Identifying commercial property investment opportunities

A buoyant economy and positive market fundamentals have driven strong growth in the commercial property market. We are in the strongest period of global economic growth since the late sixties and early seventies. A strong economy creates demand for more space of all types, such as offices, shopping centres, warehouses and hotels.

The value of the retail property market is reflected in consumer spending, household income levels and employment. Retail sales provide the closest explanation for retail sector returns.

When considering investing in retail property, investors should consider;

1. The likely demand for the anchor tenants and the other retailers' goods, as shown by the moving average turnover (MAT) for the business. A quality anchor tenant will be a draw card for other businesses and shoppers.
2. Study the size and type of the catchments area supporting the retailers.
3. Look for strong lease terms, features and the ability to increase rents at market reviews.
4. Levels of retail spending in the economy, income and employment.

As Australia's population grows and incomes rise, the retail market continually expands. According to the ABS, retail spending in Australia has increased by approximately $2 billion each year for the past 15 years, which has fueled demand for retail space.

A strong labour market has boosted white collar employment in recent years, pushing demand for **office space** above that of new supply and lowering vacancies. Sydney will need an additional 2.1 million sq m of space to accommodate new white collar jobs by 2011, equivalent to an extra four Parramatta CBDs. The Sydney CBD will run out of capacity for new office buildings in about seven years. This will likely cause rents to rise and see a spillover into North Sydney and the other metropolitan office markets.

When considering investing in office property investors should consider;

1. The level of white collar employment along with current and forecasted levels of new office supply (new dwelling construction).
2. Economic growth outlook. Access Economics forecast an average of 3.3% p.a. GDP growth over the next five years, compared to 1.4% over the previous five years.
3. Position and lease strength as per retail.

Many fund managers are currently "overweight" in the office sector, expecting strong growth over the next few years.

The **industrial property** market is closely linked with the overall economic cycle. Economic growth is the main indicator of the outlook for industrial property. Industrial property reflects demand for manufactured goods and warehousing, including from imports.

When considering investing in industrial property investors should consider;

1. The economy's GDP, as industrial performance is correlated with this.
2. Investing in land-constrained areas.
3. High quality tenants and leases.
4. Higher tech fitouts.

Prosper Group's clients have enjoyed strong returns over the last couple of years. Please do not hesitate to contact Prosper Group on 133 664 373 or enquiries@prospergroup.com.au for more information on how we may help you grow and maintain your commercial property portfolio.