

# P R E S S   R E L E A S E

CB Richard Ellis Pty Ltd  
ABN 57 057 373 574

Level 26, 363 George Street  
Sydney NSW 2000  
DX 10262

T 61 2 9333 3333  
F 61 2 9333 3330

[www.cbrehotels.com](http://www.cbrehotels.com)  
[www.cbre.com.au](http://www.cbre.com.au)

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For further information:  
Kathryn House  
Communications Manager  
61 2 9333 3585  
61 402 465 440

Buyers chase opportunities in Victoria's booming pubs market

Melbourne, VIC (25 February 2008)

Record prices are being achieved in Victoria's pub sector, although the focus has shifted from gaming establishments to traditional food and beverage hotels according to a new report from leading hotel brokerage firm CB Richard Ellis.

CBRE's MarketView report on the Australasian pubs market tracked \$128.6 million in Victorian pub sales in the 11 months to November 2007 – down on the record \$168 million in sales achieved in 2006 but still well above the long-term average.

CBRE Hotels Director Scott Callow said the report highlighted a significant contraction in hotel investment yields during 2007, underpinned by a series of strong pub sales

The report also shows that whilst gaming venues have dominated sales activity in previous years, a lack of available opportunities shifted the focus to traditional food and beverage hotels.

"2007 saw the heat of the hotel market continue to rise," Mr Callow said.

"We saw a market that was dominated by off market transactions and punctuated by a variety of high profile offerings which achieved outstanding results."

The first major auction of 2007 was the freehold going concern sale of the Prince Alfred Hotel in Richmond in April. The traditional corner food and beverage hotel was put on the market for \$5.5 million but sold for \$8.1 million - a price which reflected a bullish yield of circa 8%.

That was followed in August by the sale of Gunn Island Hotel in the popular inner bayside suburb of Middle Park. It traded shortly after auction for \$8.55 million on a reported yield of sub-10.0%; setting a new record price for non-gaming venues.

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Those deals and a series of other high profile transactions set new yield benchmarks for Melbourne. Whereas freehold going concern pubs – without gaming – were achieving yields in the 12% to 15% range in 2006, the MarketView report shows that initial yields as at December were more in the order of 8.5% to 12.0%.

“It is believed that as long as the supply of gaming machines remains restricted and property investment opportunities in the hotels industry remain scarce, trading fundamentals will support the yield levels being evidenced in the market,” Mr Callow said.

While 2007 saw smoking banned from licensed premises, Mr Callow said the early results suggest that venues which had prepared for the ban through the creation of designated smoking areas had performed far better than those which did not.

“In terms of market segments, quality food and beverage hotels have not suffered, neither has gaming venues,” Mr Callow said.

Moving forward, Mr Callow said a focus this year would be on new venues in growth corridors such as the South East and West, with projects already underway in Point Cook, Caroline Springs and Lynbrook.

#### AUSTRALIAN OUTLOOK

Nationally, CBRE Hotels Director Ben Parkinson said the 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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