

Charter Insight

Commercial Intelligence

Valuation Factors in 2015

Melbourne Market

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COMMERCIAL
VALUATIONS



Office - CBD

OCCUPIER DEMAND

Stable conditions with a gradual increase in the number of leasing deals coming through which has been reflected in a fall in the vacancy rate to 8.1%. The CBD remains attractive due to its affordability.

SUPPLY

Few new buildings on the horizon with a number of older buildings being purchased for residential redevelopment either in the short or medium term. As a result, supply is anticipated to remain stable in the short to medium term.

RENTS & PRICES

As noted in early 2015, rents have remained steady with incentives having peaked at 25% - 30%. We anticipate a gradual increase in effective rents will start to occur as leasing activity picks up. There has been continued downward pressure on yields but remains a differential between yields and interest rates / bond rates.

MARKET CONSIDERATIONS 2015 / 2016

Continued demand from developers absorbing older existing stock. The CBD remains a focus for offshore capital with local investors also competing creating the strongest market activity since before the GFC. In addition, owner occupiers have been active both for small, more affordable properties in the sub-\$5M range, but also for subdivided office floors which have experienced capital growth over the last 6 - 12 months.

Chris Holroyd
Director - CBD Valuations

Office - Suburbs

OCCUPIER DEMAND

Stable demand environment given the lack of new office developments to enter the suburban market over recent years. New/quality stock will continue to perform well, with secondary stock at a reasonable level. Incentives in the 10% to 15% range.

SUPPLY

Very little activity in the city fringe/inner Melbourne suburbs, with development sites largely being purchased for residential/mixed use purposes. Some *Commercial 2 Zoned (C2Z)* sites are being speculatively purchased for a future re-zone which would allow residential redevelopment. Nevertheless, leasing opportunities will soon become available within a few recently constructed/soon to be completed developments in Collingwood and Richmond (Cremorne).

RENTS & PRICES

Rents likely to see increase as a result of limited new stock. Given the low interest rate environment and the strength of the inner suburban development site market, yields may further compress for the balance of 2015.

MARKET CONSIDERATIONS 2015 / 2016

There has been an increased level of market activity during 2015 for commercial investments at the sub \$20 million capital value range within the inner Melbourne suburban market, with strong demand being shown for a mix of local and Asian based investors. Owner occupiers have also been keen to secure affordable properties given the low interest rate environment. Sales campaigns have generally attracted a broad mix of purchasers.

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Retail - CBD

OCCUPIER DEMAND

Vacancy increased slightly over the first part of 2015 but there continues to be a relatively good level of demand, particularly from food retailers. Melbourne is still attracting new major brands with a number continuing to search for suitable sites.

SUPPLY

St Collins Lane (former Australia on Collins) is the only major development to provide new supply in the short term, although there are other buildings such as Emirates House which are also under refurbishment. New residential development outside the retail core continues to deliver ground floor retail accommodation.

RENTS & PRICES

Retail rents have remained generally steady over the first half of 2015 but there has been further compression of yields to historically low levels. Prime yields are now consistently in the 3% - 4% range.

MARKET CONSIDERATIONS 2015 / 2016

We anticipate the current strength in demand to continue for the remainder of the year, particularly for those tenancies occupying prime retail locations. The impact of the Melbourne Metro rail project on tenant demand and rental levels on Swanston Street will be one to watch.

Chris Holroyd
Director - CBD Valuations

Retail - Suburbs

OCCUPIER DEMAND

Recent trends show that established retail strips are experiencing solid lessee interest from food & beverage operators which is replacing more traditional local traders. Well located and modern bulky good developments are attracting renewed interest from all segments of the lessee market.

SUPPLY

Supply has been evident in those sectors of the market which has experienced the strongest retail demand and which has been primarily in the neighbourhood shopping centre and bulky good markets.

RENTS & PRICES

Generally, food & beverage operators from a leasing perspective have been able to outbid local traditional retailers which has caused an upward trend in rental levels for those strip centres that are already well patronised. In relation to asset prices, competition between local and offshore purchasers has been one of the main impetuses for several retail holdings achieving results well above vendor expectations.

