Commercial Intelligence
Valuation Factors in 2015
Melbourne Market

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CHARTER. KECK CRAMER

Dislocation between the occupancy and investment market fundamentals will persist in 2015 after the turnaround that emerged in 2014. Notwithstanding the soft economic environment, yields will remain under downward pressure as a result of the weight of investment capital (local and offshore) seeking the security of Australian commercial property.

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Office - CBD

OCCUPIER DEMAND

Steady demand as wider economic conditions remain subdued. Vacancy remains modest but tenants retain the upper negotiating hand. Nevertheless, incentives are considered to have peaked.

SUPPLY

Limited new supply to emerge in 2015 given dampening effect of economic conditions upon tenant expansion, with those buildings coming online being fully or predominantly pre-committed.

RENTS & PRICES

Rental levels have remained stable over the last 12-18 months and it is anticipated this will continue in 2015. Nevertheless there has been downward pressure on yields as a result of significant investor demand. We expect 2015 will continue to see strong yields in this sector.

MARKET CONSIDERATIONS 2015

Underlying land value has become an important factor in commercial values, even where vacant possession cannot be achieved for a number of years, which has resulted in further tightening in yields. This is anticipated to continue through 2015 as there remains significant demand from developers.

Chris Holroyd
Director - CBD Valuations

Office - Suburbs

OCCUPIER DEMAND

Vacancy to continue at low levels as seen during 2014. Stable demand environment. New/quality stock will continue to perform well, with secondary stock at a moderate level.

SUPPLY

Very little activity in the city fringe suburbs, with most sites being purchased for residential/mixed use development.

RENTS & PRICES

City fringe rents likely to increase moderately as a result of limited new stock, but outer suburban rents likely to remain stable. Given the low interest rate environment and increasing land values in inner suburban locations, yields are likely to compress during 2015.

MARKET CONSIDERATIONS 2015

As CBD opportunities have reduced, local developers are shifting focus to sites and office buildings in inner Melbourne suburbs such as Richmond, St Kilda, South Melbourne, South Yarra, Hawthorn and Collingwood. Sites with an underlying *Mixed Use Zone (MUZ)* or *Commercial 1 Zone (C1Z)* have become highly sought after. Given the lack of vacant sites within the inner suburban market, developers are increasingly prepared to acquire sites which have existing leases, both on a short and long term basis, with the intention being to landbank development sites. This will contribute to yield compression in the inner suburban office market.

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Retail - CBD

OCCUPIER DEMAND

Solid leasing demand in the CBD particularly from food based operators. Additional accommodation from the opening of The Emporium and refurbishment of The Strand has been absorbed with several new entrants to Melbourne attracted to these centres.

SUPPLY

Additional floorspace is anticipated to be added in late 2015 through the opening of St Collins Lane (former Australia on Collins). Accommodation outside the retail core will continue to be delivered from new residential tower developments as they are completed, most notably within Fulton Lane.

RENTS & PRICES

Continued steady growth, particularly within prime areas where a number of major international brands are still seeking suitable landmark sites.

Yields are close to historically low levels which is anticipated to continue in the short to medium term due to demand from offshore (Asian) and local private investors.

MARKET CONSIDERATIONS 2015

Whilst retailing conditions will remain testing for occupiers, there is sufficient tenant demand to absorb upcoming vacancy and support modest growth in rental levels. Anticipated continued strength in the investment sector, particularly for those properties in the sub $10M range which represent relatively affordable assets within the Melbourne CBD.

Chris Holroyd
Director - CBD Valuations

Retail - Suburbs

OCCUPIER DEMAND

Uncertainty from economic drivers is having differential effects across the sector.

Demand for prime retail space will remain positive whilst secondary retail space is likely to experience ongoing challenges.

SUPPLY

Bulky goods will experience an increase in supply in growth areas, whilst a number of major shopping centres are already undergoing or planning for expansion.

RENTS & PRICES

Prime suburban shopping strip assets; fast food/fuel/liquor holdings leased to national retail brands; and most classes of shopping centres will continue to experience positive market sentiment.

MARKET CONSIDERATIONS 2015

Expected capital growth through 2015 will influence metropolitan Municipalities to adopt higher Statutory Assessments at 1 January 2016. This will result in higher occupancy costs and particularly higher Land Tax assessments.

In the $5M - $30M segment, investment holdings have been attracting stronger interest than conventional suburban retail strip holdings. Security of cash flow rather than rental growth prospects remain the primary attraction to investors.

Prime retail assets will continue to attract heightened demand from investors. Yield compression was evident through the latter half of 2014 and with the most recent interest rate cut, this may be the impetus for further downward movement in yields.

Bernard Cussen
Director - Retail Valuations

Industrial

OCCUPIER DEMAND

Increasing demand particularly from transport and logistics operators for prime industrial accommodation. Demand for secondary grade stock to remain steady.

