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# Media Release

FOR IMMEDIATE RELEASE

## **HERRON TODD WHITE SHINES A SPOTLIGHT ON POTENTIAL CONCERNS FOR AUSTRALIA'S COMMERCIAL PROPERTY MARKET.**

One of Australia's largest property valuation organisations, Herron Todd White has revealed concerns about the current trend of investment yields within the commercial property market throughout major metropolitan and regional locations.

Herron Todd White's internal report on the retail, office and industrial property markets throughout the country detailed the prevailing trend during 2016 and into 2017 has been the compression of investment yields for all locations and markets after the cash rate was set at 1.75 percent in May, decreasing further to 1.5 percent in August.

The real world data collected from 150 of the organisation's commercial valuation professionals confirmed trends in the commercial markets throughout Australia are extremely specific to location, price point, asset class and perceived tenant strength.

"The main concern with this trend we've seen has been the yield compression in softer rental markets, such as the Brisbane and Perth office markets, and the Melbourne and Adelaide industrial markets," Herron Todd White Chief Executive Officer, Brendon Hulcombe said. "For these markets, the potential for rental income to service debt has become very tight and any increase in interest rates could potentially render serviceability unviable," he said.

With the retail sector continuing to experience a price war between the majors of Coles, Woolworths, Aldi and Costco for an increase in market share, Mr Hulcombe said the pending arrival of Amazon could see the majors exit unprofitable sites.

"Sydney, Melbourne, Brisbane and Perth have seen firming yields and price growth for prime CBD retail locations, however, secondary suburban locations have seen rental decreases and extended vacancies. There is also an oversupply of secondary inner retail attached to mixed use developments in Sydney and Brisbane," he said.

The report revealed Sydney office market has experienced a lowering of vacancy rates and incentives and that demand is outstripping supply. Data revealed Melbourne's office market has shown rental growth during 2016 and some improvement in the Newcastle and Gold Coast markets, both coming off a low base. Mr Hulcombe said this contrasts the remainder of the country, which is generally oversupplied.

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“Brisbane CBD is experiencing a vacancy factor of 15.3 percent and incentives at all time highs of 35 percent to 40 percent,” Mr Hulcombe said. “Similarly, Perth’s office market is depressed on the back of the mining downturn with a 22.5 percent vacancy factor and incentives at 40 percent to 50 percent,” he said.

Herron Todd White confirmed the industrial markets throughout the country show a similar trend of stagnating rent levels and a lowering of investment yields, particularly for good quality lease covenants on long term leases.

“Challenges will occur in the Adelaide market with the closure of the GMH manufacturing plant in October 2017 and similarly the completion of the Inpex project in Darwin in the latter half of 2017,” Mr Hulcombe said.

The report also revealed pressure is mounting on residential development sites in the Sydney and Melbourne markets as developers push towards lower profit margins. “The concern in the Sydney market is that developers are pricing on feasibilities with escalated gross realisations on the back of recent record increases in the residential market,” Mr Hulcombe said.

ENDS

#### **Notes for editors**

Herron Todd White group has an annual turnover of over \$125 million.

Herron Todd White group has in excess of 900 staff located in 64 offices across the country, in every state and territory.

Herron Todd White was rated as Best Advisor in Valuation by Euromoney 2016 Real Estate Awards.

Herron Todd White is listed in the top 400 (387) in The Australian Financial Review IBISWorld 2016 edition of Australia's Top 500 Private Companies.

Herron Todd White was formed in 1968 and has grown to be the largest independent property advisory organisation in Australia.

Herron Todd White specialises in property valuation.

Herron Todd White provides commercial valuation services to all of Australia’s major banks.

Herron Todd White is wholly Australian owned.

Herron Todd White caters for all property consulting and valuation requirements from major development projects, corporate and government portfolios, commercial, retail, industrial, litigation, resumption and acquisition and rural.



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