

Commercial Property Possible Trends In 2019

2019 Commercial Property Trends

Overall property outlook including government regulations & how that may impact Commercial property

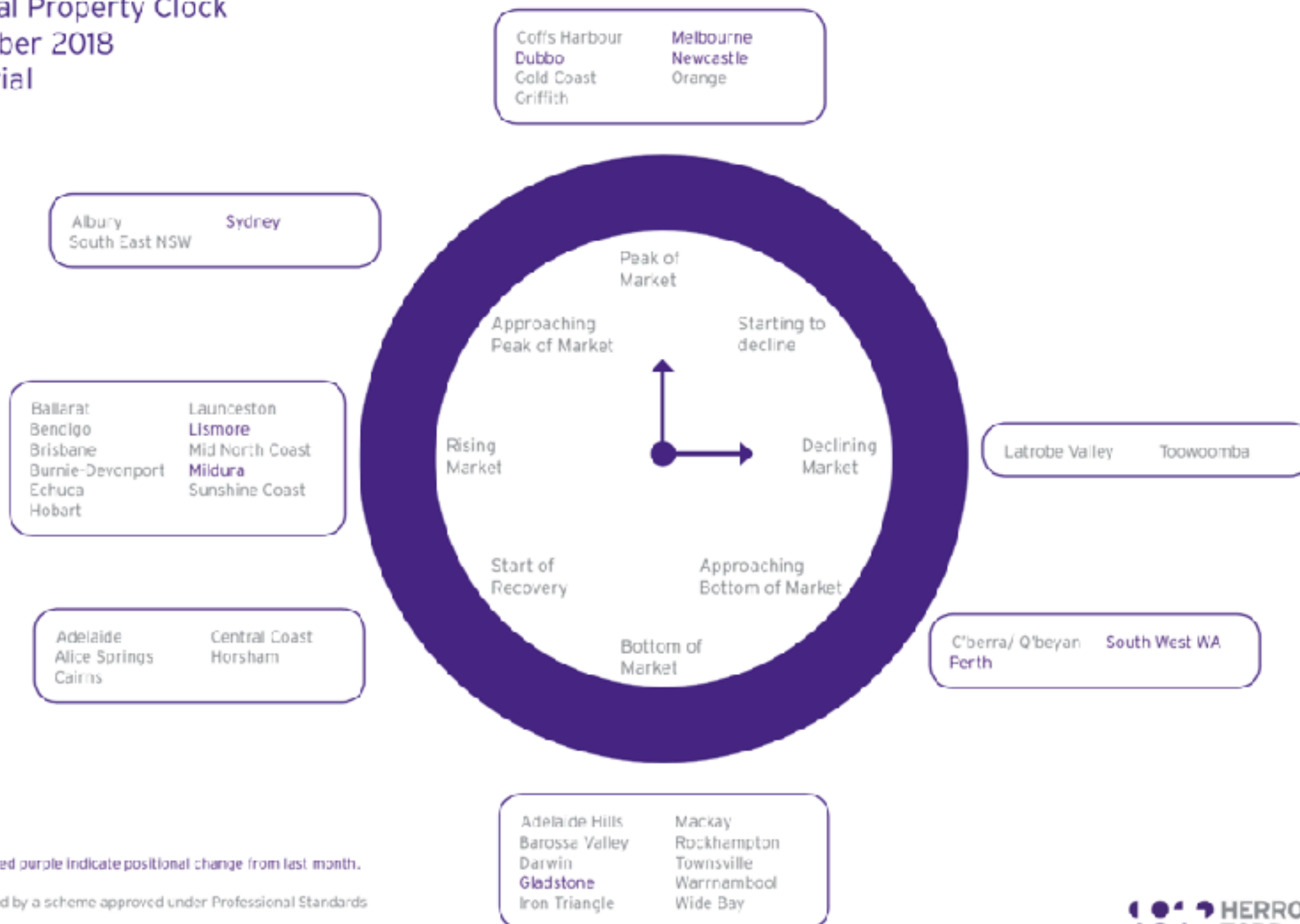
Snapshot of Sydney - Melbourne - Brisbane -Adelaide

Foreign investors

Trends affecting Commercial property & Comparing Retail-Office - Industrial

Dec 2018 Commercial Property Clock

National Property Clock
December 2018
Industrial



Entries coloured purple indicate positional change from last month.