MARKET CONSIDERATIONS 2015 / 2016

Sale transaction activity is continuing to demonstrate that purchasers have confidence in the retail investment market and particularly for those assets that feature strong lease covenants offering security of income.

Bernard Cussen
Director - Retail Valuations

Industrial

OCCUPIER DEMAND

Stable occupier demand with the transport and logistics sectors most active. The western industrial market remains very attractive due to its affordability.

SUPPLY

Increasing level of supply from both speculative construction and pre-lease activity.

RENTS & PRICES

Limited rental growth with landlords having to offer larger incentives for both pre-lease and existing accommodation. Significant weight of capital from local and international investors together with historically low interest rates will continue to place pressure on yield compression, particularly for prime A-grade assets.

MARKET CONSIDERATIONS 2015 / 2016

There has been an increase in the number of sale and leaseback transactions which has been driven by strong investment demand.

Anthony Witton
Director - Industrial Valuations

Charter Commercial Valuations

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Recent Transactions of Significance

PROPERTY / ADDRESS	SALE PRICE (\$ MIL) / PASSING YIELD	VALUE RATE (\$ P.S.M. BUILDING)	COMMENT
RETAIL			
123 Swanston Street Melbourne	\$15.80 / 2.65%	\$12,500	Eight level retail / commercial building occupying a prime retail location. Significant demand particularly from other Swanston Street owners. Purchased prior to close of EOI campaign by a local Chinese investor. Charter Commercial Valuations: Advisory
166 Russell Street Melbourne	\$5.01 / 3.79%	\$19,494	First strong sale of 2015 setting a new level of value. Purchased by a local investor.
Masters Home Improvements Williams Landing	\$36.00 / 6.04% (Passing)	N/A	A recently completed facility located within Cedar Wood's Williams Landing development. The result attracted attention due to the yield outperforming many of the previously sold Bunnings Warehouses. Charter Commercial Valuations: Advisory
661-665 Glenferrie Road Hawthorn	\$8.45 / 5.27% (Passing)	N/A	A major retail building located within the highly active Glenferrie Road, Hawthorn retail shopping strip. Sold with a single lease covenant to the CBA for a five year term commencing July 2014. Charter Commercial Valuations: Valuations
OFFICE			
460 Lonsdale Street Melbourne	\$98.00 / 5.72%	\$8,435	Modern 18 level office building located within the legal precinct. Well contested with 13 Expressions of Interest provided. Notably, a local investor outbid all off-shore interests. Charter Commercial Valuations: Advisory
247 Collins Street Melbourne	\$22.68 / VP	\$11,689	Seven level retail / commercial building which was completely vacant at the date of sale. Purchased by a Singaporean investor. Charter Commercial Valuations: Mortgage Valuation
415-417 Collins Street Melbourne	\$8,888,888 / 2.26%	\$9,532	Who can forget the sale price here? Even received international press coverage. Charter Commercial Valuations: Mortgage Valuation
172-186 Moreland Road Brunswick	\$20.95 / 6.45% (Initial)	\$4,966	Contemporary two level commercial office building complemented by basement car parking for 79 vehicles. NLA of 3,291 sq.m. Leased to government tenant on a long-term basis, whilst benefitting from longer term redevelopment upside. Purchased by a local private investor.
34-36 Prospect Street Box Hill	\$7.00 / 6.17% (Initial)	\$5,018	Circa 1980s two level commercial office building. Leased until 2017 to a single tenant. Purchased by local developer.
INDUSTRIAL			
20-50 Waterview Close Dandenong South	\$6.20 / VP	\$667	Older style industrial facility which previously sold in late 2013 for \$4,500,000.
31-69 Western Avenue Westmeadows/ Tullamarine	\$16.00 / VP	\$664	Former Age printing facility which was vacant at the date of sale. Purchased by an intending owner occupier. Charter Commercial Valuations: Mortgage Valuation

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