Market Update

INDUSTRIAL • COMMERCIAL • RETAIL

June 2010

A degree of caution starting to appear following a very active 1st quarter

The market continued to be very active through to May when the combination of successive interest rate increases and a softening retail sector created uncertainty and caution.

Unlike when the GFC hit, most businesses are now very efficient and are able to react much quicker to changes in their trading conditions and as such we anticipate that the highs and lows in activity are more likely to become a common occurrence in the market cycles.

The investment market continues to be very strong with demand for modern securely leased premises increasing and yields decreasing due to a genuine shortage of quality stock.

Owner occupiers are very active with some excellent results being achieved, again due to the lack of stock.

The leasing market is the area that remains soft, whilst it has improved dramatically in comparison to 2008/09, it should be stronger given the reduced stock levels.

Given the static rental levels which are impacting on property values, it is not uncommon for a property to have a potential value of 10-20% higher with vacant possession to an owner occupier, compared to it being offered with a lease in place as an investment at the typical yield level.

Yet another compliance issue

Never ending compliance issues continue to impact on property management, with the latest being the "Building Energy Efficiency Disclosure Bill 2010" which will come into effect on 1st October 2010.

This will require all commercial buildings with a floor area greater than 2,000 sq.m to have a Building Energy Efficiency Certificate (BEEC), these are valid for twelve months and must be included in all advertising material and made available to prospective tenants or purchasers on request.

Substantial penalties apply for non-compliance.

Whilst the act at this stage only applies to commercial buildings over 2,000 sq.m in floor area, it is widely anticipated that it will have a flow on effect to industrial and smaller commercial buildings in coming years.

As with Essential Safety Measures (ESM) compliance obligations, which created a new industry, only accredited assessors will be able to issue a BEEC, creating yet another outgoing cost for the property.

The compliance list is growing, BEEC, ESM, OH&S, RLA, Disclosure Statements, Critical Date notifications, Small Business Mediation, VCAT, Lease documentation, Default Notices, collecting the rent is the easy part.

Summary

The coming State and Federal elections are likely to have some effect on the market, however with the stabilising of interest rates, reducing stock levels and increasing Investor demand, we feel the growth in property values will continue in the second half of this year.

With the improving market conditions, we are also seeing a return to the more standard commercial lease terms of three to five years plus options and away from the short term flexible arrangements that where required through the GFC period.

Following the big storm in March, there was considerable confusion over insurance coverage; what was covered and by whose policy, if covered at all.

We had tenants thinking that their fixtures suffering damage where covered by the owners policy (because they had reimbursed the policy); owners who had opted not to include contents coverage, suffering contents damage; owners who had allowed tenants to take out insurance direct, only to find out they were not covered sufficiently, etc.

Insurance coverage is such an important issue; ensure you know what you have.

CPI

Quarter	AUST	MELB
June 09	1.5%	1.2%
Sept 09	1.3%	0.6%
Dec 09	2.1%	1.8%
Mar 10	2.9%	2.8%

If we can assist you in anyway with your property matters please call

Steven Lawson
on 0418 536 003 or email:
steven@lawsonrealestate.com.au