

FINANCIAL REVIEW

SE **Property**
HD **Year of surprises reaches an end**
BY **Property** observed Robert Harley
WC 545 words
PD 18 December 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 33
LA English
CY Copyright 2014. Fairfax Media Management Pty Limited.
LP

Robert Harley

Lower for longer is the interest rate mantra as the new year approaches. If that is the case, the money will continue to flow to real **estate** in 2015.

TD

But remember the warnings about that money, from Cromwell **Property Group**'s Paul Weightman and the Abacus **Property Group**'s Frank Wolf.

A year ago many, including me, expected a rise in rates. When it didn't happen, **commercial** sales volumes hit record highs, real **estate** investment trusts rallied strongly and housing finished the year surprisingly solidly.

Interest rates could surprise again. Perhaps with a cut, but maybe a rise. UBS economist Scott Haslem, expects the Reserve Bank to move up in July.

The other surprise of 2014 was the weakness of the local economy.

"This will be a long and difficult transition (from the resources investment boom)" says BIS Shrapnel economist Frank Gelber.

Nevertheless, most expect a grinding improvement in the fundamentals, at least in Sydney and Melbourne in 2015.

Colliers International chief executive, Australia & New Zealand, John Kenny, says 2014 was the year that investment in **property** continued to accelerate, that NSW returned as a growth economy, and that signs emerged of improved leasing demand.

He expects "more of the same, with investment volumes likely to continue to rise and tenant demand continuing to improve".

JLL's CEO in Australia, Stephen Conry, predicts effective rental growth of 3 per cent in central business district office markets, with the strongest growth in Sydney and Melbourne.

"2015 can be the year incentives move back below 30 per cent in Sydney and Melbourne," he says.

CBRE's Australian head of research, Stephen McNabb, said that more favourable trading conditions for retail and industrial occupiers, combined with contained supply, would provide "some support" for rental growth. With investor demand strong, Macquarie's Rod Cornish expects further cap rate compression.

Conry expects a slower year for **transactions** but still 4 to 5 per cent growth in values in the Sydney and Melbourne CBDs.

Other macro impacts on local **property** will be the turmoil in markets like Russia; the falling Australian dollar which has boosted tourism and drawn expats back to prime Sydney housing and the **China** story. Real **estate** website Juwai.com predicts **Chinese** investment will grow another 15 to 20 per cent next year.

In housing the surge in values in Sydney and Melbourne is slowing but most expect demand to hold for several years to come. Cornish says housing affordability in Sydney and Melbourne, though squeezed, is unlikely to reach the tipping point at which prices retreat, not until rates rise in 2016.

Sectors of oversupply, dampening rents, will emerge as apartments are completed. But the big issue for housing developers is how to restock after a dramatic surge in **site** prices.

Property will also face other challenges in 2015. Top of the list for the **Property** Council CEO, Ken Morrison is the white paper on reform of Australia's tax system.

"We can be big winners or losers," he says. Stamp duty reform would be a win; crimped negative gearing would be a loss.

Thanks for your support and suggestions through the year. Have a great break.

rharley@afr.com.au

CO abap : Abacus Property Group | wriv : Cromwell Property Group

IN ireest : Real Estate | icre : Real Estate/Construction | i81502 : Trusts/Funds/Financial Vehicles | i8150206 : Investment Trusts/Funds | i815020602 : Real Estate Investment Trusts | i85 : Real Estate Transactions | ifinal : Financial Services | iinv : Investing/Securities

NS ccat : Corporate/Industrial News

RE austr : Australia | melb : Melbourne | sydney : Sydney | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania | nswals : New South Wales

PUB Fairfax Media Management Pty Limited

AN Document AFNR000020141217eaci0000r