

## **Property hotspots over the next 12 months**

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### **Commercial property**

The difficulty in getting new **property** development projects off the ground over the last five years has not just had implications for investors, but also for the supply of property across the board.

“The banks have been incredibly wary about funding new property developments. New property supply is getting quite restrained, because I can’t see the banks changing their attitude in the next 12 months,” says Atchison Consultants managing director Ken Atchison.

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“That actually has a benefit for investment in property development. If you have sufficient equity capital and it is supplemented by some debt, the investment property will stack up quite attractively.”

Geographically speaking, the resource-based states are expected to be the best performers over the next 12 months, with Perth and Brisbane benefiting from strong employment growth underpinned by infrastructure spend and demand for resources.

Across the nation, the office sector is not swamped with supply, says Atchison.

“Rental yields in the sevens or even higher is an attractive starting point when you are looking at prospectively higher returns over time.”

Again, Perth and Brisbane could be the pick of the office markets, with extremely strong growth.

“Perth has a huge supply shortage, and Brisbane looks like the next market to take off,” says Robert Olde, the president of the Property Funds Association.

“Melbourne has been quiet, but it is late in the cycle and they are going to strengthen again.”

Industrial property which is focused on warehouse and logistics is also expected to perform well, according to Richard Stacker, the chief executive officer of Charter Hall Direct Property, as a beneficiary of the growth in online retail.

Industrial generally should be expected to provide yield as opposed to capital gain, and choosing the right location is vital for selecting a strong performer.

“Industrial property is all about logistics, and that is about distribution and access to infrastructure – be it road, rail, airport and seaport – to move goods efficiently,” Atchison says.

As retailers struggle, retail property has also suffered over the last 12 to 18 months, and this poor showing is expected to continue over the rest of 2012.

Across the country, Queensland and Western Australia are looking promising, according to Olde, and “sub-regional and regional centres are starting to take off again”.

### **Residential property**

With a growing population and the Australian Housing Council forecasting a huge shortage in the national supply of housing, there are considerable opportunities in this sector, particularly as the Federal Government recently endorsed the continuation of the National Rental Affordability Scheme, which aims to deliver an additional 50,000 dwellings by June 2014.

“There’s an opportunity there to participate in direct property in a smarter tax-effective way through new wholesale and institutional funding structures,” Olde says.

Atchison says that although there are pockets with more than adequate supply, rental growth should drive investment returns more than price increases.

BIS Shrapnel forecasts released in early June show how critical it is to understand the supply and demand factors in play, as well as the development pipeline, when selecting a property market to invest in.

While investor demand following the GFC resulted in near-record supply for both inner Melbourne and inner Sydney apartments, BIS Shrapnel suggests this could now push the Melbourne market into oversupply in 2013/14 and 2015/16, resulting in rising vacancy rates and lower rents – and therefore lower returns for potential investors.

New apartment supply in inner Sydney is rising at a slower pace than Melbourne, but it won't be sufficient to erode rental demand.

Despite high construction over the next two years, inner Sydney will still have a deficiency of apartments in place by 2016, which will continue to support rental growth and further price growth over the next two to three years.

BIS Shrapnel also reported that although low tenant demand and high vacancy rates in the inner Brisbane apartment market had led to fears of an oversupply, increasing investment in coal seam gas projects in regional Queensland will lead to an influx of white collar professionals into this market, creating a flood of demand.

With the pipeline of new apartment construction not expected to flow through to supply until 2013/14, rising tenant demand will cause the rental market in inner Brisbane to tighten considerably, resulting in improved yields.