Offshore Investment Into Commercial Property In Australia Continues At Record Levels

Tuesday 29 September, 2015

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AUSTRALIA, 29 SEPTEMBER 2015 – Offshore investment into Australia's commercial property market shows no signs of abating this year. Foreign investors accounted for 28% of transaction volumes (by value) in 2014 and already in the first half of 2015 the level is 27%.

The Australian market is remaining attractive to offshore buyers, as commercial real estate assets continue to provide relatively high income returns in global context.

As JLL Research below illustrates (Figure 4), Australian office assets are attractively priced for investors seeking high yielding, stabilised assets in a mature market, comparing well against major cities in Europe, Asia, and America. And even taking into account localised differences (such as higher rent-free incentive levels in Australia), yield spreads still favour the Australian market.

JLL's Head of International Investments – Australia, Simon Storry said, "In Australia, yield compression has continued unabated, especially for prime grade assets, across all sectors and many markets – office, retail and industrial. The weight of capital remains significant and the global portfolio tilt toward real estate continues.

"2014 was a record level of foreign investment into Australia. At the half-year mark, 2015 levels are close to the record 28% of transaction volumes recorded in 2014. The depreciation of the AUD has allowed offshore investors to be far more competitive and they seem to have a much greater desire to deploy substantial pools of capital in what they see as an undervalued market globally," said Mr Storry.

JLL Australia is currently running an International Expressions of Interest (EOI) campaign for an A-grade office asset in Australia's capital, Canberra. The campaign is being run on behalf of London based Brompton Asset Management to sell 255 London Circuit – a 6-storey office building located close to the Australian Parliament that is fully leased to the Commonwealth Government of Australia until September 2027.

Mr Storry said, "This property offers the market an opportunity to acquire a modern A-grade asset with a AAA rated Commonwealth tenant and long lease term within Canberra's CBD location. There has been limited long lease assets formally offered nationally in recent times, and we expect strong interest from international and domestic buyers in acquiring the asset.

"The weight of capital, low interest rate environment and limited availability of investment grade product has resulted in yield tightening across the majority of Australian office markets.

"With a shortage of prime grade assets and robust investor demand across Australia, Canberra will start to see increased investor interest and JLL projects yields will compress over the short to medium term," said Mr Storry.

JLL Research says that a key condition for sustained foreign direct investment into Australia is that both offshore and domestic groups continue to divest assets.

Mr Storry said, "With pricing benchmarks in the prime market consistently being reset in Australia, domestic groups are expected to capitalise on the robust demand and continue their asset divestment programs, using the proceeds either to reinvest in development and refurbishment activity or, in the longer term, to invest in offshore markets.

"The spread between Australian property yields and comparative markets globally is predicted to remain broadly wide, and physical market metrics are forecast to improve across all sectors. Net absorption of office space has been positive in the Sydney and Melbourne CBD office markets since early-2014, while

forecast rising import volumes from 2016 will drive demand for logistics space.

"More broadly, the Australian economy is expected to remain relatively solid. As the economy repositions from mining-based to service-based growth drivers, GDP is forecast to grow at an average rate of 2.8% p.a. between 2015 and 2018 according to forecasts from Deloitte Access Economics," said Mr Storry.

The International Expressions of Interest campaign for 255 London Circuit closes at 5pm AEST on Friday 9 October 2015.

– Ends –

Contact: Simon Storry
Phone: +61 411 198 205
Email: simon.storry@ap.jll.com

About JLL
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