



WELCOME

Business confidence has improved considerably since our July Bulletin following news that the Australian economy grew 0.6% in the June quarter and unemployment levels were stabilising.

Many now believe that Australia has seen the worst of the global financial crisis, however, some commentators believe that the commercial property markets are yet to reach the bottom of the cycle citing reduced risk appetite, high cost of finance and ongoing credit issues. So at what stage of the cycle are we exactly? And more importantly where are the opportunities for occupiers, investors and developers? The December issue of *MarketDynamics* seeks to address these issues, by providing an insight into the state of the Australian commercial property markets and forecasting what the next few months will bring.

AUSTRALIAN ECONOMY

The government has recently forecast an economic rebound of 1.5 per cent growth this financial year accelerating to 2.75 per cent growth for 2010/11; a level regarded as too conservative by economists who expect 2010/11 growth to be closer to 3—3.5 per cent.

The boost in Australia's economic activity can be credited to both Australia's and China's fiscal stimulus as well as the RBA's low interest rates. Terms of Trade (Exports vs Imports) fell a further 7.4 per cent during the June quarter, however economists are expecting a return to growth during 2010/11. Despite the brighter forecasts economists expect the budget to remain in deficit for the next seven years with debt tipped to peak at approx \$175 billion in 2013.

OFFICE MARKETS

Occupancy:

Australian office markets have begun to stabilise following months of rental decline. The rising availability of sublease space and escalating vacancy throughout 2009 have seen larger leasing incentives being offered by landlords resulting in effective rents falling by up to 20% in some cities. As business confidence improves we expect premium and A-grade rents to remain relatively stable over the next few months, however in some markets rental growth may return for larger premises as the availability of such space becomes scarce. The general decline in effective office rents over the past 12 months has enabled some tenants to upgrade to superior accommodation leaving sizeable vacancies in the B and C-grade markets. This trend has resulted in higher vacancy rates for B and C-grade accommodation, subsequently, we expect a slower recovery for this sub-market.

Finally, with unemployment levels appearing to stabilise we do not expect vacancy rates to reach the high levels previously anticipated. However, the contraction of organisations earlier in the year coupled with supply additions will likely see vacancy rates rise in the short term.

CBD NET FACE RENTS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PREMIUM & A-GRADE	\$600—\$1000	\$350—\$600	\$450—\$650	\$300—\$350	\$300—\$400	\$500—\$800
B-GRADE	\$450—\$600	\$250—\$400	\$300—\$500	\$200—\$300	\$200—\$300	\$350—\$450
INCENTIVES (Net)	25%—35%	15%—28%	20%—25%	10%—15%	12%—18%	10%—20%

Source: Property Dynamics Note: Indicative only, A-Grade only in Canberra

Sales & Investment:

Improving investor sentiment and business confidence has seen the gap between buyers and vendors expectations narrow resulting in more activity across Australia's office markets. Recent capital raisings by the AREIT's has strengthened balance sheets and boosted war chests resulting in more premium and A-grade office towers now under due diligence. Whilst positive, such activities have had limited success transpiring into transactions as due diligence and funding arrangements are now taking longer. Although activity is picking up, in the short-term, we anticipate secondary assets to ease further and prime yields to remain relatively stable as interest rates continue to rise and funding remains an issue.

CBD OFFICE YIELDS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME	6.5%-7.5%	6.75%-8.5%	7.75%-9.5%	7.0%—8.5%	8.25%-10.5%	7.25%-9%
SECONDARY	7.5%-8.5%	8.5%-10.25%	9.5%-11.5%	8.5%—9.5%	9%-11%	8.5%-11%

Source: Property Dynamics Note: Indicative only, A-Grade only in Canberra

PRESS RELEASE—Argus Software

SYDNEY, November 10, 2009:

ARGUS Software announced today that Property Dynamics has been selected as the authorised service provider for ARGUS Software's products in Australia. [READ MORE ...](#)

