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Queensland's healthy economy underpins strongly performing pubs sector

Brisbane, QLD (25 February 2008)

Strong economic conditions will underpin the continued strength of the Queensland pubs sector in 2008 according to a new MarketView report from leading hotel brokerage firm CB Richard Ellis.

While there is expected to be some cooling in sales activity this year, the CBRE report tips that yields will remain firm despite proposed new legislation governing the sector.

The bi-annual MarketView report on the Australasian pubs sector highlights that the Queensland market was buoyed in 2007 by the presence of institutional players such as Woolworths, Coles and the Hedley Group.

While sales were well down on the previous year, CBRE Hotels Manager Andrew Jackson said demand for top performing hotels in good locations was expected to continue in 2008.

Regional locations such as Townsville, Mackay and some smaller centres were expected to attract particular interest in the year ahead following a number of high profile deals in 2007, among them the \$12.8 million sale of Taylors Hotel and \$19.09 million sale of The Shamrock Hotel, both in Mackay, and the \$13.0 million sale of the Allenstown Hotel in Rockhampton.

Those deals helped push total Queensland pubs sales to \$335.3 million in the 11 months to November, 2007 according to the MarketView report— down from a record sales tally of \$717.6 million in 2006.

While there may be some further easing in market activity this year, Mr Jackson said yields were expected to remain firm in both metropolitan and regional markets.

"The impact of proposed changes to legislation restricting service of alcohol and gaming periods, is not likely to have an impact on yields," Mr Jackson said.

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"Hotel trade and revenues will continue to be strong, driven by the strong economic conditions being experienced in Queensland, underpinning asset values."

Nevertheless, rising interest rates and stricter lending criteria could have an impact on market activity.

"Turnover of properties is likely to be subdued in 2008 in comparison to recent years," Mr Jackson said.

"Many owners appear to be looking at refurbishment options this year, to ensure their product remains competitive in the marketplace."

The MarketView report shows that yields continue to remain firm across Metropolitan pubs during 2007, with yields for going concern pubs with gaming ranging between 9.0% and 12.0%. Freehold investment yields ranged from a low of 6.0% up to 9.0%.

Regional Queensland yields as at December 2007 were in the range of 11.0% to 20.0% for going concerns with gaming and in the range of 7.0% to 12.0% for freehold pubs with gaming machines.

#### AUSTRALIAN OUTLOOK

Nationally, CBRE Hotels Director Ben Parkinson said the overall outlook for the pubs sector remained positive, particularly for well located properties with good growth potential.

However, the increasing cost of debt was impacting the ability of pub investors to pay the same yields as they could, even six months ago.

"This has led to a softening of yields for some pubs and some locations," Mr Parkinson said.

"Yields are likely to ease further over the next 12 to 18 months as interest rates continue to rise and uncertainty from the slowing US market dampens investor demand."

CBRE Research Director Jennifer Beard said the total ban on smoking in enclosed areas, which is now in place nationally, is also impacting on the pubs sector.

Ms Beard said the legislation had been detrimental to hotel turnover, more particularly in the gaming states, with some NSW pubs experiencing a decline in revenue in excess of 10%.

However, Mr Parkinson said that astute owners were adapting to the changed market conditions.

Conversely, some older-style publicans were taking the opportunity to sell up in what remained a very competitive market.

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