

Welcome to The Commercial Property Cashflow Webinar



TRENDS 2020

KNIGHT FRANK 2020 COMMERCIAL PROPERTY REPORT

- We are in “Uncharted territory” entering the 11th year of the property cycle since the last downturn.
- So we are in an extended property cycle
- We continue to have record low interest rates which will drive up the investment market ... prolonging the property price cycle.
- Leasing market conditions, will be impacted by subdued economic growth.
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

KNIGHT FRANK 2020 COMMERCIAL PROPERTY REPORT

- Growth in the economy is expected in 2020, thanks to lower interest rates... but will be slower than previously.
- Ongoing employment growth, may support demand for office space
- RBA to cut interest rates further
- Office property yields will tighten, due to lower interest rates boosting demand for commercial property- so more competition in the market from buyers will drive prices up.
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

KNIGHT FRANK 2020 COMMERCIAL PROPERTY REPORT

- Capital growth to increase a little in 2020 and 2021....
Underpinned by.... Yield compression (yields dropping in comparison to property value and sales prices).
- This means your current property will retain your tenant at that current rent, but yields will drop in the market if you decide to sell, because etc value of the property will increase due to increase demand for more buyers in the market
- Office- Capital growth is expected to pick up to 5.8%
- Lower interest rates will boost investment activity and drive higher demand for commercial as investors chase higher yields compared to residential investments
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

KNIGHT FRANK 2020 COMMERCIAL PROPERTY REPORT

- Offshore investors will continue to be attracted to the relatively high yields in Australia compared to many cities in the Asia Pacific region and thanks to a lower exchange rate.
- Strong investor appetite for office and industrial property - will drive more developments
- Office Vacancy in Melbourne to increase, (especially Docklands and Western) and rental growth will be moderate, because of the increased supply in these locations.
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

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- Rents to grow more evenly across **Office markets** - Moderate for Melb & Sydney... and Brisbane, Perth & Adelaide will benefit from stronger rental growth.
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

TABLE 2

NET FACE RENT GROWTH

City	2015 - 2019	2020 - 2024 (f)
Sydney	46%	25%
Melbourne	43%	22%
Brisbane	11%	16%
Perth	-10%	15%
Adelaide	9%	14%

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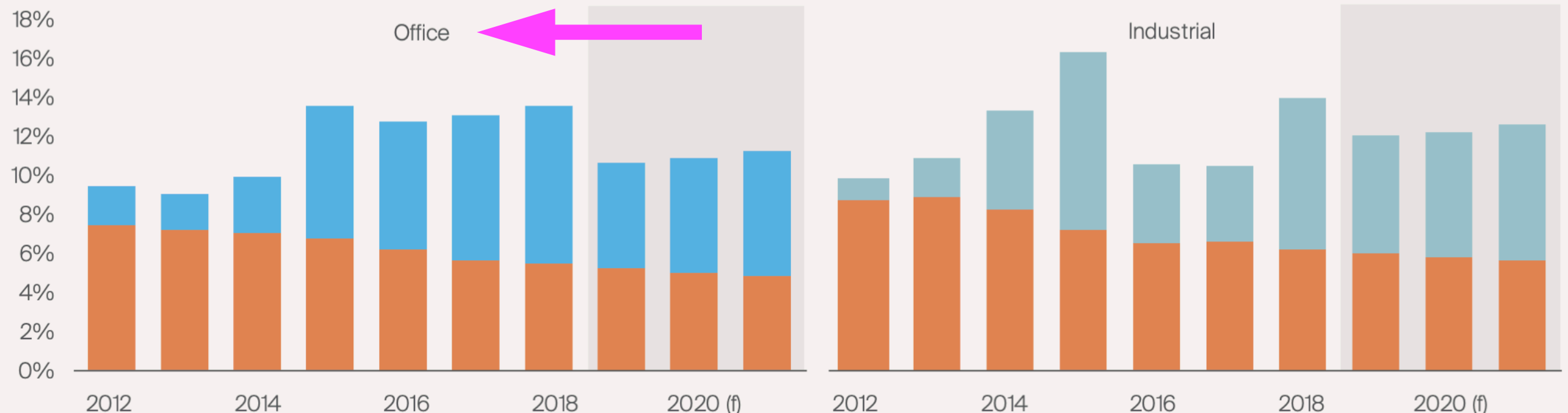
- Growth and demand for e-commerce, supply-chain efficiency for business... plus... loads of spending on road and rail infrastructure - will see strong inflow into the industrial property sector.
- <https://content.knightfrank.com/research/1876/documents/en/2020-outlook-report-australia-6799.pdf>

