first national COMMERCIAL

Strong industrial demand in Western Australia's Pilbara

Tui Magner of *First National Commercial Karratha* (WA) says there has been an increase in industrial enquiry across the Pilbara region.

Over the past month, Ms Magner has leased two large industrial sites on behalf of Dantranz Logistics at Augustus Drive in the Karratha light industrial estate.

The first, a fully fenced 5,422 square metre lay down site was leased for $42,833 + GST + outgoings per annum.

The second, a fully fenced 6,326 square metre lay down site was leased for $49,975 + GST + outgoings per annum.

Both properties are yielding approximately 7.9 per cent per annum.

Bendigo development site snapped up

First National Commercial Tweed Sutherland recently sold a 905 square metre inner city Bendigo development site with commercial one zoning for $840,000.

Sales agent Tom Harrop says the 119 Queen Street site offered one house in good condition and a second house, at the rear of the property, that is ripe for demolition. Bendigo is home to more than 105,000 people and the population is expected to reach 200,000 by 2041.

Sunshine Coast industrial facility leased

Amber Hackworthy of *First National Commercial Mooloolaba* (QLD) on the Sunshine Coast reports the lease of a stand-alone industrial facility with hardstand at Enterprise Street, Kunda Park.

With 518 square metres of floor space, the annual lease rate was $60,000 + GST + outgoings.

Rental growth for Sydney offices

Sydney is experiencing a spike in demand for office space as limited supply and growing demand drives up rents.

A-grade properties have experienced a 2 per cent lift whereas B-grade properties have surged over 8 per cent in the September quarter.

$12 billion investor buy up of Sydney & Melbourne office space

Investors have splurged more than $12 billion on Sydney and Melbourne offices over the past year as keen interest in Australian commercial property continues.

Despite concerns over Brexit and the US election, the market has shown substantial resilience and demand from Superannuation money shows no end of supply.

SOURCES: First National Real Estate & realcommercial.com.au

Yield: What is it and what drives it in commercial real estate?

For anyone considering investing in commercial real estate, one of the first questions you will ask is: 'what return on investment will I get' or 'what is its yield'? Yield is an important way of measuring the future income, especially as capital growth rates are not usually as high for commercial real estate as residential real estate.

So, how do you work out yield?

Yield is calculated as a percentage, based on the property's market value, annual income & running costs.

When calculating yield, it's important to know if you are calculating 'gross yield' or ' net yield'. Gross yield is everything before expenses, whereas net yield takes into account running expenses such as management fees, maintenance costs, stamp duty and vacancy costs.

Yield definition

Yield calculations are worked out by dividing the annual rental income on a property by how much it cost to buy i.e. Gross yield = annual rental income (weekly rental x 52) / property value x 100.

So if you buy a retail property for $750,000 and rent it out for $1,500 a week ($78,000 annually) the annual return on your investment, or your yield, will be 10.4%. This is an example of gross yield, where the running expenses of owning a retail business have not been taken into account. Commercial properties typically return a much higher yield than residential, generating yields upwards of 7% compared to yields of 4-5% in residential.

What drives yield?

Yield, business confidence and occupancy rates are the top three drivers of the commercial real estate market.

All three are affected by consumer confidence, politics and the economy. Commercial property yields are more susceptible to market conditions than residential properties as people will always need somewhere to live, whereas business can and do go out of business. This risk is reflected in the higher yields that commercial property attract.

The demand for property is one of the key drivers of yield. When demand is high, the cost of buying commercial property increases. The more you pay, the less yield you get. When yields are decreasing this is often referred to as 'hardening yields'.

The opposite is also true. When demand for property is down, prices fall and yields can increase. When the rent-to-value ratio increases it is referred to as 'softening yields'.

It is important to note that yields are a measurement of expected return on your investment and not a guarantee. Potential investors need to take into account all the other factors, such as likelihood of finding and retaining a good, long-term tenant, maintenance & infrastructure costs, suitability & location of a property and all the other factors that can impact on your ability to achieve your expected yield.