MIPIM-Special

Australia – rents, yields and visions of real estate markets in Down Under

Australien gehört zu den wenigen Volkswirtschaften, welche die Finanzmarktkrise unbeschadet überstanden haben. So liegt die Zahl der Erwerbstätigen heute sogar um fast ein Zehntel höher als noch 2007. Die stabile wirtschaftliche Entwicklung gepaart mit dem durch eine expansive Geldpolitik gestiegenen Anlagebedarf der Investoren führten 2013 dazu, dass die Transaktionsvolumina bei Büro- und Einzelhandelsimmobilien auf dem fünften Kontinent selbst die Boomjahre 2005 bis 2007 übertrafen. Auch 2014 erwarten die Autoren weitere positive Nachfrageimpulse. Europäische Investoren sehen sich allerdings einem beträchtlichen Währungsrisiko gegenüber, denn allein im vergangenen Jahr verlor der Australische Dollar gegenüber dem US-Dollar 15 Prozent. (Red.)

The calendar year 2013 marked a significant recovery for investment markets with property sales turnover at record levels and strong gains made on local and global sharemarkets – interest rates have stayed low, the search for yield and security remained strong however there has been more capital allocated for higher risk property including development. The S&P500 index rose 25 percent to a record high reflecting cheap capital and a sense of economic recovery in the United States. The Australian ASX200 Index rose 13 percent and the Australian dollar fell 15 percent against the US dollar. Nationally in Australia over 22 billion dollars of commercial property has been transacted and over three million square metres of industrial and office space has been reported leased which gives us confidence that the markets are operating normally.

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Industrial investment market

Industrial property in Australia ranges from local service industrial such as panel beaters, spray painters, plumbing and other wholesale trade supplies to heavy industry such as refining, tanning and petrochemicals as well as warehouse and logistics facilities, manufacturing, assembly and food production. Some industrial also includes research and development facilities, cold stores and highly specialised facilities.

Savills recorded approximately three billion dollars worth of industrial transactions in the twelve months to December 2013, up from 2.67 billion dollars in the previous year. The 'Trust' purchaser category was the most active in the investment market for the year ended December 2013, purchasing 34 percent of stock reported sold.

Australian institutional investors (Funds, Trusts and Syndicates) are increasingly active as flows to superannuation continue unabated. Private investors continue to be attracted to industrial property investments nationally due to the high yields and generally long leases to single tenants in simple buildings. In the twelve months to December 2013 there has been very little change in Australian average prime and secondary industrial rents at 118 dollars and 84 dollars respectively. Market yields average eight percent for prime and 9.5 percent for secondary whilst capital values average 1,493 dollars per square metre for prime and 896 dollars per square metre for secondary.

Office properties

The office cycle is behaving exactly as we would expect. Australia's CBD office markets have weathered the twin effects of the GFC and the mining investment boom over the past six years to register almost a million square metres of net absorption. The fact that we have added 1,750,000 square metres of space to our CBD markets in the same six year period says a number of things:

- Rents are at a level where construction can occur.

- Businesses are in a position to commit to a new building. They are confident, forward looking, managing their business affairs well.

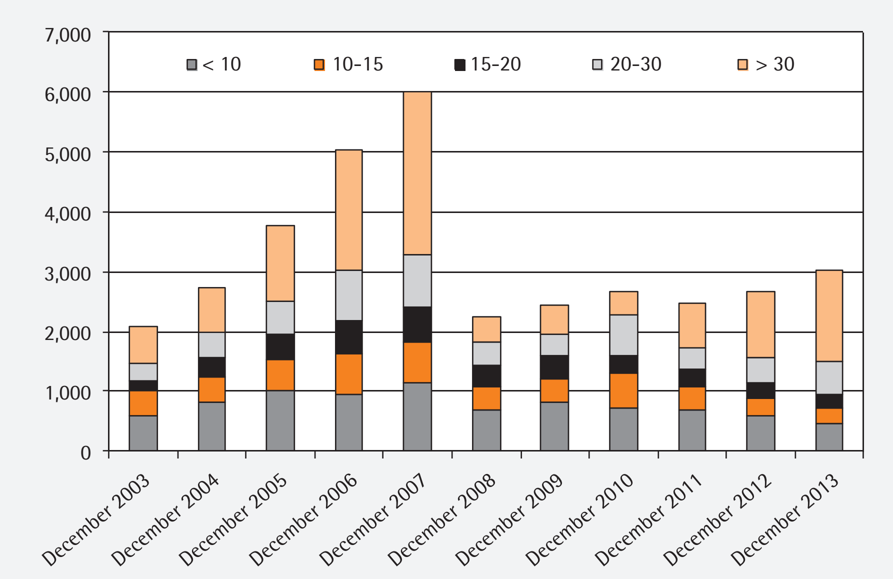
- Banks, developers and funds are ready and available to ensure buildings are constructed.

