



Newt's News – June 2016

Opportunity Strikes for Commercial Property Investors

According to recent AFR newspaper reports, the May 2016 interest rate cut, to a record low of 1.75 percent, had an immediate impact on the appetite for commercial property and had put investors on notice that the market wouldn't weaken, but would tighten up.

Under the heading "Property investments thrash shares", ... "The average annual return (for) commercial property was 14 percent in the year ended March 31. The result even beat the 9.2 percent return on property shares and thrashed the 1.6 percent return on bonds. Balanced share portfolios went backwards 11.3 percent." Also... "AMP chief economist Shane Oliver has constantly noted that the low interest rates favour commercial property".

Newton's have specialised in Petrol Stations and related properties since 1981 and are well aware of the compression in yields for investment properties over recent years. For example, in the early 2000's, we struggled to achieve yields as low as 8% for investments with new 15 year leases to Woolworths Petrol. But, that was in a period of higher interest rates and higher inflation. Such properties are now selling on sub 5% yields, but there is virtually zero inflation and interest rates are historically low.

We recently sold Woolworths Petrol Clayton at auction for \$4.44m, at a 4.95% yield. However, higher returns are still available, particularly for regional properties, or where there are shorter lease terms certain, older improvements, lower underlying land values, etc. These can still be very sound investments with secure cash flows providing much better returns over the long term.

We sold Shell Lancefield, with a new 15 year lease plus options, for \$4.0m, before auction, at a 7% yield. Several BP branded sites have also sold at yields ranging from 3.6%, with a high underlying land value, up to 7.5% with a shorter lease term certain and lower underlying land value.

On 29 June next we will be auctioning Shell Coles Express (Viva Energy) at Keilor Park. It is a brand new property with a brand new 15 year lease commencing upon completion (projected June 2016) at \$385,000 pa. It is expected to sell on a yield of 5% to 5.5% with a net rent of say \$380,000 pa, indicating a price range from say \$6.9m to \$7.6m, or thereabouts. Shell Keilor Park adjoins McDonald's and is an absolute trophy investment.

Please see the attached information, including two BP Petrol Station Investments, plus a Bowling/Function Centre at Wodonga and a Going Concern Carwash at Lilydale, currently for private sale and remember, whether buying or selling petrol stations or related properties, Newton's should always be your first point of call... just ask anyone in the industry!



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Ron established Newton's in 1981 and has over 40 years experience as a Valuer and Real Estate Agent.