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Overall Property Outlook

- Sydney & Melbourne have slowed considerably in residential-
- This is being further impacted by investors, facing tighter than usual lending restrictions,
- Tighter lending restrictions are due to both regulatory changes and the big four banks making moves to tighten lending from the banking royal commission.
- *<https://www.afr.com/personal-finance/whats-ahead-for-real-estate-in-2019-20181207-h18uxs>*

Overall Property Outlook

- Forecasts of slow growth in the Australian property market for 2019, before seeing a modest rebound in 2020.
- The median sale price in Australian houses is expected to increase just 1 per cent next year, while units may see an increase of just 2 per cent.
- Looking at some key indicators of demand, it seems that the commercial real estate segment as a whole is softening with the residential market.
- However, given the diversity of building types within commercial real estate, there are a few asset types which stand to go against the downswing trend.
- *<https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>*

Overall Property Outlook

- Various indicators suggest that when residential property is booming, commercial real estate markets will generally rise as well.
- The graph below shows the movement of two confidence indices over time – one for residential real estate, the other for commercial.

Capital growth expectations - commercial versus residential



- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

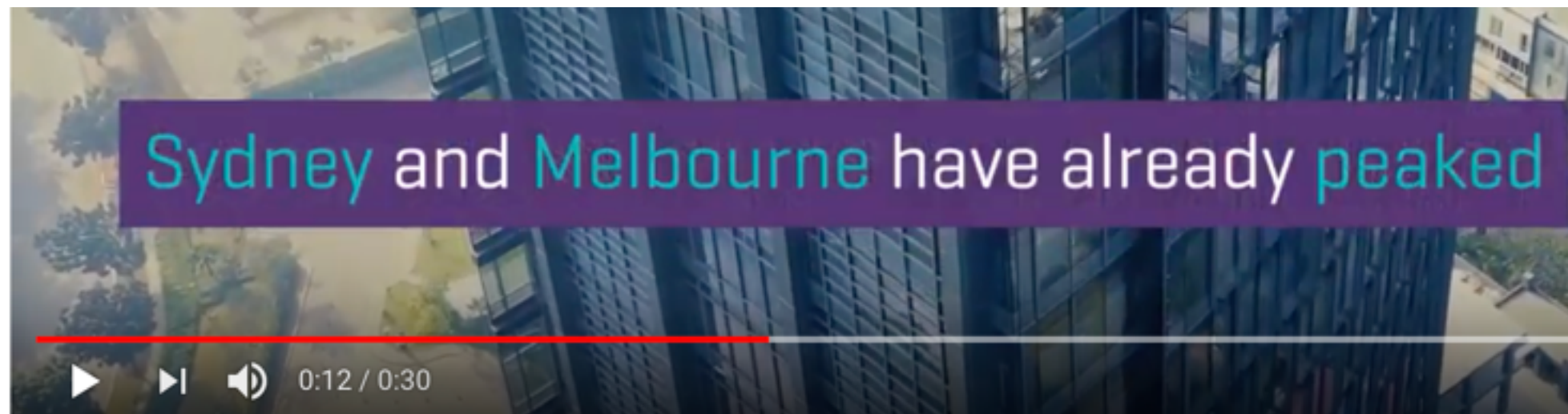
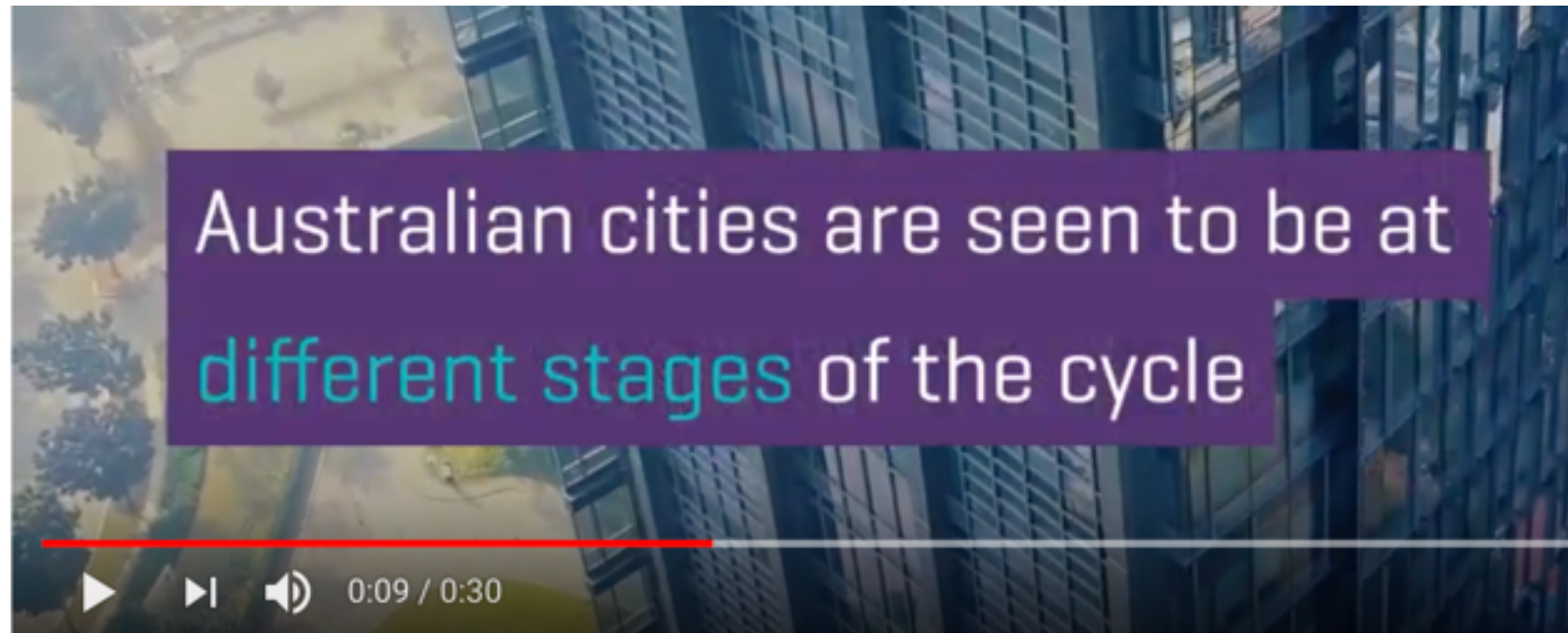
Shared Growth Drivers

