

#2
2015

Raine & Horne[®]
Commercial

Insights



Local Knowledge & National Strength



Welcome to the latest edition of Raine & Horne Commercial **Insights**. With over half of 2015 behind us, and sights now turning towards 2016, it's timely to look at the current state of play in Australian commercial markets.

Investors, self-managed super funds (SMSFs) and owner occupiers are dominating commercial property in the \$1 million to \$3 million price bracket, largely thanks to the RBA slashing interest rates to a record low of 2%. This is creating significant interest in the sale of commercial properties with long leases and solid tenants.

What's more, the falling Australian dollar means Australian property markets are also increasingly attractive to international investors. However on the domestic front we have seen small to medium enterprises (SMEs) sitting on their hands, as they delay a decision to upgrade to larger or newer commercial premises. Still, with the significant spike in residential house prices, some SMEs are now starting to branch out and use this asset growth as collateral to fund new business and commercial ventures.

The other big factor driving some of our commercial property markets is infrastructure investment, with billions of dollars committed to developments such as Barangaroo in the Sydney CBD, while the prospect of a light rail service for busy Cleveland Street is another major plus. In greater Sydney, the Badgerys Creek airport project is translating into increased commercial interest from St Marys down to Camden, while the North West Rail Link and the North Connex

and West Connex road projects are also spurring commercial activity.

In regional Queensland, the massive recent infrastructure injection, courtesy of the Brisbane West Wellcamp Airport, has already seen a number of large commercial developments spring up on the western side of Toowoomba, attracting enquiries from businesses considering a relocation from Brisbane. Further north, and the ongoing Inpex LNG project at Blaydin Point in Darwin is expected to propel commercial interest for some years to come.

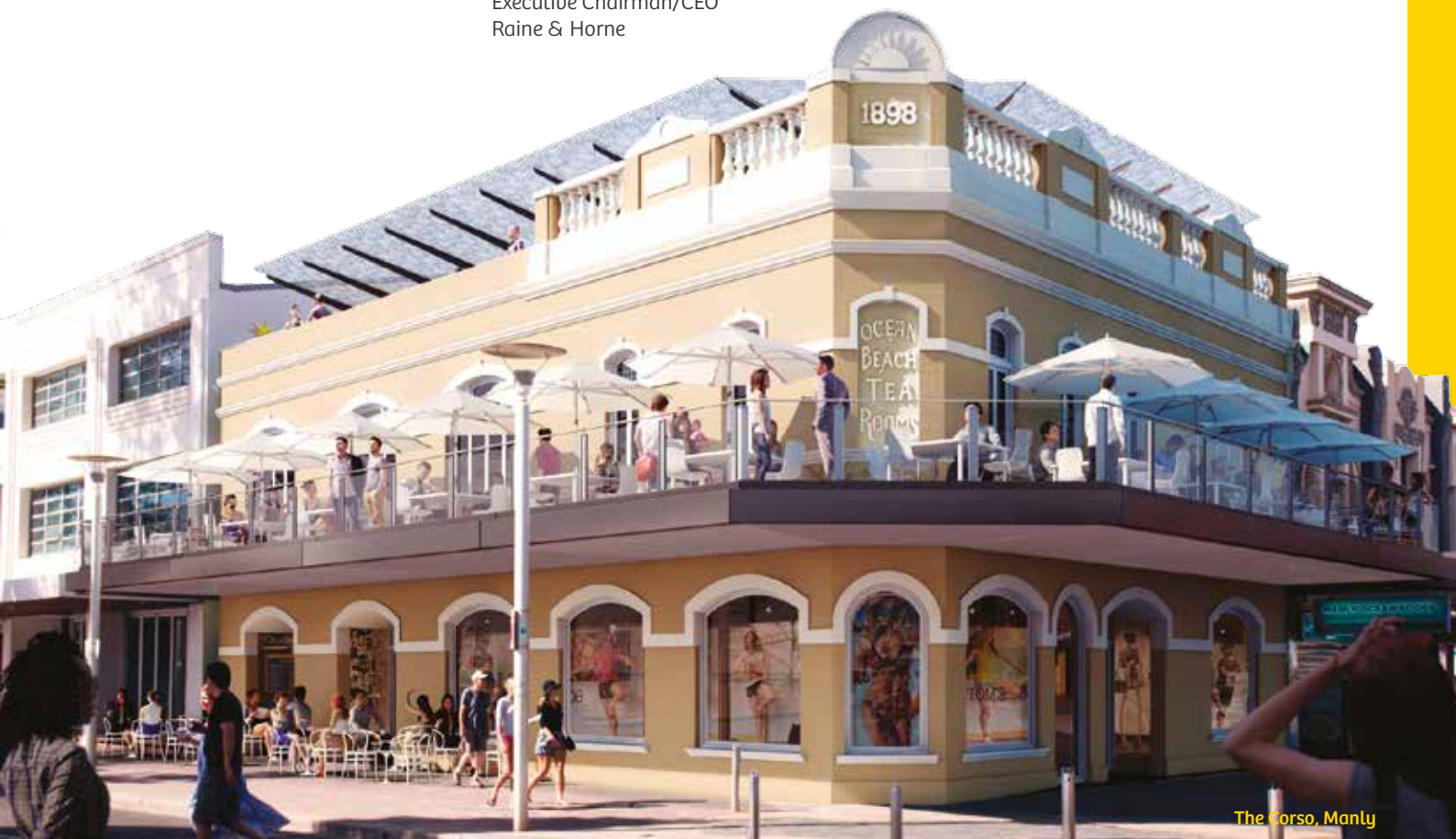
At Raine & Horne Commercial, we've also taken the opportunity to expand our network coverage to Queensland's Sunshine and Gold Coasts, with the recruitment of businesses from a rival network. The opening of Raine & Horne Commercial Sunshine Coast is timely as the property market in Queensland is starting to show the form that we've come to expect from the southern states. Meanwhile, Raine & Horne Commercial Gold Coast has entered a market that is picking up for the first time since the Global Financial Crisis, with the completion of the Gold Coast Light Rail and Commonwealth Games infrastructure buoying business confidence.