Economic Indicators		
GDP Sept 09 (Quarterly Change)	Trend	+0.50%
	Season	+0.20%
CPI to September 2009	Quarterly Change	+1.00%
	Yearly Change	+1.30%
RBA Cash Rate	Currently	+3.75%
	November Level	+3.50%
Current Unemployment Rate (November 2009)	Trend	+5.70%
	Season	+5.70%
October 2009 Unemployment Rate	Trend	+5.80%
	Season	+5.80%
Terms of Trade (Exports Vs Imports)	Mar 09 to Jun 09	-7.40%
	Jun 08 to Jun 09	-11.60%
Non Res Building Approvals Value Change (Seasonally Adj.)	Sept 09 to Oct 09	-14.40%
	Oct 08 to Oct 09	+42.70%

Source: Australian Bureau of Statistics (ABS), Property Dynamics. The above statistics relate to all of Australia.

Property Dynamics—Webinar Series

Sign up NOW for our next information session:

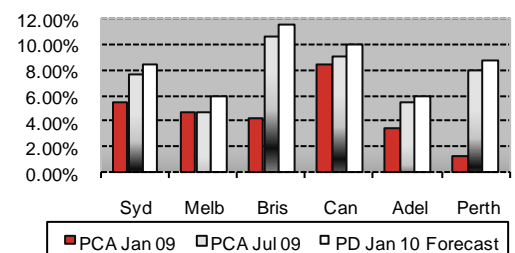
WEDNESDAY 17th February 2010—1pm

Topic:

Using IT to consolidate multiple project cash flows with a focus on property developers

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CBD Office Vacancy



Source: PCA, Property Dynamics

Office	Forecasts	Notes
Vacancy	↔ ↑	Premium and A-grade stabilising, secondary increasing
Rental Levels	↔ ↓	Prime stabilising, secondary slight easing
Rental Incentives	↔	Stabilising, except Perth
Yields	↔ ↑	Prime stabilising, secondary slight easing
Capital Values	↔ ↓	Prime outperforming secondary

INDUSTRIAL MARKETS

Occupancy:

Australian industrial rents eased approximately one to four percent over the September quarter, however a rapid contraction in the industrial supply pipeline across all capital cities has seen levels begin to stabilise. Observations are that leasing inquiry is picking up which will likely lead to an increase in transactional activity. Coupled with a shortage in new supply, rentals will begin to rise, in particular for existing premises as tenant competition heats up.

SUBURBAN INDUSTRIAL NET FACE RENTS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME	\$95-\$145	\$65-\$115	\$105-\$145	\$95-\$145	\$70-\$120	\$90-\$130
SECONDARY	\$70-\$115	\$40-\$75	\$75-\$115	\$65-\$105	\$45-\$70	\$65-\$100
INCENTIVES (Net)	10%-15%	15%-20%	15%-20%	0-5%	10%-15%	5%-10%

Source: Property Dynamics: Note: Indicative only

Sales & Investment:

The last 12 months have seen industrial land values fall 20% to 25% across all capital cities apart from Adelaide where continued resource investment and defence spending resulted in values declining only 10% to 15%. On a more positive note, a recent increase in transactional activity indicates momentum is building in the industrial markets. Yields have continued to soften through the September quarter, however at a decelerating rate. As such our expectations are that yields will start to stabilise with some markets firming up over the coming months.

SUBURBAN INDUSTRIAL YIELDS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME	8.25%-9.25%	8.15-9.15%	8.40%-9.40%	7.25%-8.25%	8.25%-9.25%	8.35%-9.35%
SECONDARY	9.25%-10.5%	9.15%-10.5%	9.40%-11%	8.25%-10.2%	9.25%-11.2%	9.35%-11%

Source: Property Dynamics: Note: Indicative only

RETAIL MARKETS

Occupancy:

National retail spending increased 5.61% for the 12 months to October 2009 and 0.26% for the month to October 2009. Whilst this appears positive, the most recent monthly statistics show a monthly decline in 4 of the 6 states studied.

