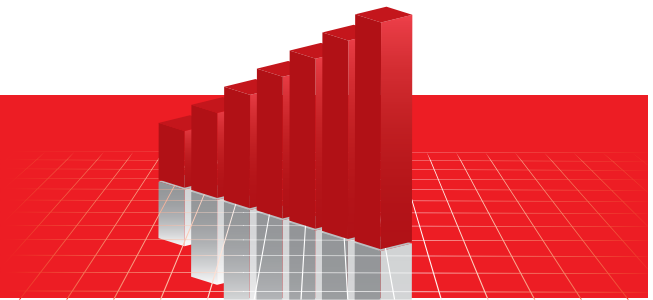


# It's a V not a W!!



The pace of the Brisbane industrial real estate market has changed significantly since 1 July 2009. Transactions have increased, perhaps by as much as 20%. While around 3 months of trading is not generally considered a trend, this time it could well prove to be one. For example, a recent NAB survey has recorded business confidence as being the highest it has been since 2003.

1 July signified the 8th quarter of the downturn. The sharpness of the bottom we just experienced suggests a V shaped upturn, similar to the situation during 2000 to 2002, at the time of the introduction of GST, rather than the protracted flat bottoming which occurred in the early 1990s.

From 2Q 2001 to 4Q 2002 transactions increased by 140% while value of transactions leapt 220%, the consequence being huge price increases created by held back demand, a shortage of stock and, of course, no shortage of credit.

The continuing reluctance of banks to extend credit for property development and investment purposes will hinder the present growth in the market as developers can not bring new stock on to the market. On the other hand, the continuing buoyant leasing market will drive rentals and property prices higher.

The wait and see process by vendors and investors has abated. Vendors who need or wish to sell are more prepared to meet the market and investors realise yields are almost as high as they will go. Although there may be distressed owners, this time around there is no major oversupply and the low interest rates means there are fewer distressed sales.

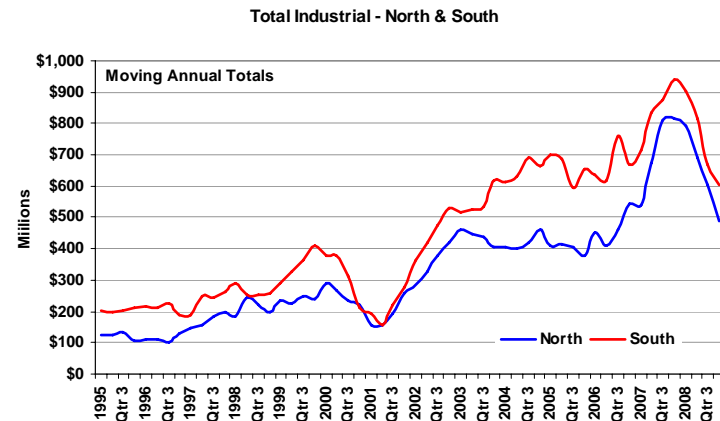
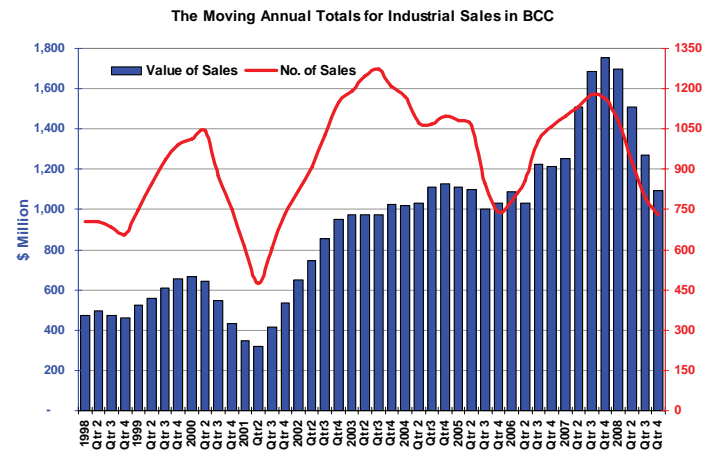
Land sales are few and this situation is expected to remain so until the banks are prepared to lend for this purpose. While construction costs have declined, the long approval process, lower rentals related to affordability and reduced demand have depressed land prices by as much as 15% to 25%, depending on size and location.

Although the overall leasing market is challenging, with discretionary decisions being delayed, it is steady, albeit at a lower level, perhaps as much as 10% to 15%. The stock of vacant buildings has increased with the number of vacancies in buildings over 2,000m<sup>2</sup> GFA more marked. Buildings are also taking longer to lease. Generally, rates are lower by 10% to 15%, with incentives up to 3 months rent free being demanded and given. If the economy has turned, this situation will soon change, with rentals moving rapidly upwards as little supply is in the immediate pipeline and the future faces growing inflationary pressures (as to timing, some economic pundits in the financial press put a jump in interest rates as early as 6 October, while Bis Shrapnel is opting for the second half of 2010).

In summary, all markets run in cycles. Although many commentators expected a harder downturn, Southeast Queensland with its population growth, infrastructure development and spin offs from its diversified economy, is better placed to emerge strongly from this downturn.

Prices have stabilized, and Vendors who are prepared to meet the market will not be disappointed. Private investors and owner/occupiers, who are able, should not delay and purchase as early as possible to prosper in the inevitable upturn. We venture to say that it has already started.

Prospective tenants may also take advantage of the situation of current lower rentals and win concessions through incentives and rental review clauses to safeguard against future inflation. On the other hand, landlords need to be flexible and structure leases to receive earlier than usual market reviews and ensure the annual reviews include uncapped CPI increases.



Source: DNR/National Property Research