Raine & Horne's growth hasn't stopped there either, with our international expansion now taking in Dubai in the United Arab Emirates, which has emerged as a leading regional commercial hub with state-of-the-art infrastructure and a world-class business environment. Our Raine & Horne Dubai operation is located in Business Bay, which will have upwards of 240 new commercial and residential buildings completed in the next few years.

On a personal note, I've also recently exclusively taken on the role of Executive Chairman, in which capacity I'll be concentrating on further expanding the business in Australia and overseas.



Angus Raine,
Executive Chairman/CEO
Raine & Horne





Commercial property development in Australia generally remains subdued reflecting the recent and ongoing underperformance of the national economy.

Latest ABS building approval data for the March quarter reveals that the national value of the prime commercial supply components of the retail, offices and industrial submarkets fell by 15.0 percent over the quarter to \$2.87bn. The value of prime supply also fell sharply over the year ending March – down by 35.4 percent. Prime supply levels peaked over the September quarter 2013 at \$4.74bn and have been clearly trending downwards since that period.

All components of national prime supply recorded falls over the March quarter with the exception of the retail sector that recorded rise of 2.3 percent. Despite a rise over the March quarter, the value of retail building approvals however has fallen 38 percent over the past year.

Sydney, Melbourne and Brisbane all recorded falls in planned building for commercial developments over the year ending March compared to the previous year. The best sub-market performer was generally the warehouse sector particularly in Melbourne with development approvals for this group increasing strongly by 25.5 percent over the past year.

Standout local government area performances in Sydney in the current financial year to March were Blacktown in Sydney with \$134.7 million in warehouse building approvals, Stonnington in Melbourne with \$269.8 million in retail building approvals and the Gold Coast with 161.4 million in retail building approvals.

The latest ABS data confirms the Australian commercial property market remains in overall decline as economic activity generally wanes. The current low interest rate, low inflation economic environment continues to constrain investment and consumer spending. High budget deficits are also constraining government investment and public service spending further impacting activity in the commercial sector. The recent sideways movement of the sharemarket reflects the stagnant local and international economic climate

The current data reveals all national market sectors continue to fall although the warehouse sub-sector remains relatively resilient with recent activity rising in both NSW and Victoria.

Commercial development activity can be expected to continue to decline as the general economic outlook remains cloudy. Rising consumer spending through house price growth activated by low rates is however set to assist the retail sector. Continues weakening in the mining sector as the construction boom ends will continue to have an adverse effect on government spending and act to weaken the office sector.

The rising virtual retail environment and the decline in bricks and mortar shopfronts will however continue to facilitate growth in logistics and warehouses. The relatively high local labour cost economy is an impediment to the manufacturing sector with continuing reduced factory development a consequence.

The prospect of a lower Australian dollar is set to activate the economy over the longer term but the currency remains a hostage to a sustained recovery by the US economy and a consequential upward shift by the USD.

