

Property COMMERCIAL MARKET

Strata offers strong investment gains

By **MARC PALLISCO**

STRATA offices present small investors with some of the best returns available of all property sectors, according to research by Jones Lang LaSalle.

Unprecedented growth in small businesses and associated strong tenant demand in the CBD and suburbs has seen Melbourne's office market absorb much of the space that has been added over the past three years.

According to the Property Council of Australia, net absorption in the Melbourne CBD was 121,684 square metres for the year, well above the 10-year average of 41,341 sq m.

This demand has countered the risk that dogged Melbourne's strata office developments over recent years.

"For small investors looking to invest in property, strata offices offer an affordable entry point into the commercial property market with reasonable yields," Darren Krakowiak, research manager with Jones Lang LaSalle, said.

According to Jones Lang LaSalle, yields for residential apartments and retail shops in shopping strips are about 4 per cent. For a similar outlay, strata office units offer relatively attractive returns of 7-8 per cent for investors, Mr Krakowiak said.



Only industrial units, with average yields of 8-9 per cent, are higher than strata offices.

But Mr Krakowiak warns that investors in the industrial market have to compete with smaller tenants who are keen on owner-

occupation in the current low-interest environment.

According to Tim Grant, sales and leasing executive for Colliers International, the number of private investors buying into strata office stock has increased

markedly. He identifies CGA Bryson's fifth strata office development, The Central, at 1 Ricketts Road in Mount Waverley, where about 60 per cent of strata units were sold to investors.

"The number of first-time commercial property investors buying strata office stock has increased dramatically over the last two years," he said.

Driving this demand, according to Mr Krakowiak, is the high

KEY POINTS

- Strata offices offer the best returns of all property sectors to small investors.
- The likelihood the office will be let and the prospect of capital gains are driving demand.

assurance that the office will be leased, and the prospect of strong capital gain — not prevalent in many investment-grade residential developments.

"There are advantages to purchasing strata office units, which are encouraging not just to investors but also owner-occupiers, such as significant stamp duty savings and depreciation benefits when purchasing off the plan," he said.

Both Mr Krakowiak and Mr Grant agree that last week's interest rate rise will not dent investor demand for strata offices.

"At the margin it could make some tenants think twice about owner-occupation over leasing, particularly if investors are inclined to think last week's interest rate rise will be followed by further interest rate rises," Mr Krakowiak said.

"The 25-basis-point interest rate rise is not going to be the difference between purchasing and not purchasing for the majority of would-be occupiers."

Strata office units offer returns of 7-8 per cent for investors.
Picture: James Davies