FIGURE 7

Commercial Property Returns - Total return, percent change

Income return

Capital return



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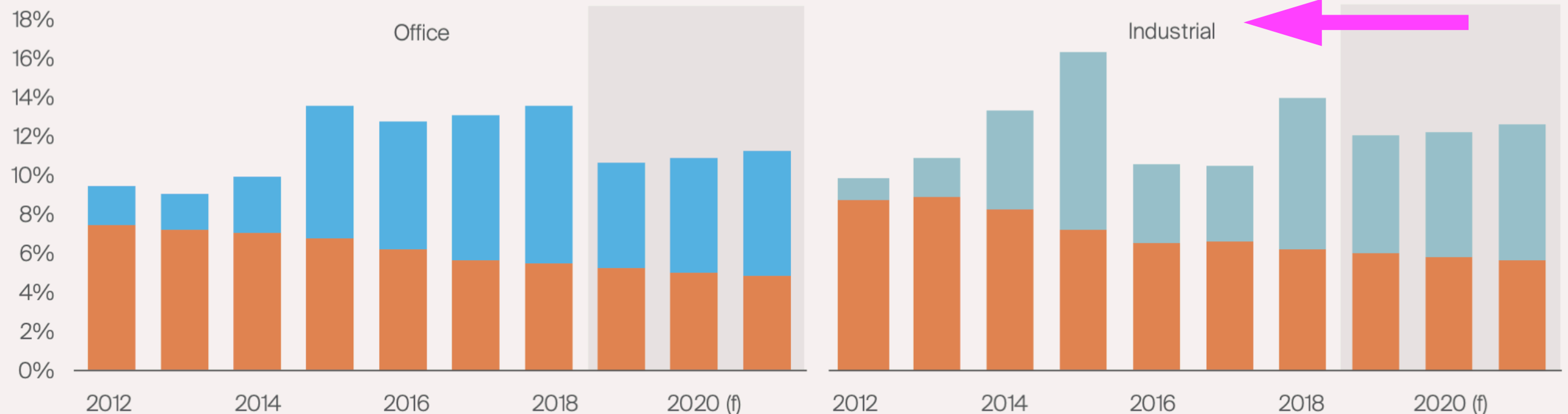
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FIGURE 7

