

News release

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Upswing forecast for Brisbane commercial property market

Underpinned by solid demand and a lengthy pause in new office construction

The post-GFC downturn in the Brisbane office market has caused much pain and heartache in the property industry, but the sharp falls in rents and prices are setting up the market for a classic upswing, according to leading industry analyst and economic forecaster BIS Shrapnel.

BIS Shrapnel's *Brisbane Commercial Property Prospects, 2010 – 2020* report forecasts the recovery will deliver solid investment returns over the remainder of the decade, after overcoming short-term weakness.

"Most players are focussing on the market's weakness," says Christian Schilling, Senior Project Manager, BIS Shrapnel. "Investors have seen the value of their portfolios decline sharply and they are getting out and looking elsewhere for future growth. Yet it is the collapse in prices that will offer the opportunity for counter-cyclical investment."

While the leasing market remains weak, the top-end of the investment market has stabilised. Overseas investors have snapped up several new buildings that are leased to institutional grade tenants on long leases. There is strong demand for this kind of product, with comparatively high yields in Australia acting as the major drawcard.

Apart from those headline-grabbing transactions, the remainder of the market is still weak. Most A-REITs are shunning the Brisbane office market, looking to Sydney and Melbourne, in search of higher returns. As a consequence, transactions are dominated by private investors, syndicators and smaller trusts, which were priced out of the market during the boom.

"We are still 18 months to two years away from the cycle trough, with the risk of further falls in rents and prices – particularly in the secondary market," says Schilling.

"However, over the coming 12 months, the Brisbane office market will move from a 'hold' or 'sell' to a 'buy' proposition," says Schilling. "Investors will be able to acquire existing buildings at well below replacement costs, then enjoy the subsequent upswing in rents and values in a classic counter-cyclical play."

While there will be no repeat of the recent boom, the Brisbane office market is still shaping up to offer attractive investment returns. BIS Shrapnel's forecasts suggest IRRs of around 16 per cent for an un-gearred prime CBD investment from the trough to peak of the cycle.

However, BIS Shrapnel warns that the usual care needs to be exercised in selecting the right property.

"Anything with near-term lease expiry poses a risk to cash flow, particularly in the secondary market," says Schilling. "And beware of downward reversions in rents as both face and effective rents have dropped significantly since the late 2007/early 2008 peak."

The cyclical upswing in the Brisbane office market will be underpinned by a solid recovery in demand and a lengthy pause in new office construction.

“Presently, new development does not stack up at current rents, yields and land prices, which means there will be little construction beyond the buildings presently under way,” says Schilling. “Most of these commenced before the GFC hit and as a result, developers are switching to residential property where they expect better returns in the short-term.”

With little hidden vacancy in the market, BIS Shrapnel says future employment growth will feed straight into net absorption and the reduction of vacancies. Owners will start to regain the balance of power in lease negotiations and withdraw incentives. Rents will rise quite quickly, attracting investment funds back into the market and underpinning strong price rises.

“At this stage we cannot rule out vacancies again falling to very low levels. We only have to look at how long it took developers to respond to booming demand five years ago,” says Schilling.

“However, there will be no repeat of last decade’s boom. Our forecasts are for the Queensland economy to lag the Australian average during the first half of this decade, then outperform during the second five year period – but not by much.”

About BIS Shrapnel

BIS Shrapnel is Australia's leading provider of industry research, analysis and forecasting services. BIS Shrapnel helps clients better understand the markets in which they operate, through reliable and detailed market data, analysis of developments and drivers and thoroughly researched forecasts.

BIS Shrapnel compiles accurate, clearly explained and detailed information on industry sectors, markets and industries in which their clients operate. BIS Shrapnel provides market size and segmentation data, market shares, consumer attitudes and supplier reputation information, and regularly conducts both business-to-business and consumer research.

Over the company's 46-year history, BIS Shrapnel has built up a strong level of expertise and unique methodologies for forecasting.

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