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NSW pubs sales hit record high of \$855 million

Sydney, NSW (25 February 2008)

NSW pub sales soared to a record high of \$855 million last year, as institutions and private owners aggressively pursued opportunities to expand their hotel portfolios.

The record sales tally is highlighted in a new MarketView on the Australasian pubs sector from leading hotel brokerage firm CB Richard Ellis. The report details strong demand for NSW pub investments during 2007, despite the impact of no smoking regulations, with sales soaring well above the previous year's record sales tally of \$645 million.

However, 2008 is likely to be a tougher year according to the bi-annual report, which tips some softening in sale yields in light of the current global credit squeeze.

"It would appear that generally yields across NSW have softened marginally in the last two months of 2007 with some stock remaining unsold after extended marketing campaigns," CBRE Hotels Manager, Andrew Lewis, said.

The MarketView report shows the NSW market was last year dominated by large national groups such as NLG and Hedley and by private owners with existing pub portfolios, who were prepared to pay sharp yields in order to secure stock.

The strong buyer interest resulted in tight sale yields, with freehold pubs offering gaming machines achieving yields ranging between 7.0% and 9.0%. For leasehold interests in pubs with leases of 15 years or longer, the yield range was between 10.0% and 16.5% depending on quality and location.

Significantly, the strong demand for pubs was not restricted to the Metropolitan area according to CBRE's specialist regional hotel broker Ben McDonald, who said country and regional pubs had achieved record sales within the past 12 months

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"With metropolitan yields at all time lows, institutional investors, private syndicates and owner operators surged towards the country and regional market in search of higher yielding investments," Mr McDonald said.

"Properties achieving the most aggressive yields were those on large sites and those which provided significant redevelopment opportunities."

In regional NSW, going concern yields for venues with gaming machines dropped to as low as 9 per cent, while freehold pubs achieved yields of between 6.5 per cent and 11 per cent.

Excluding portfolio sales some the largest deals in NSW included the sale of the iconic Beach Hotel in Byron Bay for \$55 million, the Castle Hill Tavern in Sydney's north-west for \$54 million, and the Steyne Hotel at Manly for \$47 million.

#### 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.

#### About CB Richard Ellis

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