The NSW economy clearly remains the standout performer of all the states and is well placed to rise earliest into a sustained commercial property recovery.

Dr Andrew Wilson,
Senior Economist
Domain Group

Current state and future prospects of commercial property market

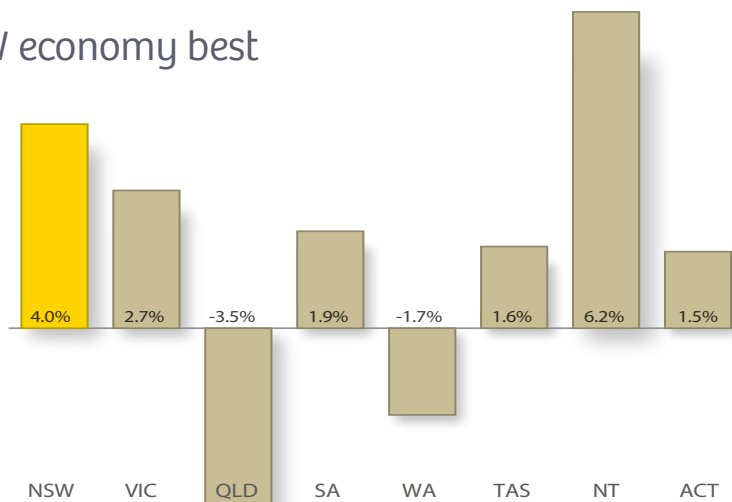
• CURRENT STATE

- Commercial market activity in overall decline as economic activity generally wanes
- Low interest rate, low inflation constraining investment and consumer spending
- High budget deficits constraining government investment and public service spending
- Sideways sharemarket reflects declining international economic climate
- All national market sectors falling - although warehouses remain resilient
- Warehouses rising in VIC and NSW

• FUTURE PROSPECTS

- Commercial markets to continue to decline as economic outlook remain cloudy
- Rising consumer spending as house prices grows with low rates to assist retail
- Mining construction boom end and lower government spending to weaken offices
- Rising virtual retail environment to facilitate growth in logistics and warehouses
- Decline in bricks and mortar shopfronts
- High labour cost economy to continue to weaken manufacturing reducing factories
- Lower dollar to activate economy over longer term – but hostage to USD
- NSW strongest state economy to rise earliest into recovery

NSW economy best



Commercial property planned development LGA hot spots (FY 2014-15 to March)

• NEW SOUTH WALES

- Retail City of Sydney \$144.6m, The Hills \$76.5m, Sutherland \$70.3m
- Office City of Sydney \$527.6m, Blacktown \$110.7m, North Sydney \$38.9m
- Factory Blacktown \$64.4m, Murrumbidgee \$24.3m, Hay \$9.4m
- Warehouse Blacktown \$134.7m, Hills \$41.2m, Holroyd \$37.5m

• VICTORIA

- Retail Stonnington \$269.8m, Casey \$151.6m, Melbourne \$90.9m
- Office City of Melbourne \$633.0m, Monash \$102.6m, Stonnington \$57.1m
- Factory Geelong \$20.5m, Dandenong \$16.9m, Wyndham \$12.9m
- Warehouse Dandenong \$93.8m, Whittlesea \$59.6m, Wyndham \$57.4m

• QUEENSLAND

- Retail Brisbane \$257.8m, Gold Coast \$161.4m, Moreton Bay \$49.2m
- Office Brisbane \$240.2m, Rockhampton \$41.5m, Gold Coast \$24.9m
- Factory Brisbane \$26.4m, Goondiwindi \$5.2m, Logan \$4.3m
- Warehouse Brisbane \$159.4m, Ipswich \$52.3m, Moreton Bay \$36.6m

Major capitals outlook and suburban region hotspots

• SYDNEY

- Badgerys Creek airport to drag commercial and industrial development to the west, south-west
- Parramatta to form second CBD as Sydney basin splits into two cities