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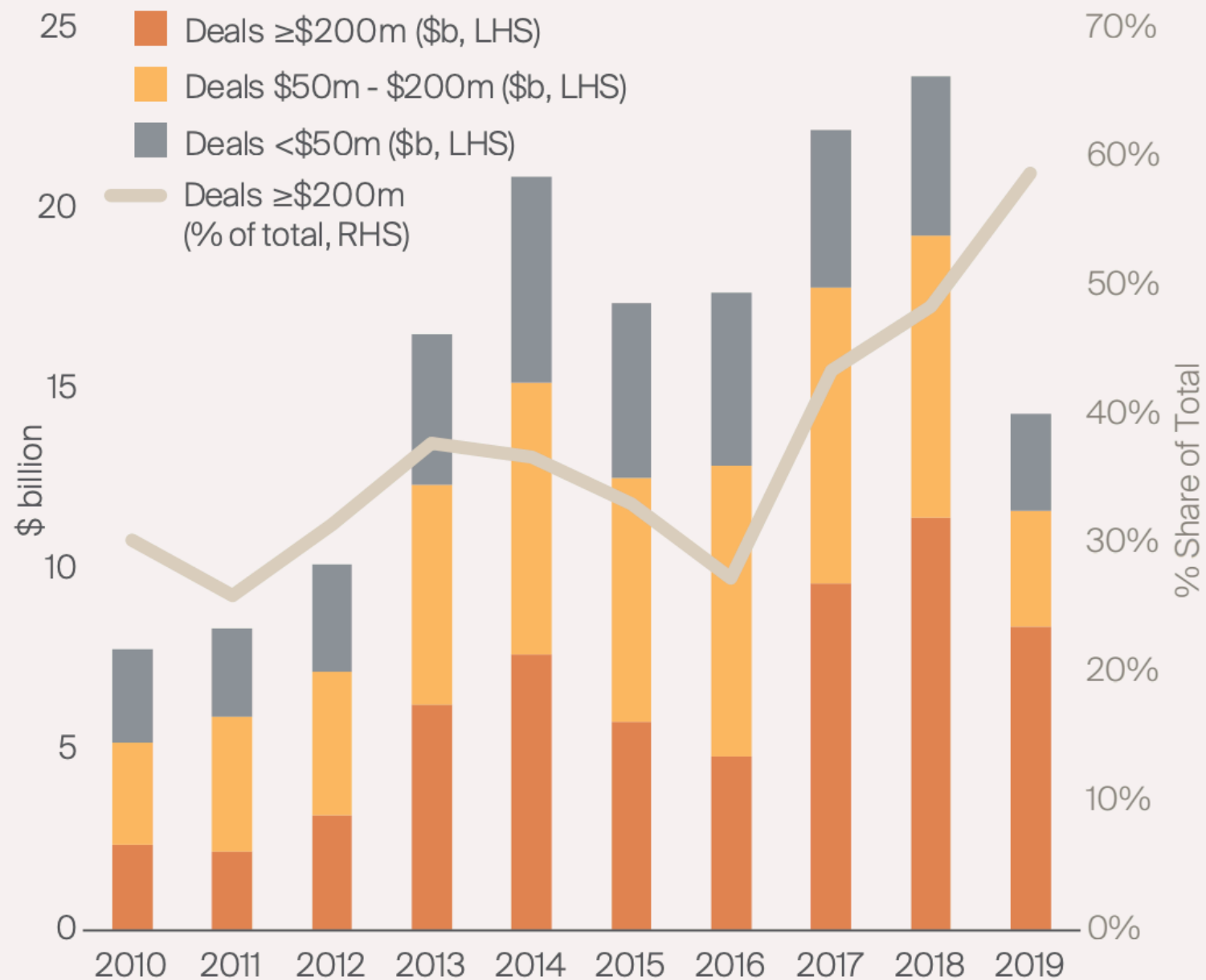
Capital return



