



In a market with few deals we have recently sold this fully leased investment at 176 Pacific Highway, St Leonards for a very healthy \$14.6M – *more details on p2.*



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The occupier market remains strong with low vacancy rates

12 months ago our Investor Report canvassed the view that the easy gains had been had and that yield compression, which delivered such strong gains in 2006 and 2007 was unlikely to continue. However, like far more experienced commentators we didn't see that the credit crunch which was just emerging would contribute with strong domestic growth to drive up interest rates.

Unlike the far more liquid equity market, property owners and buyers are taking time to adjust to the increase in funding costs and the more onerous conditions now attached to funding. As a result, sales transactions have been very limited although we have been fortunate to be involved in a number of sales this year.

On a more positive note the occupier market remains surprisingly strong with low vacancy rates. We have seen at first hand there are sectors of the economy that are running extremely well and creating good lease enquiries. Our overall advice to owners however is to be cautious and expect that the leasing market may get more difficult as the slowdown bites.

On the investment front our article inside highlights the need for both buyers and sellers to look forward. With signs that interest rates have peaked and are set to start falling the market will return to a point where more parties are happy to transact albeit at a price that better reflects the risks and rewards.

For our part we have expanded successfully over the last three years. We now have a total staffing of eight including a leasing team of four and two experienced property managers. We would like to take this opportunity of thanking all our clients and our hard working staff.

David Bolt

Chris Hartigan

Call David Bolt or Chris Hartigan on

9955 9211



Recent sales



Whilst the sales market has been subdued we have been successful in securing a number of deals this year (as detailed below) including the recent sale of **176 Pacific Highway, St Leonards for \$14.6M.**

176 Pacific Highway, St Leonards – \$14.6M

In one of the largest investment transactions on the North Shore this year Australian Unity recently purchased this fully leased office investment for their healthcare fund. The refurbished 2,300sqm building is fully leased for 10 years to medical group IVF Australia who pay a net rent of approximately \$1.0M p.a.



7-9 West Street, North Sydney – \$14.5M

Construction company ADCO purchased this 2,800sqm office building from a syndicate of investors managed by Austgrowth. ADCO will occupy approximately half the building with other tenants including DMG Media occupying the balance.

In addition to selling the building we have been retained for ongoing management.



11 Spring Street, Chatswood – \$4.6M

Located just off Victoria Avenue opposite one of the entrances to Westfield. The property comprises a 3 storey office and retail investment with a total area of approximately 900sqm. Approximately 90% leased to a mix of tenants the property was sold in May at a yield of about 6.3% rising when fully leased to 7.25%.



9-11 Ridge Street, North Sydney – \$2.15M

This impressive double fronted, heritage building provides just over 550sqm of offices on ground and 2 upper floors. The property was sold in August to a purchaser who intends to occupy part of the property.



Current trends

Interest rates set to fall as the crunch bites

The impact of the Credit Crunch on the commercial property market has been varied and so far nowhere near as substantial as the downturn of the late 1980's or the Tech Crash of 2001.

One area that has been affected is the sale of large commercial investments where the major players have put buying on hold. Whilst some cashed up purchasers have been eagerly awaiting a large drop in prices this has so far failed to materialise as owners refuse to sell buildings that in most cases are full and producing strong income.

In contrast to the correction of the early 90's or the more recent Tech Crash the office market today has low vacancy rates and very little new development coming on stream. Owners are therefore able to absorb the impact of higher interest rates.

At the lower end of the market where private owners dominate, activity has been more normal with buyers and sellers continuing to do business albeit at prices that are lower than would have been achieved at the peak of the cycle.

Occupier demand has been remarkably strong and this was reflected in the latest, Property Council of Australia vacancy rates with North Sydney dropping to 8.4% and St Leonards falling to 7.2%.

North Sydney and St Leonards benefit from a diverse occupier base with services such as engineering and construction being important employers. These sectors are continuing to do well as infrastructure spending remains high.

