



February 2009

Gold Coast Market – Recent Commercial Activity

Property Council's Office Market Report

With the PCA's January 2009 figures showing a 4.2% vacancy for the Brisbane CBD and 5.4% for the Brisbane Near City market, significant precommitments and project postponements, the Brisbane market looks like it can avoid double digit vacancies.

The same cannot be said for the Gold Coast, with its reliance upon the twin pillars of tourism and development (18.0% vacancy overall; 24.5% for Robina/Varsity Lakes; and 33.2% for Grade A space, where the new supply totalling 42,913 square metres over the six months to January 2009 was concentrated). The new supply represented 10.9% of the July 2008 stock level. A further 25,271 square metres of space is due for completion during 2009 across the Gold Coast region.

Tourism was already in trouble in January 2008 with the wet weather and high \$AUD making it hard for accommodation operators. The recent season has been much better. New airline capacity and the lower \$AUD, combined with the Government stimulus packages and low interest rates will benefit this industry going forward. The recession in source markets overseas will continue to be a problem.

However, a number of high profile Gold Coast developers have now experienced financial problems and staff reductions are commonplace. Some new office projects have been put on hold, which is a positive for the medium-term future. While this is a good time to plan new office buildings three to five years ahead, buildings without precommitments should not be commenced.

Over the twelve months to January 2009, the highest net absorption was in the Robina/Varsity Lakes precinct (6,066 square metres, or 6.7% of the stock level of January 2008). Both Bundall and Surfers Paradise experienced negative net absorption. It is possible that the most significant impact of the current convergence of oversupply with the economic downturn will be upon older style, secondary precincts and buildings. Typical incentives in the current market have reached 15% to 20%.

Much of the Gold Coast's office space is strata-titled, so that there is an opportunity for well-founded small business to take advantage of low interest rates. Meanwhile, developers will need to be creative in marketing the vacant space and be prepared to negotiate.

Ray White Commercial Auction Event

The Ray White Surfers Paradise Commercial Event auction held at Palazzo Versace on 18 February 2009 once again provides a good barometer for gauging demand.

The notable theme is that private investors are active, seeking primarily income-producing properties. This is understandable in an environment where returns from equities continue to be shaky and volatile and income from cash is in decline.

During the morning commercial property auction, 22 properties were listed, two had sold prior, with five sold under the hammer and negotiations occurring on possibly four others. For around six properties, there were effectively no bids.

The auction of the Byron Bay retail property at 108-110 Jonson Street was postponed, pending negotiation of additional leases, currently underway. Excluding the Byron Bay property, the success rate was 33%, including those sold prior, for the morning auction.

During the afternoon industrial property auction, 18 lots were listed, four had sold prior, with three sold under the hammer and two properties subject to further negotiation. This represents a success rate of 39%.

Overall, the success rate was 14 sold out of 39 properties listed, or 36%.

Of greater interest is the nature of the properties that sold, being mostly income-producing properties, as follows:

- New, purpose-built, medical centre at 179 Ashmore Road, Benowa, sold under the hammer, with several interested bidders; new lease for ten years to South Coast Radiology; annual rent increases of 5%; depreciation of \$65,000 in year one; sold for \$3.84 million, reflecting a yield of approximately 6.8% net;
- An older-style office building at 7 Strathaird Road, Bundall, 100% occupied, with five tenancies on two to three year leases; sold under the hammer for \$2.85 million, reflecting a yield of approximately 9.4% net;
- A 394 square metre lot zoned Residential C, with an existing use for outdoor sales and a seven-metre high sign, at 52 Frank Street, Labrador; actively bid by several parties; sold under the hammer for \$515,000 or \$1,307/square metre of site area;
- 4/42 Marine Parade, an esplanade frontage restaurant of 101 square metres at Coolangatta; tenant on three year lease with options; sold by mortgagee in possession, under the hammer for \$596,000 or \$5,901/square metre of internal area. This was 19.2% above its last recorded price of \$500,000 in June 2003 (\$4,960/square metre); and
- 227 Brisbane Road, Labrador – a showroom, office and factory with 1,000 square metres of hardstand and a total site of 1,500 square metres; sold under the hammer with vacant possession for \$1,425,000 or \$950/square metre of land area; may be an intending owner occupier, setting this sale apart from the others.

At the commercial auction, properties notable for not attracting interest included development sites, which continue to be difficult to sell in the current market. While it attracted some interest, and was bid up to \$5.5 million, the high profile medical site of 3,787 square metres at 156 Queen Street and 41 Pohlman Street, Southport, fell short of the vendor's expectations, so failed to sell. It is located opposite the Allamanda Private Hospital, with a lease to a national parking company. The Potter Group had been proposing a 12-level, 20,000 square metre healthcare facility on the site.

Also not sold at the auction were the thirteen lots at Rodman Place, an older style office building at 11 Karp Court, Bundall and a subdivision site of 3.29 hectares at 372 Foxwell Road, Coomera. In both instances, Ray White indicated that there were interested parties, at Bundall for the individual lots and at Coomera, prepared to offer conditional contracts.

The industrial auction saw the following sales under the hammer:

- 5/1 Pirelli Street, Southport, a 221 square metre, strata unit leased to a printing company; sold for \$362,000, reflecting a net yield of 7.2% and \$1,638/square metre;
- Two older style, adjoining industrial strata units at 23 and 24/12 Lawrence Drive, Nerang, at Jupiter Plaza, offered with vacant possession, sold for \$990,000 or approximately \$1,784/square metre, with 5% deposit and five months to settlement agreed; and
- A commercial/industrial premises of 1,430 square metres on a site of 1,502 square metres, with basement parking at 2 Commercial Drive, Ashmore; dual street frontage to Middleton Street, just off Wardoo Street; zoned Light Industry; offered with tenant in place or with vacant possession; after in-room negotiation, sold for \$1,825,000 with lease for two years; reflects 8.8% net yield and \$1,276/square metre of gross building area.

The industrial properties that attracted the least interest were vacant strata-titled industrial units, which, on my observation, appear to be in oversupply.

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