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FIGURE 9

Office Investment Volume by Deal Size

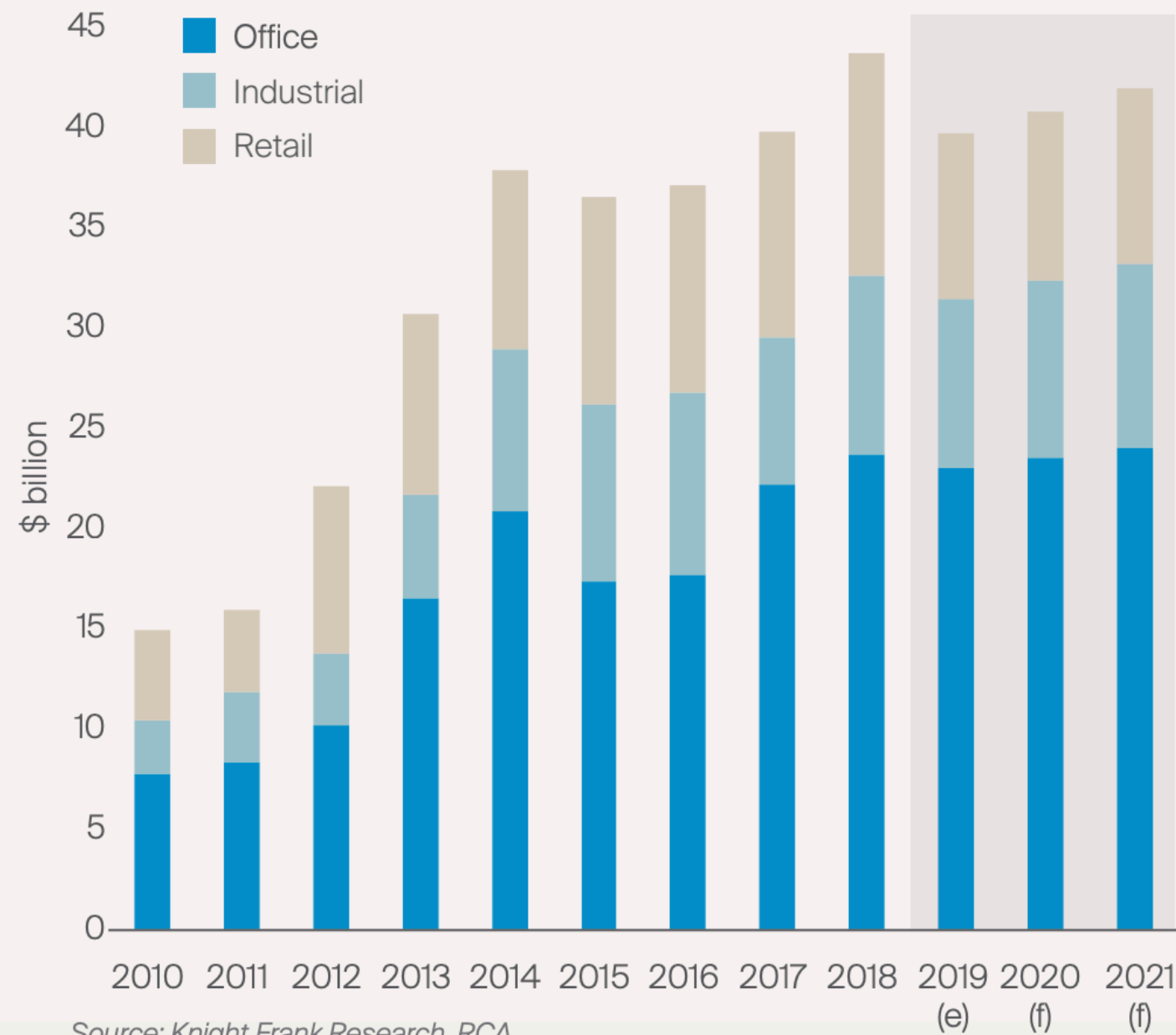


Source: Knight Frank Research, RCA

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FIGURE 8

Investment Volume



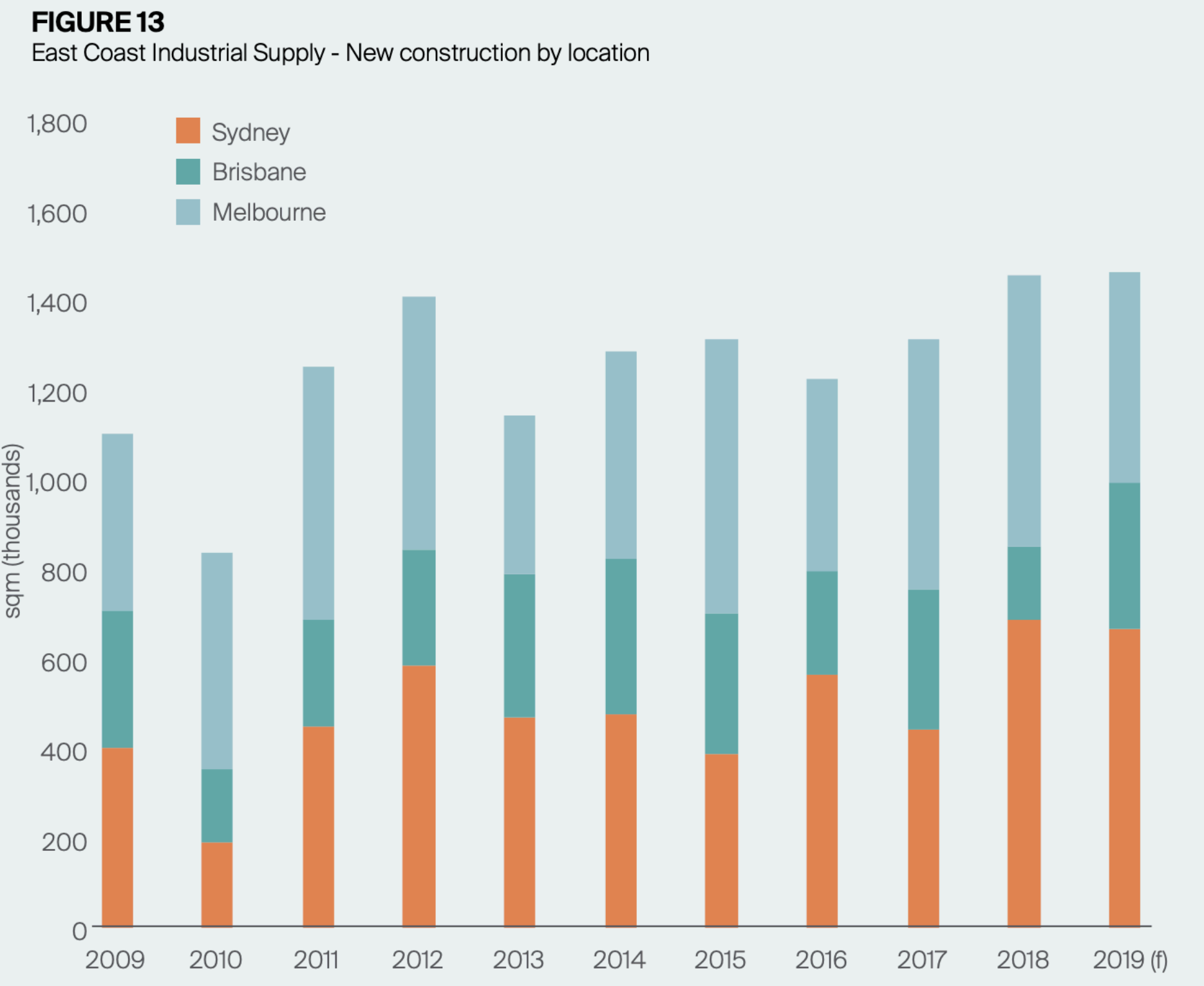
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➤ INDUSTRIAL & LOGISTICS

