

# Pacific Region **ViewPoint**



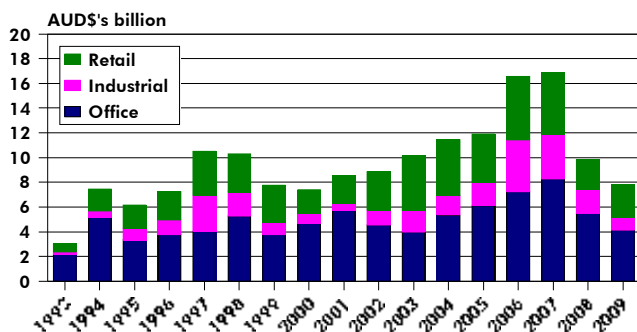
## Sales trough in 2009; a stronger 2010 expected

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**SUMMARY** One of the most immediate implications of the Global Financial Crisis was the reduction in transactions in the direct commercial property markets. Trading fell sharply in 2008 from record levels of activity in 2007, only to fall further in 2009. This trend was globally synchronised, as owners focused on balance sheets and reducing debt through any other means than selling into a down market. But trading is now picking up as investor confidence returns on the back of stabilised values and rising prices.

In a year expected to be the trough in the investment cycle, commercial property sales activity in 2009 was 17% lower than 2008. This includes property sales above \$5.0 million each in the office, industrial and retail sectors. As shown in the chart below, sales in 2009 reached \$7.8 billion for the full calendar year, compared to \$9.5 billion the year before.

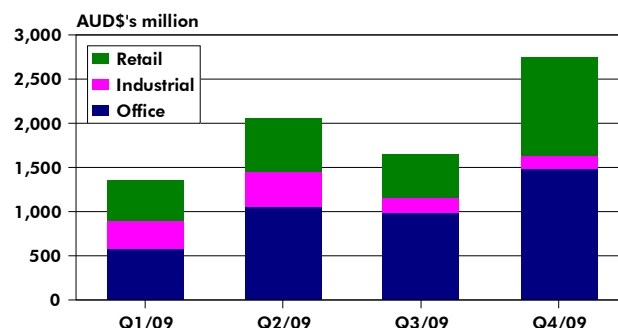
### Australian commercial property transaction value



Source : CB Richard Ellis (Jan 2010)  
Includes sales over \$5.0 million

As 2009 drew to a close, there were signs of trading activity picking up as institutions, both domestic and foreign, started purchasing again. The quarterly turnover reveals the trend of increasing trading activity through the course of the year. As the chart below shows, over \$2.5 billion of commercial real estate traded in the 4th quarter of 2009, including the largest office and retail property transactions for two years.

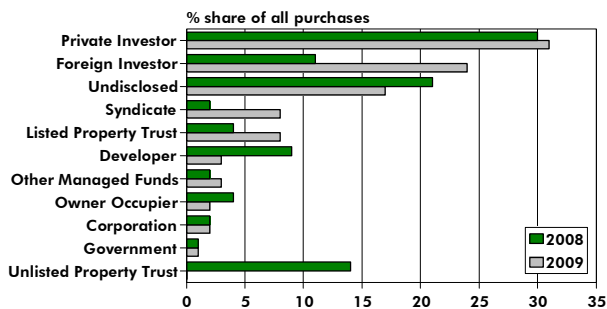
### Australian commercial property sales 2009, by quarter



Source : CB Richard Ellis  
Includes sales over \$5.0 million

While institutions, especially the normally acquisitive A-REIT's, were focused on addressing balance sheet imbalances for most of the past year, private investors were active purchasing 31.0% of all properties traded (by volume). Syndicates, backed by private equity, represented a further 8.0% of all trade. So, in other words, private interests were responsible for purchasing almost 40% of all traded commercial real estate in 2009; a record amount for this category of purchaser.

## Purchaser groups, 2008 vs 2009

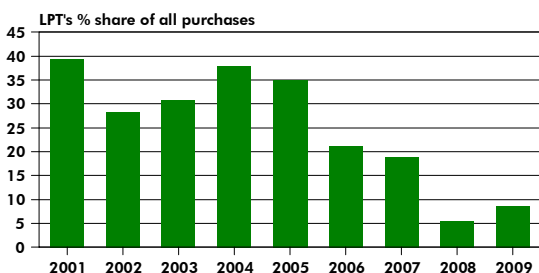


Source: CB Richard Ellis (Jan 2010)  
For all commercial property transactions above \$5.0 million

Foreign investors were the other stand-out purchaser group in 2009 and represented a 24.0% share of all turnover. This is more than twice the share achieved in 2008 and almost five times the long term average share of acquisitions made by foreign investors.

2009 was a sweet spot for foreign investors, with the cost of debt low, the exchange rate conducive to hedging (for most of the year) and pricing at its low point of the cycle. With these conditions now very different and changing fast, it will be more difficult for foreign investors to stack up viable transactions in 2010 and their share of purchases may drop.

## Share of all Australian commercial property purchases by LPT's

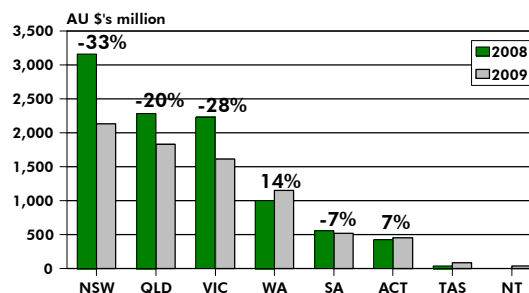


Source: CB Richard Ellis  
Includes sales over AUD\$5.0 million

Domestic purchasers, especially the re-capitalised A-REIT's, are likely to once again be the driving force in trading activity in 2010. The share of purchases by A-REIT's is typically at least 25.0% per annum. In 2009, it was just 8.0%, but it is now rising. This will probably lead to the share of sales in all other purchaser categories falling in 2010.

New South Wales saw the largest drop in trading activity in 2009; down 33%. It appears institutions were least likely to sell in what's perceived to be the "core" market of Sydney and instead, have traded in the so-called "non-core" markets around the rest of the country.

## Australian commercial property sales volume, by State & Territory



Source: CB Richard Ellis (Jan 2010)  
For all commercial property transactions above \$5.0 million

Only WA and the ACT were able to increase its annual trading in 2009; up 14.0% and 7.0% respectively. Foreign investors weighed heavily into Canberra, into what is seen as a safe haven of assets leased to Government for long terms.

The outlook for the commercial property markets is much brighter in 2010. Values have re-adjusted, the A-REIT's have recapitalized and buyer interest is well and truly back, across all sectors.

The economic growth outlook is improving by the week, meaning the expected rise in vacancy and reduction in average market rentals are likely to be much less than originally expected. In turn, this will motivate investor more than ever to re-enter the market and this is likely to provide a stimulus to pricing as well.

**FOR MORE INFORMATION PLEASE CONTACT:**

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