

Market Update

INDUSTRIAL • COMMERCIAL • RETAIL

February 2011

Will these existing conditions provide strong market growth in 2011?

| Market segment | Market condition |
|---------------------------------|------------------|
| • Owner/occupier demand | good |
| • Investor demand | strong |
| • Investment listings available | very low |
| • Vacancy levels | very low |
| • Leasing demand | medium |
| • Leasing incentives | reducing |
| • Rent growth | stagnant |
| • Rental arrears profile | steady |

Yes, we believe that in the second half of 2011 we will see a much stronger market as demand builds resulting from the shortage of available stock, in both leasing and sales.

However, any flow on rental growth, as a result of this increased demand, is unlikely to be felt until 2012.

The reality is, there has been minimal rental growth in the past 10 years, as supply has generally kept pace with, or out stripped demand.

The lack of building activity in the past few years and in the immediate future, is now reversing this trend.

Values

The lack of rental growth is the main hindrance to capital growth, with typical yields falling in the 7.5% to 8.5% range, whereas vacant buildings are actually achieving a 10% to 20% premium to owner/occupiers.

A typical example of this is a modern property recently sold by our office which was on the market for lease for 12 months, at an asking rate of \$85.00 sq.m (it was leased at \$72.00 sq.m in 2001), assuming \$85.00 sq.m was achieved, this would equate to \$1,062 sq.m at a cap rate of 8%, we sold it for \$1,225.00 sq.m to an owner occupier.

To replace this building, assuming you could find the land, the replacement rate would be more like \$1,500.00/\$1,600.00 sq.m.

Market activity

Whilst December and January were quieter than normal, our office was still very active during the quarter with several larger transactions being negotiated;

| | | |
|-----------------------------------|-----------|--------------|
| 885 Wellington Road Rowville | 2656 sq.m | \$2,675,000 |
| 960 Stud Road Rowville | 4486 sq.m | \$375,000 pa |
| 813 Springvale Road Mulgrave | 5634 sq.m | \$300,000 pa |
| 29 Lionel Road Mt Waverley | 2368 sq.m | \$2,900,000 |
| 809 Springvale Road Mulgrave | 2206 sq.m | \$170,000 pa |
| 1271 Ferntree Gully Road Scoresby | 2020 sq.m | \$2,340,000 |

Property Management

The recent heavy rain has obviously been causing issues with flooding, roof leaks, blocked gutters etc.

Whilst technically it is the Lessee's responsibility to maintain these items in most instances, the reality is that following the extensive dry periods, many of the causes of the blockages were not necessarily that obvious, with many stormwater systems partially blocked below ground level as a result of the limited natural flushing, or simply not capable of handling the capacity of the downfalls.

We recommend that Landlords take a more practical, rather than technical approach to resolving such issues in the interest of ongoing Landlord/Tenant relations.

Marketing initiatives

Lawson Real Estate has had a long tradition in implementing the latest initiatives, such as automated real time web site listings, ensuring all listings are up to date on the various sites.

LRE was the first and still is the only industrial agency with video of most listings.

We are now the first to introduce QR Codes on signboards and other marketing material.

A QR Code allows you to scan it with your smart phone; this provides a direct link to the property listing on our web site, enabling access to more detailed information, video, downloads etc.

The QR Code reader is a free app, easily downloaded to your smart phone if you don't already have it. Try it out on these:



If we can assist you in any way with your property matters please call Steven Lawson
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