

Believe it or not there are good deals to be had!

Industrial property has been most affected by the banks' revaluation of risk, which is reflected in their reluctance to extend credit and make loans for commercial investment. Their loan to valuation ratios have been reduced while their interest cover ratios have increased the significance of the charges to the individual depending on the perceived credit worthiness of the borrower. Thus many contracted transactions fail because finance cannot be obtained. On the other hand, interest rates are falling and yields rising, making property an attractive proposition. Purchasers should keep in mind that well designed and located property will always lease, no matter what the economic circumstances, ahead of a lesser property. Further, leases with strong covenants assume a more important role in less buoyant times.

A two part market has evolved with few transactions priced above \$3 million and a much reduced, perhaps as much as 40% to 50%, number of transactions priced under \$3 million, with most under the one million mark. Investors are quiet with most buyers being owner/occupiers. Interestingly, our experience in the latter market shows yields have not blown out to the extent valuers claim. The evidence just does not substantiate their understanding of "market sentiment", at least in this category.

There is still a "wait and see" process going on by vendors and investors alike, with vendors reluctant to drop their prices and investors waiting for the yields to lift further. This period will soon be over for those who need/want to sell, realising they must move with the general sentiment of the market, which is downwards... meaning yields will increase for all stock but more so for secondary stock. Although there may be distressed owners, this time around there is no major oversupply and the low interest rates means there will be fewer distressed sales.

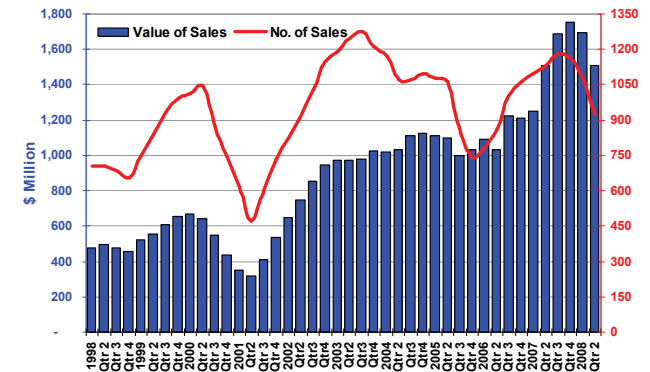
Land sales have all but dried up. Given the difficulty of obtaining credit and continuing high construction costs, long approval times, the uncertainty in the market, lower rents related to decreasing demand etc, land prices have dropped, maybe as much as 10% to 20% in the short to medium term, depending on size and location.

Leasing is much like the dwelling industry, in that every business needs a home. While sales/purchases may be delayed, the need for accommodation does not. Certainly the leasing market is much harder with discretionary decisions being put in the back drawer, but leases expire and /or are renewed, firms go out of business, businesses expand/contract etc. The industrial leasing market is down, maybe by 10%, but it is still firm at a lower level. Although the stock of vacant buildings has increased, the level of vacancies in buildings over 2,000m² GFA is more marked in this respect and are taking longer to lease. Generally rentals are lower with incentives being demanded. As vacancies increase, clearly further pressure will be placed on rentals, with secondary stock being affected the most. This is already occurring.

The industrial real estate market has had a good, long run since the early 1990s, with just a hiccup when the GST was introduced mid 2000. All markets run in cycles. Although economic pundits are expecting a harder downturn than previously voiced, South East Queensland in particular is well placed with its many growth drivers, including population increase, infrastructure programme and spin offs from its diversified economy, to ride out this period. Uncertainties are always matched with opportunities. Private investors and owner/occupiers, who are able, should take these opportunities and purchase quality property to prosper in the upturn, which is bound to come within a year or two.

Meanwhile, prospective tenants may also take advantage of the times and win concessions through incentives, rental review clauses and reduced rates. Landlords will need to be flexible and endeavour to structure leases to receive earlier than usual market reviews. ■

The Moving Annual Totals for Industrial Sales in BCC



Total Industrial - North & South