These are signs of markets behaving as they are supposed to.

Savills has recorded approximately 12.4 billion dollars worth of office transactions in the twelve months to December 2013 nationally. This is up 92 percent from 6.5 billion dollars in the previous year. The 'Fund' purchaser category was the most active in the national office investment market for the twelve months to December 2013, purchasing 31 percent of the stock sold (or 3.8 billion dollars worth of office transactions).

Having been sidelined for several years due to issues surrounding their balance sheet and their units trading at a dis-

Figure 1: Industrial Property Sales by Price Range (in Million Dollars)



Source: Savills Research

count to NTA, the Trusts are back and buying again. Funds are increasingly active as flows to superannuation continue unabated. Foreign investors continue to be attracted to CBD office buildings in Melbourne and Sydney.

Investments in retail properties

In the twelve months to December 2013 there has been a fall of between four and nine percent in Australian average prime and secondary office rents. Market yields average 6.5 percent to 7.5 percent for prime and 7.5 to nine percent for secondary whilst capital values average 10,000 dollars per square metre for prime and 5,000 dollars per square metre for secondary.

The retail sector faces both cyclical and structural issues. Some cyclical issues are starting to move in its favour. Consumer confidence is improving and the cyclical falls in interest rates are certainly helping. Employment is growing strongly in four or five sectors and shrinking in four or five sectors and the jobs gained and lost are not necessarily in the same physical place. This means certain catchment areas are doing it tough and some are doing well.

Australia is almost unique in the world as being one of very few countries that have expanded their workforce during the global financial crisis. The Australian workforce has grown by almost a million people from 10.7 million to 11.6 million from November 2007 to November 2013. The newly arrived population have a profound impact on property because they need somewhere to live and goods to put in it creating instant demand for housing and retail goods.

The structural issues facing retail are more formidable but not insurmountable. Savills expect the retail sector to evolve to take advantage of the structural issues rather than be over-run by them. The ageing of the population will continue to create challenges for retailers as they jockey for the dollars of retirees. Retirees can be expected to prefer services over goods and will not necessarily continue to dwell in their traditional catchment areas. Internet retailing has already changed the face of retailing for certain categories of goods and will no doubt continue to evolve and challenge more categories over time. New business models are establishing themselves.

Shopping centre income as at December 2013 currently ranges

– between 392 and 550 dollars per square metre per annum in Regional Shopping Centres,

– between 270 and 363 dollars per square metre per annum in Sub-Regional Shopping Centres,

– between 200 and 350 dollars per square metre per annum in Neighbourhood Shopping Centres and
- between 110 and 245 dollars per square metre per annum in Bulky Goods Centres.

Typically, centre incomes have been stable over the year.

Shopping centre yields as at December 2013 currently range between 5.50 and seven percent for Regional Shopping Centres, between 7.25 and nine percent for Sub-Regional Shopping Centres, between seven and ten percent for Neighbourhood Shopping Centres and between 8.75 and eleven percent for Bulky Goods Centres. Typically, yields have been stable over the year.

Savills recorded approximately 6.8 billion dollars worth of retail property transactions nationally in the twelve months to December 2013, up from 4.4 billion dollars in the previous year. The ‚Trust' purchaser category was the most active in the investment market for the year ending December 2013, purchasing 35 percent of stock sold.

