

MARKET UPDATE

Activity Increases

As predicted, activity has started to improve again following extremely limited activity during December, January and February when the market basically came to a stand still whilst tenants/landlords and purchasers/vendors were trying to come to grips with the rapid change in economic conditions.

There is no doubt that rentals and values have declined, however there has not been a simple "across the board" percentage decline. What we are now seeing are dramatically different rent levels and property values from property to property.

The reason for this diversity in value is a combination of the type and age of the property and the owner's circumstances.

It is not just the owners that are under financial pressure that are reducing their expectations, but also self-funded retirees who are anxious to lock in their incomes for the next year or two whilst we work through this economic period.

Take a Realistic Approach

This pragmatic approach by owners when negotiating with existing tenants or new lettings is providing them with peace of mind and enabling them to move forward with their plans. A typical response from an owner has been *"I'd rather drop \$10,000.00 pa and have a tenant than have a vacant building for the next nine months and possibly still finish up with the same reduced rental"*.

Obviously this approach does not help maintain your capital value, so it is not appropriate in all circumstances.

Again, there is no set percentage rental reduction or incentive provided to tenants, each deal is very different. It could be a straight rent reduction, a sizable rent free period or a combination of both; it will depend on many factors including the lease term.

Sitting tenants are also seeking shorter lease terms when renegotiating further terms.

Investor Demand Increasing

Investors are now getting back into the market with quality "A" grade investments in demand. Again yields are varying greatly depending on the property and tenant. Yields for quality investments have probably softened by about 0.5-0.75%, although with the very low deposit rates on offer from banks, we feel that increased demand will result in the yields firming again.

This increased demand does not apply to the secondary investment/vacant property market which is proving more difficult to generate competitive interest in. We feel this segment of the market may weaken further.

As businesses and property owners continue to evaluate and refocus their plans for the best way to get through the next year or two, we will see more property come on the market.

Business Failures Yet to Materialise

Unlike 1990, we have not seen the same degree of business failure and mortgagee sales as yet. It would appear that this process is being better managed now than during the previous recession, although there is no doubt that there is likely to be considerable activity in this area during the next six months as pressure builds.

The consolidation of business divisions, extensive staff retrenchments and managed winding up of businesses continues but at this stage we have not seen the sudden business closures.

It is quite common to be called in to advise a tenant on what is required and what their obligations are, to get out of their lease. In many cases they simply opt to continue on as the cost of providing incentives to a new tenant, moving costs etc, outweigh any advantage of the actual move to down size in many circumstances.

It is not unusual for a company in the above situation to have had say 12 employees, but after retrenchments, are now down to 5 employees, so they have already reduced a substantial overhead. The impact of this is that they now have considerable built in capacity to expand again within the existing premises when the economy turns around and hopefully remaining in the property longer term.

What Now

For at least the next six months we see no reason for things to change dramatically, other than possibly some increase in mortgagee sales and an increase in rental vacancies, particularly the smaller industrial/commercial unit segment.

If we can assist you in any way with your property matters please call Steven Lawson on 0418 536 003 or email: steven@lawsonrealestate.com.au

[Click here to send this email to a friend](#)