



Three unresolved problems in commercial real estate

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Coming to me as it did after almost a decade's absence from the academic profession, I accepted this invitation only with trepidation. While the profession has been extending the frontiers of economics, I have been operating deep within its margin...

- *Alfred Kahn – Applications of Economics in an Imperfect World:*
 - *American Economic Association*



Three unresolved problems

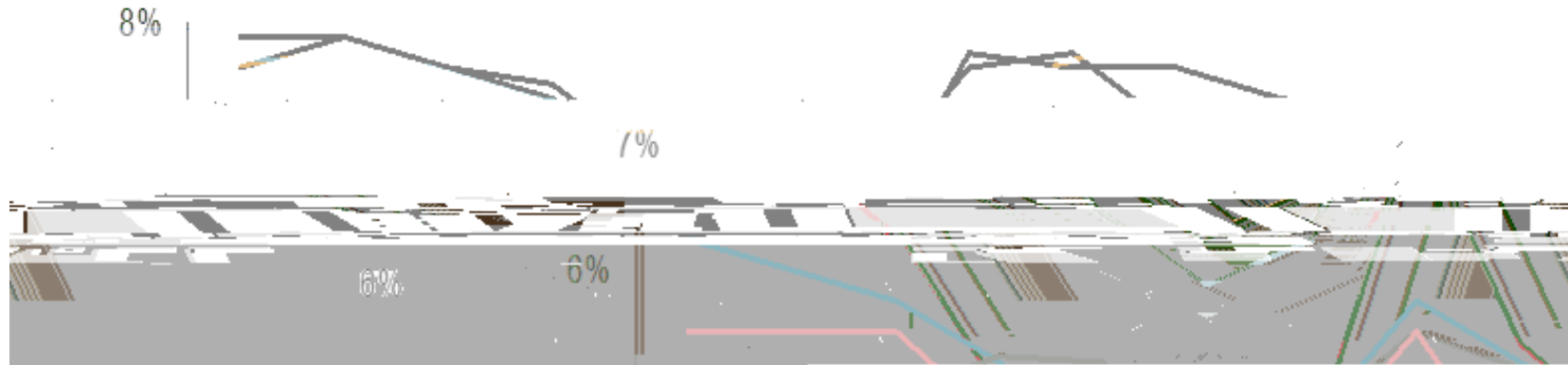
1) Incentives

2) Cycles

3) Bubbles

Australian office markets: bargain basement ?

Prime office yields, 2002 to 2014



Office incentives, vacancy rates and rents



Mind the gap...high yields can backfire

Turning 6.125% into 3.95%

"...we have to compare forecasts across Asia and also globally.

Australia market practice is somewhat unique, as yields are quoted on a pre-incentive basis, whereas for the rest of the markets in Asia yields are on a net effective basis.

Do you have the time series for net effective yields for Australia ... otherwise, I'll just take the

Net Effective Rent/ Capital Value

to derive the effective yield? "

• *Global investor in Australia – 4 September 2015*



The incentive conundrum

- 1) Why are incentives so high in Australia?
- 2)