- Core Markets across Vic, NSW and QLD for industrial property are expected to remain tightly held.
- Demand for new industrial developments beyond the existing core areas will be created
- New developments already running above average and expanding in Melbourne's West and South East and Sydney's South west and Outer West precincts

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➤ INDUSTRIAL & LOGISTICS



SAVILLS 2020 PROPERTY ARTICLE

RETAIL

- All reports are that retail is problematic and facing large headwinds as the consumer changes its spending habits based on low income growth, underemployment (8.6% versus the unemployment rate of 5.3%, highlighting slack in the work force) and rising cost of living impinging on low savings ratio at 3.2% (US 8.3%).
- Retail yields have reverted somewhat despite no signs of distressed owners having to sell, and are now trading at a meaningful margin above bonds. Retail and Industrial yields are circa 6% and Office at 5% vs 10yr bonds at 1%.

- <https://www.savills.com.au/blog/article/180146/australia-articles/nsw-commercial-property-market-and-predictions-for-2020.aspx>

SAVILLS 2020 PROPERTY ARTICLE

RETAIL

- ...Opportunity, especially for those centres exposed to non-discretionary spending such as supermarkets and day-to-day living items.
- As such, we prefer Neighbourhood centres and Standalone retail assets located in densifying areas with higher socio-economic demographics.
- <https://www.savills.com.au/blog/article/180146/australia-articles/nsw-commercial-property-market-and-predictions-for-2020.aspx>

SAVILLS 2020 PROPERTY ARTICLE

RETAIL

- Retail transaction activity came to a standstill at the beginning of 2019 with both institutional and corporate groups reluctant to sell. “This momentum didn’t really change during the year and deal flow could remain sluggish in 2020.”
- “Many larger assets put up for sale failed to transact due to disruption in the retail industry, noise from overseas and fewer buyers in the market. Contrary to this, the smaller end of the market, freestanding retail investments and neighbourhood shopping centre sectors have been in high demand, fuelled by the low interest rate environment.
- <https://www.savills.com.au/blog/article/180146/australia-articles/nsw-commercial-property-market-and-predictions-for-2020.aspx>

KEEP IN MIND: END 2019 START 2020 FIRES DROUGHT

- Fires across Australia Plus Drought - is having some farmers sell their farm... Implications on local regional and rural communities and overall business,
- Consider the impact this will have on commercial property, if local rural communities are going down economically
- There may be an increase in vacancies, forcing market rent reviews to come down, therefore reducing yields
- Location research will be an important factor, as will keeping to Helen's criteria for selecting suitable locations.
- Population size, more than 1 major employment source and economic driver for that locality.