Significant Australian property transactions June to December 2013

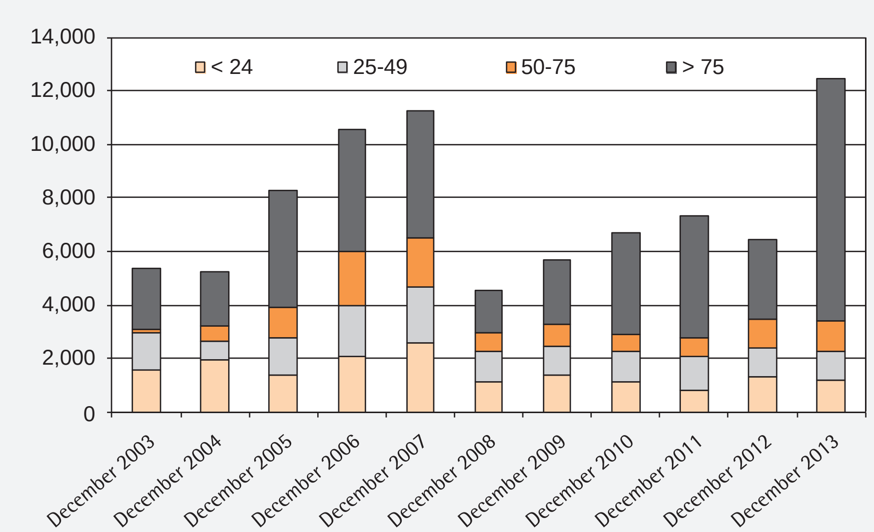
Property	Location	Price (AUD)	Price (USD)	Buyer	Usage
200 George St (50% share)	Sydney CBD	317.0	298.0	AMP Capital Investors	Office
10 Binara St	Canberra	151.7	142.6	Brompton Asset Management	Office
747 Collins Street	Melbourne	279.0	262.3	CIMB-Trust Capital Advisors	Office
380 La Trobe Street	Melbourne	115.0	108.1	Invesco	Office
206 Bourke Street	Melbourne	105.0	98.7	Hiap Hoe Ltd	Retail
179 Turbot Street	Brisbane CBD	170.0	159.8	Kumpulan Wang Persaraan	Office
Homemaker City, Wickham Street	Fortitude Valley	103.8	97.6	Altis Property Partners	Retail
Karrinyup Shopping Centre (33.3%)	Karrinyup	246.7	231.9	UniSuper	Retail
Harbour Town	West Perth	205.0	182.5	Far East Organization	Retail
Bunbury Forum Shopping Centre	Bunbury	137.1	122.0	Challenger Life	Retail
307 Queen St	Brisbane CBD	120.8	107.5	GDI	Office
15 Green Square Cl	Fortitude Valley	110.0	97.9	GPT	Office
Harbourside Shopping Centre	Sydney	251.0	223.4	Mirvac	Retail
Sydney Corporate Park	Sydney	343.0	305.3	Goodman Group	Industrial
Leighton HQ	North Sydney	413.2	367.7	Suntec REIT	Office
Northpoint Tower	North Sydney	278.7	240.0	Cromwell Property Group	Office
Optus Centre (49%)	North Ryde	184.4	164.5	AIMS AMP Industrial REIT	Office
Sydney Water HQ	Parramatta	166.0	147.7	Brompton Asset Management	Office
227 on Elizabeth	Sydney CBD	145.0	129.1	Far East Organisation	Office
Centennial Plaza Tower C	Sydney CBD	120.8	107.5	Invesco OBO CIC	Office
Optus Centre, 367 Collins St	Melbourne CBD	225.0	252.8	Mirvac	Office
485 La Trobe St	Melbourne CBD	181.6	204.0	Lend Lease	Office
Rosebud Plaza, Boneo Rd	Regional Victoria	100.0	112.4	Charter Hall Retail REIT	Retail
Bendigo Marketplace, 37 Garsed St	Regional Victoria	165.0	185.4	ISPT	Retail
Somerton Logistics Centre, Cooper St	Melbourne North	121.0	136.0	Charter Hall	Industrial

Source: Savills Research

Australian institutional investors (Funds, Trusts and Syndicates) are increasingly active as flows to superannuation continue unabated.

Foreign investors have been purchasing part shares of shopping centres as passive investments whilst private investors continue to be attracted to high street and CBD retailing and freestanding supermarkets. The Australian economy is being rebalanced as growth in mining investment softens. This means housing and retail should continue to lift with positive knock on effects to industrial and office markets. As consumer confidence continues to rise, so should business confidence. As profit margins are restored, business decision making should gain momentum.

Figure 2: Office Property Sales by Price Range (in Million Dollars)



Source: Savills Research

Stronger tenant and investor demand

Some State governments will move into election mode and could be expected to provide some stimulus to parts of the economy providing further momentum to investment markets. China and the United States are forecast to contribute positively to Australia's economic outlook whilst Europe could be on the cusp of a subdued recovery.

If the RBA are successful in stimulating growth in the non-resources side of the economy then the commercial property markets nationally should be the beneficiaries of stronger tenant and investor demand. Signs of this were seen in the last six months of 2013 and Savills Research expects this trend to strengthen in 2014.Commercial property yields in particular continue to look attractive.