AUSTRAL

A WEAK CURRENCY AND GROWING DEMAND MAKE COMMERCIAL PROPERTY AN ATTRACTIVE INVESTMENT IN CORE CITIES, WRITES KATIE PUCKETT

The global financial crisis is a fast-receding nightmare for key markets across Australia and New Zealand. The renewed growth that began in 2014 is now well established, although currency devaluation is creating both winners and losers. The Australian dollar has dropped from almost US$1.10 in April 2011 to around 73c, hitting a six-year low on Black Monday. This is hurting consumers but favouring inbound tourism and exporters, while boosting Australia's attractiveness to foreign investors.

Australia has benefited from a decade-long mining boom, now coming to an end. The recent drop in commodity prices has also dealt a heavy blow, but does present an opportunity to rebalance the economy. In May, the Reserve Bank of Australia cut interest rates to an historic low of 2% to boost growth, down from 7.5% in 2008, which has been a spur to consumer spending.

New Zealand is reeling from a fall in the price of dairy, leading its Reserve Bank to cut interest rates to 3% in July. Further cuts are expected. During 2014, low interest rates and investment from overseas contributed to high volumes of commercial property sales, but a lack of stock is likely to hinder a repeat in 2015.

Commercial hotspots

The Sydney and Melbourne office markets in were hit first and hardest by the global downturn and have recovered fastest. Both are experiencing growing demand from the financial and services sectors, driving up rents for grade-A CBD space by 4% in the past 12 months. Adelaide and Brisbane are following, with mining capital Perth only now restabilising as resources-focused tenants complete their downsizing activity.

There is a steady pipeline of new stock, but continuing demand and the withdrawal of older buildings or their conversion to residential promises to keep rents and yields rising. Savills expects the upward trend to continue for at least another five years, following the pattern of previous seven-year cycles.

Prospects for growth and the weakness of the currency are driving strong interest from foreign investors in both office and industrial property. Savills has just sold two portfolios for A$2.4bn (£1.1bn) and A$1.1bn respectively, both to foreign buyers and at a big premium to the

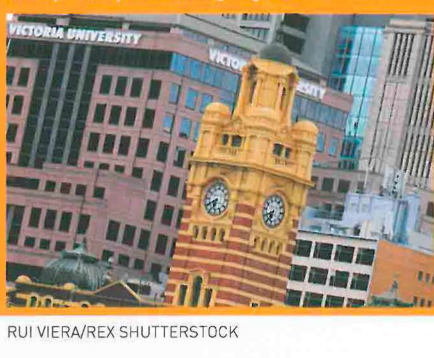
CITY GUIDE MELBOURNE

OVERVIEW

Melbourne is one of the world's top destinations for international students. Now, with the weakness of the Australian dollar, it is even more popular – Australia has welcomed 11% more students over the past year and overall numbers have hit a record high.

WHY INVEST?

Melbourne's booming population – growing faster than any other city and predicted to overtake Sydney by 2053 – is creating steep demand for housing, offices, education and retail space and just about everything else.



THE NUMBERS

2 Melbourne's rank on the QS Best Student Cities Index 2015, just behind Paris

344,658 The number of students at Melbourne's eight universities, one-third from overseas

7.7M The predicted population by 2053, almost double the level today

RUI VIERA/REX SHUTTERSTOCK

ASIA

valuation. "The fact that we had 50 interested parties for each gives you an idea of the amount of capital that is prepared to invest in Australia," says national head of research Tony Crabb.

Demand for commercial property in New Zealand remains strong. Industrial and retail rents are rising, with global retailers moving into Auckland and helping drive prime CBD rents up by 5.2% in Q2. Prime CBD office yields in Wellington are among the highest in the Asia Pacific region, at 7.86%.

MUST-HAVE CONTACTS

Darren Steinberg, chief executive of DEXUS Property Group, one of Australia's largest owners and developers of commercial, industrial and retail property.

Gregory Goodman, chief executive and co-founder of Goodman Group, one of the world's largest industrial property companies. **@Goodman_Group**

Peter Allen, chief executive of Scentre Group, created in 2014 from the division of Westfield, it has interests in 43 centres across Australia and New Zealand. **@ScentreGroup**

Ian Silk, chief executive of AustralianSuper, the largest of Australia's massive pension funds and a major force on the global property scene. **@AustralianSuper**

Residential hotspots

The value of Australia's housing stock hit A$6tn in July, according to CoreLogic RP Data. Sydney and Melbourne are the strongest markets, with values rising by 18.4% and 11.5% over the past 12 months. Other cities are far behind, with growth of 3.9% in Brisbane, 3.4% in Adelaide and a drop of 0.3% in Perth. But with no meaningful growth in rents, gross rental yields have slipped to a record low of 4.3%.

Auckland's overheating market is a concern, with values up by 18.8% year-on-year and by 5.7% in the past three months, according to CoreLogic NZ. LTV limits introduced in 2013 slowed growth for less than a year, so the government and Reserve Bank have brought in further lending controls from 1 October, including a 30% deposit for investors in Auckland.

Growth areas

Australia welcomes 250,000 migrants each year on top of domestic population growth of 150,000 – a trend expected to continue for 25 years. This growth in the workforce, plus low interest rates, is driving demand for consumer products, with the food and beverage and furniture and bulky goods sectors expanding by 7% pa. Savills reports that sub-regional shopping centre transactions hit a record A$2.1bn in the 12 months to July, well above the five-year average of A$1.1bn.

Risks and challenges

Australia and New Zealand are vulnerable to fluctuations in commodity prices, but this will be offset by stronger demand in the services sector. With the volatility of global currency markets, there is no telling how long the boost from the weak dollar could last. If the Australian dollar rises above US80c again, the outlook could be very different.

THE OPPORTUNITIES

Savills has identified more than 50 development sites in and around the central business district, which could provide more than 1m sq m of commercial space – if office developers can compete with the far higher returns from residential schemes. The city is in the throes of a high-rise building boom – Urban Melbourne estimates there are as many as 110,000 new homes in planning or under construction. It identifies Smith Street in Collingwood and Brunswick East's Lygon Street as hotspots for apartment development, recently joined by the Malvern East suburb.

1M SQ M

STAND-OUT SCHEME

In March, the 8 Bouverie Street site was sold for A$64.8m to an undisclosed buyer. The largest consented development site offered for sale in the city since 2013, it lies at the edge of the CBD in the middle of the Melbourne University and RMIT campuses. The 2,927 sq m site has planning approval for a 72-storey tower with 1,035 flats and associated shops.

TOP TIPS

Grab breakfast at Cumulus Inc or a pizza at +39 Pizzeria, try Asian-style street food at Gingerboy or head to Vue du Monde for fine dining.

Melbourne may be chillier than other Australian cities, but you can still enjoy a cocktail on the rooftop bar of Madame Brussels all year round.

Take a stroll in the "Paris" district. Stylish, tree-lined Collins Street is the most upmarket shopping destination, lined with cafés and boutiques and the best of its Victorian architecture.