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Commercial Real Estate Services, Worldwide.

NAI HARCOURTS MARKET LEADER

Bringing you the latest news, fact and figures from the world of commercial real estate.

SPOTLIGHT ON AUSTRALIA

Growth has been a clear focus for NAI Harcourts Australia over the past 12 months and this is not only reflected in our growing locations and sales consultant numbers, but in the positive market outlook we're seeing across each state.

NEW SOUTH WALES

A combination of factors has seen upward pressure on average industrial rentals and capital values in recent years. These include demand for industrial space, a strong housing market and improved transport infrastructure in Sydney.

New development in Sydney is taking place near newer land release areas close to major infrastructure.

Areas with new large residential subdivisions have also seen retailers wanting to capitalise, boosting commercial development nearby.

VICTORIA

Current interest rates are at an all-time low making the leasing market tougher, as it's cheaper for most companies to purchase their own buildings. This market and a push for self-managed super has prompted many company owners to purchase commercial property with their super, then lease the properties back to themselves.

Investors have been purchasing off the plan in the Epping wholesale fruit and vegetable market precinct in the hope of securing market-related tenancies.

Some recent investment sales have recorded between 6.5–7% rental yields.

QUEENSLAND

Yields in Brisbane have continued to tighten, but stock has now become the difficulty. Expectations are now around the 7-7.5% mark for mid-level stock after a tightening in from 8%.

High quality stock with good Weighted Average Lease Expiry (WALE) is now punching through into sixes.

A good example is the following listing in Slacks Creek, Brisbane:

Located on the Pacific Highway, Slacks Creek, Brisbane

This property is a retail service centre, anchored and tenanted by a BP Service Station, Zarraffas Coffee, Subway, Origin Kebabs, Oliver's Real Foods and other retailers.

Nett rental earning potential sits at approximately $730,000 per annum

SOUTH AUSTRALIA

Pre-commitment leasing activity in Adelaide dropped significantly while demand for existing facilities was relatively positive.

Investment sales in the lower price bracket (less than $5 million) remained strong, underpinned by owner-occupier and private investor demand.

Over the past year, approximately 60% of reported industrial properties transacted were valued in the range $1-$10 million.

Prime industrial yields as at June 2015 are estimated to range between 8.25%-9% in the North West, and between 8.5%-9.5% in the North.

TASMANIA

Tasmania has seen improved commercial property investor enquiries in both Launceston and Hobart.

Confidence in Tasmania continues to increase and it's above all states except NSW; very positive given Tasmania was at the bottom of the index until June 2013.

This continued improvement in confidence has resulted in a stock shortage and upward pressure on prices as purchasers compete to secure investment.

According to the Property Council of Australia's latest research, the Hobart CBD office market has experienced an increase in vacancy from 7.3%-8.9% as a result of supply additions of 9,555sqm and ongoing negative demand with -2,303sqm of net absorption.

Yields vary from 6.5 % to 8% for Hobart CBD commercial and retail properties with industrial properties in Hobart industrial precincts around 8%-9%. Yields have improved in 2015 most likely as a result of increased competition from interstate purchasers.

INVESTMENT PROPERTY: COMMERCIAL v RESIDENTIAL

When discussing the merits of a commercial property investment versus a residential property investment, there are a few key points to keep in mind. Here we explore the merits of commercial investment properties over residential.

Familiarity means residential property tends to win the competition for investors' money. But there are real advantages in investing in commercial property.

When it comes to property investment, the residential market gets the lion's share of attention, whether it's constant media coverage or advice on where and what to buy for maximum returns.

This is just one contributing factor to why the majority of investors gravitate towards residential property.

Buying a house as a rental seems to be an easy way to gain entry into property investment, and in many ways it is. We all live in houses or apartments and so feel that we know and understand them, whereas a commercial property can seem far outside our comfort zone, simply because they are different to our experience of homes and property.

The lack of familiarity raises many unfounded concerns. What if the tenant moves out? What if they don't pay the rent? What if we lose money?

These are all valid questions, but they key is understanding the fundamentals of the commercial property market.

Tenants only with a good reason. Not only is there the physical cost of moving, there is the disruption to business and customers, and clients often don't like change, even a change of location.

Business failure may result in a vacancy, but as with any property investment, location is key. Good locations attract tenants, so taking advice and choosing wisely when purchasing reduces the risk of longer term vacancies.

In the same way that you will always pay more for premium locations with higher rentals, secondary properties, whilst achieving lower rents, will sell for lower prices, and are likely to still make for very attractive investments.

What really separates commercial from residential investment is the yield on that investment.

Residential tenants pay a gross rental, meaning the landlord covers the rates and insurance, while in most cases the commercial tenant will let on a nett basis whereby they pay the rent, plus the occupancy costs of rates, insurance and body corporate. The overall result is generally a much higher yield than residential, usually between 5% and 9%, or even higher depending on the location, type of property and lease terms.

In a time of falling interest rates where bank rates for term deposits are also very low, commercial property is an extremely viable option for securing an ongoing income.

LOOKING TO INVEST IN NEW ZEALAND?

NAI Harcourts Key Assets magazine is now available. Key Assets features commercial, industrial and retail properties, as well as businesses for sale and properties for lease throughout New Zealand.

Talk to your NAI Harcourts sales consultant if you would like to learn more about the portfolio and to pick-up your copy.

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