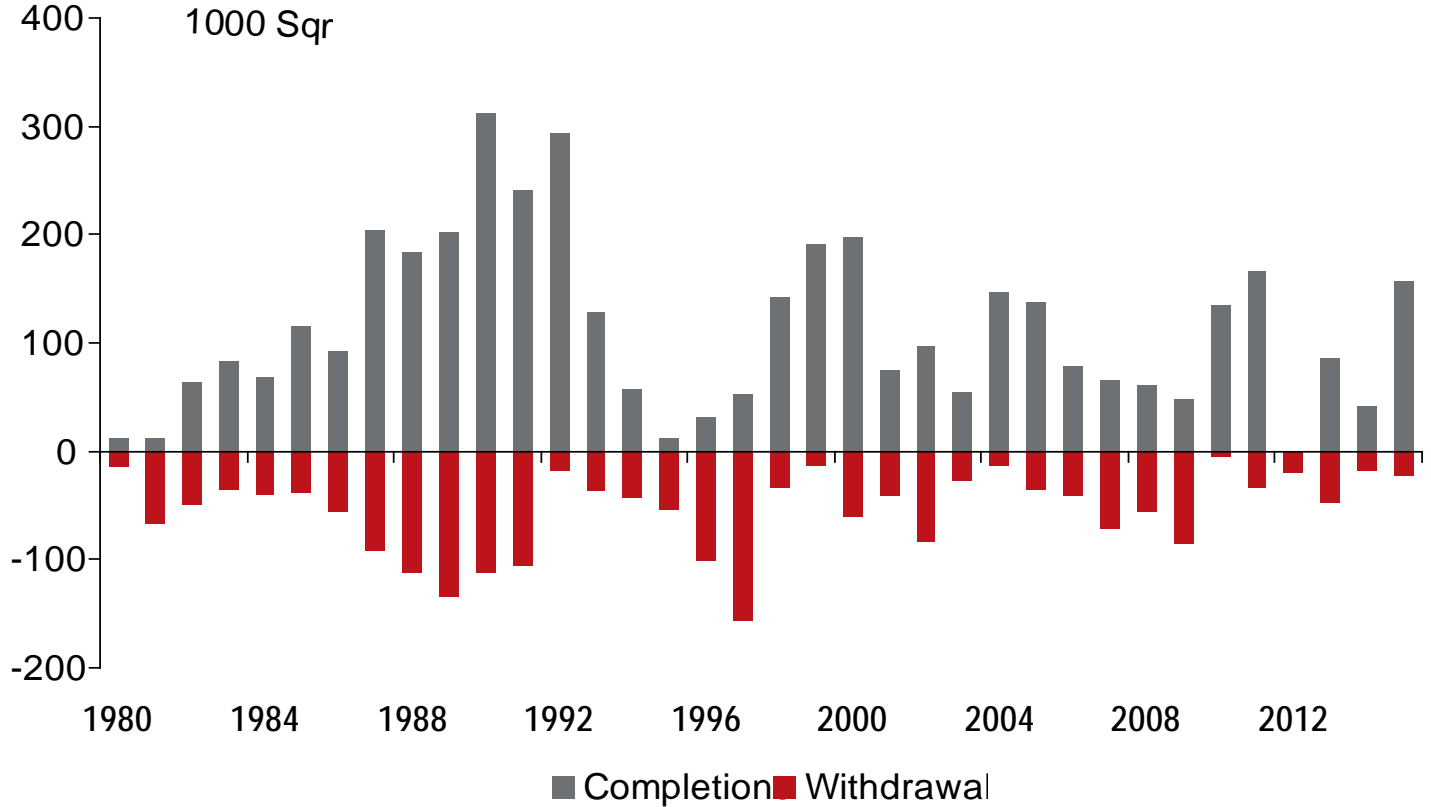
AP office yields: a level playing field

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The construction/withdrawal cycle

Sydney CBD completions & withdrawals 1980 to 2014



The withdrawal/completion ratio 1980-2014 (%)

Sydney	50
Melbourne	38
Brisbane	26
Adelaide	34
Perth	40
Canberra	31

Source: JLL Research



The office market construction/withdrawal cycle

- 1) The driver: strong or weak market – or both?
- 2) What is the “natural” CBD vacancy rate (still 6%-7%?)
- 3) Are “replacement cost” and “economic rent” useful concepts?
- 4) Do we need an option model of CBD land values?



Three unresolved problems

- 1) Incentives
- 2) Withdrawals
- 3) Bubbles



The “bubble” problem

<http://www.weforum.org/reports>

- 1) World Economic Forum project
- 2) Phase 2 – focus on case studies
- 3) Partnering with universities and global organisations
- 4) Target audience
- 5) Case studies as an education tool?



Thank you

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