POPULATION GROWTH TRENDS

Population growth was concentrated in Melbourne and surrounding regions, Sydney, and south-east Queensland in the 2010s (see table).

Many Australian cities experienced rapid population growth in the 2010s, and this is likely to continue in the 2020s

City	Population growth, 2010 to 2018	Population in 2018
Melbourne	20.7%	4,784,608
Sunshine Coast	20.3%	333,436
Geelong	19.7%	268,277
Gold Coast – Tweed Heads	18.9%	679,127
Brisbane	16.7%	2,379,724
Darwin	15.9%	134,544
Sydney	15.4%	4,835,206
Perth	15.3%	2,020,138
Ballarat	15.1%	105,471
Canberra – Queanbeyan	14.8%	457,563

Notes: Estimated resident population at 30 June each year. Only Significant Urban Areas with a minimum 100,000 people in 2018 are included. Latest available data is June 2018. Source: ABS 3218.0.

But these trends are likely to change in the 2020s. More migrants may move to smaller cities or large regional towns rather than Sydney and Melbourne.

POPULATION GROWTH TRENDS

- Regional towns will continue to become more attractive to migrants as they grow.
- Policies aimed at encouraging regional migrations will be more successful if proposals for better transport connections between regional towns and major cities proceed.
- And if the mining sector continues to rebound, Western Australia and Queensland will attract more migrants.
- Policies aimed at encouraging migrants to settle in regional areas have generally been unsuccessful. However, higher property prices in Sydney and Melbourne compared to other parts of Australia may now mean migrants will be more willing to settle away from the two major cities.

POPULATION GROWTH TRENDS


- Public transport will become more important and car ownership may start falling
- Proximity to public transport in Australia's major capital cities will become more important in the 2020s as cities expand and traffic congestion worsens.
- Car ownership may also start to fall as more people favour public transport and other forms of transport.
- Traffic congestion has risen and is expected to get worse, despite significant investment in new roads.
- So locations of commercial premises with good transport options, road networks and parking will be favourable.

Research Reports Herron Todd White

- <https://www.htw.com.au/month-in-review/>

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HERRON
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Knight Frank reports

RESEARCH REPORTS AND WEBSITES

- <https://www.afr.com/property/commercial>
- <https://www.firstlinks.com.au/category/property>
- <https://www.cbre.com.au/research-reports>
- <https://www.htw.com.au/month-in-review/>

Commercial Real Estate Agents:

- <https://www.knightfrank.com.au/research>
- <https://www.savills.com.au/insight-and-opinion/>
- <https://www.colliers.com.au/en-AU/Countries/Australia/Our-Research>

Commercial Online Sales:

- <https://www.realcommercial.com.au/news/tag/property-market-trends>
- <https://www.domain.com.au/research/>
- <https://www.domain.com.au/news>

TRENDS & HOT SPOTS – HELEN

- **Retail** slow... therefore **opportunity** to buy undervalued retail properties that may need a change of ‘character’- eg shoe shop refurbished into restaurant property- capital costs up front (bought at discounted price)... higher rental income from this- look to attract a restaurant tenant- small sub \$500K property \$30K rent at purchase- now will get \$38K net rent- estimated 3 to 4 months to find a tenant for this location- council application for back access to restaurant
- Tenant incentives for this tenant is working with them to build the interior to their design liking... you cannot layout all of the restaurant... grease trap install best place or only place- get basic floor in- then work with the tenant to install kitchen.... Plumber electrical etc- partitions, Do electrical to tenant’s specs = incentive
- Rent free periods (3 months or 6 months 1/2 rent) as incentives... trading up for a longer lease.

