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Commercial property rebounding: analysts

VIVIENNE RYAN, The West Australian
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Confidence is rebounding in the commercial property sector, with analysts predicting a bottom for property values in the coming months, but they say rents and vacancy rates will stay flat over next year.

Patersons Securities recently released its WA Property Review for the first time in two years, which called a bottom on last year's 20 per cent decline in property values.

Patersons property analyst Jonathan Kriska said the sector was now on the up.

"Fortunately, it now looks as though property markets are bottoming out, although we expect a continuation of weak fundamentals well into 2010," Mr Kriska said.

"But as property is starting to turn around you will still see some weakness in the other side of things for the next six to 12 months."

The renewed confidence in the sector was echoed by AMP Capital Investors chief economist Shane Oliver, who said Perth prices would bottom towards the end of December, if not in the March quarter, because WA lagged other States.

"The Perth property market has been hit a little bit harder than other markets, largely because it has one of the biggest increases in office supply," Dr Oliver told *The West Australian*.

"But what we're seeing nationally will be repeated in Perth. The rate of increase in property yields seems to be slowing down. In other words, falling property values seem to be slowing, so I would say it is approaching the bottom."

Patersons' report found yields in the Perth office market had continued to ease during the first half of the year.

In the industrial market, capital values had declined 20 per cent in secondary assets and 30 per cent in prime assets since their peak in the second quarter of 2008.

One short-term drag on the local market is the amount of space coming online in the next few years, but in the long term Perth's market would be buoyed by resources projects.

Dr Oliver said compared to the rest of the country, Perth stuck out as having the most amount of space under construction, more than Sydney, which could continue to drive up vacancy rates.

To counter the high construction levels is the expectation the WA economy will have another resources boom. "So there are some short-term issues that Perth has to work through in the supply of new office space, which could result in further upward pressure on vacancy rates and downward pressure on rent lingering a little bit longer," he said.

Dr Oliver said the Perth property market was a little weaker than the national average and was expected to recover slower than other States.

Perth's offices are trading in a yield range of 8 to 9 per cent, which was unchanged from the June quarter and well off the lows seen during the peak, indicating property prices had fallen faster than rents, sparking investor interest.

Dr Oliver said in the last quarter yields had moved sideways with the fall in property values but predicted they would start to decline next year as prices recovered.