No market however is immune and in the past month or so we have signs that leasing activity is easing particularly for larger enquiries. Given the sharp economic downturn of the 2nd quarter it would be surprising if this was not the case.

Going forward we expect that occupier demand may be muted as businesses adopt a cautious approach to making major decisions. Whilst current vacancy rates would normally be seen as an opportunity for owners to seek better lease terms we would advise owners to adopt a strong but sensible approach to lease negotiations given the economic background.

The likelihood that interest rates are now on a downward path will be welcome news to owners that are thinking of selling and to buyers that have access to cash and debt. The point will be reached where the gap between vendors and buyers is once again within reach of deals being agreed. As ever the more astute investors will focus on buying good property ahead of the pack rather than sitting back for elusive bargains.

Rent collection & more...

Good property management isn't hard to achieve but is dependent on quality staff and allocating them the right resources and time to do their job properly.

This can not be achieved if property managers are loaded up with too many properties in an attempt to wring additional profit at the expense of service to the client.

We recognize that property management is time intensive. As such we have 2 property managers, Amy Collins and Tracey Stewart, who between them have extensive experience in financial accounting, property maintenance and liaising with tenants.

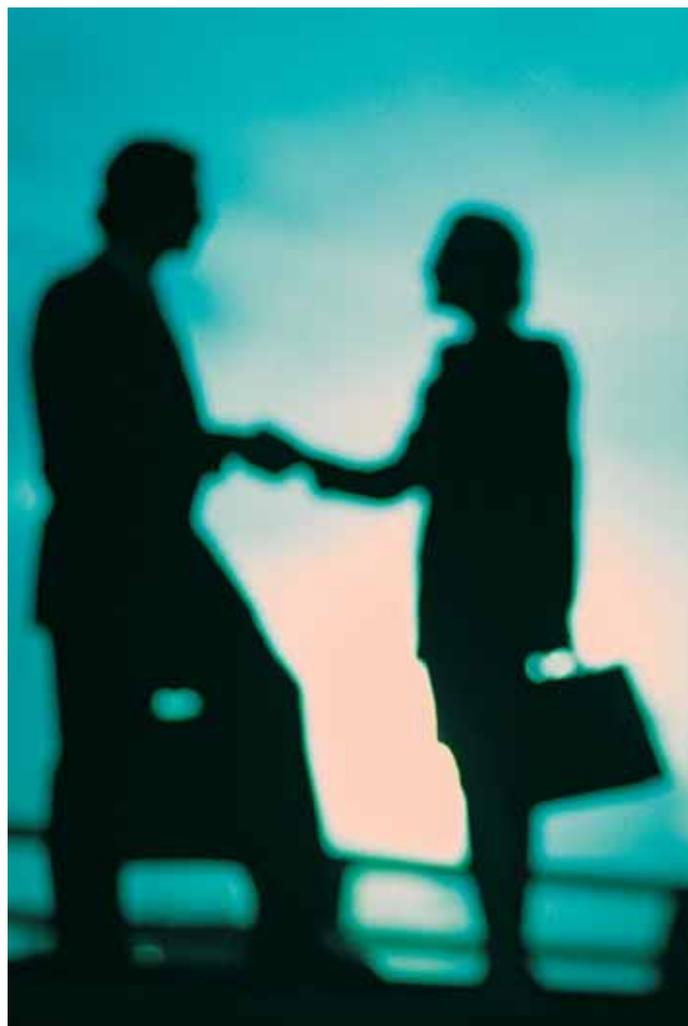
Our team has taken over a number of properties from other agencies and has resolved many issues that had been left by previous managers as being too hard.

Some of the issues that we have had to deal with include:

- Removing illegal occupants
- Resolving unapproved signage
- Making sure that every building has up-to-date fire compliance
- Replacing under performing contractors
- Identifying expenses that should have been paid by tenants
- Identifying rent reviews that had been overlooked

Some of the issues that we have uncovered and dealt with could have had serious implications to our clients insurance and others were impacting directly on their financial return. We now have a portfolio that is running smoothly with almost no vacancies and importantly no arrears.