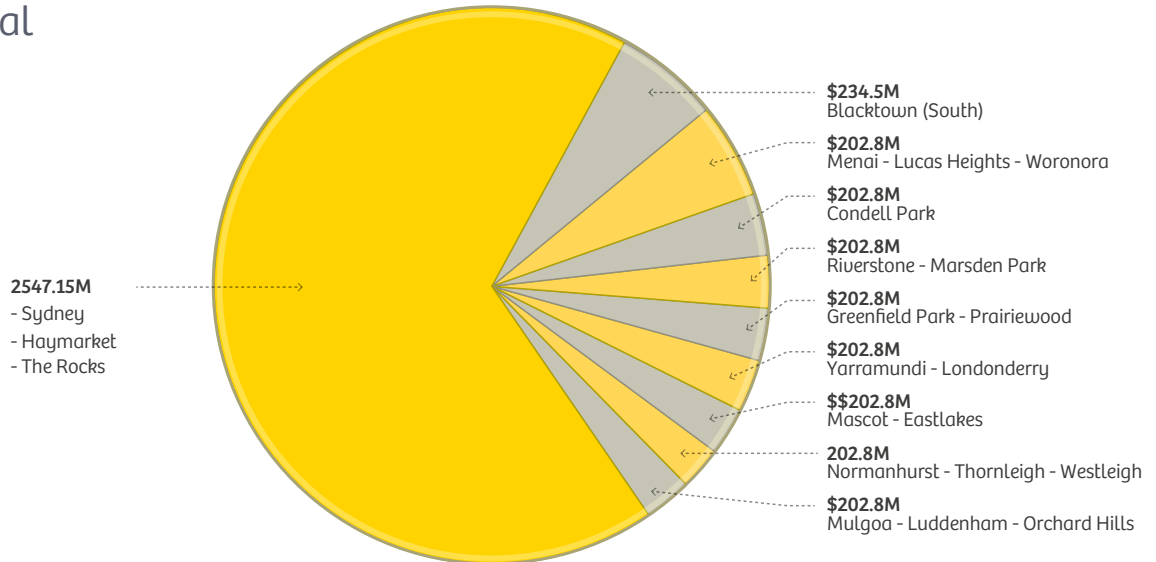
- Significant commercial infill opportunities between Badgerys's Creek and Parramatta
- Current hot spots Blacktown, Parramatta and the Hills for retail, office and warehouses
- Solid local economy and wealth effect from strong house price growth to bolster retail



Top performing capital city suburban areas

2014-15 financial year to March

Sydney total

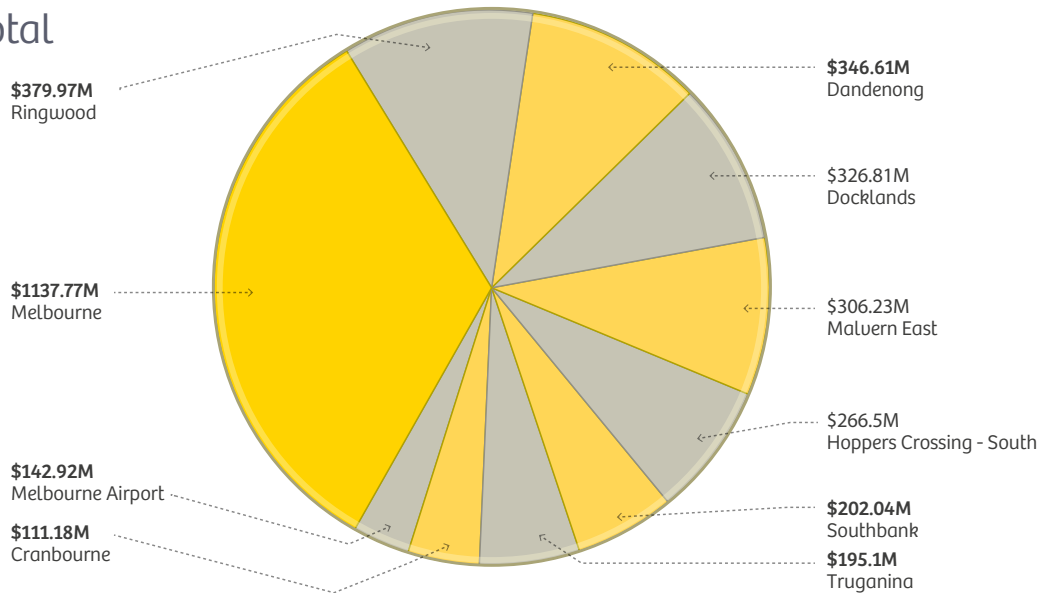


• **MELBOURNE**

- Fading manufacturing base offset by rising housing market and CBD unit construction
- Potential for increased retail as government-backed CBD residential precincts develop longer-term
- Fisherman’s Bend community development to generate commercial opportunities
- Potential undersupply of CBD offices medium-term due to crowding out by residential development
- Current hot spots Wyndham and Dandenong for industrial