SUPPLY

Future development in greenfield estates is largely underpinned by pre-lease commitments with limited speculative construction anticipated. Redevelopment of redundant buildings on large sites in established industrial precincts will continue through 2015 to delivery office warehouse units.

RENTS & PRICES

Rents to remain stable although increased incentives will reduce the net effective rent. Most recent interest rate cut (February 2015) and the significant weight of capital for industrial investment properties will continue to deliver yield compression, particularly for super prime assets.
As yields reach levels not seen since 2007, appetite for secondary grade assets will also improve.

MARKET CONSIDERATIONS 2015

Redevelopment of former industrial sites in inner city locations for residential use will force established service businesses to relocate within the local area and support continued demand.

Anthony Witton
Director - Industrial Valuations

Charter Commercial Valuations provides a team of 21 Specialist Valuers across various property sectors including Office, Retail, Industrial, Hospitality, Health, Childcare and Business.

Our industry knowledge is second to none, with each area of specialisation containing one or more Professionals with 15+ years of experience.

Recent Transactions of Significance

PROPERTY / ADDRESS	SALE PRICE ($ MIL) / PASSING YIELD	VALUE RATE ($ P.S.M. BUILDING)	COMMENT
RETAIL			
196-202 Burwood Road **Hawthorn**	**$30.50 / Nil**	**$4,349 (Land)**	*Commercial 1* development site of 7,013 sq.m. Sets a new benchmark for land values in this precinct. **Charter Commercial Valuations: Advisory**
250 Swanston Street **Melbourne**	**$4.80 / 4.23%**	**$46,202**	Ground floor retail unit which achieved a freehold-like yield. Last sold in 2008 with price having almost doubled in six years. Shows the level of demand for well located retail assets within the CBD.
484-490 Blackburn Road **Blackburn**	**$9.05 / 4.64%**	**N/A**	Demonstrates recent positive investor sentiment for fuel sites that benefit from lease covenants involving long lease tenure and strong reversionary land value. **Charter Commercial Valuations: Advisory**
Bunnings **Hastings**	**$15.16 / 6.5%**	**$1,585**	A modern Bunnings Warehouse in a fringe outer suburban location that benefited from an initial 15 year lease. Sets a new yield benchmark for this asset class. **Charter Commercial Valuations: Advisory**
Woolworths **Port Arlington**	**$8.00 / 5.48%**	**$4,182**	Standalone Woolworths Supermarket in a regional location provided rare opportunity to acquire a major supermarket under $10M. **Charter Commercial Valuations: Advisory**
OFFICE			
350 Queen Street **Melbourne**	**$135.00 /4.50%**	**$5,603**	Purchase by an offshore party with significant vacancy risk, but ultimately relating to a large site with three street frontages. Price reflected, in part, short term redevelopment potential for part of the site. **Charter Commercial Valuations: Mortgage Valuation**
235 Swanston Street **Melbourne**	**$23.00 / 3.49%**	**$9,783**	Older 12 level office building on the fringe of Chinatown. Particularly strong passing yield which reverts to 4.6% on a market basis.
179-181 Flinders Lane **Melbourne**	**$11.40 / 4.34%**	**$8,713**	Very firm yield for an attractive older style (albeit fully refurbished) office building. Demonstrates strength of demand for properties within this particular CBD precinct. **Charter Commercial Valuations: Mortgage Valuation**
254-280 La Trobe Street **Melbourne**	**$36.00 / 5.94%**	**$6,325**	Five level retail / office building which is fully occupied. Full lease expiry not until March 2020 at the earliest, with price supported by underlying land value. **Charter Commercial Valuations: Mortgage Valuation**
85 Coventry Street **Southbank**	**$15.20 / 4.77%**	**$15,574 (Land)**	Leased inner Melbourne office building with strong redevelopment prospects. Record land rate.
INDUSTRIAL			
34-140 Fairbairn Road **Sunshine West**	**$13.50 / -**	**$800**	Significant older style industrial complex (in excess of 15,000 sq.m.) which sold to an intending owner occupier. **Charter Commercial Valuations: Advisory and Mortgage Valuation**
1 Fiveways Boulevard **Keysborough**	**$4.15 / 7.64%**		Modern industrial facility sold subject to lease with approximately 8.67 years certain term remaining. Sale reflects strong market conditions for leased industrial assets. Reversionary Yield 6.91% **Charter Commercial Valuations: Mortgage Valuation**
207-211 Hyde Street **Yarraville**	**$2.30 / -**	**$730 (Land)**	Acquisition of an *Industrial* zoned infill site which will be developed with multiple units. **Charter Commercial Valuations: Advisory and Mortgage Valuation**