Both residential and commercial real estate have some shared growth drivers:

- Growth in population
- Increases in employment and
- Cheap credit (Low interest rates) The low cash rate meant that high levels of capital were available to drive up the price of commercial real estate assets. Low interest repayments also increased tolerance for relatively low rental yields.
-are all factors that can drive up the value of both commercial and residential assets at the same time.

- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

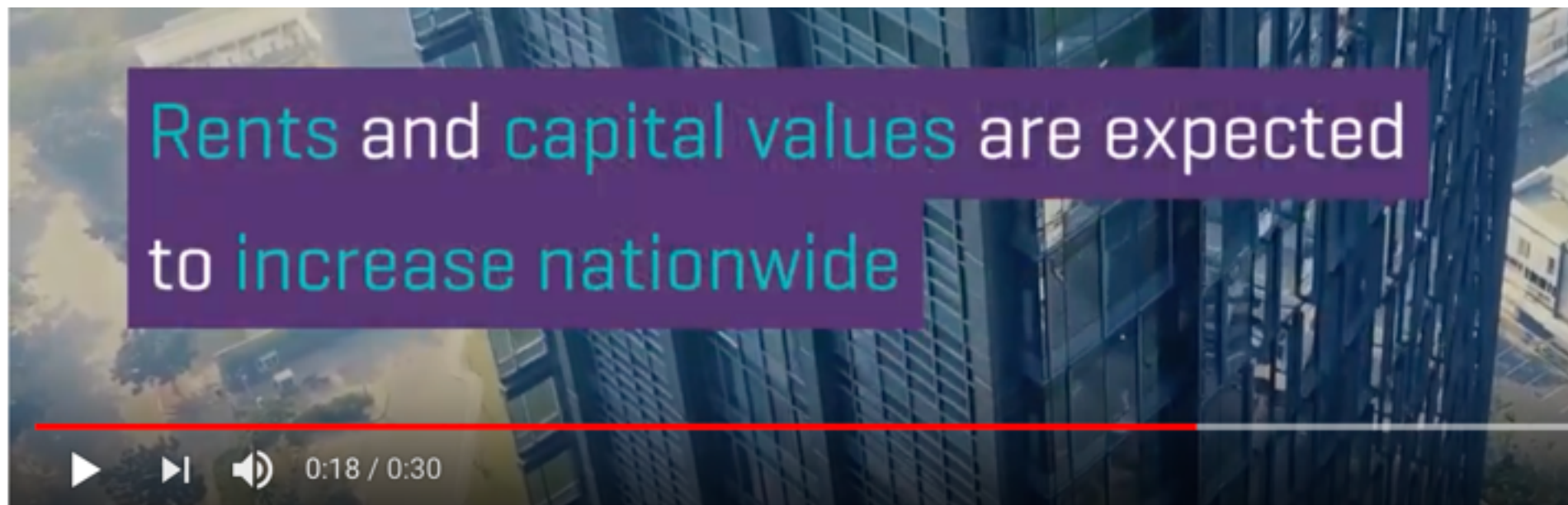
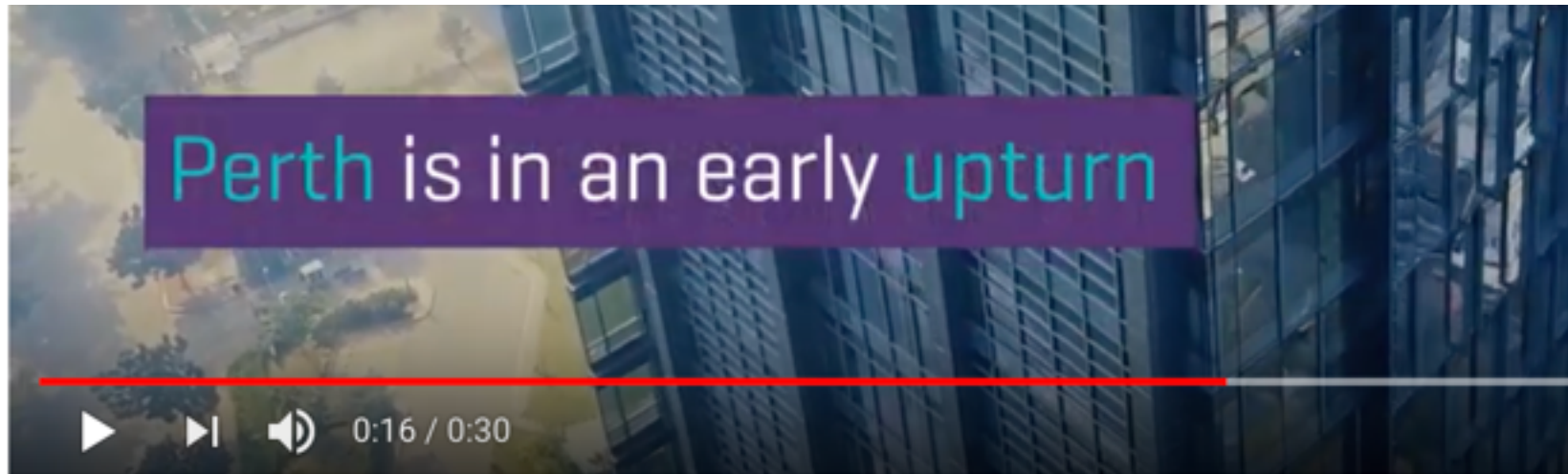
RICS assessment Q3 2018



30-second summary: RICS Commercial Property Monitor, Q3 2018, Australia

- <https://www.rics.org/oceania/news-insight/research/market-surveys/global-commercial-property-monitors/>