Melbourne total



• **BRISBANE**

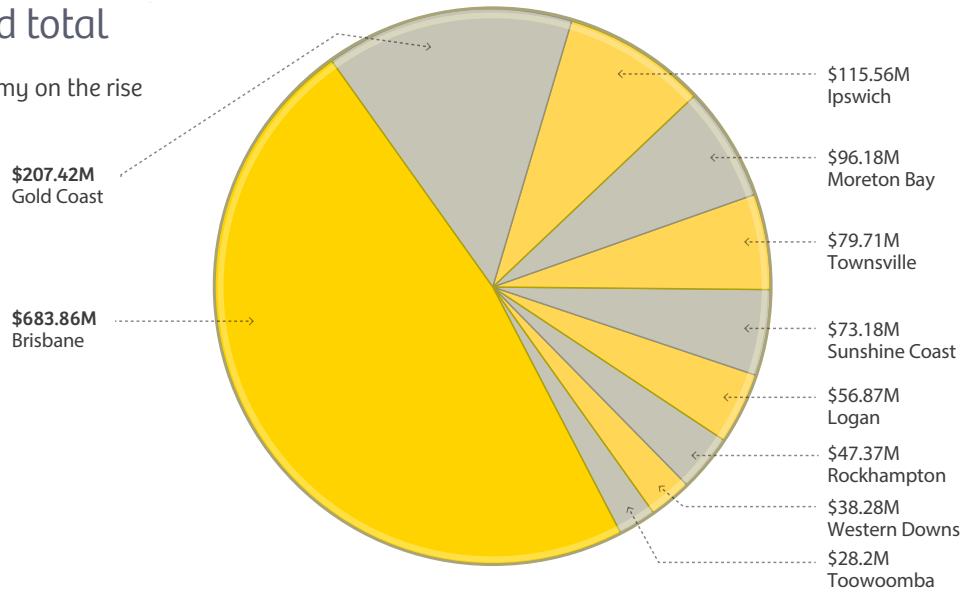
- Brisbane local economy to rise as dollar falls but currently a slow process Rising CBD office and retail demand as QLD economy revives – Brisbane inner city suburbs on rise
- Rising housing market and house prices to bolster retail through wealth effect

- Rising demand for warehouse from logistics as virtual retail environments rise – Brisbane and Ipswich
- Gold Coast retail rising as local economy and housing market records strong growth



Queensland total

Gold Coast economy on the rise



Economic outlook 2015

MIXED NATIONAL ECONOMIC OUTLOOK

- Pessimism outweighing optimism - future cloudy - but a glimmer of hope?
- Reserve Bank wary on near-term direction of economy with rates cut - for final time?

INTERNATIONAL ECONOMY WAVERING?

- China growth weaker but relatively strong - signs of fading international economy
- US economy continues to slowly revive but real growth (wages) still too low
- AUD to fall as USD rises with higher US rates

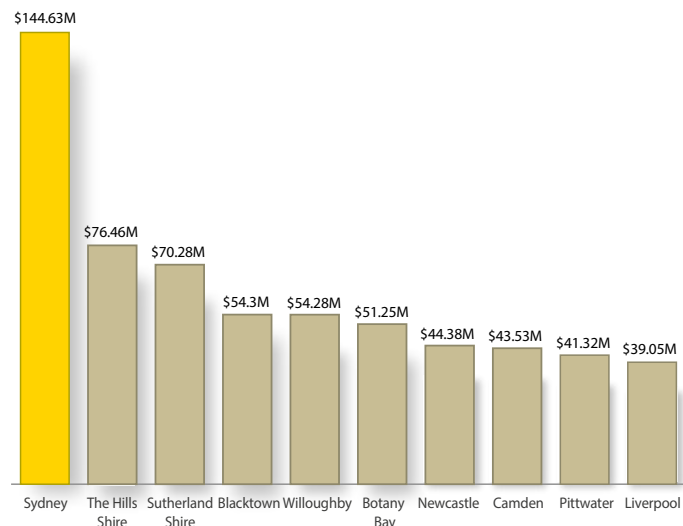
MIXED RESULTS FOR LOCAL ECONOMIES

- NSW solid growth trend – top performer as mixed economy spreads the load
- VIC in transition as manufacturing base wanes but building and services holding up
- QLD up as dollar falls - strong exporter, tourism, population rising - but confidence up slowly
- SA showing early signs of revival but will be a gradual and lengthy process
- WA still OK with population surge but mining building boom over and lower iron ore prices
- TAS showing early signs of revival but remains national underperformer
- NT boom resources economy faded under population surge but set to resume growth
- ACT health dependant on government fiscal policies - as usual

National Turnaround?

