

RDNS' requirements were potentially suited to the accommodation becoming available in No. 1 Richmond Road.

CFM, with the assistance of Knight Frank Leasing and MRS's Management Department, were able to negotiate terms with RDNS which have seen the Society commit to both floors in the building for a ten (10) year lease term.

This is an outstanding result which underscores the strength of the Adelaide CBD Fringe office market which, with a vacancy factor of 5.6% at July 2010, is one of the tightest markets in Australia.

## Development Approval

A question we are often asked is “how does the development approval process work?”.

Slowly and mysteriously are words often associated with the answer!

In order to summarise the process simply and succinctly, we

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asked Christopher Parker from Christopher Parker Architects for his assistance. A full copy of Christopher's summary can be downloaded from our website.

Development Approval is, in its simplest form, a three step process:

1. Development Plan Consent – “Planning Approval” as it is generally referred, is issued by the Council in response to a development application and assessed against the Council's development plan.

Various information, including schematic drawings and a site plan, is required at this stage and the Council may request more (and often more) depending upon specific circumstances.

2. Building Rules Consent – “Building Approval” as it is generally referred, is the approval of detailed building and engineering plans of the development against the Building Code of Australia (BCA). This approval can be issued by either the Council or a Private Certifier.
3. Development Approval – “Final Development Approval” is issued by the Council to the developer following the granting of both Planning and Building Approval.

The process can be relatively straightforward if the development proposal is a “complying development” under the Council's Development Plan. In such circumstances proponents can move directly to the Building Approval phase.

In circumstances where the proposal is “non complying” the planning approval stage can be far more complex, time consuming and frustrating.

Joe Walker, a Director of one of MRS's longstanding clients, Harmony Corporation, once commented with respect to development approvals, “we never have any problems with development approvals, because we only ever do complying developments” he said tongue in cheek. If only it was always that simple!!

## HLB Mann Judd

HLB Mann Judd (HLB) engaged MRS to undertake an accommodation search of suitable alternative office premises within the Adelaide Fringe and CBD Frame and to negotiate commercial lease terms over the most suitable tenancy. HLB is a leading chartered accounting group providing business advice and services to a wide range of business organisations and private clients. For further details on their business in South Australia, please visit their website on [www.hlbsa.com.au](http://www.hlbsa.com.au).

MRS successfully negotiated terms for HLB to lease 167 Fullarton Road, Dulwich with occupation anticipated in mid 2011.



Sourcing a location within close proximity to the firm's existing premises (82 Fullarton Road) was preferred, therefore securing quality office space in Dulwich represents a great outcome for the firm. MRS thoroughly enjoyed assisting HLB in this assignment and in helping them to achieve an excellent solution for their long term accommodation requirement.

## MRS Racing!!

Macca's 50<sup>th</sup> birthday celebrations earlier in the year led to the design and delivery of “MRS lycra”, to compliment the shiny new bike his friends presented him with.

For the record, Macca, who rides only once a week with Jim Whiting's “Brighton Riders” group, confines himself “to a maximum distance of 70-80 kilometres”, whilst Robbo has completed the arduous Port Phillip “Round the Bay in a Day” ride (200km) as well as the annual Tour Down Under Challenge rides.

The “Fat Boys” haven't made a play yet for either to join their group!!



## Property Asset Management Growth

MRS are currently responsible for the direct asset management of a property portfolio in excess of approximately \$300 million in value, which includes a broad mix of neighbourhood shopping centres, bulky goods retail centres, CBD and suburban office buildings and numerous industrial properties.

The Property Asset Management Division has recently secured several new appointments, including:

### Tennyson Centre 520 South Road, Kurralpa Park

Managed on behalf of Duuf Pty Ltd  
Management Commenced: 1 September 2010

A new “state of the art”, purpose built specialist Medical Centre and Cancer Care Clinic of some 6,575m<sup>2</sup> incorporating conference room facilities and an on-site restaurant/cafe. Tenants include Adelaide Radiotherapy Centre, Tennyson Day Centre Hospital and Surgery, Baxter Healthcare, Tennyson Eye Centre, Gribbles, Dr Jones & Partners and APHS Pharmacy.



### Adelaide Hills Homemaker Centre, Mount Barker

Managed on behalf of Bulky Goods Pty Ltd Syndicate  
Management Commenced: 1 October 2010

A major 18,600m<sup>2</sup> Homemaker Centre incorporating 1,900m<sup>2</sup> of office accommodation purpose built for the District Council of Mount Barker and numerous bulky goods tenants including Harvey Norman, Spotlight, Radio Rentals, Pets Domain, Sleep City, Autobarn and Heatworks/Coolworks.



With the growth in our portfolio, our Property Asset Management team has also grown, with Daryl Menesdorff and Karen Gough recently joining our team.

#### Daryl Menesdorff



Daryl joined MRS in July 2010 as Building Services & Operations Manager.

Daryl assists in the management for several commercial and industrial properties including 75 Hindmarsh Square, Adelaide; 1 Richmond Road, Keswick; 67 Greenhill Road, Wayville;

Southlink Industrial Estate, Lonsdale and Tennyson Specialist Centre, Kurralpa Park.

His role includes contractor supervision, assisting in tenant servicing, ensuring compliance with all OH&S policies and procedures and project management.

#### Karen Gough



Karen commenced in October 2010 as an Asset Manager.

With 20 years experience in the property industry, some 10 years with Adelaide Airport Limited (AAL) where she held several positions including Property Manager, Retail Manager and Retail Marketing Manager, Karen brings new ideas, particularly with regard to marketing initiatives.

Karen's attention to detail and flair for marketing was evidenced during her time at AAL by the many outstanding terminal promotions and events held in the four years to 2010 that resulted in AAL winning Excellence in Marketing Awards through the Property Council of Australia over four consecutive years.

Should you wish to find out more about how our Property Asset Management Team can assist with your property management requirements, please do not hesitate to contact Paul Scarborough ([pscarborough@mrs.com.au](mailto:pscarborough@mrs.com.au)).



## New MRS Website

After a few comments from the younger members of our office, the MRS Website is undergoing a major makeover. Keep your eye on the site: [www.mrs.com.au](http://www.mrs.com.au) to see our updated website very soon.

And remember, if you require assistance with any property related matters, please do not hesitate to contact us.

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