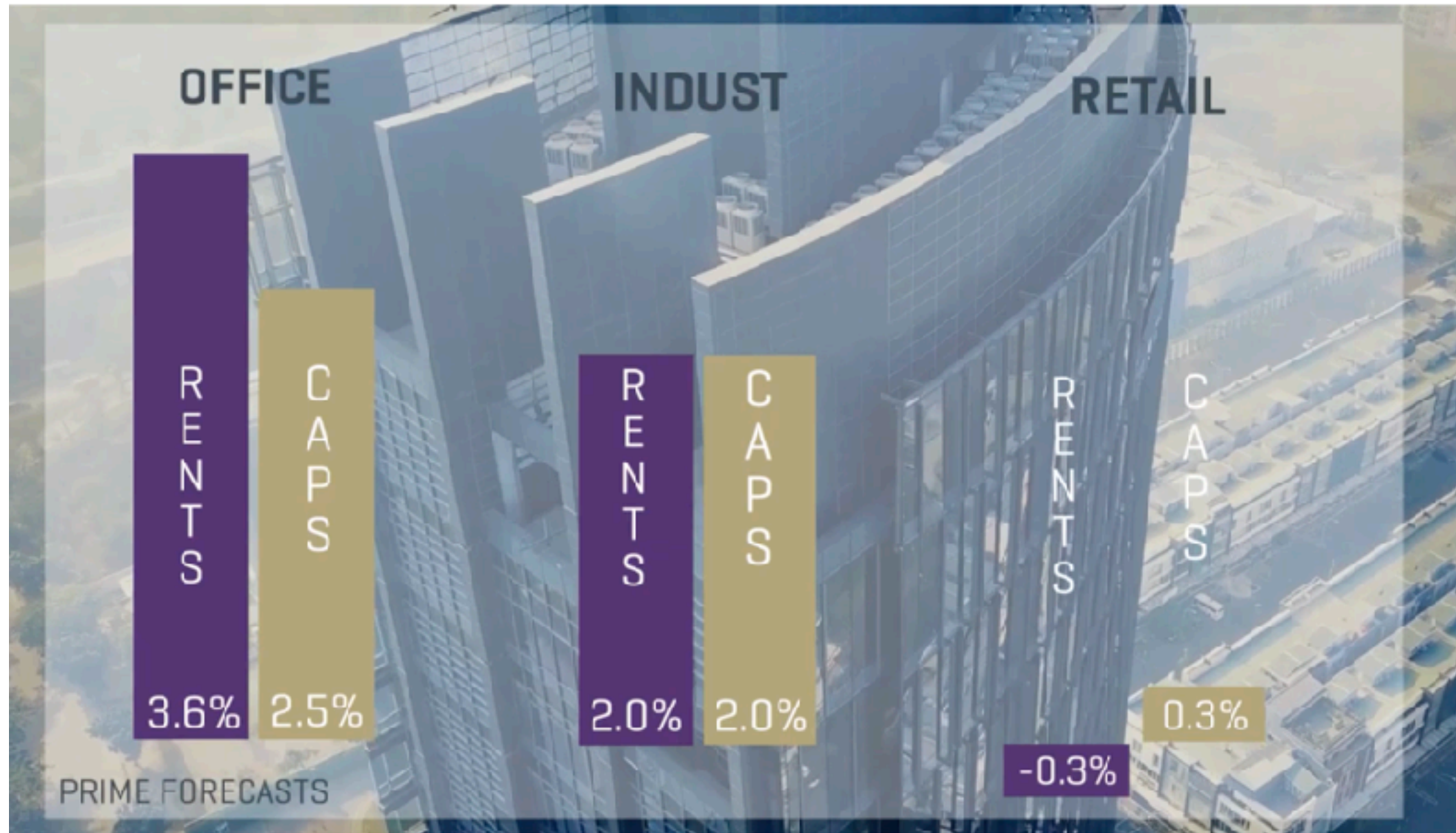
RICS assessment Q3 2018



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- <https://www.rics.org/oceania/news-insight/research/market-surveys/global-commercial-property-monitors/>

RICS assessment Q3 2018



Second summary: RICS Commercial Property Monitor Q3 2018 Australia

- <https://www.rics.org/oceania/news-insight/research/market-surveys/global-commercial-property-monitors/>