March ABS jobless rate	2014	2015	Trend
Sydney	5.2%	4.7%	↓
Melbourne	6.2%	5.8%	↓
Brisbane	5.9%	5.2%	↓
Adelaide	6.7%	7.6%	↑
Perth	5.1%	5.9%	↑
Hobart	6.0%	5.4%	↓
Canberra	3.3%	3.5%	↔
Darwin	4.2%	3.7%	↔

NSW Retail – rising house prices generate retail spending



Economic drivers - rates, dollar, wages, profits all low and falling - but shares up

INTEREST RATES REMAINING AT 60 YEAR LOW

- Downward bias until jobless falls below 6% - less stimulus capacity from record low rates – deflation risk
- Mortgage costs falling as banks compete for market share – lowest since 1968
- Rate cuts in 2015 - economy needs more stimulus – but maybe last of cycle - watch the currency

STOCKMARKET RISING WITH LOWER DOLLAR BUT HOSTAGE TO GLOBAL FORCES

- Investors shift to shares and increased international investment with lower dollar
- Solid growth upside as still 10% below 2007 peak, unlike other exchanges at or near highs

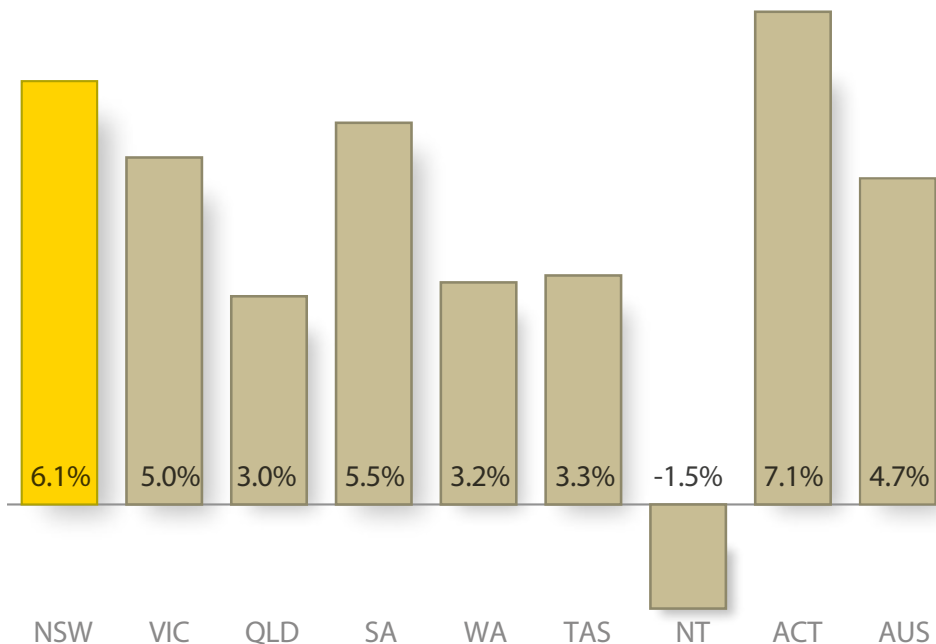
LOWER DOLLAR AND LOOMING DEFLATION

- Imports more expensive, living standards fall, spending and investment decline
- Wages and profits subdued in low inflation economy – places lid on house price growth despite rate cuts

Retail spending lifts with house prices

(ABS growth year to date Mar 15 vs Mar 14)