It is widely acknowledged that the Federal Government's stimulus measures assisted in sustaining retail spending throughout the GFC, however the effects are now waning along with retail business confidence. This fall in confidence has seen vacancy levels rise in recent months, however, demand for prime CBD and shopping centre space remains strong with retailers continuing to regard a prime location as a key turnover driver. Secondary space continues to experience subdued demand with incentives rising and rentals softening.

CBD RETAIL CORE NET FACE RENTS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME (e.g. Bourke/Pitt St)	\$4500-\$12500	\$3000-\$6000	\$2500-\$4000	\$500-\$1500	\$1800-\$3500	\$2000-\$4500
SECONDARY	\$800-\$4500	\$1000-\$3000	\$800-\$2500	\$200-\$500	\$500-\$1800	\$650-\$2000
INCENTIVES (Net)	2.5%-7.5%	5%-10%	5%-15%	5%-10%	10%-15%	5%-10%

The above figures relate to shops of approx 100m²

Source: Property Dynamics: Note: Indicative only

Sales & Investment:

Investment activity in the sector remains subdued with capital values easing further, reflecting tight controls on finance availability. However, businesses less affected by non-discretionary spending (e.g. Food operators) continue to do well, hence investment activity in this sector remains robust.

Although Vendors are starting to accept that the low yields of 2007 are no longer achievable, overall transactional activity is expected to remain relatively subdued over the next three months due to ongoing credit constraints and uncertainty with respect to retail spending.

RETAIL YIELDS	Sydney	Melbourne	Brisbane	Canberra	Adelaide	Perth
PRIME	5.5%-6.5%	4.5%-6%	6%-7%	6.25-7.5%	7%-8%	7.5%-8.5%
SECONDARY	6.5%-8%	6%-7%	6.75%-8%	7.5%-9.5%	8%-9.5%	8.5%-9.5%

Source: Property Dynamics: Note: Indicative only

Disclaimer: Please note that information provided above has been based on a varying range of resources. Figures quoted are approximate and indicative only and should not be relied upon other than for a general guide of the current market conditions. If you wish to receive more specific advice regarding any of the above information please contact our offices during business hours on 1300 883 609 or at info@propertydynamics.com.au.

If you would like to join our list to receive any future newsletters please [click here](#)

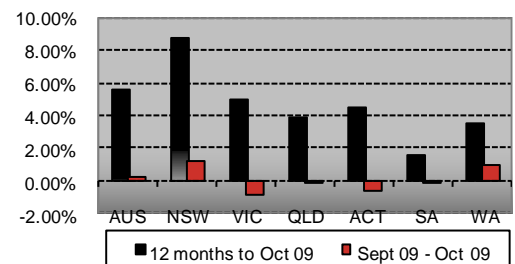
Industrial	Forecasts	
Vacancy	↓	Adelaide bucking trend with stable vacancy
Rental Levels	↔ ↓	Existing premises to see rents grow
Rental Incentives	↔	Generally stable, Canberra to ease, Perth to rise
Yields	↔ ↓	The start of an industrial market turn around
Capital Values	↔ ↑	Land values settling



Things look back on track for most markets but where are we headed to next?

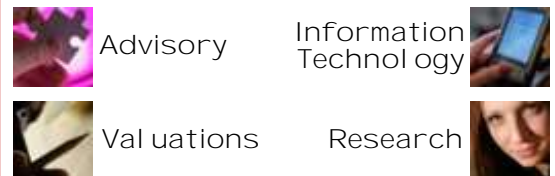
Retail	Forecasts	
Vacancy	↔ ↑	Prime stable, increase for secondary
Rental Levels	↔ ↓	Prime stable, secondary easing
Rental Incentives	↔	Stabilising
Yields	↑	Slight softening
Capital Values	↓	Prime outperforming secondary

Retail Trade Movement



Source: ABS, Property Dynamics

Property Dynamics Services:



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WWW.PROPERTYDYNAMICS.COM.AU