TRENDS & HOT SPOTS – HELEN

- Smaller tilt slab warehouse trend up - may mean there's an oversupply in market- sold at 6% - will take a longer time to gain capital growth for this type- lost of supply with more- Careful of Greenfields, re developments

TRENDS & HOT SPOTS – HELEN

- Heated market in many area
- Opportunities Inland
- Many investing on coastal area- lower yields here now
- Inland from Sunshine coast QLD, Goldcoast, Ballina, Lismore, all along the eastern sea board
- Wagga, Albury, Wodonga, Seymour => Urban expansion happening
- Even 30 to 45 mins inland from coast

TRENDS & HOT SPOTS – HELEN

- Properties that may be slightly complicated deals- if you can wait it out... longer term - 3 to 5 year timelines... property undervalued (tenant on month to month- not market rent-Gross) - spend time to change tenants over time- long term goal and buy location- capital gains.
- eg-Structural building issues, structural issues- in great locations => build or extend on property,
- TLC to these tired properties, tenants not getting their needs met... eg air-conditioning, carpet, lighting etc
- Patience & Risk Tolerance!

TRENDS & HOT SPOTS – HELEN

- Set & Forget... great place to get started
- As risk tolerance grows... may be able to branch out - iron out our problematic tenants = human connection and negotiation- these are 'sit-down-conversations'.
- Come back with a proposal tenants are happy with... reward
- Cairns opportunity for deals- greater stability in economy- education moving steadily
- Adelaide- still have to pick & choose- lots of vacancies - stick closer to CBD metro
- WA- look at opportunity- ONLY if you can tolerate risk... vacant-refurnish and get new tenant at base rent- is OK to look at- if pick up a bargain- TIME for this

TRENDS & HOT SPOTS – HELEN

- Tasmania- Hobart, Davenport, Launceston
- Population migration areas, with **permanent** population is most important for Tasmania.

TRENDS & HOT SPOTS – HELEN

- Look where the market is NOT looking
- DO not follow the hot trends quoted right now...
- If they may have already peaked and yields loosen- after 1 to 2 years, no longer popular so presents good opportunities.
- **Flood areas vs All flooded-** eg Lismore & Townsville with cyclones all flooded- rarer.. not a long history of floods
- Check in with your risk tolerance about flood areas
- **Asbestos:** Most older place in regional will have asbestos... check regulations, tenant- Ok got leave or need to address.

TRENDS & HOT SPOTS – HELEN

- Inland from Sunshine Coast:
- Malaney, Monteville, Landsborough
- Berwah
- Eumundi
- Cooroy & Promona
- Ipswich- plus inland pathway to outer ring of Brisbane towards sunshine coast & towards Goldcoast
-

TRENDS & HOT SPOTS – HELEN

- Yields decreasing - investors diversifying form residential
- Regional QLD 7.6%
- Fringe QLD 8%
- Metro QLD 6%
- Regional Vic 7%
- Metro Sydney 6% tried to compete... but not achieved due to huge competition
- Vendors staying firm on price in January so far with lots of follow up.
- Retail yields: pure retail have gone up in metro, because identified as less secure- hence turn into destination store.

TRENDS & HOT SPOTS – HELEN

- Regional areas with fires will impact retail cafes and other businesses. So stay away from set and forget or retail
- See if suitable for potential land, where you could develop as a warehouse or storage build over time... so cheap warehouses or land
- Gippsland caution: many areas going backwards because of the fires.
- **Retail yields better in Brisbane-** because Melb & Sydney have a larger population wanting retail restaurants etc.. (Asian communities prefer these investments in Melb & Sydney)

TRENDS & HOT SPOTS – HELEN

- **Retail yields better in Brisbane-** because Melb & Sydney have a larger population wanting retail restaurants etc..
(Asian communities prefer these investments in Melb & Sydney)
- Brisbane to Gold-coast to Sunshine coast- retail will do better than other states
-

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Podcast channel...

**Commercial Property
Roadshow with Helen
Tarrant**

- <https://podcasts.apple.com/ph/podcast/commercial-property-roadshow-with-helen-tarrant/id1484804524?>

YOUTUBE ROAD-SHOW **SUBSCRIBE**

The screenshot shows the YouTube channel page for 'Commercial Property Roadshow With Helen Tarrant'. The channel banner features a collage of images including a modern building, a whiteboard with diagrams, a red car on a road, and Helen Tarrant in various settings. Below the banner is the channel's profile picture, name, and subscriber count (186 subscribers). Navigation tabs for HOME, VIDEOS, PLAYLISTS, CHANNELS, DISCUSSION, and ABOUT are visible. The 'SUBSCRIBED' button and notification bell are highlighted with green arrows. The 'Uploads' section shows a row of five video thumbnails with their titles and view counts.

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