Retail this year to May compared to last year to May

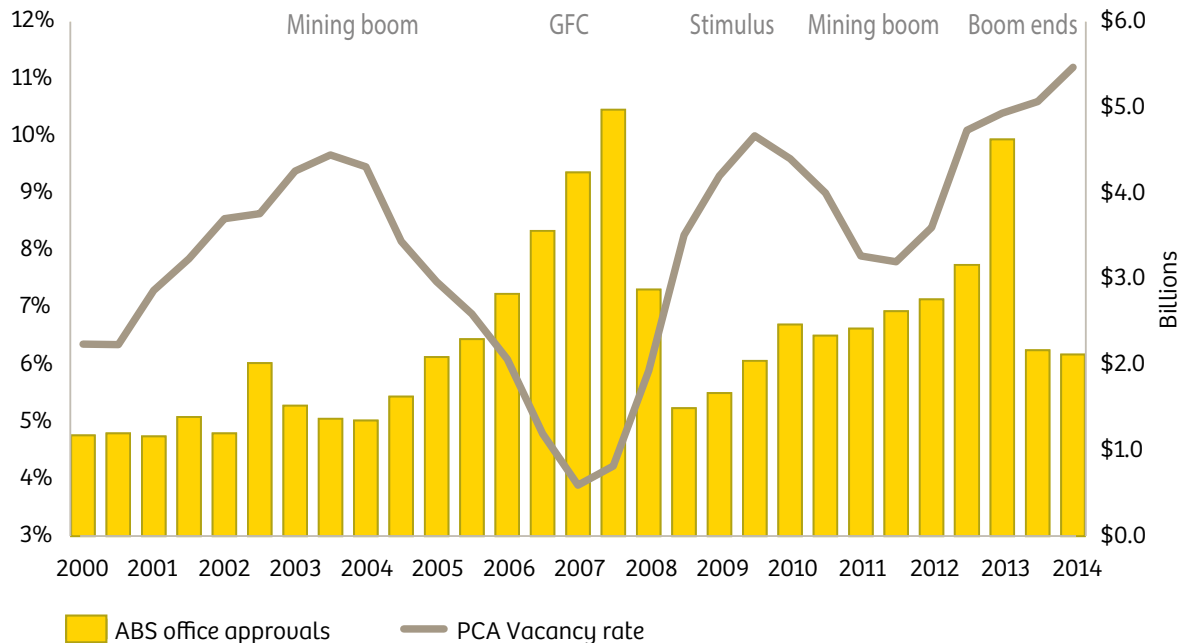


Prime new supply effective commercial property market measure

COMMERCIAL PROPERTY ACTIVITY MEASURES IN SYNC AND REFLECT ECONOMY

- Office vacancy rates track unemployment rates
- Capital city office vacancy rates in sync and track business cycle
- Office vacancy rates direct inverse relationship with planned office construction
- National prime commercial property components (retail, office, industrial) in sync
- Major states (NSW, VIC, QLD) prime new supply in sync
- Major states prime new supply components in sync
- Prime new supply effective measure and forward indicator of commercial market performance and general economy
- Database for timely updated insights into new commercial supply Australia wide

National office vacancy rates inverse sync with national new office supply



For Lease
Leased

For Sale
Sold



17 Gassman Dr,
Yatala
Sale Price: \$2,650,000 + GST
Building: 1,751 sqm
Office: Beenleigh



3/3990 Pacific Hwy,
Loganholme
Sale Price: \$665,000 + GST
Building: 180 sqm
Office: Beenleigh



1242 Sandgate Road,
Nundah
Leased: \$103,800
Building: 189 sqm
Office: Brisbane North



32 Perrin Place,
Salisbury
Price: Sold \$3,160,000
Building: 1,787 sqm
Office: Brisbane Southside



9 University Drive,
Meadowbrook
Price: Sold \$2,260,000
Building: 1,345 sqm
Office: Brisbane Southside



370 Bilsen Road,
Geebung
Leased: \$339,040
Building: 4,238 sqm
Office: Brisbane North



277 Gympie Road,
Kedron
Price: Sold \$2,900,000
Land: 3,638 sqm
Office: Brisbane North



576 Boundary Road,
Archerfield
Leased: \$1,152,363 pa (Net)
Building: 1,178 - 2,080 sqm
Office: Brisbane Southside



14 Parkview Drive,
Archerfield,
Leased: \$104,030 pa (Net)
Building: 1,010 sqm
Office: Brisbane Southside



1/65-67 Steel Street,
Capalaba
Price: Sold \$915,000
Building: 494 sqm
Office: Bayside



64 Jijaws Street,
Sumner
Price: Sold \$936,000
Building: 901sqm
Office: Brisbane Southside



52 Hopewell Street,
Paddington
Price: Sold \$2,600,000
Building: 610.3 sqm
Office: Bondi Junction



21 Belmore Road,
Randwick
Price: Sold \$2,650,000
Building: 221.9 sqm
Office: Bondi Junction



376 Princes Highway,
St Peters
Price: Sold \$1,175,000
Land: 333 sqm
Office: South Sydney



27-31 Milton Street North,
Ashfield
Sale Price: Price on application
Land: 1,028 sqm
Office: South Sydney



13/71 Leichhardt Street,
Kingston
Sale Price: \$570,000
Building: 122 sqm
Office: Canberra



