Brisbane's industrial market prospects are good, with growing credit availability and business confidence – despite the flooding

The good news is the market has turned the corner with improved credit availability and growing confidence in the Australian economy and real estate market. This will encourage the financial institutions to release more distressed assets onto the market. Over the past couple of years these institutions were most careful about how these distressed assets were handled, lulling the asset owner into a false sense of security despite being in default. In previous bad times the distressed assets were offered to the market and removed from the books. Not wanting to damage their balance sheets by mass selling off of distressed assets in a market lacking in credit and confidence, most were content to receive interest payments until the time was ripe for sale. Now is that time.

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This situation may enhance the entry of more stock of investments, vacant buildings and vacant land on to the market for sale, but it will be orderly. There will be no mass selloff. None the less, this situation will be favourable for cashed up buyers, who, with bank support, will have a good selection of properties to consider and make deals which will provide excellent growth into the future. In the past year most sale / purchase transactions were worth less than $3million with a proportionately high number under $1 million in value. Vacant buildings comprised the greater majority of sales with investments and land running way behind. This will change as confidence grows.

Although there has been a low turnover and rents and yields softened, there has not been either a drastic drop in the rentals or a blow out in yields. This is probably related to the banks low release of stock into the market, the lack of demand and in keeping with the relatively low interest rates. This is a very different situation to the 1990's when we saw a mass selloff, property prices dropping by up to 40% and interest rates in the high teens and beyond.

Banks are a little more relaxed with their credit and have increased their LVRs for some investments to 70% and decreasing their interest rate cover demands, a much sought after relief. While the RBA is presently holding the cash interest rate, the demand for capital over the next few years will surely drive up interest rates due to inflationary pressure.

The continuing reluctance of banks to extend credit for commercial, particularly industrial property development and investment purposes, will continue to hinder growth in the market as developers are unable to bring on new stock. On the other hand, the lack of new supply will drive rental and property prices higher.

Land sales are few and this situation will prevail until bank policy changes. Although construction costs have declined, the long approval process, lower rentals related to affordability and less demand have depressed prices. However it is not expected for prices to fall further. When the take up of existing stock occurs, and this is not too far off, price increases will be first seen in rentals. This is occurring now. The firming of yields will be last but this will be a while yet.

While leasing has seen a variable year it has come back strongly since January, after the floods. Leases are generally shorter but some good leases are coming through. The shorter term leases are a reflection of lack of confidence in their businesses and the economy going forward or an expectation of better deals later. There is no obvious preference for standalone properties over strata. Discretionary decisions are still being delayed.

The stock of vacant buildings for lease and sale is steadily decreasing. The higher demand and little stock entering the market are beginning to drive rentals upwards. It will soon be, if not already, an owner's market. Availability depends on location, style and size. In some locations and size ranges, a tenant's choice is already severely restricted.

Property markets run in cycles and while the current one is off the bottom, it is still not too late to get involved. Opportunities are there and will continue to be there for the next few months for those who can afford to buy or lease.

Sales activity has been greatest under the $3m mark and it is over this price tag where the best buying will occur. If you are able, purchase as early as possible before demand increases and forces prices higher.

Prospective tenants may also take advantage of relatively lower rentals and negotiate concessions with rental review clauses to safeguard against future inflation. On the other hand, landlords need to be flexible and structure leases to receive earlier than usual market reviews and to ensure that annual reviews include uncapped CPI.

Contrary to many, reports of an increase in short term leasing transactions due to flooding has not occurred because tenants and landlords have worked together to get those affected operational as early as possible. This co-operation and flexibility has been possible because warehouses can be readily cleaned and refurbished; on the other hand office space has taken longer. While there was give and take to make this work, rentals have remained much the same as before the flood. Sales will recover in the effected areas within 6 to 12 months. An increasing problem is the way valuers, who are under stress from their Professional Indemnity Insurers and possibly the banks, are assessing flooded properties very negatively, even where the rental regime of the properties is the same as before the flood, Owners who have just been through the GFC and the flood just do not need this extra squeeze. Hopefully there will a few good comparative sales soon to prove the valuers wrong. There is already leasing evidence that rentals have remained unaffected. Additionally, banks may also be more lenient, if and when loan rollovers come around,

Looking into the longer term, most of Brisbane's commercial and industrial buildings are either near the river or on flat land, all subject to local flooding, the degree of flooding a matter of the circumstances at the time. Additionally, these areas are connected by communication corridors which are also subject to inundation. As there is a limit to what flood mitigation can achieve, future flooding in Brisbane may be expected. Planners, architects and engineers need to better flood proof premises by ensuring services, such as power and communications are lifted above flood levels. ■

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