Investors' yield spreads focus

Carolyn Cummins



s the new financial year gets under way, Asia-Pacific real estate investors remain heavily focused on yield spreads as investment intentions move further away from capital appreciation strategies, according to agents.

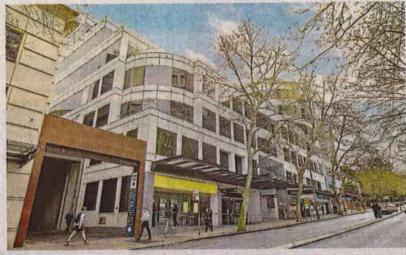
CBRE Research's new report, New Channels for Old Favourites – Fresh Approaches to Investing in Australia, Japan and Vietnam, says the search for yield is driving investors to more mature regional real estate markets such as Australia and Japan, while simultaneously diversifying away from traditional markets including Sydney, Melbourne and Tokyo.

The report highlights "overcrowding" in the Sydney and Melbourne markets, which has seen yields compress by 140 to 150 basis points over the past four years, and is bringing more risk-averse cities such as Brisbane, Adelaide, Canberra and Perth into focus.

CBRE's Australian head of research, Stephen McNabb, said these markets could offer investors yields of between 100 and 200 basis points above those in Sydney and Melbourne – in addition to less buyer competition.

"As the Sydney and Melbourne markets reach their peak in terms of yield, investors are looking for new locations - in particular markets that offer a higher yield spread," Mr McNabb said.

This comes as the major office markets will see mixed conditions with the softening trend in rents in Sydney and a lowering of vacancy rates in Melbourne.



116 Miller Street, North Sydney, has been sold on a yield of 5 per cent.

It has not stopped investors coming into the market. On Wednesday, a Chinese investor paid \$135 million for the office tower at 16 Miller Street, on a yield of 5 per cent.

Property Bank Australia sold the complex at 116 Miller Street and 173 Pacific Highway through Knight Frank's Tyler Talbot, Dominic Ong and Angus Klem and CI Australia's Bevan Kenny and Chris Veitch.

This comes as Cushman and Wakefield's research says that after strong growth in 2016, Sydney CBD prime gross effective rent growth slowed, but remained in positive territory

The firm's national head of research, John Sears, rent growth in the second quarter of 2017 stood at 0.4 per cent, quarter on quarter, reflective of a \$4 rise to \$902 per square metre, with prime gross incentives remaining at 22 per cent.

Mr Sears said for the leasing sector, in the first quarter of 2017, smaller, typically single-floor or part-floor transactions dominated leasing activity.

"Transactions over 4000sq m were limited, but with a number of larger requirements now nearing agreement, with the third quarter of 2017, expected to see an increase in larger transactions," Mr Sears said.

In Melbourne, Cushman and Wakefield said the compression of prime net incentives to 31 per cent drove a rental uplift of L8 per cent quarter on quarter, taking prime net effective rents to \$371 per square

"Downward vacancy trend expected to continue. Despite some tenants holding out on relocations until backfill boosts supply from mid-2018, residual demand from both new and existing tenants is anticipated to support a downward trend in the vacancy rate. Vacancy is expected to have declined below the 6.4 per cent recorded in December 2016," Mr Sears said.

Investors will be able to hear about how their assets stack up at a summit in August focusing on the role of skyscrapers in global cities that has been organised by the Urban Taskforce. "As a support partner to the Council for Tall Buildings and Urban Habitat's Sydney conference in November, the Urban Taskforce has organised next month's Sydney Skyscraper Summit to encourage community and political awareness of this global trend," says Urban Taskforce chief executive Chris Johnson. "The Urban Taskforce is privileged to host the August 18 summit, where global leaders in high-rise buildings will present the very latest designs," he said.

The Director of New York's Skyscraper Museum, Carol Willis, will present the latest examples of tall, thin buildings from around the world. These include some incredibly thin apartment towers on the edge of New York's Central Park.

Ian Lomas, a partner of Make architects in London, will present the firm's tower designs for Mumbai and London as well as Sydney projects. Australian architects Karl Fender and Barry Lee will present local and international designs.