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Mixed bag for Canberra's commercial market

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Canberra's commercial market is forecast to achieve mixed results during 2010 according to the latest Canberra MarketView report by CB Richard Ellis.

The global economic crisis and subsequent budget deficit have hindered overall growth during the past two years; however some sectors of the Canberra's commercial market have performed well.

CBRE's analysis shows that office sales volumes have remained high and industrial yields have remained remarkably resilient. However, office rents have continued to face steady downward pressure and retail rents have stagnated.

CBRE's NSW & ACT Research Manager, Luke Nixon said the high level of office sales activity had translated to a 13 basis point tightening in the yields on Grade A buildings in the City, from 8.33% to 8.20% during the first quarter of 2010.

"Canberra's office market has benefited as private and foreign investors sought opportunities involving tenants with good covenants and long lease terms," Mr Nixon said.

However office rents continued to travel downwards – and retail rents continued to stagnate – in trends which illustrate the varied performance of the Canberra market.

"The shortfall of tenant demand in Canberra has exerted downward pressure on office rents and, as a result, the vacancy rate is expected to continue to rise to a peak of 13.5% in 2012 for the Civic precinct as new developments come to market," Mr Nixon said.

"Prime gross face rents declined over the year to March 2010 by 4.0% to \$411 a square metre, while incentives for prime space rose from 8.3% to 13.2% over the same period."

On the flipside, the Canberra industrial market has remained remarkably stable according to CBRE Negotiator Mark Nicholls. While slight rental falls and a minor correction in yields have been evident, it

has not been as dramatic as the declines witnessed in most commercial property markets around the country.

Mr Nicholls said owner occupiers continued to dominate sales activity in the Canberra industrial market which had remained relatively active throughout the global economic crisis.

"Grade A warehouses are achieving yields in the range between 8.00% and 8.75% with average capital values at \$1,370 a square metre as at March 2010. In terms of location Fyshwick recorded the lowest average yield at 7.66% followed by Hume at 7.81% and Mitchell at 8.19%," Mr Nicholls said.

"Warehouse/office space in the sub \$1million market has proven increasingly popular with our most notable transactions including; the sale of a 276 square metre shed located at 3/25 Darce Street, Mitchell for \$490,000 and a 284 square metre warehouse/showroom located at 42-44 Essington Street, Mitchell for \$520,000. Of our recent transactions the majority were located in Mitchell as owner occupiers position themselves for the future expansion of Gungahlin."

In addition, industrial net face rents remained stable during the first quarter after a minor fall of 2.9% during the December quarter 2009, with incentives remaining minimal across the sector.

"Grade A warehouses in Hume, Fyshwick and Mitchell achieved rents of \$125 a square metre, \$118 a square metre and \$96 a square metre respectively as at March 2010," Mr Nixon said.

Looking ahead, CBRE's MarketView report highlights a range of different drivers for the commercial property sector.

Mr Nixon said the investment market was likely to remain positive for prime assets provided there was a low level of leasing risk. However, the secondary market was expected to struggle, especially as the government became increasingly conscious of the environmental credentials of the buildings they occupied.

"A significant decline in secondary building values could lead to an increase in residential conversions, which would also benefit the market by making use of some more of the backfill space that is likely to become available over the next few years," Mr Nixon said.

In relation to new developments, the CBRE report forecasts that the new supply of prime office space in Canberra will exceed historic averages as developers move to capitalise on new sites that have recently become available.

CBRE's Mr Nicholls said developments such as Kingston Foreshore would significantly contribute to new commercial, residential and retail space in Canberra in the coming years.

"CBRE has recently been involved in two large sales in the Kingston Foreshore project totaling over \$18.5 million," Mr Nicholls said.

"The larger of the two deals, involving a 5,380 square metre block with views across the harbour, can accommodate a maximum gross floor area of 17,190 square metres. The site was sold for \$11 million to a local developer."

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8 June 2010

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