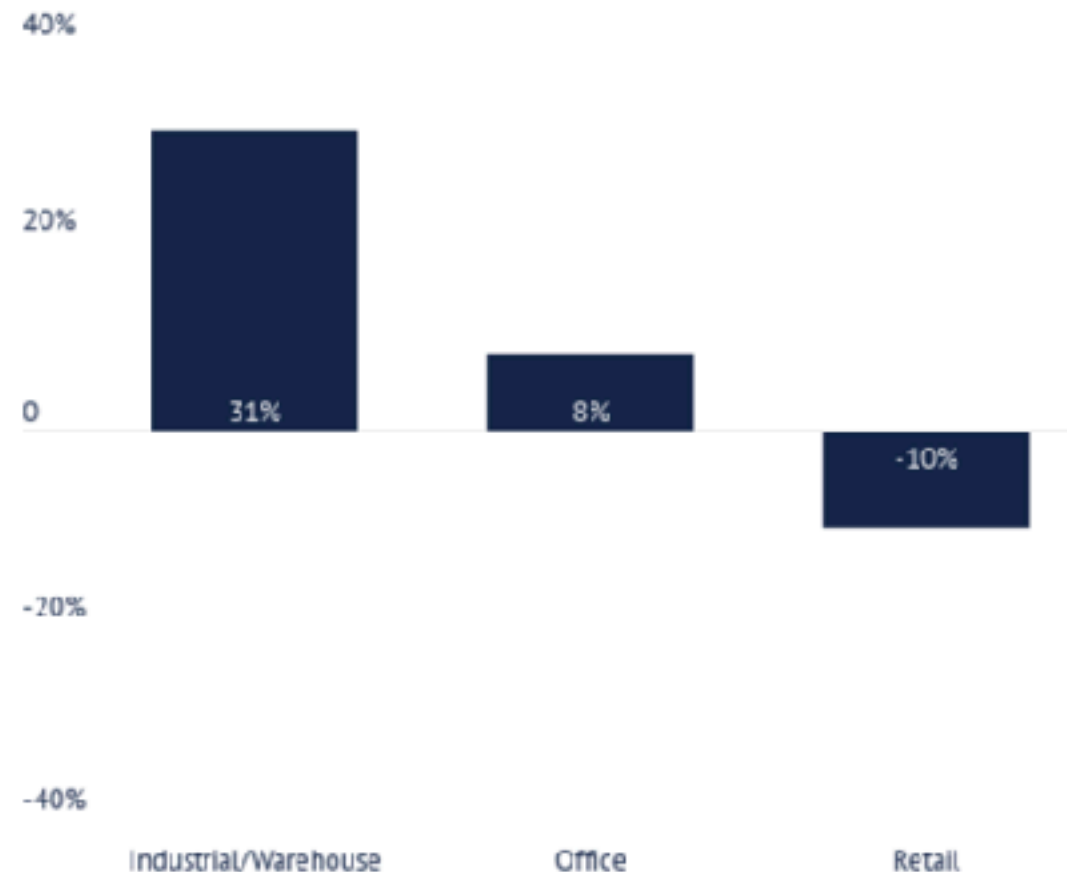
Comparative Property Views & Searches

- Industrial real estate is the asset best weathering the storm of tighter credit conditions and subdued investor demand.
- Industrial real estate saw a 31 per cent increase in the views per listing over the year to September, compared with a negative 10 per cent in retail views.

- *<https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>*

Comparative Property Views & Searches

Year on year change in views per listing - commercial real estate



Source: Commercial Real Estate

Note: graph represents the change in the number of click-through views per commercial property listing by broad classification type. The change is measured between the September 2017 and 2018 quarters.

- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Factors Affecting Retail

- The weaker outlook for retail property is unsurprising, as people are buying less, and visiting shops less.
- The latest economic data from the Australian Bureau of Statistics suggests annual trend growth in household consumption has been below average since December 2011.
- Low levels of growth in household consumption have likely resulted from low wages growth. Annual growth in wages sat at a record low 1.9 per cent over 2017, and has lifted to just 2.3 per cent in the year to September.
- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Factors Affecting Retail

- Consumption is also increasingly moving online, as households seek added convenience and lower prices.
- Estimates from the ABS suggests online retail made up a record 5.9% of total retail turnover in Australia for October.
- These economic indicators point to fewer retail visits, and fewer businesses opening up bricks-and-mortar stores. This in turn points to less competition for store spaces, reducing rental yields and property values.
- There has been a 10 per cent decline in views per listing for retail properties on Commercial Real Estate's website.

- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Suburban Retail High Streets

Increase In Retail High Streets

- With a population boom in all major metropolitan cities and their suburbs, the number of residential properties and development projects have grown.
- Notice the apartment development cranes all over Melbourne
- Consequently, the demand for retail shopping strips and high streets have increased and will keep on amplifying in the near future. High-end shopping centres with amenities and conveniences like food and beverage outlets and other entertainment zones will be on the higher side
- These strips will hold their ground against competition from e-commerce giants like Amazon as they would be anchored by high-end restaurants and pubs and other recreational shops. (AND major supermarkets)

- <https://www.commercialproperty2sell.com.au/blog/2018/08/is-the-australian-commercial-real-estate-mark.php>

Impact on Industrial

- The fall off from Retail, places warehouses in major metropolitan cities in particular demand.
- As the housing market enters a decline, industrial warehouses are increasingly diverging from the residential growth cycle.
- Industrial real estate, particularly warehouses servicing storage and distribution, may have partially grown in popularity with the rise of online shopping.
- Research of US commercial markets suggest that a significant portion of demand for storage and logistics space has come from increased ecommerce business.
- *<https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>*

Impact on Industrial

- Demand for warehouse buildings is evidenced in the latest building activity data. The June 2018 quarter saw a record \$1.1 billion worth of warehouse construction commenced.
- This is driven by more than \$600 million worth of warehouse starts across NSW, as retailers and other businesses set up near the future Badgerys Creek Airport site.
- *<https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>*

Impact on Industrial

- Rapid development in residential real estate has crowded out space for industrial warehouses, particularly in geographically constrained cities like Sydney. With increased scarcity of industrial land, rental yields and demand for industrial property is rising.
- Industrial warehouses are important for growing cities, as they are necessary for the local production, storage or distribution of goods.

- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Industrial Rise in Demand

- Logistics topped the list in the ULI/PwC survey as the most preferred property sector to invest across the Asia-Pacific region in 2019.
 - For most institutional investors, industrial remains a small component of their investment portfolios, well behind office and retail.
 - This is changing as investors re-rate industrial and some are now seeing it as the retail of the future in their portfolios.
-
- <https://cuffelinks.com.au/australia-tops-region-property-investment-2019/>

Industrial Rise in Demand

- Demand for industrial space is being driven by businesses looking for greater efficiency through the optimisation of their supply chains and warehouse footprints.
- There is a rise of e-commerce logistic players wanting large, state of the art distribution centres located at major transport hubs.
- More recently, demand has also spread to last-mile delivery hubs, which provide smaller fulfillment facilities strategically located nearer to, or in, city centres allowing retailers and third-party logistics providers (3PLs) to offer next day, or even inter-day (two hour) delivery.

- <https://cuffelinks.com.au/australia-tops-region-property-investment-2019/>

Industrial Rise in Demand

- Investors have responded by driving down industrial yields to enter the sector.
- The yield spread between industrial and both office and retail property has compressed more over recent years than in previous cycles.
- According to JLL, prime Sydney industrial yields currently average 5.38%, just 0.63% higher than prime Sydney CBD office yields at 4.75% and 0.56% higher than prime retail yields at 4.82%.
- <https://cuffelinks.com.au/australia-tops-region-property-investment-2019/>

Office Trends

- For office assets, key indicators are business and labour market performance – particularly in service-based economies like Australia.
- Until recently, business performance looked strong, and developers seemed bullish about office markets. This is particularly the case in Sydney and Melbourne where office vacancy rates remain tight, and high levels of office development are taking place.
- However, industry professionals argue that office assets may be on the cusp of lower returns, as offices see a decline in rental yields amid rising prices.
- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Office Trends

- Business growth indicators are slipping, which could indicate a decline in the demand for office assets.
- Annual growth in full-time employment – a leading indicator of office vacancy – has also eased from its peak in December 2017 of 3.9 per cent, to 2.4 per cent in October 2018.
- The housing market may also indirectly impact demand for office space. As Sydney and Melbourne housing markets decline, household consumption is expected to follow.
- Reduced consumption of goods and services may lead to higher levels of unemployment, lower levels of hiring, and thus eventually ease demand for office space in Sydney and Melbourne.

- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Office Trends

Space-as-a-service to become more entrenched

- The space-as-a-service model is rapidly becoming the new reality.
- Latest estimates show almost 18,000 co-working spaces around the world, accommodating almost 1.7 million workers – representing growth of 3,500% and 8,000%, respectively, since the start of this decade.
- “Now they are rapidly scaling up in Australia as well, having become a growing feature of all major office markets, with substantial scope for further growth, since they still only represent around 1.5% of the stock in Sydney and Melbourne.”
- This has already seen pressure placed on landlords particularly at the smaller end of the market to compete more directly with co-working operators, with many owners now offering speculative suites and ‘plug and play’ office space alongside their traditional office space.

- <https://www.commercialpropertyguide.com.au/blog/news/5-trends-for-2019-the-year-ahead-with-knight-frank-125>

Urban Fringes

Focus on emerging fringes

- When it comes to rental growth, ‘substantial opportunity’ is to be found in Sydney and Melbourne’s emerging urban fringes as tenants look to escape escalating rents in tighter markets.
- In Sydney, ... Pyrmont, Surry Hills, and Alexandria,
- In Melbourne... Richmond, Cremorne and Collingwood.
- “Many of these markets offer cutting-edge amenity and in time will benefit from public infrastructure improvements,” he says.
- <https://www.commercialpropertyguide.com.au/blog/news/5-trends-for-2019-the-year-ahead-with-knight-frank-125>

Industrial property -Snapshot Across Australia

- Sydney - Industrial properties still performing strongly- population growth and strong leasing looking to continue to grow Yields of 4% to 7%- Demand still strong if well located near major transport routes and to regional business centres ... Liverpool, Campbelltown, Parramatta, Blacktown & Penrith.
- Melbourne - Industrial growth corridors Dandenong South, Pakenham, Epping, Oakleigh Sth & Clayton Sth- Also in the Western suburbs close to the West Gate Freeway, Princess Fwy and Western Ring Rd
- Brisbane - Industrial yields between 6.75% & 9.5%- Rental growth stable due to attractive rents and incentives for tenants.
- *Herron Todd White Report Dec 2018 Commercial*