6 National Circuit,
Barton
Rent: Price on application
Building: 2,884 sqm (3 Floors)
Office: Canberra



44 Sydney Ave,
Forrest
Rent: Price on application
Building: 1,208 - 5,107 sqm
Office: Canberra



27 East Row,
Canberra City
Sale Price: \$1,420,000.00
Building: 336 sqm
Office: Canberra



32 Central Coast Highway,
West Gosford
Rent: \$225 per sqm (Net) + GST
Building: 240 sqm - 1,000 sqm
Office: Erina



2 Comseru Close
West Gosford
Price: Sold \$1,425,000
Building: 1,572 sqm
Office: Erina



12 Jusfrute Drive,
West Gosford
Price: Sold \$1,675,000
Building: 3,295 sqm
Office: Erina



3 Watt Street,
Gosford
Price: Sold \$1,050,000
Building: 370 sqm
Office: Erina

For Lease
Leased

For Sale
Sold



2 Beach Rd,
Kingston Beach,
Sold: \$3,000,000
Land: 5,807 sqm
Office: Hobart



Level 8/111 Macquarie Street,
Hobart
Leased: \$45,825 pa + GST
Building: 117 sqm
Office: Hobart



178 Macquarie Street,
Hobart
Leased: \$82,500 pa + GST
Building: 400 sqm
Office: Hobart



131-133 Murray Street,
Hobart
For Lease: \$75,000 pa
Building: 171 sqm
Office: Hobart



111 Elizabeth St,
Hobart
Sold: \$1,575,000
Building: 391 sqm
Office: Hobart



Levels 3 & 8/33 Chandos Street,
St Leonards
Leased: \$350,708.47 pa + GST
Building: 831 sqm
Office: North Sydney



Levels 2 & 5/104 Mount Street,
North Sydney
Leased: \$259,682.78 pa + GST
Building: 766.2 sqm
Office: North Sydney



382 Pacific Hwy,
Crows Nest
Sale Price: \$4,575,000
Building: 1,224 sqm
Office: North Sydney



Suite 201 & 202/14-20A
Clarke Street, Crows Nest
Sale price: \$1,150,000
Building: 144 sqm
Office: North Sydney



110-112 The Corso,
Manly
Rent: Price on application
Building: 685 sqm
Office: Northern Beaches



97-99 Old Pittwater Road,
Brookvale
Price: Sold \$4,620,000 + GST
Building: 1,750 sqm
Office: Northern Beaches



66-68 Christie Street,
St Marys
Price: Sold \$1,740,000
Land: 4,063 sqm
Office: Penrith



30 Woodriff Street,
Penrith
Price: Sold \$1,900,000
Building: 479.2 sqm
Office: Penrith



236-238 Illawarra Road,
Marrickville
Price: Price on application
Land: 1,007 sqm
Office: South Sydney



24 & 26-28 Smith Street,
Marrickville
Price: Sold \$2,200,000
Land: 803 sqm
Office: South Sydney



314-316 Marrickville Road,
Marrickville
Rent: \$143,000 pa
Building: 330 sqm
Office: South Sydney



402 Liverpool Road & 1 Lion St,
Croydon
Sale: \$6,490,000
Land: 2,883 sqm
Office: South Sydney



90 Ashford Avenue,
Milperra
Price: Sold \$10,000,000
Building: 7,970.1 sqm
Office: Special Projects



18-22 The Boulevarde,
Woy Woy
Price: Sold \$2,600,000
Building: 744 sqm
Office: Special Projects



284 Marrickville Road,
Marrickville
Price: Sold \$1,750,000
Land: 184 sqm
Office: South Sydney



106 Market Street,
Wollongong
Price: \$1,630,000
Building: 509 sqm
Office: Wollongong



155-157 Five Islands Road,
Unanderra
Price: Sold \$1,750,000
Building: 832 sqm
Office: Wollongong



1/17 Cemetary Rd,
Hellensburgh
Price: Sold \$545,000
Building: 213 sqm
Office: Wollongong

Office Locations

Raine & Horne Commercial

1800 065 872

NSW

Bondi Junction
Business Recovery & Insolvency
Erina/Terrigal & Avoca Beach
Hills/Blacktown
Olympic Park
Leichhardt
Macarthur
Newcastle
North Sydney
Northern Beaches
Parramatta
Penrith
Port Macquarie
Retail Services
South Sydney/ Marrickville
Special Projects
Sutherland Shire
Sydney CBD
Tamworth
Wagga Wagga
Windsor
Wollongong

VIC

Business Brokers VIC
Brunswick
Commercial VIC
Melbourne CBD
Melbourne Metro

QLD

Bayside
Beenleigh
Brisbane North
Brisbane Southside
Gold Coast
Hervey Bay

ACT

Canberra

SA

Commercial SA
Corporate Business Sales

WA

Commercial WA

TAS

Hobart

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Commercial

Local Knowledge & National Strength