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Low rates and stimulatory budget to drive up demand for commercial property

Lower interest will push up values and contract yields for quality commercial property **Michele Mossop**

by **Larry Schlesinger**

A combination of lower interest rates and a business-friendly federal budget will stimulate further investment in commercial property from local and offshore investors with yields to tighten across asset classes, say analysts and real estate brokers.

"In this lower for longer interest rate environment, there will be more capital chasing yield over the next 12-18 months," said CBRE's head of capital markets Mark Granter.

"Interest is across all sectors, led by office and retail. Institutions backed by offshore capital are the most active followed by private groups.

"We expect a little more cap rate compression, though not to the same degree as the last 12 months," he said.

Ken Atchison of Atchison Consultants said a rate cut combined with a stimulatory budget designed to increase spending would be positive for the rental side of the commercial property sector and for retail property with DEXUS, Scentre Group and Vicinity Centres among those to benefit.

"For valuations it will be marginally positive," Mr Atchison said.

For real estate investment trusts, further investment in the sector, a rise in values and a tightening of cap rates by up to 50 basis points were the key messages from this week's Macquarie Group annual equities conference.

James Maydew, AMP Capital's co-head of global listed real estate, said Australian commercial property was in a "competitive position" as global investors lifted their allocation to defensive, hard assets "offering yield and a spot of growth".

"Although the Australian listed real estate market looks expensive on many traditional valuation metrics, the direct market is still playing catch up with other global markets that are more progressed in the real estate cycle from a pricing perspective," Mr Maydew said.

Adrian Harrington, head of funds management at Folkestone, said the listed trusts have been particularly pro-active at selling non-core assets at pretty sharp yields and redeploying the proceeds into development opportunities.

However he warned: "The issue for investors is insuring they don't move to far up the risk curve in the hunt for yield without properly assessing the risks they may be taking on."

At the smaller end of the market, Dean Venturato, director at Burgess Rawson, said inquiries for the group's next commercial property portfolio auction were up this week, despite an "average" line up of offerings.

"Interest is a across the board, but particularly for properties on longer leases with good tenants such as a government-leased property in Port Macquarie and petrol stations leased to Caltex and Shell." he said.

CBRE's head of strata projects, Tom Tuxworth said the low rates would encourage more businesses to buy their own premises and hold them in a self-managed super fund, despite the changes to super concessions for the rich announced in the Budget.

"It's still cheaper to buy your own office then lease, and its still more tax efficient to hold property in an SMSF than in your own name," he said.