Industrial property -Snapshot Across Australia

- QLD Gold Coast- Industrial rents good value and sales prices for investors remain stable 6.5% to 7%
- QLD Toowoomba - Industrial rentals tactic and incentives required for tenants. Yields strong at 8% to 9%
- QLD Cairns - area close to CBD has stronger demand. Generally sales are slow
- QLD Townsville - general oversupply of industrial property for lease

Research Reports Herron Todd White

- <https://www.htw.com.au/month-in-review/>

The screenshot shows the website <https://www.htw.com.au/month-in-review/>. The header includes the company logo, navigation links (ABOUT, EXPERTISE, CAREERS, NEWS), and a 'REQUEST A QUOTE' button. The main heading is 'December 2018 Month in Review'. Below this, a paragraph states: 'Our free monthly property report, the Month in Review identifies the latest movements and trends for property markets across Australia. A real eye-opener for anyone buying or selling property. [Subscribe below](#) to be notified of new Month in Review postings. Please note we do not on-sell your information to any third parties.'

Four report categories are displayed in a grid:

- COMMERCIAL**: Our December 2018 Commercial report is ready to read. [Download PDF](#)
- RESIDENTIAL**: Our December 2018 Residential report is ready to read. [Download PDF](#)
- RURAL**: Our December 2018 Rural report is ready to read. [Download PDF](#)
- FULL REPORT**: Our December 2018 full report is ready to read. [Download PDF](#)

Research Reports Knight Frank

- <https://www.knightfrank.com.au/research>

The screenshot displays the Knight Frank Research website. At the top, the Knight Frank logo is on the left, and navigation links for Australia, About us, Media Centre, Recruitment, Contact, and My Knight Frank are on the right. Below this is a dark green navigation bar with links for Property, People, Commercial Services, Residential Services, Research, and Blog. The main content area features a large banner with the text "RESEARCH, EXPLORE, DISCOVER" and a sub-header "Knight Frank Global Research produces market-leading residential, commercial and agricultural property reports". A search bar with "Brisbane" entered is highlighted with a green box. Below the banner, there are filters for Sectors (Residential, Commercial, Regional) and a "Commercial Reports" section. The "Commercial" filter is highlighted with a red box. The "Commercial Reports" section displays four report cards, each with a title, a thumbnail image, and a "View Report" button. The fourth report card, "Brisbane Industrial Market Overview - July 2018", is highlighted with a red box and has the text "Knight Frank reports" overlaid in red. The other reports are "Brisbane CBD Office Top Sales Transactions January...", "Brisbane Suburban Office Market Brief - March 2016", and "Inner Brisbane & CBD Hotel Research Insight March 2017".

Knight Frank

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Knight Frank Global Research produces market-leading residential, commercial and agricultural property reports

Brisbane

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Market Analysis
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Regional

Commercial Reports

Brisbane CBD Office Top Sales Transactions January...

Brisbane Suburban Office Market Brief - March 2016

Inner Brisbane & CBD Hotel Research Insight March 2017

Brisbane Industrial Market Overview - July 2018
Knight Frank reports

View Report View Report View Report View Report

Summary

- It is increasingly clear that both residential and commercial real estate in Australia is seeing slower demand of the back of affordability constraints, tighter lending conditions and increased operating costs in the financial sector.
- But the diversity of commercial real estate suggests there are still growth opportunities available.
- Scoping out different property types, talking to agents and following economic trends can make it easier to identify the building types most in demand.
- <https://www.commercialrealestate.com.au/news/with-residential-property-prices-declining-is-it-time-to-invest-in-commercial-real-estate/>

Summary

- As apartment developments rise in many suburbs close to the Major Cities like Melbourne, & Sydney.... Retail hubs for many of these suburbs are growing. They have low vacancy rates, as they provide sought after food, services, restaurants and cafes.
- Keep an eye out for possible declining trends in smaller offices, where service professionals are seeking Co-Working spaces instead of their own office.
- Industrial Property becoming more popular may drive up prices and decrease yields

Summary

Focus on income in future

- 2019 is set to be a pivotal year for Australian commercial property. If the ULI/PwC survey is any guide, Australia will remain an attractive destination for foreign capital.
- Competition for assets will remain high, with the office and industrial sectors being particularly attractive.
- Yet at this point in the cycle, after eight plus years of yield compression and strong capital growth, income is set to become the main driver of investment returns.
- Investors will be well served seeking quality assets with long-term leases underpinned by strong tenant covenants. It is these assets that will provide the best protection against any turbulence stemming from disruptions in the broader capital markets.

- <https://cuffelinks.com.au/australia-tops-region-property-investment-2019/>