For further information on property management please call Amy Collins or Chris Hartigan.



Current sales

Our current sales instructions include the following:

Hayberry Street, Crows Nest – Occupy or Invest

Unique commercial building created from the conversion of a former church. Total area approximately 560sqm plus 2 car spaces. Offered for sale with vacant possession of approximately 440sqm and income from the balance of approximately \$26,000p.a. The building has a stunning first floor with exposed ceiling and roof terraces.



Hume Street, Crows Nest – Excellent Freehold

Comprises a 3 storey office building totaling 460sqm with parking for 11 cars, fully fitted with board room. Good natural light with large windows and additional roof light / atrium.



Alexander Street, Crows Nest – 2 Adjoining Freeholds

Following ADCO's purchase of 7-9 West Street (see recent sales) we are marketing for sale their former headquarters at 85 and 87 Alexander Street. The properties are located in the heart of Crows Nest at the corner with Ernest Street.

85 Alexander Street comprises approximately 625sqm over 2 levels and occupies a prominent corner position with large display windows to the ground floor.

87 Alexander Street comprises approximately 650sqm on ground and 2 upper levels plus a large roof terrace and secure parking. The properties are being offered for sale with vacant possession and can be purchased individually or together.



For further information on sales please contact David Bolt or Chris Hartigan.

Leasing instructions

Our leasing of Lend Lease's refurbishment of 75 Miller Street is now almost complete with the building over 97% leased there are just a couple of small suites remaining.

Our commitment to getting the job completed extends to all properties both large and small. Just over 12 months ago we took over the leasing and management of 83 Walker Street North Sydney, a boutique office building. In that time we have resolved several management issues that had been left unresolved and following 3 lettings the building is fully leased for the first time in some years.

Recent leasing appointments include acting as joint agents for FKP's refurbishment of 20 Chandos Street, St Leonards which will be completed in early 2009.

On behalf of GE Real Estate we have been appointed leasing agents for over 1,500sqm of offices at 150 Mowbray Road, Willoughby.



Expanded leasing team gets results

Our leasing team has now grown to comprise Michael Vanstone, Adam Ray, Ryan Christoffersen and Gareth Carpenter operating under the direction of Chris Hartigan. The team has already exceeded the amount of space leased in 2007

and are currently leasing around 1,200sqm each month. With instructions that stretch from North Sydney to Pymble and Willoughby we cover all the North Shore markets.

We hope that this Investor Report has been of interest and if we can be of any assistance with your property please do not hesitate to contact us or one of team.

Recent lettings

- 40 Chandos Street, St Leonards
– 360sqm leased to Austbrokers
- 8 West Street, North Sydney
– 400sqm leased to Weather Company
- 83 Walker Street, North Sydney
– 134sqm leased to ICT Security
- 321 Pacific Highway, North Sydney
– 530sqm leased to Billback
– 75sqm leased to McManus Lawyers
- 65 Hume Street, Crows Nest
– 80sqm leased to DCB Advertising
- 52 Atchison Street, St Leonards
– 67sqm leased to Serole
- 10 Help Street, Chatswood
– 2 lettings to Baxter IP and NSW Electoral Commission
- 1 Cassins Avenue, North Sydney
– 3 lettings agreed in 3 months
- 6A Glen Street, Milsons Point
– 144sqm leased to C3D Interactive
- 7-11 Clarke Street, Crows Nest
– 4 lettings agreed in 3 months
- 308 Pacific Highway, Crows Nest
– 350sqm leased to restaurant

Contact details

Call **David Bolt** or **Chris Hartigan** on **9955 9211**

Leasing	Property Management
Michael Vanstone	Amy Collins
Adam Ray	Tracey Stewart
Ryan Christoffersen	
Gareth Carpenter	

- Leasing
- Sales
- Property Management



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